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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 2004 together with comparative amounts for the corresponding period in 2003. 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	
		2004	2003
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
TURNOVER		196,383	220,479
Cost of sales		(136,200)	(149,368)
Gross profit		60,183	71,111
Other revenue and gains	3	4,692	4,047
Selling and distribution costs		(39,271)	(46,823)
Administrative expenses		(52,130)	(49,138)
Other operating expenses		(7,113)	(103,751)
LOSS FROM OPERATING ACTIVITIES	4	(33,639)	(124,554)
Finance costs	5	(4,048)	(4,316)
Share of profits and losses of:			
A jointly-controlled entity		—	(132)
Associates		(408)	(4,638)
LOSS BEFORE TAX		(38,095)	(133,640)
Tax	6	(1,373)	3,258
LOSS BEFORE MINORITY INTERESTS		(39,468)	(130,382)
Minority interests		(127)	7,858
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(39,595)	(122,524)
LOSS PER SHARE	7		
Basic		2.60 cents	8.07 cents
Diluted		N/A	N/A

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## CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2004 (Unaudited) Notes	31 December 2003 (Audited)
	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>		
Fixed assets	295,251	318,162
Investment properties	81,540	127,809
Properties under development	117,733	109,941
Goodwill	5,434	9,053
Interests in associates	70,199	71,476
Long term investments	167,940	167,940
Deposit for purchase of a property	75,000	75,000
Intangible asset	664	1,327
Long term portion of mortgage loans receivable	833	1,708
Deferred tax asset	—	109
Pension scheme asset	538	448
	<u>815,132</u>	<u>882,973</u>
<b>CURRENT ASSETS</b>		
Short term investments	33	3,450
Inventories	75,683	78,407
Property held for sale	7,271	—
Trade receivables	8 63,984	70,994
Prepayments, deposits and other receivables	49,219	45,193
Current portion of mortgage loans receivable	50	96
Pledged time deposits	—	5,200
Cash and cash equivalents	52,765	63,690
	<u>249,005</u>	<u>267,030</u>

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**CONDENSED CONSOLIDATED BALANCE SHEET** (continued)

		<b>30 June 2004 (Unaudited) HK\$'000</b>	<b>31 December 2003 (Audited) HK\$'000</b>
	Notes		
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	<b>57,017</b>	67,523
Other payables and accruals		<b>82,772</b>	81,587
Bank borrowings		<b>107,050</b>	101,613
Current portion of finance lease payables		<b>402</b>	400
Tax payable		<b>1,132</b>	1,058
		<b>248,373</b>	252,181
<b>NET CURRENT ASSETS</b>		<b>632</b>	14,849
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>815,764</b>	897,822
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings		<b>30,586</b>	73,539
Long term portion of finance lease payables		<b>1,180</b>	1,382
Deferred tax liabilities		<b>6,809</b>	7,481
		<b>38,575</b>	82,402
<b>MINORITY INTERESTS</b>		<b>3,731</b>	3,533
		<b>773,458</b>	811,887
<b>CAPITAL AND RESERVES</b>			
Issued capital		<b>152,297</b>	151,611
Reserves		<b>621,161</b>	660,276
		<b>773,458</b>	811,887

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Capital redemption reserve	Leasehold land and building		Investment property	General reserve	Exchange reserve	Reserve fund <sup>2</sup>	Accumulated losses	Total
				Capital reserve	revaluation reserve	revaluation reserve <sup>1</sup>					
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1 January 2004	151,611	700,345	6,171	218,714	43,067	13,557	10,144	(18,188)	26,704	(340,238)	811,887
Exercise of share options	686	395	—	—	—	—	—	—	—	—	1,081
Transfer from leasehold land and building revaluation reserve to accumulated losses	—	—	—	—	(1,819)	—	—	—	—	1,819	—
Exchange adjustment on translation of overseas subsidiaries and associates	—	—	—	—	—	—	—	85	—	—	85
Net loss for the period	—	—	—	—	—	—	—	—	—	(39,595)	(39,595)
<b>At 30 June 2004</b>	<b>152,297</b>	<b>700,740</b>	<b>6,171</b>	<b>218,714</b>	<b>41,248</b>	<b>13,557</b>	<b>10,144</b>	<b>(18,103)</b>	<b>26,704</b>	<b>(378,014)</b>	<b>773,458</b>
At 1 January 2003	152,053	700,452	6,171	162,841	46,361	13,557	10,144	(17,815)	26,704	(166,909)	933,559
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>46,361</b>	<b>13,557</b>	<b>10,144</b>	<b>(17,922)</b>	<b>26,704</b>	<b>(269,433)</b>	<b>866,426</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 reclassified as investment properties in prior years. This revaluation reserve arose while the properties were classified as land and buildings, therefore is not available to offset subsequent 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	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(30,520)	(3,546)
Net cash inflow/(outflow) from investing activities	56,228	(3,307)
Net cash (outflow)/inflow from financing activities	(34,360)	28,524
(Decrease)/Increase in cash and cash equivalents	(8,652)	21,671
Cash and cash equivalents at beginning of period	58,693	39,505
Cash and cash equivalents at end of period	50,041	61,176
Analysis of balances of cash and cash equivalents		
Cash and bank balances	52,765	52,206
Non-pledged time deposits with original maturity of less than three months when acquired	—	11,514
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	—	5,000
Bank overdrafts	(2,724)	(7,544)
	50,041	61,176

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted in these unaudited condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2003.

### 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 the 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) the investment in residential and commercial premises for their rental income potential;
  - (ii) the 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, the sale of crushed stones and the trading of marketable securities.

Intersegment sales and transfers are transacted at mutually agreed terms.

## 2. Segment information (continued)

The following table 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 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(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	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	158,149	144,003	4,015	11,155	2,033	1,295	11,575	49,696	20,611	14,330	—	—	196,383	220,479
Intersegment sales	48	80	—	—	3,537	4,686	—	—	—	—	(3,585)	(4,766)	—	—
Other revenue and gains	2,434	2,682	39	5	3	—	101	—	1,849	1,160	—	—	4,426	3,847
Total	160,631	146,765	4,054	11,160	5,573	5,981	11,676	49,696	22,460	15,490	(3,585)	(4,766)	200,809	224,326
Segment results	3,735	4,417	(13,378)	(23,580)	481	1,486	(1,023)	1,945	(4,404)	(1,174)	1,329	970	(13,260)	(15,306)
Interest income													266	200
Unallocated expenses													(20,645)	(108,818)
Loss from operating activities													(33,639)	(124,554)
Finance costs													(4,048)	(4,316)
Share of profits and losses of:														
A jointly-controlled entity													—	(132)
Associates													(408)	(4,638)
Loss before tax													(38,095)	(133,640)
Tax													(1,373)	3,258
Loss before minority interests													(39,468)	(130,382)
Minority interests													(127)	7,858
Net loss from ordinary activities attributable to shareholders													(39,595)	(122,524)



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### 3. Other revenue and gains

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	266	200
Others	4,426	3,847
	<u>4,692</u>	<u>4,047</u>

### 4. Loss from operating activities

Loss from operating activities is arrived at after charging:

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	136,200	149,368
Depreciation	10,181	10,594
Provision for bad and doubtful debts	40	10,743
Provision for inventories	2,754	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 an intangible asset	664	755
Amortisation of goodwill	3,620	121
Unrealised loss on revaluation of short term investments	—	700
	<u>—</u>	<u>700</u>

### 5. Finance costs

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	4,013	4,293
Interest on finance leases	35	23
	<u>4,048</u>	<u>4,316</u>

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## 6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current — Hong Kong		
Underprovision in prior years	17	—
Current — Elsewhere	1,983	2,259
Deferred	(563)	156
	<u>1,437</u>	<u>2,415</u>
Share of tax attributable to associates:		
Hong Kong	(258)	(251)
Elsewhere	194	(5,422)
	<u>(64)</u>	<u>(5,673)</u>
Tax charge/(credit) for the period	<u>1,373</u>	<u>(3,258)</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\$39,595,000 (2003: HK\$122,524,000) and the weighted average of 1,521,481,000 (2003: 1,518,702,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2004 has not been shown as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

No diluted loss per share 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.

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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 reviewed regularly by senior management.

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

	<b>30 June</b> <b>2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Within three months	53,437	60,852
Four to six months	5,217	3,950
Over six months	<u>22,259</u>	<u>23,081</u>
	<b>80,913</b>	87,883
Less : Provision for doubtful debts	<u>(16,929)</u>	<u>(16,889)</u>
	<u><b>63,984</b></u>	<u>70,994</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>2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Within three months	39,151	46,894
Four to six months	2,645	4,893
Over six months	<u>15,221</u>	<u>15,736</u>
	<b>57,017</b>	67,523
	<u><b>57,017</b></u>	<u>67,523</u>

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## 10. Related party transactions

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Purchases of raw materials and work in progress from associates	<u>9,682</u>	<u>8,652</u>

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.

## 11. Contingent liabilities

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 June	31 December
	2004	2003
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to associates	<u>18,874</u>	<u>25,166</u>

- (b) At 30 June 2004, the Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$1,748,000 (31 December 2003: HK\$1,872,000). The contingent liability has arisen because, at the balance sheet date, a number of current employees 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. 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</b> <b>2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2003 (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>940</b>	6,439
Purchase of a land use right	<b>1,284</b>	—
	<u><b>23,674</b></u>	<u>27,889</u>

## 13. Approval of the interim financial report

These condensed interim financial statements were approved and authorised for issue by the board of directors on 21 September 2004.

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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 2004 (2003: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The global economy remained volatile in the first half of 2004. Although there were signs that the economy was improving gradually, the fears of terrorist attacks and the high oil price continued to adversely affect the financial markets. The local economy was further affected by the persistent deflation and high unemployment as well as the negative impact of the macroeconomic control policy in the PRC. The Group's business environment remained difficult.

The Group incurred a net loss of approximately HK\$39.60 million for the six months ended 30 June 2004, as compared to a net loss of approximately HK\$122.52 million for the same period in 2003. The reduction was mainly due to the lower provision for impairment on our investments.

Turnover for the period amounted to approximately HK\$196.38 million, representing a decrease of approximately 10.9% when compared with that of last period. The fall in turnover was mainly due to the reduction in revenue from marble and granite and fuel businesses. Relatively, the Group's gross profit for the period was reduced by 15.4% when compared with that of last period to HK\$60.18 million. The manufacturing and sale of paint products continued to be the core business of the Group. Its weight in the total turnover was 80.5% for the period under review, representing an increase of approximately 15.2% when compared with that of last period.

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## **Paint products**

Turnover for the period amounted to approximately HK\$158.15 million, representing an increase of approximately 9.8% when compared with that of last period. Turnover in quantity amounted to approximately 9,000kl, representing an increase of approximately 28.7% when compared with that of last period. The increase in turnover was mainly due to the increase in sales of lower margin products. The paint business continued to have steady growth in the PRC. During the period under review, the competition within the industry was increasingly intense. Operating profit for the period amounted to approximately HK\$3.74 million, representing a decrease of 15.4% when compared with that of last period. The decrease was mainly due to the reduction in selling prices and the increase in selling expenses. The construction of a new factory in Xuzhou is in progress.

## **Marble and granite**

Turnover for the period amounted to approximately HK\$4.02 million, representing a decrease of approximately 64.0% when compared with that of last period. Sales dropped significantly as low consumer sentiments persisted. Operating loss for the period amounted to approximately HK\$13.38 million, representing a decrease of approximately 43.3% when compared with that of last period. Provisions for inventories amounted to HK\$2.75 million were made during the period. In light of the harsh business environment in the industry ahead, the Group decided to scale down its operation. Subsequent to the period under review, the Group has closed down its Hong Kong operation and realized most of its local assets. In the PRC, the Group has ceased production and leased out its factory and certain plants and machineries to generate steady income.

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## **Property investment**

Turnover for the period amounted to approximately HK\$2.03 million, representing an increase of approximately 57.0% when compared with that of last period. Operating profit amounted to approximately HK\$0.48 million, representing a decrease of approximately 67.6% when compared with that of last period. The decrease was mainly due to the absorption of selling expenses for property sales. During the period under review, the property market had recovered and the Group had disposed certain of its property investments to strengthen its cashflow. Development projects in Hong Kong for land regrant are still under negotiations with the Hong Kong Government and the project in Dalian, PRC is under construction.

## **Fuel**

Turnover for the period amounted to approximately HK\$11.58 million, representing a decrease of 76.7% when compared with that of last period. Operating loss for the period amounted to approximately HK\$1.02 million compared with operating profit of approximately HK\$1.95 million last period. In August 2003, the Japan Government implemented new regulations on the environmental fuel which adversely affected our business. New fuel formula which met Japan's new requirements was developed and sales started to resume in August 2004. The Group is also actively exploring business opportunities in the PRC to increase revenue.

## **Others**

### **Iron and steel trading**

Turnover for the period amounted to approximately HK\$12.05 million, representing a decrease of 15.9% when compared with that of last period. Operating profit for the period amounted to HK\$1.48 million, representing an increase of 108.7% when compared with that of last period. The business continued to have steady contribution to the Group.



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## **Quarry**

Turnover for the period amounted to HK\$4.22 million and operating loss for the period amounted to HK\$6.13 million. The quarry market was sluggish during the period under review. The implementation of the macroeconomic control policy had delayed development projects in the region. The strict environmental protection requirements also caused constraints in the industry. The mining licence is due to expire in June 2005 and negotiation for renewal is in progress. The local government authority has been reducing the total number of mining licences since last year. If our licence is renewed, it is expected that fewer number of quarries will result in less competition and hence more business for our quarry. The Group will keep a close eye on the business.

## **Long term investments**

### **Auction house**

The auction house operation continued to record improvements and turned into profit during the period under review. During the period, the operation successfully increased its revenue and will continue to explore new business opportunities.

### **Information technology**

The education web operation sustained a marginal loss during the period under review in light of the intense market competition and the uncertain economy. The Group has been cautious on this operation and will keep a close eye on the progress of the business.

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## **Environmental projects**

The Chongqing joint-venture company had entered into contracts with various public and private transportation companies in Chongqing, Chengdu and Xian, using the “W-Tech” technology to modify their vehicle fleets by stages. Under the terms of the contracts, the company had to modify a number of existing used vehicles with “W-Tech” treated pistons and piston-rings in the engines for experiment. During the period under review, over 20 such vehicles had been modified, but the results were still not yet assessed pending the completion of the experimental period at the end of September 2004.

## **FINANCIAL REVIEW**

### **Liquidity and financial information**

The Group’s business operation is generally financed by its internal funding and bank borrowings. Cash and cash equivalents amounted to approximately HK\$52.77 million as at 30 June 2004 compared with approximately HK\$63.69 million as at 31 December 2003. Bank borrowings amounted to approximately HK\$137.64 million as at 30 June 2004 compared with approximately HK\$175.15 million as at 31 December 2003. All the Group’s bank borrowings bear interest at floating rates. Of the Group’s total bank borrowings as at 30 June 2004, approximately HK\$107.05 million (77.8%) is payable within one year, approximately HK\$4.32 million (3.1%) is payable in the second year, approximately HK\$14.29 million (10.4%) is payable in the third to fifth years and the remaining balance of HK\$11.98 million (8.7%) is payable beyond the fifth year.

The Group’s bank borrowings were mainly in HK\$ and RMB and hence the risk of currency exposure was insignificant.

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Gearing ratio of the Group which is expressed as a percentage of total bank borrowings to shareholders' funds was 17.8% as at 30 June 2004 compared with 21.6% as at 31 December 2003. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.00 times as at 30 June 2004 compared with 1.06 times as at 31 December 2003.

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

Shareholders' funds of the Group as at 30 June 2004 was approximately HK\$773.46 million compared with approximately HK\$811.89 million as at 31 December 2003. Net asset value per share as at 30 June 2004 was HK\$0.51 compared with HK\$0.54 as at 31 December 2003. The reduction in shareholders' funds and the net asset value per share was mainly due to the loss incurred during the period under review.

### **Contingent liabilities**

At 30 June 2004, the Group issued guarantees of HK\$18.87 million compared with HK\$25.17 million as at 31 December 2003 to banks to secure general banking facilities granted to certain associates. Guarantees issued by the Company to banks to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2004 amounted to HK\$71.82 million compared with HK\$111.35 million as at 31 December 2003.

### **Pledge of assets**

Land and buildings, property held for sale and investment properties with aggregate net book value of HK\$231.86 million (31 December 2003: HK\$313.79 million) were pledged to banks as collaterals for general banking facilities. At 30 June 2004, total outstanding secured bank borrowings amounted to HK\$98.66 million as compared with HK\$147.92 million as at 31 December 2003.

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## **STAFF**

As at 30 June 2004, the Group's staff headcount was 957 (2003: 926). Staff costs amounted to HK\$33.44 million for the period under review as compared with HK\$29.30 million for the last period. 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**

Although the global economy showed signs of recovery in recent months, we expect that 2004 would still be volatile. The rise of interest rate in the United States; the persistent high oil price and the geopolitical tensions and terrorist threats will hinder the recovery of the global economy. However, the recent macroeconomic control policy in the PRC which was aimed at cooling down its overheated economy will enable strong players, including our Group, to benefit from reduced competition and healthy long term growth of the industries concerned. The Group will continue to focus on its paint operation whilst streamlining the non-performing sectors through tightening control on costs and exploring new revenue items.

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## DISCLOSURE UNDER LISTING RULES 13.20 AND 13.22

### (i) Advance to an entity

Loan advanced by the Group to an entity as at 30 June 2004 required to be disclosed under Rule 13.20 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) is as follows:

Entity	Percentage of equity held by the Group	Advance HK\$'000
Liaoyang Beiyang Realestate Development Company Limited	50%	38,133

The advance was used to finance a property development project in Shanghai. The advance is unsecured, interest free and has no fixed terms of repayment.

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## DISCLOSURE UNDER LISTING RULES 13.20 AND 13.22

(continued)

### (ii) Financial assistance and guarantees given to affiliated companies

The proforma combined balance sheet of and the Group's attributable interest in the affiliated companies based on their latest financial statements available required to be disclosed under Rule 13.22 of the Listing Rules are as follows:

	Proforma combined balance sheet HK\$'000	The Group's attributable interest HK\$'000
Non-current assets	541,056	67,352
Current assets	335,474	63,232
Current liabilities	(539,624)	(83,278)
Non-current liabilities	(102,985)	(15,807)
Net assets	<u>233,921</u>	<u>31,499</u>

## 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 expired/terminated share option schemes adopted on 2 May 1991 (the "1991 Scheme") and 13 June 2001 (the "2001 Scheme") respectively, that remained unexercised as at 1 January 2004 and 30 June 2004 are as follows:

Name	Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of shares under options		
				Balance at 1 January 2004	Exercised during the period	Balance at 30 June 2004
<b>1991 Scheme</b>						
<b>Directors</b>						
Tsui Ho Chuen, Philip	26 April 2001	26 April 2001 to 25 April 2006	0.2152	4,000,000	—	4,000,000
Tsui Yam Tong, Terry	26 April 2001	26 April 2001 to 25 April 2006	0.2152	4,000,000	—	4,000,000
<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	13,680,000	6,864,000**	6,816,000

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## SHARE OPTIONS (continued)

- \* 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 2004.
- \*\* The weighted average closing price of the share immediately before the dates on which the options were exercised was about HK\$0.273.

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

As at 30 June 2004, 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	—	—	337,473,906	343,473,906	22.55%
Sir David Akers-Jones		Beneficial owner	2,406,831	—	—	—	2,406,831	0.16%
Tsui Ho Chuen, Philip	1	Beneficiary of trust	—	—	—	337,473,906	337,473,906	22.16%
Tsui Yam Tong, Terry	1	Beneficial owner, beneficiary of trust & interest of controlled corporation	1,124,000	—	337,473,906*	337,473,906*	338,597,906	22.23%
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**

<b>Name</b>	<b>Note</b>	<b>Capacity</b>	<b>Nature of equity derivative (unlisted/physically settled)</b>	<b>Number of underlying shares</b>
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
Tsui Ho Chuen, Philip		Beneficial owner	options granted under the Company's share option schemes	37,500,000
	2	Beneficiary of trust	option	98,000,000
Tsui Yam Tong, Terry		Beneficial owner	options granted under the Company's share option schemes	37,500,000
		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	option granted under the Company's share option scheme	21,000,000

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

Notes:

- (1) The 337,473,906 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 heading "Share options" above.

Save as disclosed above, as at 30 June 2004, 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 pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, 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 2004, 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	337,473,906	—	22.16%
	1	Trustee	—	98,000,000	6.43%
Wang Wing Mu, Amy	2	Interest of spouse	343,473,906	—	22.55%
	2	Interest of spouse	—	136,000,000	8.93%
Ng Shou Ping, Lucilla	3	Interest of spouse	338,597,906	—	22.23%
	3	Beneficial owner & interest of spouse	—	136,250,000	8.95%
Ho Mei Po, Mabel	4	Interest of spouse	337,473,906	—	22.16%
	4	Interest of spouse	—	135,500,000	8.90%
West Avenue Group Company Limited	5	Beneficial owner	198,000,000	—	13.00%
Tsai Wu Chang	5	Interest of controlled corporation	198,000,000	—	13.00%
Chinaculture.com Limited	6	Beneficial owner	187,000,000	—	12.28%
Chuang's China Investments Limited	6	Interest of controlled corporation	187,000,000	—	12.28%
Profit Stability Investments Limited	6	Interest of controlled corporations	187,000,000	—	12.28%
Chuang's Consortium International Limited	6	Interest of controlled corporations	187,000,000	—	12.28%

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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
<b>Below 10% of issued share capital</b>					
Broadsino Investment Company Limited	7	Beneficial owner	98,000,000	—	6.43%
Golden Case Limited	8	Security interest in shares	80,000,000	—	5.25%
Cheung Kong Investment Company Limited	8	Interest of controlled corporation	80,000,000	—	5.25%
Cheung Kong (Holdings) Limited	8	Interest of controlled corporations	80,000,000	—	5.25%
Li Ka-Shing Unity Trustee Company Limited	8	Trustee	80,000,000	—	5.25%
Li Ka-Shing Unity Trustee Corporation Limited	8	Trustee & beneficiary of trust	80,000,000	—	5.25%
Li Ka-Shing Unity Trustcorp Limited	8	Trustee & beneficiary of trust	80,000,000	—	5.25%
Li Ka-Shing	8	Interest of controlled corporations & founder of discretionary trusts	80,000,000	—	5.25%

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

Notes:

- (1) The 337,473,906 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 under the heading “Directors’ interests and short positions in shares, underlying shares and debentures” above.
- (2) Ms. Wang Wing Mu, Amy is the wife of Mr. Tsui Tsin Tong and was taken to be interested in 343,473,906 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 338,597,906 shares and 135,500,000 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.
- (4) Ms. Ho Mei Po, Mabel is the wife of Mr. Tsui Ho Chuen, Philip and was taken to be interested in 337,473,906 shares and 135,500,000 underlying shares under equity derivatives in which her spouse was interested under the SFO.
- (5) The 198,000,000 shares were beneficially owned by West Avenue Group Company Limited (“West Avenue”). Mr. Tsai Wu Chang was deemed to be interested in these shares under the SFO by virtue of his interest in the entire equity of West Avenue.
- (6) The references to the 187,000,000 shares relate to the same block of 187,000,000 shares beneficially interested by Chinaculture.com Limited (“Chinaculture”).

Chinaculture was a wholly-owned subsidiary of Chuang’s China Investments Limited (“Chuang’s China”), which in turn was a 60% owned subsidiary of Profit Stability Investments Limited (“Profit Stability”). Chuang’s Consortium International Limited (“Chuang’s Consortium”) held 100% equity interest in Profit Stability.

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

Chuang's China, Profit Stability and Chuang's Consortium were all deemed under the SFO to be interested in these 187,000,000 shares which were owned by Chinaculture.

- (7) 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.
- (8) 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 2004 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**

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

## **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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

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## **COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions effective on 31 March 2004. The Company confirms that, having made specific enquiry of all directors, the directors have complied with the required standard set out in the code for the period under review.

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

Hong Kong, 21 September 2004

### **Board of Directors**

Tsui Tsin Tong (*Honorary Chairman*)

Lam Ting Ball, Paul (*Chairman*)

Sir David Akers-Jones (*Deputy Chairman and Independent  
Non-executive Director*)

Tsui Ho Chuen, Philip (*Executive Deputy Chairman*)

Tsui Yam Tong, Terry (*Managing Director*)

Lau Wong Fat (*Independent Non-executive Director*)

Wu Tat Po (*Executive Director*)

Li Hui Yan (*Independent Non-executive Director*)

Hung Ting Ho, Richard (*Non-executive Director*)

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