



CNT GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 701)

**INTERIM
REPORT**

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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 2006 together with comparative amounts for the corresponding period in 2005. These condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2006	2005
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	3	253,007	235,075
Cost of sales		<u>(178,629)</u>	<u>(172,032)</u>
Gross profit		74,378	63,043
Other income and gains	3	9,405	10,447
Selling and distribution costs		(31,221)	(36,075)
Administrative expenses		(53,345)	(46,994)
Other expenses, net		(964)	(1,458)
Finance costs	4	(3,877)	(3,304)
Share of profits and losses of associates		<u>816</u>	<u>(263)</u>
LOSS BEFORE TAX	5	(4,808)	(14,604)
Tax	6	<u>(2,179)</u>	<u>(1,053)</u>
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(6,987)	(15,657)
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations		<u>—</u>	<u>(4,267)</u>
LOSS FOR THE PERIOD		<u>(6,987)</u>	<u>(19,924)</u>

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
			(Restated)
ATTRIBUTABLE TO:			
Equity holders of the parent		(6,902)	(20,008)
Minority interests		(85)	84
		<u>(6,987)</u>	<u>(19,924)</u>
LOSS PER SHARE			
	7		
Basic			
- For loss for the period		<u>0.45 cents</u>	<u>1.31 cents</u>
- For loss from continuing operations		<u>0.45 cents</u>	<u>1.03 cents</u>
Diluted			
- For loss for the period		<u>N/A</u>	<u>N/A</u>
- For loss from continuing operations		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		223,252	225,065
Investment properties		93,880	95,520
Properties under development		25,009	25,000
Prepaid land premium		1,541	1,546
Interests in associates		35,727	34,538
Available-for-sale investments		167,087	167,087
Deposit for purchase of a property		46,000	46,000
Long term portion of a mortgage loan receivable		—	766
Deferred tax asset		6	6
Pension scheme asset		890	890
Total non-current assets		593,392	596,418
CURRENT ASSETS			
Inventories		55,612	57,583
Trade receivables	8	100,784	100,297
Prepayments, deposits and other receivables		23,003	30,100
Equity investments at fair value through profit or loss		33	33
Current portion of a mortgage loan receivable		—	44
Cash and cash equivalents		94,832	96,612
		274,264	284,669
Assets of disposal groups classified as held for sale	10	320,579	355,711
Total current assets		594,843	640,380

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	Notes		
CURRENT LIABILITIES			
Trade and bills payables	9	77,055	78,104
Other payables and accruals		99,759	85,035
Interest-bearing bank and other borrowings		64,705	112,582
Tax payable		1,622	1,679
		243,141	277,400
Liabilities directly associated with the assets of disposal groups classified as held for sale	10	258,565	264,735
Total current liabilities		501,706	542,135
NET CURRENT ASSETS		93,137	98,245
TOTAL ASSETS LESS CURRENT LIABILITIES		686,529	694,663
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		35,787	38,778
Deferred tax liabilities		9,720	9,720
Total non-current liabilities		45,507	48,498
Net assets		641,022	646,165

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	153,947	153,297
Reserves	481,109	486,817
	<hr/>	<hr/>
	635,056	640,114
Minority interests	5,966	6,051
	<hr/>	<hr/>
Total equity	641,022	646,165
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the parent

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Leasehold land and building revaluation reserve (Unaudited) HK\$'000	Investment property revaluation reserve* (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Reserve fund** (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Reserves relating to assets of disposal groups classified as held for sale (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2006	153,297	701,316	6,171	248,168	42,226	13,357	10,144	(2,194)	28,866	(547,407)	(14,030)	6,051	646,165
Exchange realignment	—	—	—	—	—	—	—	491	—	—	138	—	629
Total income and expenses for the period recognised directly in equity	—	—	—	—	—	—	—	491	—	—	138	—	629
Disposals of assets of disposal groups classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	190
Net loss for the period	—	—	—	—	—	—	—	—	—	(6,502)	—	(85)	(6,587)
Total income and expenses for the period	—	—	—	—	—	—	—	491	—	(6,502)	328	(85)	(6,168)
Issue of shares *	650	375	—	—	—	—	—	—	—	—	—	—	1,025
At 30 June 2006	153,947	701,691	6,171	248,168	42,226	13,357	10,144	(1,703)	28,866	(554,309)	(13,702)	5,966	641,022

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Attributable to equity holders of the parent

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Leasehold land and building revaluation reserve (Unaudited) HK\$'000	Investment property revaluation reserve* (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Reserve fund** (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Assets classified as held for sale (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2005	153,297	70,316	6,171	248,168	42,235	13,357	10,144	(17,347)	26,704	(537,380)	—	5,302	651,587
Exchange realignment	—	—	—	—	—	—	—	475	—	—	—	—	475
Total income and expenses for the period recognised directly in equity	—	—	—	—	—	—	—	475	—	—	—	—	475
Net loss for the period	—	—	—	—	—	—	—	—	—	(20,008)	—	84	(19,924)
Total income and expenses for the period	—	—	—	—	—	—	—	475	—	(20,008)	—	84	(19,449)
Transfer of reserves relating to assets of disposal groups classified as held for sale	—	—	—	—	—	—	—	—	—	—	(13,912)	—	—
At 30 June 2005	153,297	70,316	6,171	248,168	42,235	13,357	10,144	(3,360)	26,704	(557,388)	(13,912)	5,386	632,118

* 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. The 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 set off against accumulated losses only upon the disposal or retirement of the relevant assets and such transfer is not made through the income statement.

** Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profit of certain subsidiaries of the Group in the People's Republic of China ("PRC") are required to be transferred to the PRC reserve funds which are restricted as to use. The subsidiaries are not required to effect any further transfer when the amount of reserve fund reaches 50% of their registered capital. The reserve fund can be used to make good future losses or to increase the capital of the subsidiaries.

6,502,000 ordinary shares of the Company of HK\$0.10 each were issued to certain option holders at HK\$0.1576 per share pursuant to the Company's share option scheme adopted on 13 June 2001.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	18,828	3,820
Net cash inflow/(outflow) from investing activities	29,660	(7,522)
Net cash outflow from financing activities	<u>(50,199)</u>	<u>(9,431)</u>
Net decrease in cash and cash equivalents	(1,711)	(13,133)
Cash and cash equivalents at beginning of period	96,612	67,014
Cash and cash equivalents classified as assets of disposal groups held for sale	—	(4,648)
Effect of foreign exchange rate changes, net	<u>(69)</u>	<u>—</u>
Cash and cash equivalents at end of period	<u>94,832</u>	<u>49,233</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>94,832</u>	<u>49,233</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Hong Kong (International Financial Reporting Interpretations Committee) - Interpretations (“HK(IFRIC) - Int”)) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rate - Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease

The adoption of the pronouncements listed above has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

The Group has not early applied any of the new standards, amendments or interpretations, that have been issued but not yet effective, in these condensed consolidated interim financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 property investment segment comprises:
 - (i) the investment in residential and commercial premises for their rental income potential;
 - (ii) the development and sale of properties;
- (c) the "others" segment comprises, principally, the trading of steel products, the trading of marketable securities and the sale of crushed stone (discontinued in 2005);
- (d) the marble and granite segment engages in the processing and sale of marble and granite (discontinued in 2005); and
- (e) the fuel segment engages in the manufacturing and trading of fuel (discontinued in 2005).

Intersegment sales and transfers are transacted at mutually agreed terms.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Segment information (continued)

The following tables present revenue and profit/(loss) for the Group's business segments for the six months ended 30 June 2006 and 2005.

Six months ended 30 June 2006	Continuing operations					Discontinued operations					Total Consolidated (Unaudited) HK\$'000
	Paint products	Property investment	Others	Eliminations	Total	Marble and granite	Fuel	Eliminations	Total		
	(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		
Segment revenue:											
Sales to external customers	233,238	2,969	16,800	—	253,007	—	—	—	—	—	253,007
Intersegment sales	—	2,605	—	(2,605)	—	—	—	—	—	—	—
Other income and gains	3,815	185	4,648	—	8,648	—	—	—	—	—	8,648
Total	237,053	5,759	21,448	(2,605)	261,655	—	—	—	—	—	261,655
Segment results	9,339	275	3,055	3,147	15,816	—	—	—	—	—	15,816
Interest income					757						757
Unallocated expenses					(18,320)						(18,320)
Finance costs					(3,877)						(3,877)
Share of profits and losses of associates					816						816
Loss before tax					(4,808)						(4,808)
Tax					(2,179)						(2,179)
Loss for the period					(6,987)						(6,987)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Segment information (continued)

Six months ended 30 June 2005	Continuing operations					Discontinued operations					Total Consolidated (Unaudited) HK\$'000
	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Marble and granite (Unaudited) HK\$'000	Fuel (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Total (Unaudited) HK\$'000		
Segment revenue:											
Sales to external customers	202,484	2,365	30,226	—	235,075	89	1,839	—	1,928	237,003	
Intersegment sales	48	2,869	—	(2,917)	—	—	1,641	(1,641)	—	—	
Other income and gains	1,788	3,714	4,727	—	10,229	106	—	—	106	10,335	
Total	204,320	8,948	34,953	(2,917)	245,304	195	3,480	(1,641)	2,034	247,338	
Segment results	2,136	2,942	1,699	2,416	9,193	(2,320)	(2,379)	432	(4,267)	4,926	
Interest income					218				—	218	
Unallocated expenses					(20,448)				—	(20,448)	
Finance costs					(3,304)				—	(3,304)	
Share of profits and losses of associates					(263)				—	(263)	
Loss before tax					(14,604)				(4,267)	(18,871)	
Tax					(1,053)				—	(1,053)	
Loss for the period					(15,657)				(4,267)	(19,924)	

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income.

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000 (Restated)
Other income and gains:		
Bank interest income	757	218
Income from contracting out a mining right	—	1,327
Fair value gains on investment properties, net	—	938
Service fee	141	782
Others	8,507	7,182
	<u>9,405</u>	<u>10,447</u>

4. Finance costs

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	2,880	2,851
Interest on other loans	973	426
Interest on finance leases	24	27
	<u>3,877</u>	<u>3,304</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Loss before tax

Loss before tax is arrived at after charging:

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Cost of inventories sold	178,629	172,032
Depreciation	6,210	6,838
Provision for bad and doubtful debts	1,956	136
Provision for inventories	2,414	708
	<u><u>2,414</u></u>	<u><u>708</u></u>

6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current - Hong Kong	449	—
Current - Elsewhere	1,730	1,053
	<u>1,730</u>	<u>1,053</u>
Tax charge for the period	2,179	1,053
	<u><u>2,179</u></u>	<u><u>1,053</u></u>

Share of tax attributable to associates amounting to HK\$170,000 (2005: tax credit of HK\$209,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Loss per share

The calculation of basic loss per share amounts is based on the net loss attributable to equity holders of the parent for the period of HK\$6,902,000 (2005: HK\$20,008,000) and the weighted average of 1,538,253,000 (2005: 1,532,970,000) ordinary shares in issue during the period.

The calculation of basic loss per share amounts from continuing operations is based on the net loss attributable to equity holders of the parent for the period of HK\$6,902,000 (2005: HK\$15,741,000) and the weighted average of 1,538,253,000 (2005: 1,532,970,000) ordinary shares in issue during the period.

No diluted loss per share amounts are presented for the six months ended 30 June 2006, 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 amounts for the six months ended 30 June 2005 have 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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. In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date and net of provisions, is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within three months	90,011	82,176
Four to six months	7,654	12,399
Over six months	3,119	5,722
	<u>100,784</u>	<u>100,297</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:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within three months	70,663	41,869
Four to six months	3,331	26,175
Over six months	3,061	10,060
	<u>77,055</u>	<u>78,104</u>

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Assets and associated liabilities of disposal groups classified as held for sale

The directors resolved to dispose of the following disposal groups:

- (i) On 6 June 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of the remaining effective 95% equity interest in a subsidiary engaged in property development in Dalian, the PRC. The transaction is expected to be completed in 2006. Details of the transaction were also set out in the Company's circular to its shareholders dated 4 July 2005.
- (ii) On 12 December 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of a wholly-owned subsidiary which is engaged in property investment in Futian, Shenzhen. The transaction is expected to be completed in 2006. Details of the transaction were also set out in the Company's circular to its shareholders dated 9 January 2006.

The above assets and associated liabilities, which were expected to be sold within twelve months from 30 June 2006, have been classified as disposal groups held for sale and presented separately in the balance sheet.

The major classes of assets and associated liabilities of disposal groups were as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Assets		
Property, plant and equipment	334	2,992
Investment properties	33,367	34,517
Properties under development	231,560	239,046
Prepaid land premium	—	806
Interests in associates	—	25,422
Prepayments, deposits and other receivables	51,016	35,857
Cash and cash equivalents	4,302	17,071
	<u>320,579</u>	<u>355,711</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Assets and associated liabilities of disposal groups classified as held for sale (continued)

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Liabilities		
Other payables and accruals	(161,137)	(168,355)
Interest-bearing bank and other borrowings	(97,000)	(96,000)
Tax payable	(428)	(380)
	<u>(258,565)</u>	<u>(264,735)</u>
Associated exchange reserve	<u>13,702</u>	<u>14,030</u>
Net carrying value directly associated with the disposal groups	<u>75,716</u>	<u>105,006</u>

11. Related party transactions

(a) *Transactions with related parties:*

	Six months ended 30 June 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Purchases of raw materials and work in progress from an associate	<u>288</u>	<u>41,658</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 by other suppliers.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Related party transactions (continued)

(b) *Outstanding balances with related parties:*

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Amounts due from associates	44,394	42,595
Provision for amounts due from associates	(19,840)	(19,840)
	<u>24,554</u>	<u>22,755</u>

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount due from an associate of HK\$1,350,000 which bears interest at the Hong Kong dollar prime rate plus 3% per annum or 8% per annum, whichever is higher, and is repayable on 31 December 2006. The carrying amounts of these amounts due from associates approximate to their fair values.

(c) *Compensation of key management personnel of the Group:*

	Six months ended 30 June 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short term employee benefits	7,697	7,985
Post-employment benefits	321	300
	<u>8,018</u>	<u>8,285</u>
Total compensation paid to key management personnel	<u>8,018</u>	<u>8,285</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Contingent liabilities

At 30 June 2006, 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\$1,524,000 (31 December 2005: HK\$1,745,000). 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.

13. Capital commitments

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of a joint venture company	21,450	21,450
Construction of a property under development, classified as assets of disposal groups held for sale	49,364	82,759
Purchase of a land use right	4,190	4,061
Capital contribution to a subsidiary	13,203	13,260
	<u>88,207</u>	<u>121,530</u>

14. Post balance sheet event

On 5 September 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire interest in and shareholder's loan to Coral Reef Enterprises Limited, an indirect wholly-owned subsidiary of the Company which holds 45% equity interest in an associate, Treasure Auctioneer International Limited, for a cash consideration of HK\$9.00 million. The disposal would not result in any significant gain or loss to the Group.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Comparative amounts

Certain comparative amounts have been restated to conform with the current period's presentation in relation to discontinued operations.

16. Approval of the interim financial report

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 18 September 2006.

INTERIM DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the year ending 31 December 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the Group's core paint operation continued to have improvement both in terms of revenue and operating profits. Despite the improved performance of our paint operation, the business environment confronted by the Group remained difficult which experienced significant operating cost pressure. The Group's profitability was affected by higher raw material costs, energy prices and the increased minimum wages in the PRC during the period under review. Facing the environment, the Group continued to strengthen the cost control measures, including better purchasing and logistic management to reduce idle stock and production management to economize use of materials and consumables, in order to reduce the impact of the increasing operating cost on our Group.

The Group incurred a net loss attributable to the equity holders of the parent company of approximately HK\$6.90 million for the six months ended 30 June 2006, as compared to that of approximately HK\$20.01 million for the last corresponding period. The increase in the contribution from the paint operation, together with the reduction in losses of the marble and granite operation and the fuel operation which had been closed down last year, resulted in a reduction in the Group's loss during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

The Group's revenue for the period amounted to approximately HK\$253.01 million, representing an increase of approximately 7.6% when compared with that of last period. The increase was mainly due to the increase in revenue from the paint operation. The Group's gross profit for the period was increased by 18.0% when compared with that of last period to approximately HK\$74.38 million. The manufacturing and sale of paint products continued to be the core business of the Group. Its weight in the total revenue was approximately 92.2% for the period under review.

Paint products

Revenue for the period amounted to approximately HK\$233.24 million, representing an increase of approximately 15.2% when compared with that of last period. The paint business continued to have a steady growth in the PRC. Operating profit for the period amounted to approximately HK\$9.34 million, representing an increase of approximately 337.2% when compared with that of last period. Despite the keen market competition, the paint operation was still able to achieve an increase in revenue and operating profits by means of the effort put to strengthen cost control and to improve operational efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

Property investment

Revenue for the period amounted to approximately HK\$2.97 million, representing an increase of approximately 25.5% when compared with that of last period. Operating profit amounted to approximately HK\$0.28 million, compared with that of approximately HK\$2.94 million last period. During last period, fair value gain was recognised upon transfer of certain properties of the Group from leasehold land and buildings to investment properties but no such transfer was made during the period under review.

Others

Iron and steel trading

Revenue for the period amounted to approximately HK\$16.80 million, representing a decrease of approximately 43.1% when compared with that of last period. Operating profit for the period amounted to approximately HK\$2.58 million, representing an increase of approximately 14.7% when compared with that of last period. Despite the decrease in revenue, additional commission income was received resulting in an increase in the overall operating profit during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

Available-for-sale investments

Cemetery project

The Group has an effective 11.25% interest in the cemetery project situated in Si Hui City, Guangdong Province, the PRC. The main types of products for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches. The foundation works and buildings of 50 mu area (approximately 33,300 m²) in relation to the initial stage of the development have been completed and soft marketing commenced.

Other investments

The performance of the auction house operation was steady and managed to have a small contribution to the Group during the period under review. Subsequent to the period under review, the Group entered into a sale and purchase agreement to dispose of our entire investment in the auction business for a cash consideration of HK\$9.00 million. The disposal would not result in any significant gain or loss to the Group.

The disposal of Shenzhen Huate Packing Co., Ltd., an associated company of the Group, has been completed during the period under review. The disposal did not have significant effect on the profit or loss of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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\$94.83 million as at 30 June 2006 compared with approximately HK\$96.61 million as at 31 December 2005. Bank and other borrowings (excluding those associated with the assets of disposal groups classified as held for sale) amounted to approximately HK\$100.49 million as at 30 June 2006 compared with approximately HK\$151.36 million as at 31 December 2005. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as at 30 June 2006, approximately HK\$64.70 million (64.4%) is payable within one year, approximately HK\$6.64 million (6.6%) is payable in the second year, approximately HK\$15.94 million (15.9%) is payable in the third to fifth years and the remaining balance of HK\$13.21 million (13.1%) is payable beyond the fifth year.

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

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to shareholders' funds was 15.8% as at 30 June 2006 compared with 23.6% as at 31 December 2005. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.19 times as at 30 June 2006 compared with 1.18 times as at 31 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Equity and net asset value

Shareholders' funds of the Group as at 30 June 2006 was approximately HK\$635.06 million compared with approximately HK\$640.11 million as at 31 December 2005. Net asset value per share as at 30 June 2006 was HK\$0.41 compared with HK\$0.42 as at 31 December 2005. 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

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2006 amounted to approximately HK\$67.08 million compared with approximately HK\$75.47 million as at 31 December 2005.

Pledge of assets

At 30 June 2006, leasehold land and buildings and investment properties with aggregate net book value of approximately HK\$265.97 million (31 December 2005: HK\$270.49 million) were pledged to banks as collaterals for general banking facilities. At 30 June 2006, total outstanding secured bank and other borrowings amounted to approximately HK\$85.14 million as compared with approximately HK\$134.79 million as at 31 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

STAFF

As at 30 June 2006, the Group's staff headcount was 1,119 (30 June 2005: 1,030). Staff costs amounted to approximately HK\$39.87 million for the period under review as compared with approximately HK\$32.67 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

Looking ahead, the global business environment will still be affected by the persistent high oil price, high interest rates, geopolitical tension and terrorist treats and the possible slow down of the economy of the United States. On the other hand, the increase in raw materials costs and the minimum wages together with the tightening of the safety and environmental protection regulations in the PRC result in our Group continue to experience significant operating cost pressure. The Group will continue to focus on its paint operation. To maintain the steady growth as well as the profitability of our paint operation, the Group will continue to improve its performance by means of strengthening cost control, improving operational efficiency as well as developing new paint products.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

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

As at 30 June 2006, 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	12,400,000	—	—	337,473,906	349,873,906	22.72%
Tsui Ho Chuen, Philip	1	Beneficiary of trust	—	—	—	337,473,906	337,473,906	21.92%
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	21.99%

* duplication

**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	31,600,000
	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	option granted under the Company's share option scheme	33,500,000
	2	Beneficiary of trust	option	98,000,000
Tsui Yam Tong, Terry		Beneficial owner	option granted under the Company's share option scheme	33,500,000
		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

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" below.

Save as disclosed above, as at 30 June 2006, 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 (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.

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 during the review period are as follows:

Name	Date of grant	Vesting/ Exercise period	Exercise price per share HK\$	Number of shares under options			
				Balance at 1 January 2006	Exercised during the period	Lapsed during the period	Balance at 30 June 2006
1991 Scheme							
Directors							
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	—
2001 Scheme							
Directors							
Tsui Tsin Tong	27 September 2001	27 September 2001 to 26 September 2006	0.1576	38,000,000	6,400,000 (note 1)	—	31,600,000
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 (note 2)
Continuous contract employees (other than the directors of the Company and their associates)	27 September 2001	27 September 2001 to 26 September 2006	0.1576	6,288,000	102,000 (note 3)	76,000	6,110,000

SHARE OPTIONS (continued)

Notes:

- (1) The weighted average closing price of the share immediately before the date of exercise of the option was HK\$0.137.
- (2) In addition, 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 2006.
- (3) The weighted average closing price of the share immediately before the dates of exercise of the options was HK\$0.216.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2006, 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
10% or more of issued share capital					
RGL	1	Trustee	337,473,906	—	21.92%
	1	Trustee	—	98,000,000	6.36%
Wang Wing Mu, Amy	2	Interest of spouse	349,873,906	—	22.72%
	2	Interest of spouse	—	129,600,000	8.41%
Ng Shou Ping, Lucilla	3	Interest of spouse	338,597,906	—	21.99%
	3	Beneficial owner & interest of spouse	—	132,250,000	8.59%
Ho Mei Po, Mabel	4	Interest of spouse	337,473,906	—	21.92%
	4	Interest of spouse	—	131,500,000	8.54%
West Avenue Group Company Limited	5	Beneficial owner	198,000,000	—	12.86%
Tsai Wu Chang	5	Interest of controlled corporation	198,000,000	—	12.86%
Chinaculture.com Limited	6	Beneficial owner	195,500,000	—	12.69%

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
Chuang's China Investments Limited	6	Interest of controlled corporation	195,500,000	—	12.69%
Profit Stability Investments Limited	6	Interest of controlled corporations	195,500,000	—	12.69%
Chuang's Consortium International Limited	6	Interest of controlled corporations	195,500,000	—	12.69%
Chuang (Chong) Shaw Swee, Alan	6	Interest of controlled corporations	195,500,000	—	12.69%
Chong Ho Pik Yu	6	Interest of spouse	195,500,000	—	12.69%
Below 10% of issued share capital					
Broadsino	7	Beneficial owner	98,000,000	—	6.36%
Golden Case Limited	8	Security interest in shares	80,000,000	—	5.19%
Cheung Kong Investment Company Limited	8	Interest of controlled corporation	80,000,000	—	5.19%
Cheung Kong (Holdings) Limited	8	Interest of controlled corporations	80,000,000	—	5.19%
Li Ka-Shing Unity Trustee Company Limited	8	Trustee	80,000,000	—	5.19%
Li Ka-Shing Unity Trustee Corporation Limited	8	Trustee & beneficiary of trust	80,000,000	—	5.19%
Li Ka-Shing Unity Trustcorp Limited	8	Trustee & beneficiary of trust	80,000,000	—	5.19%
Li Ka-Shing	8	Interest of controlled corporations & founder of discretionary trusts	80,000,000	—	5.19%

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 349,873,906 shares and 129,600,000 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 131,500,000 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 131,500,000 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 195,500,000 shares relate to the same block of 195,500,000 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 60.10% owned subsidiary of Profit Stability Investments Limited ("Profit Stability"). Chuang's Consortium International Limited ("Chuang's Consortium") held 100% equity interest in Profit Stability. Mr. Chuang (Chong) Shaw Sweet, Alan ("Mr. Chuang") is interested in 33.44% of the issued share capital of Chuang's Consortium. Ms. Chong Ho Pik Yu ("Mrs. Chuang") is the wife of Mr. Chuang.

Chuang's China, Profit Stability, Chuang's Consortium, Mr. Chuang and Mrs. Chuang were all deemed under the SFO to be interested in these 195,500,000 shares which were owned by Chinaculture.

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

Notes: (continued)

- (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.

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 2006 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) for the six months ended 30 June 2006, except that the non-executive directors are not appointed for a specific term. According to the Company’s bye-laws, the non-executive directors are subject to re-election once every three years.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the “Model Code”). After specific enquiry by the Company, all directors (except Mr Wong Chi Keung, Alvin who was appointed on 1 August 2006) confirmed that they have complied with the required standard set out in the Model Code and the Company’s own code during the six months ended 30 June 2006.

On behalf of the board
Lam Ting Ball, Paul
Chairman

Hong Kong, 18 September 2006

Executive Directors

Tsui Tsin Tong (*Honorary Chairman*)

Lam Ting Ball, Paul (*Chairman*)

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

Tsui Yam Tong, Terry (*Managing Director*)

Wong Chi Keung, Alvin (*Finance Director*)

Non-executive Director

Hung Ting Ho, Richard

Independent Non-executive Directors

Sir David Akers-Jones (*Deputy Chairman*)

Li Hui Yan

Danny T Wong

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