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## INTERIM RESULTS

The directors of CNT Group Limited (the “Company”) present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 together with comparative amounts for the corresponding period in 2002. These condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s audit committee.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2003	2002
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (Restated)
TURNOVER		220,479	175,858
Cost of sales		(149,368)	(106,792)
Gross profit		71,111	69,066
Other revenue and gains	3	4,047	8,345
Selling and distribution costs		(46,823)	(32,857)
Administrative expenses		(49,138)	(43,410)
Other operating expenses		(103,751)	(3,811)
LOSS FROM OPERATING ACTIVITIES	4	(124,554)	(2,667)
Finance costs	5	(4,316)	(3,681)
Share of profits and losses of:			
A jointly-controlled entity		(132)	(259)
Associates		(4,638)	223
LOSS BEFORE TAX		(133,640)	(6,384)
Tax	6	3,258	(4,265)
LOSS BEFORE MINORITY INTERESTS		(130,382)	(10,649)
Minority interests		7,858	435
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(122,524)	(10,214)
LOSS PER SHARE	7		
Basic		(8.07 cents)	(0.67 cent)
Diluted		N/A	N/A

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## CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2003 (Unaudited) Notes      HK\$'000	31 December 2002 (Audited) HK\$'000 (Restated)
<b>NON-CURRENT ASSETS</b>		
Fixed assets	<b>314,541</b>	320,708
Investment properties	<b>136,436</b>	136,436
Properties under development	<b>98,003</b>	98,003
Goodwill	<b>2,177</b>	2,298
Interest in a jointly-controlled entity	<b>(732)</b>	810
Interests in associates	<b>84,598</b>	106,685
Long term investments	<b>167,940</b>	167,940
Deposit for purchase of a property	<b>75,000</b>	75,000
Deposit for an investment	<b>13,190</b>	13,190
Intangible assets	<b>3,045</b>	12,211
Long term portion of mortgage loans receivable	<b>1,761</b>	1,805
Pension scheme asset	<b>280</b>	310
	<b>896,239</b>	935,396
<b>CURRENT ASSETS</b>		
Short term investments	<b>2,757</b>	3,457
Inventories	<b>96,931</b>	100,923
Trade receivables	<b>68,395</b>	88,661
Prepayments, deposits and other receivables	<b>80,519</b>	72,364
Current portion of mortgage loans receivable	<b>93</b>	89
Pledged time deposits	<b>5,851</b>	5,950
Cash and cash equivalents	<b>63,720</b>	42,835
	<b>318,266</b>	314,279

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**CONDENSED CONSOLIDATED BALANCE SHEET** (continued)

		<b>30 June 2003 (Unaudited) HK\$'000</b>	<b>31 December 2002 (Audited) HK\$'000 (Restated)</b>
	Notes		
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	<b>56,410</b>	51,380
Other payables and accruals		<b>79,404</b>	74,561
Interest-bearing bank borrowings		<b>108,731</b>	75,822
Current portion of finance lease payables		<b>329</b>	456
Tax payable		<b>1,148</b>	1,215
		<b>246,022</b>	203,434
<b>NET CURRENT ASSETS</b>			
		<b>72,244</b>	110,845
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>968,483</b>	1,046,241
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		<b>76,824</b>	80,310
Long term portion of finance lease payables		<b>607</b>	43
Deferred tax		<b>1,905</b>	1,749
		<b>79,336</b>	82,102
<b>MINORITY INTERESTS</b>			
		<b>15,870</b>	23,729
		<b>873,277</b>	940,410
<b>CAPITAL AND RESERVES</b>			
Issued capital		<b>151,738</b>	152,053
Reserves		<b>721,539</b>	788,357
		<b>873,277</b>	940,410

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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Capital redemption reserve	Capital reserve	Leasehold land and buildings revaluation reserve	Investment property revaluation reserve <sup>1</sup>	General reserve	Exchange reserve	Reserve fund <sup>2</sup>	Retained profits/(Accumulated losses)	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003 :											
As previously reported	152,053	700,452	6,171	162,841	52,378	13,557	10,144	(17,815)	26,704	(163,401)	943,084
Prior year adjustment	—	—	—	—	(3,157)	—	—	—	—	483	(2,674)
As restated	152,053	700,452	6,171	162,841	49,221	13,557	10,144	(17,815)	26,704	(162,918)	940,410
Repurchase of shares <sup>3</sup>	(315)	(59)	—	—	—	—	—	—	—	—	(374)
Share repurchase expenses <sup>3</sup>	—	(1)	—	—	—	—	—	—	—	—	(1)
Impairment of goodwill remaining eliminated against the capital reserve	—	—	—	55,873	—	—	—	—	—	—	55,873
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	—	(107)	—	—	(107)
Net loss for the period	—	—	—	—	—	—	—	—	—	(122,524)	(122,524)
<b>At 30 June 2003</b>	<b>151,738</b>	<b>700,392</b>	<b>6,171</b>	<b>218,714</b>	<b>49,221</b>	<b>13,557</b>	<b>10,144</b>	<b>(17,922)</b>	<b>26,704</b>	<b>(265,442)</b>	<b>873,277</b>
At 1 January 2002:											
As previously reported	152,819	700,428	5,405	56,465	52,378	13,557	10,144	(16,889)	26,704	35,423	1,036,434
Prior year adjustment	—	—	—	—	(3,157)	—	—	—	—	2,137	(1,020)
As restated	152,819	700,428	5,405	56,465	49,221	13,557	10,144	(16,889)	26,704	37,560	1,035,414
Adjustment to the consideration for the acquisition of a subsidiary	—	—	—	33,432	—	—	—	—	—	—	33,432
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	—	208	—	—	208
Net loss for the period (as restated)	—	—	—	—	—	—	—	—	—	(10,214)	(10,214)
<b>At 30 June 2002</b>	<b>152,819</b>	<b>700,428</b>	<b>5,405</b>	<b>89,897</b>	<b>49,221</b>	<b>13,557</b>	<b>10,144</b>	<b>(16,681)</b>	<b>26,704</b>	<b>27,346</b>	<b>1,058,840</b>

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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

### Notes:

1. The investment property revaluation reserve represents the attributable revaluation surplus in respect of the leasehold land and buildings, which were classified as investment properties in the prior years. This revaluation reserve arose while the properties were classified as land and buildings, therefore is not available to offset revaluation deficits arising on the investment properties. The revaluation reserve is transferred to retained profits only upon the disposal or retirement of the relevant assets and such transfer is not made through the profit and loss account.
2. Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profit of a subsidiary of the Group in the People's Republic of China ("PRC") is required to be transferred to PRC reserve funds which are restricted as to use. The subsidiary is not required to effect any further transfer when the amount of reserve fund reaches 50% of the subsidiary's registered capital. The reserve fund can be used to make good future losses or to increase the capital of the subsidiary.
3. During the six months ended 30 June 2003, the Company repurchased 3,150,000 of its own ordinary shares through The Stock Exchange of Hong Kong Limited for a total consideration plus related expenses of approximately HK\$375,000 at prices ranging from HK\$0.098 to HK\$0.135 per share and the repurchased shares were subsequently cancelled. The premium paid and the expenses incurred on the repurchase of shares were charged against the share premium account.

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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(3,546)	(22,342)
Net cash outflow from investing activities	(3,307)	(39,263)
Net cash inflow from financing activities	28,524	10,338
Increase/(Decrease) in cash and cash equivalents	21,671	(51,267)
Cash and cash equivalents at beginning of period	39,505	109,824
Cash and cash equivalents at end of period	61,176	58,557
Analysis of balances of cash and cash equivalents		
Cash and bank balances	52,206	59,948
Non-pledged time deposits with original maturity of less than three months when acquired	11,514	5,215
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	5,000	—
Bank overdrafts	(7,544)	(6,606)
	61,176	58,557

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants. The basis of preparation and accounting policies used in the preparation of these interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2002, except for the revised SSAP 12 “Income taxes” and the new interpretations relating thereto which have been retrospectively adopted for the first time in the preparation of the current period’s condensed consolidated financial statements.

SSAP 12 prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP is that:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group’s land and building; and
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of associates.

The adoption of SSAP 12 (Revised) has resulted in a change in accounting policy, which has been accounted for retrospectively. As a result, prior period adjustments were made to retrospectively increase the opening balance of retained profits as at 1 January 2002 by HK\$2,137,000 and decrease the opening balance of accumulated losses as at 1 January 2003 by HK\$483,000, decrease the leasehold land and buildings revaluation reserve as at 1 January 2002 and 2003 by HK\$3,157,000, respectively, decrease the interests in associates as at 31 December 2002 by HK\$1,625,000 and increase deferred tax liability as at 31 December 2002 by HK\$1,049,000.

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## 2. Segment information

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the paint products segment engages in the manufacturing and sale of paint products;
- (b) the marble and granite segment engages in the processing and sale of marble and granite;
- (c) the property investment segment comprises:
  - (i) investment in residential and commercial premises for their rental income potential;
  - (ii) development and sale of properties;
- (d) the fuel segment engages in the manufacturing and trading of fuel; and
- (e) the "others" segment comprises, principally, the trading of steel products and sale of marketable securities.

Intersegment sales and transfers are transacted at mutually agreed terms.



## 2. Segment information (continued)

The following tables present revenue and profit/(loss) for the Group's business segments.

	Paint products		Marble and granite		Property investment		Fuel		Others		Eliminations		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June		30 June		30 June	
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	144,003	149,699	11,155	18,600	1,295	1,194	49,696	—	14,330	6,365	—	—	220,479	175,858
Intersegment sales	80	—	—	—	4,686	4,545	—	—	—	—	(4,766)	(4,545)	—	—
Other revenue	2,682	4,450	5	2,086	—	388	—	—	1,160	687	—	—	3,847	7,811
<b>Total</b>	<b>146,765</b>	<b>154,149</b>	<b>11,160</b>	<b>20,686</b>	<b>5,981</b>	<b>6,127</b>	<b>49,696</b>	<b>—</b>	<b>15,490</b>	<b>7,252</b>	<b>(4,766)</b>	<b>(4,545)</b>	<b>224,326</b>	<b>183,669</b>
Segment results	4,417	20,923	(23,580)	(1,407)	1,486	1,086	1,945	(4,547)	(1,174)	(2,807)	970	1,045	(15,936)	14,293
Interest income													200	534
Unallocated expenses													(108,818)	(17,494)
Loss from operating activities													(124,554)	(2,667)
Finance costs													(4,316)	(3,681)
Share of profits and losses of:														
A jointly-controlled entity													(132)	(259)
Associates				(1,951)									—	(1,951)
Unallocated associates													(4,638)	2,174
Loss before tax													(133,640)	(6,384)
Tax													3,258	(4,265)
Loss before minority interests													(130,382)	(10,649)
Minority interests													7,858	435
Net loss from ordinary activities attributable to shareholders													(122,524)	(10,214)

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### 3. Other revenue and gains

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest income	200	534
Gain on disposal of fixed assets	23	8
Others	3,824	7,803
	<u>4,047</u>	<u>8,345</u>

### 4. Loss from operating activities

Loss from operating activities is arrived at after charging:

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Cost of inventories sold	149,368	106,792
Depreciation	10,594	9,435
Provision for bad and doubtful debts	10,743	—
Provision for inventories	5,086	—
Impairment of goodwill remaining eliminated against capital reserve	55,873	—
Impairment of interest in an associate	23,763	—
Impairment of interest in a jointly-controlled entity	1,744	—
Impairment of an intangible asset	8,411	—
Amortisation of intangible assets	755	640
Amortisation of goodwill	121	269
Unrealised loss on revaluation of short term investments	700	1,427
Loss on disposal of fixed assets	41	—
	<u>4,047</u>	<u>8,345</u>

### 5. Finance costs

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	4,293	3,641
Interest on finance leases	23	40
	<u>4,316</u>	<u>3,681</u>

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## 6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated 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 countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Group:		
Hong Kong	—	—
Elsewhere	2,259	3,786
Deferred	156	67
	<u>2,415</u>	<u>3,853</u>
Share of tax attributable to associates:		
Hong Kong	(251)	90
Elsewhere	(5,422)	322
	<u>(5,673)</u>	<u>412</u>
Tax charge/(credit) for the period	<u>(3,258)</u>	<u>4,265</u>

## 7. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$122,524,000 (2002: HK\$10,214,000 (as restated)) and the weighted average of 1,518,702,000 (2002: 1,528,188,000) ordinary shares in issue during the period.

No diluted loss per share amount is presented for the six months ended 30 June 2003, as the potential ordinary shares outstanding during the period had no dilutive effect on the basic loss per share for the period.

Diluted loss per share for the six months ended 30 June 2002 has not been shown as the share options outstanding during that period had an anti-dilutive effect on basic loss per share for that period.

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## 8. Trade 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 regularly reviewed by senior management.

An aged analysis of trade receivables at the balance sheet date, based on invoice date, is as follows:

	<b>30 June</b> <b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Within three months	49,112	68,086
Four to six months	9,090	7,465
Over six months	<u>38,405</u>	<u>26,789</u>
	96,607	102,340
Less: Provision for doubtful debts	<u>(28,212)</u>	<u>(13,679)</u>
	<u><u>68,395</u></u>	<u><u>88,661</u></u>

## 9. Trade and bills payables

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

	<b>30 June</b> <b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Within three months	40,760	37,916
Four to six months	4,059	1,348
Over six months	<u>11,591</u>	<u>12,116</u>
	56,410	51,380
	<u><u>56,410</u></u>	<u><u>51,380</u></u>

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## 10. Related party transactions

		Six months ended 30 June	
		2003	2002
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Purchases of raw materials and work in progress from associates	(a)	8,652	13,393
Sales of finished goods to an associate	(b)	<u>39</u>	<u>34</u>

- (a) The directors consider that the purchases of raw materials and work in progress were made according to the prices and conditions similar to those offered to other customers of the suppliers.
- (b) The directors consider that the sales of finished goods were made according to the terms and conditions as set out in their agreements.

## 11. Contingent liabilities

- (a) Contingent liabilities not provided for in the financial statements at the balance sheet date are as follows:

	30 June	31 December
	2003	2002
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to associates	<u>31,457</u>	<u>37,748</u>

- (b) At 30 June 2003, the Group had a number of current employees who have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. The Group's contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance at 30 June 2003 would have been approximately HK\$2,062,000 (31 December 2002: HK\$1,726,000). A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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## 12. Capital commitments

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of a joint venture company	<b>21,450</b>	21,450
Construction of a property under development	<b>8,338</b>	8,338
	<b>29,788</b>	29,788

## 13. Comparative amounts

As further explained in note 1 to the unaudited condensed consolidated financial statements, due to the adoption of SSAP 12 (Revised) during the period, the accounting treatment of certain balances in the unaudited condensed consolidated financial statements have been revised to comply with the new requirements. Accordingly, prior period adjustments have been made and certain comparative amounts have been restated to conform with the current period's presentation.

## 14. Approval of the interim financial report

These condensed interim financial statements were approved and authorised for issue by the board of directors on 24 September 2003.

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## **INTERIM DIVIDEND**

The directors of the Company have resolved not to declare any interim dividend for the year ending 31 December 2003 (2002: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the first half of 2003, the outbreak of Severe Acute Respiratory Syndrome (“SARS”) and the turmoil in the Middle East damaged the economy of Hong Kong and the People’s Republic of China (the “PRC”). The Group’s business environment remained difficult during that period and its results were adversely affected.

The Group incurred a net loss of HK\$122.52 million for the six months ended 30 June 2003, as compared to a net loss of HK\$10.21 million (as restated) for the same period in 2002. The increase was mainly due to further provision for impairment of HK\$89.79 million made for its investments.

Turnover for the period amounted to HK\$220.48 million (2002: HK\$175.86 million), an increase of 25.4% as compared to the same period in 2002. The increase was mainly attributable to new revenue from its fuel manufacturing and trading business of HK\$49.70 million. The manufacturing and sale of paint products continued to be the core business of the Group during the period. Its weighting in the total turnover was 65.3% for the period (2002: 85.1%). The fall in weighting was due to the inclusion of the new revenue from the fuel manufacturing and trading business. The Group’s gross profit for the period was HK\$71.11 million (2002: HK\$69.07 million), a modest increase of 3.0%.

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## **Paint products**

Whilst the business environment was extremely harsh and competition within the industry was increasingly intense during the period, the Group's turnover for the period fell slightly by 3.8% to HK\$144.00 million (2002: HK\$149.70 million). The paint business achieved a steady growth in the PRC, but recorded a fall in Hong Kong. Operating profit for the period amounted to HK\$4.42 million (2002: HK\$20.92 million). The decrease was mainly due to an increase in material costs and selling expenses.

## **Marble and granite**

SARS had a severe impact on the marble and granite operation with many of its trading activities delayed or even cancelled. Overcast by low consumer sentiment, retail sales were much worse than in the last period. Project sales reduced significantly as the operation changed its business focus to trading. As the uncertain economic conditions prevailed during the period, general provisions for inventories and trade receivables amounting to HK\$15.20 million were set aside. The operation's turnover fell significantly to HK\$11.16 million (2002: HK\$18.60 million) and the operating loss was HK\$23.58 million for the period (2002: HK\$1.41 million).

## **Property investment**

The Group had no addition or disposal of investment property during the period in light of the sluggish property market. Turnover rose by 8.5% to HK\$1.30 million (2002: HK\$1.19 million). Operating profit amounted to HK\$1.49 million (2002: HK\$1.09 million). Development projects in Hong Kong for land regrant are still under negotiation with the Hong Kong Government and projects in the PRC are progressing on schedule.



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## **Fuel**

In 2002, the Group set up a production line in Singapore to manufacture environmental fuel for sales in Japan. The operation contributed revenue of HK\$49.70 million (2002: Nil) for the period through its sales network in Osaka. Operating profit was HK\$1.95 million for the period (2002: loss of HK\$4.55 million). Following the implementation of new regulations in Japan in August 2003, the Group is improving the formula to meet the Japanese government's new regulations. In order to increase future revenue, the Group is also actively exploring business opportunities in the PRC.

## **Others**

### **Iron and steel trading**

Iron and steel trading in the PRC recorded a turnover of HK\$14.33 million for the period (2002: HK\$6.37 million). The increase of 125.0% was attributable to the increased demand in the market.

### **Long term investments**

#### **Auction house**

Since the auction house operation changed its business focus from online to traditional in-house auction services last year, its business continued to record improvements in terms of success rate, premium rate and growth in the number of clients. During the period, the operation successfully increased its revenue and kept the operating expenses under tight control. However, the weak economy persisted and the operation's results, though better than last year, still sustained a consecutive loss for this period.

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## **Information technology**

The information technology operation turned into profit for the period as remarkable improvements were seen in turnover and reducing operational costs. Turnover was almost three times that of last year. In light of the uncertain economy ahead, the operation has postponed some of its development plans. As this will have an adverse effect on future revenue, the Group made an impairment provision of HK\$9.70 million for this investment.

The Group's web business in the PRC that provides electronic market trading facilities recorded very poor results since commencement, particularly after the SARS incident. The Group suspended the operation to avoid further losses.

## **Environmental project**

During the SARS attack, the Group's catalytic converter business was frozen and its predicted sales in Beijing and Shandong were lost. Management is aggressively trying to re-establish its business links in the two regions in order to make up the loss in business in the second half of the year. Though we are confident that the Group's catalytic converter technology will have a share in the PRC market, full provision for the investment was made in view of uncertainties and increasing competition in the future.

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## FINANCIAL REVIEW

### Liquidity and financial resources

The Group's total shareholders' funds amounted to HK\$873.28 million at 30 June 2003, as compared to HK\$940.41 million (as restated) at 31 December 2002. Net asset value per share was HK\$0.58 (31 December 2002: HK\$0.62 (as restated)).

The Group's business operation is generally financed by its internal funding and bank borrowings. Liquidity ratio (current assets / current liabilities) was 1.29 times at 30 June 2003 (31 December 2002: 1.54 times). At 30 June 2003, cash and cash equivalents amounted to HK\$63.72 million (31 December 2002: HK\$42.84 million). Interest-bearing bank borrowings at 30 June 2003 amounted to HK\$185.56 million (31 December 2002: HK\$156.13 million) of which HK\$108.73 million is payable within one year, HK\$6.81 million is payable in the second year, HK\$22.91 million is payable in the third to fifth years, inclusive, and HK\$47.11 million is payable beyond five years. Interest rates of the bank borrowings ranged from 3.5% to 7.0% per annum. The risk of currency exposure is immaterial as most borrowings were in HK\$ and RMB. The Group's gearing ratio (long term debt / equity) rose slightly to 9.1% at 30 June 2003 (31 December 2002: 8.7% (as restated)).

### Contingent liabilities

At 30 June 2003, the Group issued guarantees of HK\$31.46 million (31 December 2002: HK\$37.75 million) to bankers to secure general banking facilities granted to certain associates. Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding at 30 June 2003 amounted to HK\$102.47 million (31 December 2002: HK\$105.05 million).

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## **Pledge of assets**

Land and buildings and investment properties with an aggregate net book value of HK\$306.62 million (31 December 2002: HK\$309.91 million) were pledged to banks as collaterals for general banking facilities. At 30 June 2003, the total outstanding secured bank borrowings amounted to HK\$178.24 million (31 December 2002: HK\$150.76 million).

## **STAFF**

At 30 June 2003, the Group's staff headcount was 926 (2002: 926). Staff costs amounted to HK\$29.30 million for the period (2002: HK\$27.46 million). The increase was mainly due to the inclusion of staff from the marble and granite business. The Group has a comprehensive and competitive staff remuneration and benefits system, which is formulated on the performance of individual employee. In addition, the Group also provides an attractive staff option scheme.

## **OUTLOOK**

For the rest of the year, the world economy is expected to stabilise and grow modestly, with increasingly positive signs in the absence of any unforeseeable circumstances. In Hong Kong, given the apparent control over SARS and the Government's determination to stimulate the economy, coupled with the recent support from the PRC, we expect that the local economy will gradually recover. Consequently, there should be improvement in the Group's business in the coming months. While focusing on the core paint products business, the Group will continue exerting its efforts to improve efficiency, reduce operating costs and remain alert to the changing market conditions in formulating its business and investment strategies.

## SHARE OPTIONS

Details of the share options of the Company granted to the directors of the Company and the continuous contract employees of the Group, pursuant to the Company's share option schemes adopted on 2 May 1991 ("1991 Scheme") and 13 June 2001 ("2001 Scheme") respectively, that remained unexercised as at 30 June 2003 are as follows:

Name	Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of shares under options	
				Balance at 1 January 2003	Balance at 30 June 2003
<b>1991 Scheme</b>					
<b>Directors</b>					
Sir David Akers-Jones	23 August 2000	23 August 2000 to 22 August 2003	0.224	1,000,000	1,000,000
Tsui Ho Chuen, Philip	23 August 2000	23 August 2000 to 22 August 2003	0.224	6,000,000	6,000,000
	26 April 2001	26 April 2001 to 25 April 2006	0.2152	4,000,000	4,000,000
Tsui Yam Tong, Terry	23 August 2000	23 August 2000 to 22 August 2003	0.224	6,000,000	6,000,000
	26 April 2001	26 April 2001 to 25 April 2006	0.2152	4,000,000	4,000,000
Wu Tat Po	23 August 2000	23 August 2000 to 22 August 2003	0.224	1,000,000	1,000,000
<b>Continuous contract employees</b> (other than the directors of the Company and their associates)	23 August 2000	23 August 2000 to 22 August 2003	0.224	2,000,000	2,000,000

## SHARE OPTIONS (continued)

Name	Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of shares under options	
				Balance at 1 January 2003	Balance at 30 June 2003
<b>2001 Scheme</b>					
<b>Directors</b>					
Tsui Tsin Tong	27 September 2001	27 September 2001 to 26 September 2006	0.1576	38,000,000	38,000,000
Lam Ting Ball, Paul	27 September 2001	27 September 2001 to 26 September 2006	0.1576	10,000,000	10,000,000
Tsui Ho Chuen, Philip	27 September 2001	27 September 2001 to 26 September 2006	0.1576	33,500,000	33,500,000
Tsui Yam Tong, Terry*	27 September 2001	27 September 2001 to 26 September 2006	0.1576	33,500,000	33,500,000
Wu Tat Po	27 September 2001	27 September 2001 to 26 September 2006	0.1576	21,000,000	21,000,000
<b>Continuous contract employees</b> (other than the directors of the Company and their associates)	27 September 2001	27 September 2001 to 26 September 2006	0.1576	14,382,000	14,382,000

\* Ms. Ng Shou Ping, Lucilla, the wife of Mr. Tsui Yam Tong, Terry, was granted an option to subscribe for 750,000 shares at an exercise price of HK\$0.1576 per share on 27 September 2001. Such option is exercisable and valid between 27 September 2001 to 26 September 2006, which remained unexercised at 30 June 2003.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests of the directors of the Company in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (“SFO”) were as follows:

### (i) Shares

Name	Note	Capacity	Number of shares				Total	Percentage of issued share capital
			Personal interests	Family interests	Corporate interests	Other interests		
Tsui Tsin Tong	1	Beneficial owner & founder of discretionary trust	6,000,000	—	—	537,473,906	543,473,906	35.82%
Sir David Akers-Jones		Beneficial owner	2,406,831	—	—	—	2,406,831	0.16%
Tsui Ho Chuen, Philip	1	Beneficiary of trust	—	—	—	537,473,906	537,473,906	35.42%
Tsui Yam Tong, Terry	1	Beneficial owner, beneficiary of trust & interest of controlled corporation	1,124,000	—	537,473,906 *	537,473,906 *	538,597,906	35.50%
Lau Wong Fat		Beneficial owner	500,000	—	—	—	500,000	0.03%

\* duplication

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## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

### (ii) Underlying shares

Name	Note	Capacity	Nature of equity derivative (unlisted/physically settled)	Number of underlying shares
Tsui Tsin Tong		Beneficial owner	option granted under the Company's share option scheme	38,000,000
	2	Founder of discretionary trust	option	98,000,000
Lam Ting Ball, Paul		Beneficial owner	option granted under the Company's share option scheme	10,000,000
Sir David Akers-Jones		Beneficial owner	option granted under the Company's share option scheme	1,000,000
Tsui Ho Chuen, Philip		Beneficial owner	options granted under the Company's share option schemes	43,500,000
	2	Beneficiary of trust	option	98,000,000
Tsui Yam Tong, Terry		Beneficial owner	options granted under the Company's share option schemes	43,500,000
		Interest of spouse	option granted under the Company's share option scheme	750,000
	2	Beneficiary of trust & interest of controlled corporation	option	98,000,000
Wu Tat Po		Beneficial owner	options granted under the Company's share option schemes	22,000,000



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## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** (continued)

Notes:

- (1) The 537,473,906 shares were held by Rapid Growth Ltd. ("RGL") as trustee of a discretionary trust of which Mr. Tsui Tsin Tong is the founder and Messrs. Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry are the discretionary beneficiaries. Mr. Tsui Yam Tong, Terry is also the sole shareholder of RGL.
- (2) The 98,000,000 shares were owned by Broadsino Investment Company Limited ("Broadsino"). RGL has granted an option to Broadsino to sell to RGL all or any part of such shares exercisable at any time during the term of the option. RGL was taken to be interested in these underlying shares under the SFO. By virtue of the interests of Messrs. Tsui Tsin Tong, Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry in RGL as disclosed in note (1) above, each of them was deemed under the SFO to be interested in such underlying shares.

Details of the options granted to the directors of the Company under the Company's share option schemes are disclosed in the section heading "Share options".

Save as disclosed above, as at 30 June 2003, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the directors and the chief executives had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the period under review.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2003, the register maintained by the Company under Section 336 of the SFO showed that the following persons (other than the directors of the Company) had interests and short positions in the shares and underlying shares of the Company:

Name	Note	Capacity	Number of shares	Number of underlying shares (unlisted/ physically settled equity derivatives)	Percentage of issued share capital
<b>10% or more of issued share capital</b>					
Rapid Growth Ltd.	1	Trustee	537,473,906	—	35.42%
	1	Trustee	—	98,000,000	6.46%
Wang Wing Mu, Amy	2	Interest of spouse	543,473,906	—	35.82%
	2	Interest of spouse	—	136,000,000	8.96%
Ng Shou Ping, Lucilla	3	Interest of spouse	538,597,906	—	35.50%
	3	Beneficial owner & interest of spouse	—	142,250,000	9.37%
Ho Mei Po, Mabel	4	Interest of spouse	537,473,906	—	35.42%
	4	Interest of spouse	—	141,500,000	9.33%
Jade Fortune Venture Limited	5	Security interest in shares	200,000,000	—	13.18%
Morganite Holding Limited	5	Interest of controlled corporation	200,000,000	—	13.18%
Tse Cho Tseung	5	Interest of controlled corporations	200,000,000	—	13.18%
<b>Below 10% of issued share capital</b>					
Broadsino Investment Company Limited	6	Beneficial owner	98,000,000	—	6.46%
Golden Case Limited	7	Security interest in shares	80,000,000	—	5.27%
Cheung Kong Investment Company Limited	7	Interest of controlled corporation	80,000,000	—	5.27%

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## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Name	Note	Capacity	Number of shares	Number of underlying shares (unlisted/ physically settled equity derivatives)	Percentage of issued share capital
Cheung Kong (Holdings) Limited	7	Interest of controlled corporations	80,000,000	—	5.27%
Li Ka-Shing Unity Trustee Company Limited	7	Trustee	80,000,000	—	5.27%
Li Ka-Shing Unity Trustee Corporation Limited	7	Trustee & beneficiary of trust	80,000,000	—	5.27%
Li Ka-Shing Unity Trustcorp Limited	7	Trustee & beneficiary of trust	80,000,000	—	5.27%
Li Ka-Shing	7	Interest of controlled corporations & founder of discretionary trusts	80,000,000	—	5.27%

### Notes:

- (1) The 537,473,906 shares were held by RGL as trustee of a discretionary trust. The interest in 98,000,000 underlying shares was in respect of an option granted by RGL to Broadsino to sell to RGL all or part of such shares owned by Broadsino exercisable at any time during the term of the option. These interests are duplicated in the interests of Messrs. Tsui Tsin Tong, Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry as disclosed above under the section heading "Directors' interests and short positions in shares, underlying shares and debentures".
- (2) Ms. Wang Wing Mu, Amy is the wife of Mr. Tsui Tsin Tong and was taken to be interested in 543,473,906 shares and 136,000,000 underlying shares under equity derivatives in which her spouse was interested under the SFO.
- (3) Ms. Ng Shou Ping, Lucilla is the wife of Mr. Tsui Yam Tong, Terry and was taken to be interested in 538,597,906 shares and 141,500,000 underlying shares under equity derivatives in which her spouse was interested under the SFO. She also has a personal interest in an option granted under the Company's share option scheme to subscribe for 750,000 shares of the Company.

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## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

- (4) Ms. Ho Mei Po, Mabel is the wife of Mr. Tsui Ho Chuen, Philip and was taken to be interested in 537,473,906 shares and 141,500,000 underlying shares under equity derivatives in which her spouse was interested under the SFO.
- (5) Jade Fortune Venture Limited (“Jade Fortune”) was taken to have an interest in 200,000,000 shares by virtue of a security interest in these shares charged by RGL. Jade Fortune was a wholly-owned subsidiary of Morganite Holding Limited, which in turn was wholly-owned by Mr. Tse Cho Tseung.
- (6) These shares were beneficially owned by Broadsino. Pursuant to an option granted by RGL, Broadsino has a right to sell all or part of these shares to RGL exercisable at any time during the term of the option. This interest is detailed and duplicated with the interests of RGL as shown in note (1) above.
- (7) The references to the 80,000,000 shares relate to the same block of 80,000,000 shares interested by Golden Case Limited (“Golden Case”) by virtue of a security interest in these shares charged by RGL.

Golden Case was a wholly-owned subsidiary of Cheung Kong Investment Company Limited (“CKI”), which in turn was a wholly-owned subsidiary of Cheung Kong (Holdings) Limited (“CKH”).

Li Ka-Shing Unity Trustee Company Limited (“TUT1”) as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of CKH.

Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”) as trustee of another discretionary trust (“DT2”) both held units in The Li Ka-Shing Unity Trust.

Mr. Li Ka-Shing is the settlor of each of DT1 and DT2 and may be regarded as a founder of each of them for the purpose of the SFO. The entire issued share capital of TUT1, TDT1 and TDT2 are owned by Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-Shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the issued share capital.

CKI, CKH, TUT1, TDT1, TDT2 and Mr. Li Ka-Shing were all deemed to be interested in these 80,000,000 shares which were taken to be interested in by Golden Case under the SFO.

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## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Save as disclosed above, the Company has not been notified by any person (other than the directors of the Company) who had interests or short positions in the shares or underlying shares of the Company as at 30 June 2003 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

During the six months ended 30 June 2003, the Company repurchased a number of its own shares on the Stock Exchange as follows:

Month	Number of shares repurchased	Purchase price per share		Total price HK\$
		Highest price HK\$	Lowest price HK\$	
January	1,010,000	0.115	0.101	114,230
February	740,000	0.127	0.108	90,220
March	500,000	0.109	0.098	52,976
June	900,000	0.135	0.123	116,700
	<u>3,150,000</u>			<u>374,126</u>

The repurchased shares were duly cancelled during the period and the issued share capital of the Company was reduced by the par value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the period under review.

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## COMPLIANCE WITH CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

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

Hong Kong, 24 September 2003

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