

In 2002, global economy continued to slow down and remained uncertain. The local economy was poor and suffered from another year of deflation and deficit finance. The Group's results were adversely affected, particularly on the property investment segment, the marble and granite operation and the treasure auction business. Consequently, the Group made provisions for various investments and assets totalling HK\$167.81 million. Throughout the year, the Group focused on continuing to develop its core businesses.

RESULTS

The Group sustained a net loss of HK\$198.06 million against a net profit of HK\$6.76 million in 2001. Although the paint business continued to contribute an operating profit of HK\$45.83 million, this could not cover the losses incurred in other operations.

The Group's turnover for the year amounted to HK\$409.26 million (2001: HK\$369.51 million). The increase of 10.8% was due to the inclusion of the marble and granite operation's turnover of HK\$44.90 million and the fuel manufacturing and trading operation's turnover of HK\$15.20 million in 2002. Excluding these two items, the Group's turnover would have a slight decrease of 5.5%. The Group's gross profit was HK\$157.34 million (2001: HK\$147.38 million), a moderate increase of 6.8%.

OPERATIONS

Paint products

The operation reported a turnover of HK\$333.87 million, a decrease of 6.0% from last year. However, turnover in quantity registered an increase of 3.7% over the prior year, reaching a total of 15,087 tons (2001: 14,553 tons). This reflected reduced selling prices as a result of strong market competition. Excluding the non-recurring sale to a former associate of HK\$33.26 million in 2001, sales in the PRC offices had an overall increase of 18.5%. Operating profit dropped by 31.2% to HK\$45.83 million (2001: HK\$66.63 million). The fall in profit was mainly due to an increase in selling expenses incurred during the year, in particular, advertising and promotion expenses to maintain the Group's market share in the PRC. In addition, other revenue was less due to a non-recurring gain on disposal of an associate in the prior year. The operation will develop new product lines and at the same time strengthen its sales network in the PRC to secure more business opportunities.

Marble and granite

Overcast by economic turmoil and a drop in consumer sentiment, this operation encountered a difficult year and recorded an operating loss of HK\$19.26 million. Although project sales had increased, the performance was poor due to under estimation of costs. As the uncertain economic conditions prevailed during the year, provisions for stocks and trade receivables amounting to HK\$5.05 million were set aside. In 2003, the management would gradually reduce project sales and concentrate on trading activities and processing work to achieve better results.

Property investment

The property division reported a turnover of HK\$2.39 million (2001: HK\$1.86 million), a 28.5% increase over last year. There were no trading activities in light of the sluggish market. The operating loss of HK\$37.27 million (2001: HK\$3.46 million) was mainly attributable to the provision for impairment of properties under development and a deficit on revaluation of investment properties. Development projects in Sai Kung and Mui Wo are still under negotiations for land-regrant with the Hong Kong Government. In the PRC, the Group commenced a residential development project in Dalian at year end with phase one forecasted to be completed in 2004.

Others***Fuel manufacturing and trading***

During the year, the Group set up a production line in Singapore to manufacture environmental fuel for sales in Japan. The environmental fuel industry started in Japan about three years ago and has been growing fast with promising potential to develop, save for the concern of the Japanese Government's policy on the product. The Group has set up a sales network in Osaka. This operation contributed revenue of HK\$15.20 million to the Group in the current year.

Iron and steel trading

Iron and steel trading in the PRC recorded a turnover of HK\$12.89 million (2001: HK\$9.47 million). The increase of 36.1% was attributable to the increased efforts of the sales team.

Short term investments

The Group had no trading activities for the year in light of the uncertain stock market environment. Nevertheless, an unrealized loss for revaluation of investments of HK\$3.25 million had been made (2001: HK\$1.42 million).

Long term investments***Auction house***

Our treasure auction business showed improvements in terms of success rate, premium rate and growth in client number. During the year, the company entered into marketing and sales agency agreements with certain PRC auction houses in Beijing, Shanghai, Chengdu, Guangzhou and Suzhou. This PRC network will provide the company with a platform to reach potential customers in major cities to generate interests in bidding for and consignment of auction properties. The company will continue to expand its agency network in the PRC and overseas to secure sales and consignments. Since the Group has participated in the business, the global economy has become weak and not recovered as anticipated. In addition, internet based auctions has performed far below our expectation. Under these unfavorable conditions, the performance of this operation was not up to expectation and continued to sustain an operating loss. As such, the Group changed its business focus from online auction services to traditional in-house auction services. Accordingly, the Group made a provision for impairment against the goodwill for this investment.

Information technology

The education web business has a remarkable improvement in increasing turnover and reducing operating loss. An increase in turnover of 129.9% over the prior year was noted which was mainly attributable to the growth of overseas studies commission income. The net loss for the year decreased significantly by 89.1% to HK\$0.33 million. In 2003, the company will continue strengthen cost control and will explore new business opportunities in the PRC. The Group anticipates that this operation has strong potential growth in the years ahead.

Our web business in the PRC recorded improved results from last year as operating expenses were well contained. The operation provides an electronic market place mainly for the trading of Chinese commercial fine arts. Certain programs are being developed to incorporate with its marketing plan for e-commerce activities to increase revenue.

Environmental projects

The Group's catalytic converters business had secured new businesses in Beijing and Shandong and will aggressively develop this business in other major cities.

OUTLOOK

The global economy continued to be uncertain and weak in the first quarter of 2003. The Iraqish War will definitely have adverse impact on the economy worldwide. In Hong Kong, the recent SARS outbreak will further dampen the local economy. With the challenging year ahead, the Group will endeavour to focus on expanding its profitable operations whilst consolidating the non-profitable ones through tightening control on costs and exploring new revenue streams.

APPRECIATION

On behalf of the management, I would like to express our sincere thanks to all customers, suppliers, business associates and shareholders for their participation and support to CNT Group in 2002. I would also like to thank the management and all staff members for their hard work and devotion to the Company.

Tsui Tsin Tong*Chairman*

Hong Kong

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