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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 RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

The directors of CNT Group Limited (the “Company”) announce the annual consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2010 together with comparative amounts for the corresponding period in 2009 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
REVENUE	4	1,246,634	1,026,560
Cost of sales		<u>(929,244)</u>	<u>(679,455)</u>
Gross profit		317,390	347,105
Other income and gains	4	12,840	7,998
Selling and distribution costs		(151,603)	(169,549)
Administrative expenses		(116,893)	(125,809)
Other expenses, net		(10,913)	(6,461)
Equity-settled share option expense		(11,871)	—
Fair value gains on investment properties, net		8,692	6,672
Finance costs	5	(6,092)	(6,333)
Share of profits and losses of associates		<u>3,572</u>	<u>864</u>
PROFIT BEFORE TAX	6	45,122	54,487

	Notes	2010 HK\$'000	2009 HK\$'000
Income tax expenses	7	<u>(10,633)</u>	<u>(22,219)</u>
PROFIT FOR THE YEAR		<u>34,489</u>	<u>32,268</u>
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Owners of the parent		34,865	32,406
Non-controlling interests		<u>(376)</u>	<u>(138)</u>
		<u>34,489</u>	<u>32,268</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		<u>HK1.99 cents</u>	<u>HK2.06 cents</u>

Details of proposed dividend for the year are disclosed in note 8 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
PROFIT FOR THE YEAR	<u>34,489</u>	<u>32,268</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	<u>11,129</u>	<u>(199)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>11,129</u>	<u>(199)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>45,618</u></u>	<u><u>32,069</u></u>
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Owners of the parent	45,842	32,207
Non-controlling interests	<u>(224)</u>	<u>(138)</u>
	<u><u>45,618</u></u>	<u><u>32,069</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		309,784	316,697
Investment properties		138,444	128,725
Properties under development		28,000	28,000
Prepaid land lease payments		22,541	22,248
Intangible asset		1,300	2,850
Interests in associates		7,597	3,180
Available-for-sale investments		126,163	123,163
Deposits for purchases of items of property, plant and equipment		12,576	9,231
Net pension scheme assets		2,171	1,990
Total non-current assets		648,576	636,084
CURRENT ASSETS			
Inventories		79,932	74,782
Trade and bills receivables	10	255,229	217,254
Prepayments, deposits and other receivables		13,902	27,121
Equity investment at fair value through profit or loss		174	86
Pledged deposits		1,956	5,097
Cash and cash equivalents		281,701	139,925
		632,894	464,265
Non-current assets classified as held for sale		20,126	—
Total current assets		653,020	464,265
CURRENT LIABILITIES			
Trade and bills payables	11	171,896	147,445
Other payables and accruals		128,277	110,182
Due to an associate		1,900	1,600
Interest-bearing bank and other borrowings		106,125	98,230
Tax payable		6,013	12,873
Total current liabilities		414,211	370,330
NET CURRENT ASSETS		238,809	93,935

	Notes	2010 HK\$'000	2009 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>887,385</u>	<u>730,019</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		44,745	50,858
Deferred tax liabilities		15,078	14,884
Deferred income		<u>4,286</u>	<u>4,474</u>
Total non-current liabilities		<u>64,109</u>	<u>70,216</u>
Net assets		<u>823,276</u>	<u>659,803</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		188,841	157,367
Reserves		<u>630,603</u>	<u>498,380</u>
		819,444	655,747
Non-controlling interests		<u>3,832</u>	<u>4,056</u>
Total equity		<u>823,276</u>	<u>659,803</u>

Notes to Consolidated Financial Statements

1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings, an equity investment at fair value through profit or loss and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

2.1. Changes in accounting policy and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s 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>
HKFRS 5 Amendments 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>
Improvements to HKFRSs 2009	<i>Amendments to a number of HKFRSs issued in May 2009</i>
HK Interpretation 4 Amendment	<i>Amendment to HK Interpretation 4 Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK Interpretation 5	<i>Presentation of Financial Statements — Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause</i>

Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2. Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ²
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ⁴
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i> ⁴
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i> ⁵
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ³
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ³
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets 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, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 July 2011

⁵ Effective for annual periods beginning on or after 1 January 2012

⁶ Effective for annual periods beginning on or after 1 January 2013

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.

3. **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 related investments; 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 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, dividend income, finance cost 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.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on mutually agreed terms.

Year ended 31 December 2010

	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:					
Sales to external customers	1,064,116	5,818	176,700	—	1,246,634
Intersegment sales	—	6,519	—	—	6,519
Other income and gains	<u>3,357</u>	<u>12,546</u>	<u>3,794</u>	<u>245</u>	<u>19,942</u>
	1,067,473	24,883	180,494	245	1,273,095
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(6,519)</u>
Total revenue					<u><u>1,266,576</u></u>
Segment results	65,376	15,370	8,034	(7,443)	81,337
<i>Reconciliation:</i>					
Elimination of intersegment results					7,162
Interest income					1,336
Dividend income					254
Finance costs					(6,092)
Corporate and other unallocated expenses					<u>(38,875)</u>
Profit before tax					<u><u>45,122</u></u>
Segment assets	513,421	335,297	36,748	130,378	1,015,844
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(1,022)
Corporate and other unallocated assets					<u>286,774</u>
Total assets					<u><u>1,301,596</u></u>
Segment liabilities	288,201	13,796	451	223	302,671
<i>Reconciliation:</i>					
Elimination of intersegment payables					(1,022)
Corporate and other unallocated liabilities					<u>176,671</u>
Total liabilities					<u><u>478,320</u></u>

Year ended 31 December 2010

	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
Other segment information:					
Share of profits and losses of associates	—	1,278	4,436	(2,142)	3,572
Interests in associates	—	1,941	4,436	1,220	7,597
Depreciation	18,172	5,522	1	—	23,695
Corporate and other unallocated					<u>115</u>
					<u>23,810</u>
Amortisation of an intangible asset	—	—	—	150	150
Capital expenditure	44,075	1,319	4	3	45,401
Corporate and other unallocated					<u>296</u>
					<u>45,697*</u>
Fair value gains on investment properties, net	—	(8,692)	—	—	(8,692)
Impairment of an intangible asset	—	—	—	1,400	1,400
Impairment of available-for-sale investments	—	—	—	2,000	2,000
Impairment of an amount due from an associate	—	114	—	—	114
Reversal of impairment of trade receivables	(2,566)	—	—	—	(2,566)
Write-down of inventories to net realisable value	1,028	—	—	—	1,028
Recovery of amounts due from an associate previously written off	<u>—</u>	<u>—</u>	<u>(3,131)</u>	<u>—</u>	<u>(3,131)</u>

Year ended 31 December 2009

	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:					
Sales to external customers	935,891	6,683	83,986	—	1,026,560
Intersegment sales	—	8,088	—	—	8,088
Other income and gains	<u>3,900</u>	<u>7,366</u>	<u>2,665</u>	<u>109</u>	<u>14,040</u>
	939,791	22,137	86,651	109	1,048,688
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(8,088)</u>
Total revenue					<u>1,040,600</u>
Segment results	79,874	8,129	(634)	(1,656)	85,713
<i>Reconciliation:</i>					
Elimination of intersegment results					7,399
Interest income					630
Finance costs					(6,333)
Corporate and other unallocated expenses					<u>(32,922)</u>
Profit before tax					<u>54,487</u>
Segment assets	488,004	327,781	8,844	129,145	953,774
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(1,305)
Corporate and other unallocated assets					<u>147,880</u>
Total assets					<u>1,100,349</u>
Segment liabilities	252,509	5,483	3,023	453	261,468
<i>Reconciliation:</i>					
Elimination of intersegment payables					(1,305)
Corporate and other unallocated liabilities					<u>180,383</u>
Total liabilities					<u>440,546</u>

Year ended 31 December 2009

	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
Other segment information:					
Share of profits and losses of associates	—	1,073	—	(209)	864
Interests in associates	—	1,703	—	1,477	3,180
Depreciation	16,303	5,235	1	—	21,539
Corporate and other unallocated					<u>73</u>
					<u>21,612</u>
Amortisation of an intangible asset	—	—	—	150	150
Capital expenditure	45,139	1,199	—	—	46,338
Corporate and other unallocated					<u>14</u>
					<u>46,352*</u>
Fair value gains on investment properties, net	—	(6,672)	—	—	(6,672)
Impairment of properties under development	—	4,000	—	—	4,000
Impairment of amounts due from an associate	—	1,585	—	—	1,585
Impairment of trade receivables	4,737	—	—	—	4,737
Write-down of inventories to net realisable value	<u>7,892</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,892</u>

* Capital expenditure consists of additions to property, plant and equipment, deposits for purchases of items of property, plant and equipment, properties under development and investment properties.

Geographical information:**(a) Revenue from external customers**

	2010	2009
	HK\$'000	HK\$'000
Hong Kong	99,465	90,778
Mainland China	1,146,695	935,766
Other countries	474	16
	<u>1,246,634</u>	<u>1,026,560</u>

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2010	2009
	HK\$'000	HK\$'000
Hong Kong	307,077	302,036
Mainland China	212,909	190,659
Other countries	256	18,236
	<u>520,242</u>	<u>510,931</u>

The non-current asset information above is based on the location of assets and excludes financial instruments and post-employment benefit assets.

No customer accounted for 10% or more of the Group's total revenue for the years ended 31 December 2009 and 2010.

4. Revenue, other income and gains

An analysis of revenue, other income and gains is as follows:

	2010 HK\$'000	2009 HK\$'000
Revenue		
Sale of paint products and related services	1,064,116	935,891
Sale of iron and steel products	176,700	83,986
Gross rental income from investment properties	5,818	6,683
	<u>1,246,634</u>	<u>1,026,560</u>
Other income		
Bank interest income	1,336	601
Dividend income from an available-for-sale investment	251	—
Dividend income from an equity investment at fair value through profit or loss	3	—
Interest income from a long term receivable	—	29
Commission income	219	2,202
Government grants received from Mainland China authorities	1,399	2,324
Recognition of deferred income	332	291
Others	3,199	1,648
	<u>6,739</u>	<u>7,095</u>
Gains		
Recovery of amounts due from an associate previously written off	3,131	—
Foreign exchange differences, net	2,882	848
Fair value gain on an equity investment at fair value through profit or loss - held for trading	88	55
	<u>6,101</u>	<u>903</u>
Total other income and gains	<u>12,840</u>	<u>7,998</u>

5. **Finance costs**

	2010 HK\$'000	2009 HK\$'000
Interest on bank loans and other loans wholly repayable within five years	4,762	4,697
Interest on other loans	1,243	1,529
Interest on finance leases	87	107
	<u>6,092</u>	<u>6,333</u>

6. **Profit before tax**

The Group's profit before tax is arrived at after charging/(crediting):

	2010 HK\$'000	2009 HK\$'000
Cost of inventories sold	927,061	671,256
Cost of services provided	2,183	8,199
Depreciation	23,810	21,612
Amortisation of an intangible asset	150	150
Loss on disposal of items of property, plant and equipment, net	3,083	1
Write-off of items of property, plant and equipment	4,207	768
Impairment of an intangible asset	1,400	—
Impairment of available-for-sale investments	2,000	—
Impairment of amounts due from an associate	114	1,585
Impairment of properties under development	—	4,000
Write-down of inventories to net realisable value	1,028	7,892
(Reversal of)/provision for impairment of trade receivables	<u>(2,566)</u>	<u>4,737</u>

7. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2010 HK\$'000	2009 HK\$'000
Group:		
Current - Hong Kong		
Charge for the year	—	—
Overprovision in prior years	—	(11)
Current - Elsewhere		
Charge for the year	12,074	17,230
Overprovision in prior years	(1,635)	—
Deferred	194	5,000
	<u>10,633</u>	<u>22,219</u>

The share of tax attributable to associates amounting to HK\$188,000 (2009: HK\$208,000) is included in “Share of profits and losses of associates” on the face of the consolidated income statement.

8. Dividend

	2010 HK\$'000	2009 HK\$'000
Proposed dividend - HK1 cent (2009: Nil) per ordinary share	<u>18,884</u>	<u>—</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$34,865,000 (2009: HK\$32,406,000), and the weighted average number of ordinary shares of 1,753,026,835 (2009: 1,573,671,409) in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2010 in respect of a potential 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 year, and accordingly, the share options had no potential dilutive effect.

There were no other diluting events existed during the years ended 31 December 2009 and 2010.

10. 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 period, based on the payment due date and net of impairment, is as follows:

	2010 HK\$'000	2009 HK\$'000
Neither past due nor impaired	221,617	156,386
Within three months	27,662	56,407
Over three months and within six months	3,133	1,180
Over six months	<u>2,817</u>	<u>3,281</u>
	<u>255,229</u>	<u>217,254</u>

11. Trade and bills payables

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

	2010 HK\$'000	2009 HK\$'000
Within three months	169,769	143,638
Over three months and within six months	2,123	3,807
Over six months	<u>4</u>	<u>—</u>
	<u>171,896</u>	<u>147,445</u>

The trade payables are non-interest-bearing and are normally settled on 60-day terms (2009: 90 days).

DIVIDEND

The directors have resolved to recommend the payment of a final dividend of HK1 cent per share to the shareholders. The final dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid on Wednesday, 31 August 2011 to the shareholders whose names appear on the Company's register of members on Tuesday, 28 June 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 24 June 2011 to Tuesday, 28 June 2011, both days inclusive, during the period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 23 June 2011.

CHAIRMAN'S STATEMENT

Since mid-2010, the PRC Government has exercised a series of credit tightening measures to combat inflation and to prevent domestic economy from over heating, the business environment confronted by the Group remained challenging. The escalating raw material costs during the year 2010 put a significant impact on the production costs which rendered a lower gross profit when compared with last year. Nevertheless, the Group continued to enhance its competitive edge by strengthening marketing channels and sales networks resulting in the increase of approximately 21.4% of the Group's revenue to approximately HK\$1,246.63 million in 2010 from approximately HK\$1,026.56 million in 2009.

RESULTS

The Group recorded a profit attributable to the owners of the parent company for the year was approximately HK\$34.87 million, representing an increase of approximately 7.6% when compared with that of last year.

Revenue for the year amounted to approximately HK\$1,246.63 million, an increase of approximately HK\$220.07 million when compared with last year. Gross profit decreased by approximately 8.6% when compared with that of last year to approximately HK\$317.39 million. The drop was mainly due to the increase in raw material costs of paint products.

OPERATIONS

Paint products

Revenue for the year amounted to approximately HK\$1,064.12 million, representing an increase of approximately 13.7% when compared with that of last year. The operation focused its business on the Mainland China market and achieved an increase of approximately 13.9% in revenue over that of 2009. The Group will continue to focus on Mainland China market. Operating profit for the year amounted to approximately HK\$65.38 million representing a decrease of approximately HK\$14.50 million when compared with that of last year. The persistently high level of raw material costs during 2010 as compared with relatively low level of raw material costs in 2009 following financial crisis rendered a significant drop in gross profit margin. However, the implementation of cost control measures by the Group in production together with the optimisation of product formulations has lessened the impact from the rise of raw material costs. In addition, the Group has also implemented a series of cost control measures to reduce those controllable administrative expenses as well as selling and distribution costs to minimise the drop in operation profit.

The Group has commenced to set up new manufacturing lines through the factory and buildings to be constructed on our existing land located in Xinfeng, Zhongguo, the PRC. The whole production plant will be constructed in different phases, the first phase is expected to be completed in late 2011. During the year, the Group incurred capital expenditure of approximately HK\$17.35 million for the construction costs in respect of the production plant in Xinfeng. The Group believes that the new manufacturing lines would enable the Group to enhance its overall production capacity and to effectively control its manufacturing and production costs to cope with the future business expansion of the Group.

During the year, the Group has participated in the 45th Hong Kong Brands and Products Expo (“Expo”) in Hong Kong to promote the brands of our paint products. In the Expo, the Group has launched a new product namely “Flower Anti-Mold Knight” which is a high quality anti-mold cleaner.

Property investment

Revenue for the year amounted to approximately HK\$5.82 million, representing a decrease of approximately 12.9% when compared with that of last year. Operating profit for the year amounted to approximately HK\$15.37 million when compared with that of approximately HK\$8.13 million last year. The Group has recorded a net increase in fair values of approximately HK\$8.69 million on our investment properties this year as compared to that of approximately HK\$6.67 million last year.

On 15 December 2010, the Group entered into a sale and purchase agreement with an independent third party to dispose a residential property located in Taiwan for a cash consideration of TWD105.00 million to capture the capital gain from the disposal. The transaction was completed in January 2011.

On 1 December 2010, the Group submitted an application under Section 16 of Town Planning Ordinance to seek Town Planning Board's approval for a proposed columbarium on the Group's existing land located in Au Tau, Yuen Long. The Group is intended to provide about 20,000 niches from the proposed columbarium.

Iron and steel trading and related investments

Revenue for the year amounted to approximately HK\$176.70 million, representing an increase of approximately 110.4% when compared with that of last year. Operating profit for the year amounted to approximately HK\$8.03 million as compared to a loss of approximately HK\$0.63 million last year. The increase in revenue and share of profit of an associate during the year resulted in increase in operating profit for the year.

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 for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury 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, blessing ceremonies in the cemetery to boost the publicity. A new highway linking Guangzhou and Hezhou that passes through Sihui was opened in December 2010. This highway will shorten the travelling time by about 1 hour from Guangzhou to Sihui where our cemetery is located. It is expected that this improvement in infrastructure will enhance the accessibility and demands of the graveyards, in particular, from Guangzhou region.

OUTLOOK

Looking ahead, the operating environment for the Group in 2011 remain challenging as the raw material costs persisted at a high level in the first two months of 2011. In addition, the rise in minimum wages, increase in crude oil prices and other costs will continue to exert pressure on the profit margin of the paint operation in Mainland

China. Nevertheless, the Group did not experience pressure to raise wages, except for normal annual review, for its manufacturing labour because the average wage per capita it is paying has already surpassed the regulatory minimum levels as stipulated in the Labour Law of the PRC. Furthermore, the Group will enhance its fundamental management, continuously improve its production efficiency, reduce production costs and apply strict control to daily administrative expenses and adopt proactive measures to constrain all controllable expenses in order to raise the Group's profitability.

The Chinese government has taken proactive measures to accelerate the development of cities and towns and the urbanisation of rural areas. The improvement in living standards from the urbanisation are expected to give a strong impetus to the demand for paint products in Mainland China. The Group will strive to enhance its competitive edge by strengthening marketing channels and sales networks to capture this business opportunities 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.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group recorded a profit attributable to the owners of the parent company of approximately HK\$34.87 million for the year when compared with that of approximately HK\$32.41 million last year. Revenue for the year amounted to approximately HK\$1,246.63 million, representing an increase of approximately 21.4% when compared with that of last year. Gross profit for the year amounted to approximately HK\$317.39 million, representing a decrease of approximately 8.6% when compared with that of last year. The decrease in gross profit was mainly due to the increase in raw material costs during the year.

SEGMENT INFORMATION

Business segments

Paint operation continues to be the principal business of the Group with a revenue of approximately HK\$1,064.12 million accounting for approximately 85.4% of the Group's total revenue. It also represents an increase of approximately 13.7% when compared with that of last year. Despite the increase in revenue, the decrease in gross profit for the year rendered segment result for the year amounted to approximately HK\$65.38 million representing a decrease of approximately 18.2% when compared with that of last year. This was mainly due to the increase in raw material costs during the year.

Property investment operation reported a revenue of approximately HK\$5.82 million, accounting for approximately 0.5% of the Group's total revenue. Segment result for the year amounted to a profit of approximately HK\$15.37 million when compared with that of approximately HK\$8.13 million last year. This was mainly due to the net increase in fair values of approximately HK\$8.69 million on our investment properties this year.

Iron and steel operation reported a revenue of approximately HK\$176.70 million, accounting for approximately 14.2% of the Group's total revenue. Segment result for the year amounted to profit of approximately HK\$8.03 million compared with a loss of approximately HK\$0.63 million last year. This was mainly due to the increase in revenue and share of profit of an associate.

Geographical segments

All of the Group's business is mainly in Mainland China and Hong Kong. Revenue from operations in Mainland China and Hong Kong amounted to approximately HK\$1,146.70 million (2009: HK\$935.77 million) and approximately HK\$99.47 million (2009: HK\$90.78 million) respectively.

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\$283.66 million as at 31 December 2010 compared with approximately HK\$145.02 million as at 31 December 2009. Bank and other borrowings amounted to approximately HK\$150.87 million as at 31 December 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 31 December 2010, approximately HK\$106.13 million (70.3%) is payable within one year, approximately HK\$5.65 million (3.7%) is payable in the second year, approximately HK\$16.97 million (11.3%) is payable in the third to fifth years and the remaining balance of HK\$22.12 million (14.7%) 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 results 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 expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 19.7% as at 31 December 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 1.58 times as at 31 December 2010 compared with 1.25 times as at 31 December 2009.

Equity and net assets value

Shareholders' funds of the Group as at 31 December 2010 was approximately HK\$819.44 million compared with approximately HK\$655.75 million as at 31 December 2009. Adjusted capital of the Group, being shareholders' funds less the unrealized leasehold land and building revaluation reserve and investment property revaluation reserve, as at 31 December 2010 was approximately HK\$764.16 million compared with approximately HK\$600.46 million as at 31 December 2009. Net assets value per share as at 31 December 2010 was HK\$0.44 compared with HK\$0.42 as at 31 December 2009.

Contingent liabilities

At 31 December 2010, guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 31 December 2010 amounted to HK\$63.86 million compared with HK\$80.27 million as at 31 December 2009.

Pledge of assets

Certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of HK\$486.15 million (31 December 2009: HK\$463.57 million) were pledged as collaterals for bank and other borrowings. At 31 December 2010, total outstanding secured bank and other borrowings amounted to HK\$125.04 million as compared with HK\$126.69 million as at 31 December 2009.

STAFF

Headcount as at 31 December 2010 was 1,263 (31 December 2009: 1,532). Staff costs (excluding directors' emoluments) amounted to HK\$144.93 million for the year as compared with HK\$126.98 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employees. In addition, the Group also provides an attractive staff option scheme.

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 year.

AUDIT COMMITTEE REVIEW

The annual consolidated results of the Group for the year ended 31 December 2010 have been reviewed by the audit committee.

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 year ended 31 December 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 March 2011

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.