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**CNT GROUP LIMITED**

**(北海集團有限公司)**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 701)**

## **ANNOUNCEMENT OF 2010 INTERIM RESULTS**

### **INTERIM RESULTS**

The board of directors of CNT Group Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2010 together with comparative amounts for the corresponding period in 2009. These condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s audit committee.

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE		517,301	384,933
Cost of sales		<u>(385,229)</u>	<u>(251,663)</u>
Gross profit		132,072	133,270
Other income and gains	3	1,685	4,124
Selling and distribution costs		(69,382)	(61,907)
Administrative expenses		(61,778)	(54,953)
Other expenses, net		<u>(575)</u>	<u>(740)</u>
		2,022	19,794
Equity-settled share option expense	12	(7,813)	—
Finance costs	4	(2,895)	(3,279)
Share of profit and loss of associates		<u>147</u>	<u>147</u>
PROFIT/(LOSS) BEFORE TAX	5	(8,539)	16,662
Income tax expenses	6	<u>(5,647)</u>	<u>(6,894)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>(14,186)</u>	<u>9,768</u>
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Owners of the parent		(14,044)	9,891
Non-controlling interests		<u>(142)</u>	<u>(123)</u>
		<u>(14,186)</u>	<u>9,768</u>
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT	7		
Basic and diluted		<u>(HK0.87 cents)</u>	<u>HK0.63 cents</u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	(14,186)	9,768
Other comprehensive income/(loss):		
Exchange differences on translation of foreign operations	<u>3,526</u>	<u>(397)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>(10,660)</u>	<u>9,371</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Owners of the parent	(10,566)	9,500
Non-controlling interests	<u>(94)</u>	<u>(129)</u>
	<u>(10,660)</u>	<u>9,371</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2010**

		<b>30 June 2010 (Unaudited) HK\$'000</b>	<b>31 December 2009 (Audited) HK\$'000</b>
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	<b>321,258</b>	316,697
Investment properties		<b>128,954</b>	128,725
Properties under development		<b>28,000</b>	28,000
Prepaid land premiums		<b>22,250</b>	22,248
Intangible asset		<b>2,775</b>	2,850
Interests in associates		<b>3,062</b>	3,180
Available-for-sale investments		<b>128,163</b>	123,163
Deposits for purchases of items of property, plant and equipment		<b>7,418</b>	9,231
Net pension scheme assets		<b>1,990</b>	1,990
Total non-current assets		<b><u>643,870</u></b>	<u>636,084</u>
<b>CURRENT ASSETS</b>			
Inventories		<b>84,000</b>	74,782
Trade and bills receivables	9	<b>202,994</b>	217,254
Prepayments, deposits and other receivables		<b>35,030</b>	27,121
Equity investment at fair value through profit or loss		<b>69</b>	86
Pledged deposits		<b>1,670</b>	5,097
Cash and cash equivalents		<b><u>221,189</u></b>	<u>139,925</u>
Total current assets		<b><u>544,952</u></b>	<u>464,265</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	<b>148,439</b>	147,445
Other payables and accruals		<b>91,538</b>	110,182
Due to an associate		<b>1,600</b>	1,600
Interest-bearing bank and other borrowings		<b>108,537</b>	98,230
Tax payable		<b><u>7,566</u></b>	<u>12,873</u>
Total current liabilities		<b><u>357,680</u></b>	<u>370,330</u>
<b>NET CURRENT ASSETS</b>		<b><u>187,272</u></b>	<u>93,935</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b><u>831,142</u></b>	<u>730,019</u>

		<b>30 June 2010 (Unaudited) HK\$'000</b>	<b>31 December 2009 (Audited) HK\$'000</b>
	Notes		
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>47,710</b>	50,858
Deferred tax liabilities		<b>16,114</b>	14,884
Deferred income		<u><b>4,378</b></u>	<u>4,474</u>
Total non-current liabilities		<u><b>68,202</b></u>	<u>70,216</u>
Net assets		<u><b>762,940</b></u>	<u>659,803</u>
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Issued capital	11	<b>188,841</b>	157,367
Reserves		<u><b>570,137</b></u>	<u>498,380</u>
		<b>758,978</b>	655,747
Non-controlling interests		<u><b>3,962</b></u>	<u>4,056</u>
Total equity		<u><b>762,940</b></u>	<u>659,803</u>

## Notes to Condensed Consolidated Financial Statements

### 1. Basis for preparation and accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for the current period’s unaudited condensed consolidated interim financial statements:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HKFRSs Amendments	<i>Improvements to HKFRSs 2009</i>

The adoption of these new interpretations and amendments has had no significant financial effect on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

The Group has not applied the following new and revised HKFRSs that have been issued but not yet effective in these unaudited condensed consolidated interim financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards - Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters</i> <sup>2</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>
HKAS 24 (Revised)	<i>Related Party Disclosures</i> <sup>3</sup>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial instruments: Presentation — Classification of Rights Issues</i> <sup>1</sup>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

These unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2009.

## 2. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the paint products segment engages in the manufacture and sale of paint products and related services;
- (b) the property investment segment comprises:
  - (i) the investment in residential and commercial premises for their rental income potential; and
  - (ii) the development and sale of properties;
- (c) the iron and steel trading segment comprises the trading of iron and steel products; and
- (d) the “others” segment comprises, principally, securities trading and investment.

The chief operating decision maker regularly reviews the operating results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit/(loss) before tax except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, net pension scheme assets and other unallocated head office and corporate assets as these assets are managed on a group basis

Intersegment sales and transfers are transacted on mutually agreed terms.



The following tables present revenue and profit/(loss) information for the Group's reportable operating segments for the six months ended 30 June 2010 and 2009.

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Six months ended 30 June 2010</b>					
<b>Segment revenue:</b>					
Sales to external customers	449,441	2,833	65,027	—	517,301
Intersegment sales	—	3,694	—	—	3,694
Other income and gains	1,078	—	324	48	1,450
	450,519	6,527	65,351	48	522,445
<u>Reconciliation:</u>					
Elimination of intersegment sales					(3,694)
Total revenue					518,751
<b>Segment results</b>	<b>12,584</b>	<b>1,954</b>	<b>(84)</b>	<b>(953)</b>	<b>13,501</b>
<u>Reconciliation:</u>					
Elimination of intersegment results					3,368
Interest income					235
Finance costs					(2,895)
Equity-settled share option expense					(7,813)
Corporate and other unallocated expenses					(14,935)
Loss before tax					(8,539)
<b>Six months ended 30 June 2009</b>					
<b>Segment revenue:</b>					
Sales to external customers	344,458	3,335	37,140	—	384,933
Intersegment sales	—	4,173	—	—	4,173
Other income and gains	1,418	3	2,399	73	3,893
	345,876	7,511	39,539	73	392,999
<u>Reconciliation:</u>					
Elimination of intersegment sales					(4,173)
Total revenue					388,826
<b>Segment results</b>	<b>28,330</b>	<b>3,181</b>	<b>1,479</b>	<b>(644)</b>	<b>32,346</b>
<u>Reconciliation:</u>					
Elimination of intersegment results					2,937
Interest income					231
Finance costs					(3,279)
Corporate and other unallocated expenses					(15,573)
Profit before tax					16,662

The following table presents segment assets of the Group's reportable operating segments as at 30 June 2010 and 31 December 2009.

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>As at 30 June 2010</b>					
<b>Segment assets</b>	<b>490,350</b>	<b>326,062</b>	<b>13,025</b>	<b>134,578</b>	<b>964,015</b>
<b>Reconciliation:</b>					
Elimination of intersegment receivables					(1,342)
Corporate and other unallocated assets					<u>226,149</u>
Total assets					<u><u>1,188,822</u></u>
	Paint products (Audited) HK\$'000	Property investment (Audited) HK\$'000	Iron and steel trading (Audited) HK\$'000	Others (Audited) HK\$'000	Total (Audited) HK\$'000
<b>As at 31 December 2009</b>					
<b>Segment assets</b>	<b>488,004</b>	<b>327,781</b>	<b>8,844</b>	<b>129,145</b>	<b>953,774</b>
<b>Reconciliation:</b>					
Elimination of intersegment receivables					(1,305)
Corporate and other unallocated assets					<u>147,880</u>
Total assets					<u><u>1,100,349</u></u>

No customer accounted for 10% or more of the Group's total revenue for the six months ended 30 June 2010 and 2009.

### 3. Other income and gains

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank interest income	<b>235</b>	217
Commission income	<b>91</b>	2,166
Government grants received from Mainland China authorities	<b>99</b>	1,010
Recognition of deferred income	<b>146</b>	145
Others	<u><b>1,114</b></u>	<u>586</u>
	<u><u><b>1,685</b></u></u>	<u><u>4,124</u></u>

4. **Finance costs**

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank loans and other loans wholly repayable within five years	<b>2,174</b>	2,465
Interest on other loans	<b>669</b>	762
Interest on finance leases	<b>52</b>	52
	<b><u>2,895</u></b>	<b><u>3,279</u></b>

5. **Profit/(loss) before tax**

Profit/(loss) before tax is arrived at after charging/(crediting):

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of inventories sold	<b>385,229</b>	251,663
Depreciation	<b>11,948</b>	10,428
Impairment/(write-back of impairment) of trade receivables	<b>(1,366)</b>	458
Write-down of inventories to net realisable value	<b><u>1,378</u></b>	<b><u>3,708</u></b>

6. **Income tax**

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The share of tax attributable to an associate amounting to HK\$80,000 (2009: HK\$92,000) is included in "Share of profit and loss of associates" on the face of the condensed consolidated income statement.

7. **Earnings/(loss) per share attributable to ordinary equity holders of the parent**

The calculation of basic earnings/(loss) per share amounts is based on the loss for the six months ended 30 June 2010 attributable to ordinary equity holders of the parent of HK\$14,044,000 (six months ended 30 June 2009: profit of HK\$9,891,000) and the weighted average number of ordinary shares of 1,615,404,131 (six months ended 30 June 2009: 1,573,671,409) in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2010 in respect of a dilution as the exercise prices of the outstanding share options granted by the Company were higher than the average market price of the shares of the Company during the period, and accordingly, the share options had an anti-dilutive effect.

There was no diluting events existed during the six months ended 30 June 2009.

## 8. Property, plant and equipment

During the six months ended 30 June 2010, the Group acquired items of property, plant and equipment at costs of HK\$13,625,000 (six months ended 30 June 2009: HK\$22,467,000).

Items of property, plant and equipment with a net book value of HK\$889,000 (six months ended 30 June 2009: HK\$271,000) were disposed of by the Group during the six months ended 30 June 2010, resulting in a net loss on disposal of HK\$18,000 (six months ended 30 June 2009: HK\$11,000).

## 9. Trade and bills receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers and reputable banks, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables (that are not considered to be impaired) as at the end of the reporting date, based on payment due date and net of impairment, is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	<b>31 December 2009 (Audited) HK\$'000</b>
Neither past due nor impaired	<b>153,930</b>	156,386
Within three months	<b>39,124</b>	56,407
Over three months and within six months	<b>5,563</b>	1,180
Over six months	<b>4,377</b>	3,281
	<b><u>202,994</u></b>	<b><u>217,254</u></b>

## 10. Trade and bills payables

An aged analysis of the trade and bills payables as at the end of the reporting date, based on the invoice date, is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	<b>31 December 2009 (Audited) HK\$'000</b>
Within three months	<b>144,939</b>	143,638
Over three months and within six months	<b>3,500</b>	3,807
	<b><u>148,439</u></b>	<b><u>147,445</u></b>

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

## 11. Share capital

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Authorised:		
2,880,000,000 ordinary shares of HK\$0.10 each	<u><b>288,000</b></u>	<u>288,000</u>
Issued and fully paid:		
1,888,405,690 (31 December 2009: 1,573,671,409) ordinary shares of HK\$0.10 each	<u><b>188,841</b></u>	<u>157,367</u>

During the six months ended 30 June 2010, 314,734,281 shares were issued for cash at a subscription price of HK\$0.33725 each for a total consideration, before expenses, of HK\$106,144,000. The related transaction costs amounted to HK\$160,000.

## 12. Share option scheme

On 27 May 2010, 152,800,000 share options to subscribe for a total of 152,800,000 new shares of the Company of HK\$0.10 each were granted under the share option scheme approved by the shareholders of the Company on 28 June 2002 (the “2002 Scheme”). The 2002 Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons, who made contributions to the Group. Unless terminated by resolution in general meeting or by the board of directors, the 2002 Scheme shall be valid and effective for a period of 10 years commencing on 28 June 2002, after which period no further options will be issued but in all other respects the provisions of the 2002 Scheme shall remain in full force and effect.

The equity-settled share options granted on 27 May 2010 vest over a period of 4 years from the grant date, of which 50% of the share options vested immediately on the grant date, 10% of the share options vesting on 27 May 2011, 10% of the share options vesting on 27 May 2012, 10% of the share options vesting on 27 May 2013 and 20% of the share options vesting on 27 May 2014. These share options are exercisable at HK\$0.44 per share and must be exercised within 5 years from the grant date, and if not so exercised, the share options shall be lapsed.

None of the share options granted during the period ended 30 June 2010 under the 2002 Scheme were exercised, cancelled or lapsed.

The fair value of equity-settled share options granted during the period ended 30 June 2010 was estimated as at the date of grant, using the Binomial Option Pricing Model (the “Model”), taking into account the terms and conditions upon which the options were granted. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The following table lists the inputs to the model used:

Dividend yield (%)	0.00
Expected volatility (%)	88.27
Risk-free interest rate (%)	1.57
Contractual life of options (year)	5
Early exercise behaviour (%)	127
Exercised price (HK\$ per share)	0.44

The fair value of the share options granted on 27 May 2010 was HK\$26,302,000 of which the Group recognised a share option expense of HK\$7,813,000 during the period ended 30 June 2010 (2009: Nil).

## **INTERIM DIVIDEND**

The directors of the Company have resolved not to declare any interim dividend for the year ending 31 December 2010 (2009: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the period under review, the Group's core paint operation continued to have improvement in revenue. Despite the improved revenue of our paint operation, the business environment confronted by the Group remained challenging. In the first half of 2010, the costs of raw materials significantly increased compared with the corresponding period of last year was mainly due to the prices of global crude oil continually fluctuated at a high level.

The Group recorded revenue of approximately HK\$517.30 million representing an increase of 34.4% when compared with that of last period. However, the increase in raw material costs rendered the Group's gross profit for the period decreased by 0.9% when compared with that of last period to approximately HK\$132.07 million.

The Group incurred a loss attributable to the owners of the parent company of approximately HK\$14.04 million for the six month ended 30 June 2010 as compared with a profit of approximately HK\$9.89 million for the last corresponding period.

The manufacturing and sale of paint products continued to be the core business of the Group. Its weight in the total revenue was approximately 86.9% for the period under review.

### **Paint products**

Revenue for the period amounted to approximately HK\$449.44 million, representing an increase of approximately 30.5% when compared with that of last period. The paint business continued to have steady growth in Mainland China. However, the increase in raw material costs due to the high price of crude oil rendered the drop in gross profit when compared with that of last period. Operating profit for the period amounted to approximately HK\$12.58 million, representing a decrease of approximately 55.6% when compared with that of last period.

## **Property investment**

Revenue for the period amounted to approximately HK\$2.83 million when compared with that of approximately HK\$3.34 million last period. Operating profit amounted to approximately HK\$1.95 million, compared with that of approximately HK\$3.18 million last period.

## **Iron and steel trading**

Revenue for the period amounted to approximately HK\$65.03 million, representing an increase of approximately 75.1% when compared with that of last period. Due to the decrease in commission income during the period, the operating loss for the period amounted to approximately HK\$84 thousand, when compared with operating profit of HK1.48 million of last period.

## **Available-for-sale investments**

The Group has an effective interest of 11.7% in the cemetery project situated in Sihui, Guangdong Province, the PRC. The principal activities of which are the development, construction, management and operation of a cemetery. The main types of products of the cemetery are outdoor grave lots, ordinary columbarium niches and special columbarium niches. There are six sales offices established in Hong Kong, Guangzhou, Foshan, Zhaoqing and Sihui for marketing purpose. Promotion campaigns have been launched, including regular visits of the cemetery and blessing ceremonies in the cemetery to boost the publicity.

## **FINANCIAL REVIEW**

### **Liquidity and financial information**

The Group's business operation is generally financed by its internal funding and bank borrowings. Total cash balances amounted to approximately HK\$222.86 million as at 30 June 2010 compared with approximately HK\$145.02 million as at 31 December 2009. Bank and other borrowings amounted to approximately HK\$156.25 million as at 30 June 2010 compared with approximately HK\$149.09 million as at 31 December 2009. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as at 30 June 2010, approximately HK\$108.54 million (69.5%) is payable within one year, approximately HK\$5.79 million (3.7%) is payable in the second year, approximately HK\$16.76 million (10.7%) is payable in the third to fifth years and the remaining balance of HK\$25.16 million (16.1%) is payable beyond the fifth year.

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's result can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. However, in view of the strong and supportive treasury policy in Mainland China, the Renminbi exchange rate is expected to remain relatively stable and hence the Group's currency exposure is not significant. The Group considers that no hedging measures are necessary.

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 22.2% as at 30 June 2010 compared with 24.8% as at 31 December 2009. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.52 times as at 30 June 2010 compared with 1.25 times as at 31 December 2009.

### **Equity and net asset value**

In May 2010, the Group placed 314,734,281 new shares of HK\$0.33725 per share and raised net proceeds of approximately HK\$105,984,000 from the equity market. The net proceeds will be used for funding the construction costs of the Group's production facilities and factory premises and for general working capital purposes. Shareholders' funds of the Group as at 30 June 2010 was approximately HK\$758.98 million compared with approximately HK\$655.75 million as at 31 December 2009. Adjusted capital of the Group, being shareholders' funds less the unrealised leasehold land and building revaluation reserve and investment property revaluation reserve, as at 30 June 2010 was approximately HK\$703.69 million compared with approximately HK\$600.46 million as at 31 December 2009. Net asset value per share as at 30 June 2010 was HK\$0.40 compared with HK\$0.42 as at 31 December 2009.

### **Contingent liabilities**

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2010 amounted to approximately HK\$70.18 million compared with approximately HK\$80.27 million as at 31 December 2009.



## **Pledge of assets**

At 30 June 2010, certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of approximately HK\$465.25 million (31 December 2009: HK\$463.57 million) were pledged to banks as collaterals for bank and other borrowings. At 30 June 2010, total outstanding secured bank and other borrowings amounted to approximately HK\$146.30 million as compared with approximately HK\$126.69 million as at 31 December 2009.

## **STAFF**

As at 30 June 2010, the Group's staff headcount was 1,432 (30 June 2009: 1,314). Staff costs (excluding directors' emoluments) amounted to approximately HK\$67.99 million for the period under review as compared with approximately HK\$58.12 million for the last period. In May 2010, the Group granted equity-settled share options of 152,800,000 share options under the Group's existing share option scheme for the purpose of providing incentives to attract and retain employees of the Group. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employee.

## **OUTLOOK**

Looking forward to the second half of 2010, the future economic environment is still challenging. The recovery of global economy and the impact of Europe debt crisis are still uncertain. However, the Chinese government has taken proactive stimulative measures to stimulate the local spending momentum as well as to accelerate the development of cities and towns and the urbanization of new villages. The improvement in living standards for mainland citizens are expected to give a strong impetus to the demand for paint products in Mainland China. The Group believes that our paint operation in Mainland China will benefit from the growing demand for paint products. The Group will continue to focus on its paint operation and is committed to becoming a leading manufacturer of high quality green and safe paint products.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the period under review.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the six months ended 30 June 2010, except that the non-executive directors are not appointed for a specific term. According to the Company's bye-laws, the non-executive directors are subject to re-election at least once every three years.

On behalf of the board  
**Lam Ting Ball, Paul**  
*Chairman*

Hong Kong, 30 August 2010

*The board of directors of the Company as at the date hereof comprises Messrs. Lam Ting Ball, Paul, Tsui Ho Chuen, Philip, Tsui Yam Tong, Terry and Chong Chi Kwan as executive directors; Messrs. Hung Ting Ho, Richard, Zhang Yulin and Ko Sheung Chi as non-executive directors; and Sir David Akers-Jones, Messrs. Danny T Wong, Chan Wa Shek and Dr. Steven Chow as independent non-executive directors.*