



# **CNT GROUP LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock Code : 701)

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**INTERIM  
REPORT**

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**2010**

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## INTERIM RESULTS

The board of directors of CNT Group Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2010 together with comparative amounts for the corresponding period in 2009. These condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s audit committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2010*

		Six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE		517,301	384,933
Cost of sales		(385,229)	(251,663)
Gross profit		132,072	133,270
Other income and gains	3	1,685	4,124
Selling and distribution costs		(69,382)	(61,907)
Administrative expenses		(61,778)	(54,953)
Other expenses, net		(575)	(740)
		2,022	19,794
Equity-settled share option expense	12	(7,813)	—
Finance costs	4	(2,895)	(3,279)
Share of profit and loss of associates		147	147
PROFIT/(LOSS) BEFORE TAX	5	(8,539)	16,662
Income tax expenses	6	(5,647)	(6,894)
PROFIT/(LOSS) FOR THE PERIOD		(14,186)	9,768

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**CONDENSED CONSOLIDATED INCOME STATEMENT** (continued)*For the six months ended 30 June 2010*

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
Notes	HK\$'000	HK\$'000
PROFIT/(LOSS) ATTRIBUTABLE TO:		
Owners of the parent	(14,044)	9,891
Non-controlling interests	(142)	(123)
	<u>(14,186)</u>	<u>9,768</u>
EARNINGS/(LOSS) PER SHARE		
ATTRIBUTABLE TO ORDINARY		
EQUITY HOLDERS OF		
THE PARENT	7	
Basic and diluted	<u>(HK0.87 cents)</u>	<u>HK0.63 cents</u>

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
*For the six months ended 30 June 2010*

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
PROFIT/(LOSS) FOR THE PERIOD	<b>(14,186)</b>	9,768
Other comprehensive income/(loss):		
Exchange differences on translation of foreign operations	<b>3,526</b>	(397)
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD	<b>(10,660)</b>	9,371
TOTAL COMPREHENSIVE INCOME/ (LOSS) ATTRIBUTABLE TO:		
Owners of the parent	<b>(10,566)</b>	9,500
Non-controlling interests	<b>(94)</b>	(129)
	<b>(10,660)</b>	9,371

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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

		30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	8	321,258	316,697
Investment properties		128,954	128,725
Properties under development		28,000	28,000
Prepaid land premiums		22,250	22,248
Intangible asset		2,775	2,850
Interests in associates		3,062	3,180
Available-for-sale investments		128,163	123,163
Deposits for purchases of items of property, plant and equipment		7,418	9,231
Net pension scheme assets		1,990	1,990
Total non-current assets		643,870	636,084
CURRENT ASSETS			
Inventories		84,000	74,782
Trade and bills receivables	9	202,994	217,254
Prepayments, deposits and other receivables		35,030	27,121
Equity investment at fair value through profit or loss		69	86
Pledged deposits		1,670	5,097
Cash and cash equivalents		221,189	139,925
Total current assets		544,952	464,265

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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2010

		30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
	Notes		
CURRENT LIABILITIES			
Trade and bills payables	10	148,439	147,445
Other payables and accruals		91,538	110,182
Due to an associate		1,600	1,600
Interest-bearing bank and other borrowings		108,537	98,230
Tax payable		7,566	12,873
Total current liabilities		357,680	370,330
NET CURRENT ASSETS			
		187,272	93,935
TOTAL ASSETS LESS CURRENT LIABILITIES			
		831,142	730,019
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		47,710	50,858
Deferred tax liabilities		16,114	14,884
Deferred income		4,378	4,474
Total non-current liabilities		68,202	70,216
Net assets		762,940	659,803
EQUITY			
Equity attributable to owners of the parent			
Issued capital	11	188,841	157,367
Reserves		570,137	498,380
		758,978	655,747
Non-controlling interests		3,962	4,056
Total equity		762,940	659,803

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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the parent											
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Share option 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	Retained profits/losses (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2010	157,367	6,635	—	377,677	41,732	13,557	10,144	12,266	28,866	7,463	4,056	658,803
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	—	3,478	—	(14,044)	(94)	(10,660)
Issue of shares (note 11)	31,474	74,670	—	—	—	—	—	—	—	—	—	106,144
Share issue expenses (note 11)	—	(160)	—	—	—	—	—	—	—	—	—	(160)
Equity-settled share options arrangement (note 12)	—	—	7,813	—	—	—	—	—	—	—	—	7,813
<b>At 30 June 2010</b>	<b>188,841</b>	<b>81,145<sup>a</sup></b>	<b>7,813<sup>a</sup></b>	<b>377,677<sup>a</sup></b>	<b>41,732<sup>a</sup></b>	<b>13,557<sup>a</sup></b>	<b>10,144<sup>a</sup></b>	<b>15,764<sup>a</sup></b>	<b>28,866<sup>a</sup></b>	<b>(6,561)<sup>a</sup></b>	<b>3,962</b>	<b>762,940</b>
At 1 January 2009	157,367	6,635	—	377,677	41,732	13,557	10,144	12,465	28,866	(24,923)	4,194	627,734
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	—	(391)	—	9,891	(129)	9,371
At 30 June 2009	157,367	6,635 <sup>a</sup>	— <sup>a</sup>	377,677 <sup>a</sup>	41,732 <sup>a</sup>	13,557 <sup>a</sup>	10,144 <sup>a</sup>	12,094 <sup>a</sup>	28,866 <sup>a</sup>	(15,032) <sup>a</sup>	4,065	637,105

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

- \* 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, and therefore is not available to offset subsequent revaluation deficits arising on the investment properties. The revaluation reserve is transferred to retained profits/set off against accumulated losses only upon the disposal or retirement of the relevant assets and such transfer is not made in 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 (the "PRC") is 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 the PRC reserve fund reaches 50% of their registered capital. The PRC reserve fund can be used to make good future losses or to increase the capital of the subsidiaries.
- # These reserve accounts comprise the consolidated reserves of HK\$570,137,000 (2009: HK\$475,673,000) in the condensed consolidated statement of financial position.



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## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash flows from/(used in)		
operating activities	(18,961)	31,457
Net cash flows used in investing activities	(11,134)	(23,643)
Net cash flows from/(used in)		
financing activities	112,986	(1,089)
Net increase in cash and cash equivalents	82,891	6,725
Cash and cash equivalents		
at beginning of period	138,126	117,065
Effect of foreign exchange rate changes, net	1,377	(117)
Cash and cash equivalents at end of period	222,394	123,673
Analysis of balances of cash and		
cash equivalents:		
Cash and bank balances	215,443	113,251
Non-pledged time deposits with original		
maturity of less than three months		
when acquired	5,746	7,672
Pledged time deposits with original maturity		
of less than three months when acquired	1,205	2,750
Cash and cash equivalents as stated in		
the condensed consolidated statement		
of cash flows	222,394	123,673
Time deposits with original maturity		
of more than three months when acquired	465	4,695
Cash and cash equivalents as stated in		
the condensed consolidated statement		
of financial position	222,859	128,368

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis for preparation and accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for the current period’s unaudited condensed consolidated interim financial statements:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary</i>

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 1. Basis for preparation and accounting policies (continued)

HK Interpretation 4 (Revised in December 2009) *Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

HKFRSs Amendments *Improvements to HKFRSs 2009*

The adoption of these new interpretations and amendments has had no significant financial effect on these unaudited condensed consolidated interim financial statements and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated interim financial statements.

The Group has not applied the following new and revised HKFRSs that have been issued but not yet effective in these unaudited condensed consolidated interim financial statements.

HKFRS 1 Amendment *Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards - Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters<sup>2</sup>*

HKFRS 9 *Financial Instruments<sup>4</sup>*

HKAS 24 (Revised) *Related Party Disclosures<sup>3</sup>*

HKAS 32 Amendment *Amendment to HKAS 32 Financial instruments: Presentation — Classification of Rights Issues<sup>1</sup>*

HK(IFRIC)-Int 14 Amendments *Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement<sup>3</sup>*

HK(IFRIC)-Int 19 *Extinguishing Financial Liabilities with Equity Instruments<sup>2</sup>*

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 1. Basis for preparation and accounting policies (continued)

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

These unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2009.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the paint products segment engages in the manufacture and sale of paint products and related services;
- (b) the property investment segment comprises:
  - (i) the investment in residential and commercial premises for their rental income potential; and
  - (ii) the development and sale of properties;
- (c) the iron and steel trading segment comprises the trading of iron and steel products; and
- (d) the “others” segment comprises, principally, securities trading and investment.

The chief operating decision maker regularly reviews the operating results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, net pension scheme assets and other unallocated head office and corporate assets as these assets are managed on a group basis

Intersegment sales and transfers are transacted on mutually agreed terms.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. Operating segment information (continued)

The following tables present revenue and profit/(loss) information for the Group's reportable operating segments for the six months ended 30 June 2010 and 2009.

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Six months ended</b>					
<b>30 June 2010</b>					
<b>Segment revenue:</b>					
Sales to external customers	449,441	2,833	65,027	—	517,301
Intersegment sales	—	3,694	—	—	3,694
Other income and gains	1,078	—	324	48	1,450
	450,519	6,527	65,351	48	522,445
<b>Reconciliation:</b>					
Elimination of intersegment sales					(3,694)
Total revenue					518,751
<b>Segment results</b>	12,584	1,954	(84)	(953)	13,501
<b>Reconciliation:</b>					
Elimination of intersegment results					3,368
Interest income					235
Finance costs					(2,895)
Equity-settled share option expense					(7,813)
Corporate and other unallocated expenses					(14,935)
Loss before tax					(8,539)

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. Operating segment information (continued)

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Six months ended</b>					
<b>30 June 2009</b>					
<b>Segment revenue:</b>					
Sales to external customers	344,458	3,335	37,140	—	384,933
Intersegment sales	—	4,173	—	—	4,173
Other income and gains	1,418	3	2,399	73	3,893
	345,876	7,511	39,539	73	392,999
<b>Reconciliation:</b>					
Elimination of intersegment sales					(4,173)
Total revenue					388,826
<b>Segment results</b>	28,330	3,181	1,479	(644)	32,346
<b>Reconciliation:</b>					
Elimination of intersegment results					2,937
Interest income					231
Finance costs					(3,279)
Corporate and other unallocated expenses					(15,573)
Profit before tax					16,662

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. Operating segment information (continued)

The following table presents segment assets of the Group's reportable operating segments as at 30 June 2010 and 31 December 2009.

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>As at 30 June 2010</b>					
Segment assets	490,350	326,062	13,025	134,578	964,015
Reconciliation:					
Elimination of intersegment receivables					(1,342)
Corporate and other unallocated assets					226,149
Total assets					<u>1,188,822</u>
	Paint products (Audited) HK\$'000	Property investment (Audited) HK\$'000	Iron and steel trading (Audited) HK\$'000	Others (Audited) HK\$'000	Total (Audited) HK\$'000
<b>As at 31 December 2009</b>					
Segment assets	488,004	327,781	8,844	129,145	953,774
Reconciliation:					
Elimination of intersegment receivables					(1,305)
Corporate and other unallocated assets					147,880
Total assets					<u>1,100,349</u>

No customer accounted for 10% or more of the Group's total revenue for the six months ended 30 June 2010 and 2009.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. Other income and gains

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Bank interest income	235	217
Commission income	91	2,166
Government grants received from Mainland China authorities	99	1,010
Recognition of deferred income	146	145
Others	1,114	586
	<u>1,685</u>	<u>4,124</u>

### 4. Finance costs

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest on bank loans and other loans wholly repayable within five years	2,174	2,465
Interest on other loans	669	762
Interest on finance leases	52	52
	<u>2,895</u>	<u>3,279</u>

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. Profit/(loss) before tax

Profit/(loss) before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Cost of inventories sold	385,229	251,663
Depreciation	11,948	10,428
Impairment/(write-back of impairment) of trade receivables	(1,366)	458
Write-down of inventories to net realisable value	1,378	3,708
	<u>1,378</u>	<u>3,708</u>

### 6. Income tax

No Hong Kong profits tax has been provided as the Group did not generate any 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 jurisdictions in which the Group operates.

The share of tax attributable to an associate amounting to HK\$80,000 (2009: HK\$92,000) is included in "Share of profit and loss of associates" on the face of the condensed consolidated income statement.

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## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)

### **7. Earnings/(loss) per share attributable to ordinary equity holders of the parent**

The calculation of basic earnings/(loss) per share amounts is based on the loss for the six months ended 30 June 2010 attributable to ordinary equity holders of the parent of HK\$14,044,000 (six months ended 30 June 2009: profit of HK\$9,891,000) and the weighted average number of ordinary shares of 1,615,404,131 (six months ended 30 June 2009: 1,573,671,409) in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2010 in respect of a dilution as the exercise prices of the outstanding share options granted by the Company were higher than the average market price of the shares of the Company during the period, and accordingly, the share options had an anti-dilutive effect.

There was no diluting events existed during the six months ended 30 June 2009.

### **8. Property, plant and equipment**

During the six months ended 30 June 2010, the Group acquired items of property, plant and equipment at costs of HK\$13,625,000 (six months ended 30 June 2009: HK\$22,467,000).

Items of property, plant and equipment with a net book value of HK\$889,000 (six months ended 30 June 2009: HK\$271,000) were disposed of by the Group during the six months ended 30 June 2010, resulting in a net loss on disposal of HK\$18,000 (six months ended 30 June 2009: HK\$11,000).

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. Trade and bills receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers and reputable banks, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables (that are not considered to be impaired) as at the end of the reporting date, based on payment due date and net of impairment, is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Neither past due nor impaired	<b>153,930</b>	156,386
Within three months	<b>39,124</b>	56,407
Over three months and within six months	<b>5,563</b>	1,180
Over six months	<b>4,377</b>	3,281
	<b><u>202,994</u></b>	<u>217,254</u>

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. Trade and bills payables

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

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Within three months	<b>144,939</b>	143,638
Over three months and within six months	<b>3,500</b>	3,807
	<b><u>148,439</u></b>	<u>147,445</u>

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

### 11. Share capital

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Authorised:		
2,880,000,000 ordinary shares of HK\$0.10 each	<b><u>288,000</u></b>	<u>288,000</u>
Issued and fully paid:		
1,888,405,690 (31 December 2009):		
1,573,671,409 ordinary shares of HK\$0.10 each	<b><u>188,841</u></b>	<u>157,367</u>

During the six months ended 30 June 2010, 314,734,281 shares were issued for cash at a subscription price of HK\$0.33725 each for a total consideration, before expenses, of HK\$106,144,000. The related transaction costs amounted to HK\$160,000.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 12. Share option scheme

On 27 May 2010, 152,800,000 share options to subscribe for a total of 152,800,000 new shares of the Company of HK\$0.10 each were granted under the share option scheme approved by the shareholders of the Company on 28 June 2002 (the "2002 Scheme"). The 2002 Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons, who made contributions to the Group. Unless terminated by resolution in general meeting or by the board of directors, the 2002 Scheme shall be valid and effective for a period of 10 years commencing on 28 June 2002, after which period no further options will be issued but in all other respects the provisions of the 2002 Scheme shall remain in full force and effect.

The equity-settled share options granted on 27 May 2010 vest over a period of 4 years from the grant date, of which 50% of the share options vested immediately on the grant date, 10% of the share options vesting on 27 May 2011, 10% of the share options vesting on 27 May 2012, 10% of the share options vesting on 27 May 2013 and 20% of the share options vesting on 27 May 2014. These share options are exercisable at HK\$0.44 per share and must be exercised within 5 years from the grant date, and if not so exercised, the share options shall be lapsed.

None of the share options granted during the period ended 30 June 2010 under the 2002 Scheme were exercised, cancelled or lapsed.

The fair value of equity-settled share options granted during the period ended 30 June 2010 was estimated as at the date of grant, using the Binomial Option Pricing Model (the "Model"), taking into account the terms and conditions upon which the options were granted. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The following table lists the inputs to the model used:

Dividend yield (%)	0.00
Expected volatility (%)	88.27
Risk-free interest rate (%)	1.57
Contractual life of options (year)	5
Early exercise behaviour (%)	127
Exercised price (HK\$ per share)	0.44

The fair value of the share options granted on 27 May 2010 was HK\$26,302,000 of which the Group recognised a share option expense of HK\$7,813,000 during the period ended 30 June 2010 (2009: Nil).

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 13. Related party transactions

(a) *Outstanding balance with related parties:*

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Loan to an associate	1,585	1,585
Due to an associate	<u>(1,508)</u>	<u>(2,284)</u>

The loan to an associate and amount due to an associate are unsecured, interest-free, and have no fixed terms of repayment. In the opinion of the Company's directors, the loan to an associate is considered as quasi-equity investment in the associate.

The amount due to an associate included in the Group's current liabilities totalling HK\$1,600,000 (31 December 2009: HK\$1,600,000) is unsecured, interest-free and repayable with not less than 30 days' prior written notice.

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

	<b>Six months ended 30 June 2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
Short term employee benefits	8,243	8,465
Post-employment benefits	<u>425</u>	<u>441</u>
Total compensation paid to key management personnel	<u><b>8,668</b></u>	<u>8,906</u>

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 14. Capital commitments

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Contracted, but not provided for:		
Purchase of land use rights	<b>2,064</b>	2,949
Capital contribution to subsidiaries	<b>15,583</b>	24,660
Purchases of items of property, plant and equipment	<b>45,822</b>	28,017
	<u><b>63,469</b></u>	<u>55,626</u>

### 15. Approval of the interim financial report

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 30 August 2010.



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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 2010 (2009: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the period under review, the Group's core paint operation continued to have improvement in revenue. Despite the improved revenue of our paint operation, the business environment confronted by the Group remained challenging. In the first half of 2010, the costs of raw materials significantly increased compared with the corresponding period of last year was mainly due to the prices of global crude oil continually fluctuated at a high level.

The Group recorded revenue of approximately HK\$517.30 million representing an increase of 34.4% when compared with that of last period. However, the increase in raw material costs rendered the Group's gross profit for the period decreased by 0.9% when compared with that of last period to approximately HK\$132.07 million.

The Group incurred a loss attributable to the owners of the parent company of approximately HK\$14.04 million for the six month ended 30 June 2010 as compared with a profit of approximately HK\$9.89 million for the last corresponding period.

The manufacturing and sale of paint products continued to be the core business of the Group. Its weight in the total revenue was approximately 86.9% for the period under review.

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## **MANAGEMENT DISCUSSION AND ANALYSIS** (continued)

### **BUSINESS REVIEW** (continued)

#### **Paint products**

Revenue for the period amounted to approximately HK\$449.44 million, representing an increase of approximately 30.5% when compared with that of last period. The paint business continued to have steady growth in Mainland China. However, the increase in raw material costs due to the high price of crude oil rendered the drop in gross profit when compared with that of last period. Operating profit for the period amounted to approximately HK\$12.58 million, representing a decrease of approximately 55.6% when compared with that of last period.

#### **Property investment**

Revenue for the period amounted to approximately HK\$2.83 million when compared with that of approximately HK\$3.34 million last period. Operating profit amounted to approximately HK\$1.95 million, compared with that of approximately HK\$3.18 million last period.

#### **Iron and steel trading**

Revenue for the period amounted to approximately HK\$65.03 million, representing an increase of approximately 75.1% when compared with that of last period. Due to the decrease in commission income during the period, the operating loss for the period amounted to approximately HK\$84 thousand, when compared with operating profit of HK1.48 million of last period.

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## **MANAGEMENT DISCUSSION AND ANALYSIS** (continued)

### **BUSINESS REVIEW** (continued)

#### **Available-for-sale investments**

The Group has an effective interest of 11.7% in the cemetery project situated in Sihui, Guangdong Province, the PRC. The principal activities of which are the development, construction, management and operation of a cemetery. The main types of products of the cemetery are outdoor grave lots, ordinary columbarium niches and special columbarium niches. There are six sales offices established in Hong Kong, Guangzhou, Foshan, Zhaoqing and Sihui for marketing purpose. Promotion campaigns have been launched, including regular visits of the cemetery and blessing ceremonies in the cemetery to boost the publicity.

### **FINANCIAL REVIEW**

#### **Liquidity and financial information**

The Group's business operation is generally financed by its internal funding and bank borrowings. Total cash balances amounted to approximately HK\$222.86 million as at 30 June 2010 compared with approximately HK\$145.02 million as at 31 December 2009. Bank and other borrowings amounted to approximately HK\$156.25 million as at 30 June 2010 compared with approximately HK\$149.09 million as at 31 December 2009. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as at 30 June 2010, approximately HK\$108.54 million (69.5%) is payable within one year, approximately HK\$5.79 million (3.7%) is payable in the second year, approximately HK\$16.76 million (10.7%) is payable in the third to fifth years and the remaining balance of HK\$25.16 million (16.1%) is payable beyond the fifth year.

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## **MANAGEMENT DISCUSSION AND ANALYSIS** (continued)

### **FINANCIAL REVIEW** (continued)

#### **Liquidity and financial information** (continued)

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's result can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. However, in view of the strong and supportive treasury policy in Mainland China, the Renminbi exchange rate is expected to remain relatively stable and hence the Group's currency exposure is not significant. The Group considers that no hedging measures are necessary.

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 22.2% as at 30 June 2010 compared with 24.8% as at 31 December 2009. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.52 times as at 30 June 2010 compared with 1.25 times as at 31 December 2009.

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## **MANAGEMENT DISCUSSION AND ANALYSIS** (continued)

### **FINANCIAL REVIEW** (continued)

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

In May 2010, the Group placed 314,734,281 new shares of HK\$0.33725 per share and raised net proceeds of approximately HK\$105,984,000 from the equity market. The net proceeds will be used for funding the construction costs of the Group's production facilities and factory premises and for general working capital purposes. Shareholders' funds of the Group as at 30 June 2010 was approximately HK\$758.98 million compared with approximately HK\$655.75 million as at 31 December 2009. Adjusted capital of the Group, being shareholders' funds less the unrealised leasehold land and building revaluation reserve and investment property revaluation reserve, as at 30 June 2010 was approximately HK\$703.69 million compared with approximately HK\$600.46 million as at 31 December 2009. Net asset value per share as at 30 June 2010 was HK\$0.40 compared with HK\$0.42 as at 31 December 2009.

#### **Contingent liabilities**

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2010 amounted to approximately HK\$70.18 million compared with approximately HK\$80.27 million as at 31 December 2009.

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## **MANAGEMENT DISCUSSION AND ANALYSIS** (continued)

### **FINANCIAL REVIEW** (continued)

#### **Pledge of assets**

At 30 June 2010, certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of approximately HK\$465.25 million (31 December 2009: HK\$463.57 million) were pledged to banks as collaterals for bank and other borrowings. At 30 June 2010, total outstanding secured bank and other borrowings amounted to approximately HK\$146.30 million as compared with approximately HK\$126.69 million as at 31 December 2009.

#### **STAFF**

As at 30 June 2010, the Group's staff headcount was 1,432 (30 June 2009: 1,314). Staff costs (excluding directors' emoluments) amounted to approximately HK\$67.99 million for the period under review as compared with approximately HK\$58.12 million for the last period. In May 2010, the Group granted equity-settled share options of 152,800,000 share options under the Group's existing share option scheme for the purpose of providing incentives to attract and retain employees of the Group. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employee.

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## **MANAGEMENT DISCUSSION AND ANALYSIS** (continued)

### **OUTLOOK**

Looking forward to the second half of 2010, the future economic environment is still challenging. The recovery of global economy and the impact of Europe debt crisis are still uncertain. However, the Chinese government has taken proactive simulative measures to stimulate the local spending momentum as well as to accelerate the development of cities and towns and the urbanization of new villages. The improvement in living standards for mainland citizens are expected to give a strong impetus to the demand for paint products in Mainland China. The Group believes that our paint operation in Mainland China will benefit from the growing demand for paint products. The Group will continue to focus on its paint operation and is committed to becoming a leading manufacturer of high quality green and safe paint products.

### **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 2010, 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 (the "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 Ho Chuen, Philip	1	Beneficial owner & beneficiary of trust	19,681,414	—	—	346,231,521	365,912,935	19.37%
Tsui Yam Tong, Terry	1	Beneficial owner, beneficiary of trust & interest of controlled corporation	1,162,231	—	346,231,521 *	346,231,521 *	347,393,752	18.39%

\* duplication

### (ii) Underlying shares

Name	Note	Capacity	Nature of equity derivative (unlisted/physically settled)	Number of underlying shares
Tsui Ho Chuen, Philip	2	Beneficiary of trust	option	98,000,000
Tsui Yam Tong, Terry	2	Beneficiary of trust & interest of controlled corporation	option	98,000,000



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

Notes:

- (1) The 346,231,521 shares were held by Rapid Growth Ltd. ("RGL") as trustee of a discretionary trust of which Messrs. Tsui Ho Chuen, Philip and Tsui Yam Tong, Terry are the discretionary beneficiaries. Mr. Tsui Yam Tong, Terry is also the sole director and shareholder of RGL.
- (2) The 98,000,000 shares were owned by Broadsino Investment Company Limited ("Broadsino"). RGL 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 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.

Save as disclosed above, as at 30 June 2010, 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.

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## SHARE OPTIONS

Details of the movement in the share options of the Company during the review period are as follows:

Category of eligible participants	Date of grant	Exercise period	Exercise price per share HK\$	Balance at 1.1.2010	Number of shares under options			Balance at 30.6.2010
					Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	
Continuous contract employees	27.5.2010	27.5.2010 to 26.5.2015	0.44	—	152,800,000	—	—	152,800,000

### Notes:

(1) The vesting periods of the options granted are as follows:

- 10% : 27 May 2010 to 26 May 2011
- 10% : 27 May 2010 to 26 May 2012
- 10% : 27 May 2010 to 26 May 2013
- 20% : 27 May 2010 to 26 May 2014

50% of the options granted is exercisable on the date of grant.

(2) The closing price of the Company's shares on the day immediately before the date of grant was HK\$0.39.

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

As at 30 June 2010, 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 derivative)	Percentage of issued share capital
<b>10% or more of issued share capital</b>					
RGL	1	Trustee	346,231,521	—	18.33%
	1	Trustee	—	98,000,000	5.18%
Ho Mei Po, Mabel	2	Interest of spouse	365,912,935	—	19.37%
	2	Interest of spouse	—	98,000,000	5.18%
Wang Wing Mu, Amy	3	Interest of spouse	359,053,290	—	19.01%
	3	Interest of spouse	—	98,000,000	5.18%
Ng Shou Ping, Lucilla	4	Interest of spouse	347,393,752	—	18.39%
	4	Interest of spouse	—	98,000,000	5.18%
Diamond Season Limited	5	Beneficial owner	314,734,281	—	16.66%
Rightwood Enterprises Inc.	5	Interest of controlled corporation	314,734,281	—	16.66%
Lai Kar Yan, Derek	5	Trustee	314,734,281	—	16.66%
Lo Kin Ching, Joseph	5	Trustee	314,734,281	—	16.66%

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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 derivative)	Percentage of issued share capital
Chinaculture.com Limited	6	Beneficial owner	196,149,655	—	10.38%
Chuang's China Investments Limited	6	Interest of controlled corporation	196,149,655	—	10.38%
Profit Stability Investments Limited	6	Interest of controlled corporations	196,149,655	—	10.38%
Chuang's Consortium International Limited	6	Interest of controlled corporations	196,149,655	—	10.38%
Evergain Holdings Limited	6	Interest of controlled corporations	196,149,655	—	10.38%
Chuang (Chong) Shaw Swee, Alan	6	Interest of controlled corporations	196,149,655	—	10.38%
Chong Ho Pik Yu	6	Interest of spouse	196,149,655	—	10.38%
<b>Below 10% of issued share capital</b>					
West Avenue Group Company Limited	7	Beneficial owner	162,216,693	—	8.59%
Tsai Wu Chang	7	Interest of controlled corporation	162,216,693	—	8.59%
Broadsino	8	Beneficial owner	98,000,000	—	5.18%

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

Notes:

- (1) The 346,231,521 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 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. Ho Mei Po, Mabel is the wife of Mr. Tsui Ho Chuen, Philip and was taken to be interested in 365,912,935 shares and 98,000,000 underlying shares under an equity derivative in which her spouse was interested under the SFO.
- (3) Ms. Wang Wing Mu, Amy is the wife of the late Mr. Tsui Tsin Tong and was taken to be interested in 359,053,290 shares and 98,000,000 underlying shares under an equity derivative in which her spouse was interested in the capacity of the beneficial owner and the founder of a discretionary trust under the SFO.
- (4) Ms. Ng Shou Ping, Lucilla is the wife of Mr. Tsui Yam Tong, Terry and was taken to be interested in 347,393,752 shares and 98,000,000 underlying shares under an equity derivative in which her spouse was interested under the SFO.
- (5) The references to the 314,734,281 shares relate to the same block of 314,734,281 shares beneficially interested by Diamond Season Limited (“Diamond Season”).

Diamond Season was a wholly-owned subsidiary of Rightwood Enterprises Inc. (“Rightwood”) which in turn was wholly owned by Mr. Lai Kar Yan also known as Mr. Lai Kar Yan, Derek (“Mr. Lai”) and Mr. Lo Kin Ching, Joseph (“Mr. Lo”) as joint and several administrators pendente lite of the Estate of Kung, Nina.

Rightwood, Mr. Lai and Mr. Lo were all deemed under the SFO to be interested in these 314,734,281 shares which were owned by Diamond Season.

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

Notes: (continued)

- (6) The references to the 196,149,655 shares relate to the same block of 196,149,655 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 57.04% owned subsidiary of Profit Stability Investments Limited (“Profit Stability”). Chuang’s Consortium International Limited (“Chuang’s Consortium”) held 100% equity interest in Profit Stability. Evergain Holdings Limited (“Evergain”) was interested in 40.26% of the issued share capital of Chuang’s Consortium. Mr. Chuang (Chong) Shaw Swee, Alan (“Mr. Chuang”) was interested in 100% of the issued share capital of Evergain. Ms. Chong Ho Pik Yu (“Mrs. Chuang”) is the wife of Mr. Chuang.

Chuang’s China, Profit Stability, Chuang’s Consortium, Evergain, Mr. Chuang and Mrs. Chuang were all deemed under the SFO to be interested in these 196,149,655 shares which were owned by Chinaculture.

- (7) The 162,216,693 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.
- (8) 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.

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 2010 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.

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## **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 2010, except that the non-executive directors are not appointed for a specific term. According to the Company’s bye-laws, the non-executive directors are subject to re-election at least once every three years.

## **CHANGES IN INFORMATION OF DIRECTORS**

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information of the directors are as follows:

1. The monthly salary of Mr. Tsui Ho Chuen, Philip has been revised from HK\$115,000 to HK\$365,000 with effect from 1 May 2010.
2. The monthly salary of Mr. Tsui Yam Tong, Terry has been revised from HK\$110,000 to HK\$450,000 with effect from 1 May 2010.
3. Bonuses were paid to Messrs. Lam Ting Ball, Paul, Tsui Ho Chuen, Philip, Tsui Yam Tong, Terry and Chong Chi Kwan in August 2010 in the amount representing half-month salary.

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## **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 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 2010.

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

Hong Kong, 30 August 2010



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### **Executive Directors**

Lam Ting Ball, Paul (Chairman)

Tsui Ho Chuen, Philip (Executive Deputy Chairman)

Tsui Yam Tong, Terry (Managing Director)

Chong Chi Kwan (Finance Director)

### **Non-executive Directors**

Hung Ting Ho, Richard

Zhang Yulin

Ko Sheung Chi

### **Independent Non-executive Directors**

Sir David Akers-Jones (Deputy Chairman)

Danny T Wong

Chan Wa Shek

Steven Chow

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