



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 2007 together with comparative amounts for the corresponding period in 2006. These condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
REVENUE		286,693	253,007
Cost of sales		(199,515)	(178,629)
Gross profit		87,178	74,378
Other income and gains	3	8,603	9,405
Selling and distribution costs		(44,944)	(31,221)
Administrative expenses		(53,706)	(53,345)
Other expenses, net		(274)	(964)
Finance costs	4	(2,361)	(3,877)
Share of profits of associates		375	816
LOSS BEFORE TAX	5	(5,129)	(4,808)
Tax	6	(2,671)	(2,179)
LOSS FOR THE PERIOD		(7,800)	(6,987)

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
Notes	HK\$'000	HK\$'000
ATTRIBUTABLE TO:		
Equity holders of the parent	(7,747)	(6,902)
Minority interests	(53)	(85)
	<u>(7,800)</u>	<u>(6,987)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
	7	
Basic	<u>0.50 cents</u>	<u>0.45 cents</u>
Diluted	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		225,285	226,404
Investment properties		113,900	113,900
Property under development		26,823	26,800
Prepaid land premium		1,591	1,567
Interests in associates		12,794	17,447
Available-for-sale investments		167,087	167,087
Deposits for purchase of properties		62,989	46,000
Deferred tax asset		6	6
Pension scheme asset		1,217	1,217
		<hr/>	<hr/>
Total non-current assets		611,692	600,428
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		62,957	52,287
Trade receivables	8	97,719	104,707
Prepayments, deposits and other receivables		20,322	18,000
Cash and cash equivalents		128,133	128,459
		<hr/>	<hr/>
Total current assets		309,131	303,453
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payables	9	87,178	77,564
Other payables and accruals		60,746	65,126
Interest-bearing bank and other borrowings		44,790	40,773
Dividend payable		15,395	—
Tax payable		2,365	933
		<hr/>	<hr/>
Total current liabilities		210,474	184,396
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
NET CURRENT ASSETS	98,657	119,057
TOTAL ASSETS LESS CURRENT LIABILITIES	710,349	719,485
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	45,877	32,667
Deferred tax liabilities	10,347	10,347
Total non-current liabilities	56,224	43,014
Net assets	654,125	676,471
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	153,947	153,947
Reserves	493,430	500,430
Proposed conditional final dividend	—	15,395
	647,377	669,772
Minority interests	6,748	6,699
Total equity	654,125	676,471

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the parent

	Leasehold											Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000	
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Capital 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 earnings/ (Accumulated losses) (Unaudited) HK\$'000	Proposed conditional dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000			
At 1 January 2007	153,947	701,691	6,171	232,773	41,381	13,357	10,144	(5,485)	28,866	(528,668)	15,395	669,772	6,699	676,471
Exchange realignment	-	-	-	-	-	-	-	747	-	-	-	747	102	849
Total income for the period recognised directly in equity	-	-	-	-	-	-	-	747	-	-	-	747	102	849
Loss for the period	-	-	-	-	-	-	-	-	-	(7,747)	-	(7,747)	(63)	(7,800)
Total income and expense for the period	-	-	-	-	-	-	-	747	-	(7,747)	-	(7,000)	49	(6,951)
Transfer of reserves #	-	(701,691)	(6,171)	707,862	-	-	-	-	-	-	-	-	-	-
Set off against accumulated losses of the Company #	-	-	-	(562,938)	-	-	-	-	-	562,938	-	-	-	-
2006 final dividend approved #	-	-	-	-	-	-	-	-	-	-	(15,395)	(15,395)	-	(15,395)
At 30 June 2007	153,947	-	-	377,877	41,381	13,357	10,144	(4,738)	28,866	26,543	-	647,377	6,748	654,125

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	Reserve classified as held for sale (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2006	153,227	701,316	6,171	248,168	42,226	13,357	10,144	(2,194)	28,866	(547,407)	(14,000)	6,051	646,165
Exchange realignment	-	-	-	-	-	-	-	491	-	-	138	-	629
Total income for the period recognised directly in equity	-	-	-	-	-	-	-	491	-	-	138	-	629
Loss for the period	-	-	-	-	-	-	-	-	-	(6,302)	-	(85)	(6,387)
Total income and expense for the period	-	-	-	-	-	-	-	491	-	(6,302)	138	(85)	(6,388)
Disposal of assets of disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	190	-	190
Issue of shares	660	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

* The investment property revaluation reserve represents the attributable revaluation surplus in respect of the leasehold land and buildings, which were reclassified as investment properties in prior years. This revaluation reserve arose while the properties were classified as land and buildings, therefore is not available to offset subsequent revaluation deficits arising on the investment properties. The revaluation reserve is transferred to retained earnings/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 Mainland China are required to be transferred to their reserve funds which are restricted as to use. The subsidiaries are not permitted 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.

The reduction of share premium account and capital redemption reserve account and distribution out of the contributed surplus account of the Company was implemented pursuant to the special/ordinary resolutions of the shareholders of the Company passed on 29 May 2007.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	(1,327)	18,828
Net cash inflow/(outflow) from investing activities	(14,343)	29,660
Net cash inflow/(outflow) from financing activities	14,829	(50,199)
Net decrease in cash and cash equivalents	(841)	(1,711)
Cash and cash equivalents at beginning of period	124,056	96,612
Effect of foreign exchange rate changes, net	383	(69)
Cash and cash equivalents at end of period	123,598	94,832
Analysis of balances of cash and cash equivalents		
Cash and bank balances	94,129	94,832
Non-pledged time deposits with original maturity of less than three months when acquired	29,469	—
Cash and cash equivalents for the purpose of condensed consolidated cash flow statement	123,598	94,832
Time deposits with original maturity of more than three months	4,535	—
Cash and cash equivalents for the purpose of condensed consolidated balance sheet	128,133	94,832

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” 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 condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, 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 are adopted for the first time for the current period’s condensed consolidated interim financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the above new and revised HKFRSs has had no material impact on the Group’s condensed consolidated interim financial statements.

The Group has not early applied any HKFRSs that have been issued but not yet effective in these condensed consolidated interim financial statements.

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 2006.

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; and
- (c) the "others" segment comprises, principally, the trading of steel products and securities trading and investment.

Intersegment sales and transfers are transacted at mutually agreed terms.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Segment information (continued)

The following table presents revenue and profit/(loss) for the Group's business segments for the six months ended 30 June 2007 and 2006.

	Paint products		Property investment		Others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	261,708	233,238	2,421	2,969	22,564	16,800	—	—	286,693	253,007
Intersegment sales	—	—	2,605	2,605	—	—	(2,605)	(2,605)	—	—
Other income and gains	1,328	3,815	1,262	185	5,240	4,648	—	—	7,830	8,648
Total	<u>263,036</u>	<u>237,053</u>	<u>6,288</u>	<u>5,759</u>	<u>27,804</u>	<u>21,448</u>	<u>(2,605)</u>	<u>(2,605)</u>	<u>294,523</u>	<u>261,655</u>
Segment results	<u>5,769</u>	<u>9,339</u>	<u>2,205</u>	<u>275</u>	<u>3,884</u>	<u>3,055</u>	<u>3,153</u>	<u>3,147</u>	<u>15,011</u>	<u>15,816</u>
Interest income									773	757
Unallocated expenses									(18,927)	(18,320)
Finance costs									(2,361)	(3,877)
Share of profits of associates									375	816
Loss before tax									(5,129)	(4,808)
Tax									(2,671)	(2,179)
Loss for the period									<u>(7,800)</u>	<u>(6,987)</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Other income and gains

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Bank interest income	773	757
Services fee income	7	141
Commission income	2,915	3,319
Others	4,908	5,188
	<u>8,603</u>	<u>9,405</u>

4. Finance costs

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	1,406	2,880
Interest on other loans	929	973
Interest on finance leases	26	24
	<u>2,361</u>	<u>3,877</u>

5. Loss before tax

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

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Cost of inventories sold	199,515	178,629
Depreciation	7,105	6,210
(Write-back of impairment)/impairment of trade receivables	(29)	1,956
(Write-back)/write-down of inventories to net realisable value	(1,085)	2,414
	<u>(1,085)</u>	<u>2,414</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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 jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current - Hong Kong	368	449
Current - Elsewhere	2,303	1,730
	<u>2,671</u>	<u>2,179</u>
Tax charge for the period	<u>2,671</u>	<u>2,179</u>

The share of tax attributable to associates amounting to HK\$80,000 (2006: HK\$170,000) is included in "Share of profits of associates" on the face of the condensed consolidated income statement.

7. Loss per share attributable to ordinary equity holders of the parent

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$7,747,000 (2006: HK\$6,902,000) and the weighted average number of 1,539,472,000 (2006: 1,538,253,000) ordinary shares in issue during the period.

No diluted loss per share amount is presented for the six months ended 30 June 2007 as no diluting events existed during the period.

No diluted loss per share amount was 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.

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 impairment, is as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within three months	90,859	96,081
Four to six months	3,598	4,723
Over six months	3,262	3,903
	<u>97,719</u>	<u>104,707</u>

9. Trade and bills payables

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within three months	82,569	71,582
Four to six months	2,823	5,207
Over six months	1,786	775
	<u>87,178</u>	<u>77,564</u>

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Related party transactions

(a) *Transactions with a related party:*

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Purchases of raw materials and work in progress from an associate	<u>—</u>	<u>288</u>

The directors considered 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. The Group's entire interest in the associate was disposed of in the year of 2006.

(b) *Outstanding balance with a related party:*

	30 June	31 December
	2007	2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Loan to an associate	17,463	22,642
Impairment	(10,233)	(10,233)
	<u>7,230</u>	<u>12,409</u>

As at 30 June 2007, the loan to an associate is unsecured, interest free and has no fixed terms of repayment. The carrying amount of the loan to an associate approximates to its fair value.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Related party transactions (continued)

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

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Short term employee benefits	8,357	7,697
Post-employment benefits	357	321
	<hr/>	<hr/>
Total compensation paid to key management personnel	8,714	8,018
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11. Capital commitments

	30 June	31 December
	2007 (Unaudited) HK\$'000	2006 (Audited) HK\$'000
Contracted, but not provided for:		
Purchases of items of property, plant and equipment	31,226	548
Acquisition of an interest in a joint venture company	21,450	21,450
Capital contribution to subsidiaries	21,623	5,952
Purchase of land use rights	7,132	6,515
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	81,431	34,465
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Post balance sheet event

On 16 August 2007, 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 Luck Advance Investments Limited, an indirect wholly-owned subsidiary of the Company which, through its wholly owned subsidiary, is engaged in property investment in Futian, Shenzhen, for a cash consideration of HK\$25,000,000. The Group has an estimated gain (before deduction of expenses) of approximately HK\$3,000,000 through this disposal.

13. Approval of the interim financial report

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 17 September 2007.

INTERIM DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the year ending 31 December 2007 (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the Group continued to have improvement both in terms of revenue and gross profit which was mainly contributed by the improved performance of our paint operation. However, the business environment remains challenging. The market competition is severe, raw material prices remain at high levels, inflation rate in the PRC is rising and operating costs in the PRC continue to rise as a consequence of the upward pressure on wages and the tightening of the safety and environmental protection regulations. Facing the challenges, the Group will continue to rationalize its paint operation in order to improve its operational efficiency. Besides, additional selling and advertising expenses were incurred during the period to promote our paint products which will benefit the Group as a whole in the future.

The Group incurred a loss attributable to the equity holders of the parent company of approximately HK\$7.75 million for the six months ended 30 June 2007, as compared with that of approximately HK\$6.90 million for the last corresponding period. Despite the increase in revenue and gross profit, additional selling and distribution expenses were incurred resulting in an increase 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\$286.69 million, representing an increase of approximately 13.3% when compared with that of last period. The increase was mainly due to the increase in revenue from paint operation. The Group's gross profit for the period was increased by 17.2% when compared with that of last period to approximately HK\$87.18 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 91.3% for the period under review.

Paint products

Revenue for the period amounted to approximately HK\$261.71 million, representing an increase of approximately 12.2% when compared with that of last period. The paint business continued to have steady growth in the PRC. Relatively, operating profit for the period amounted to approximately HK\$5.77 million when compared with that of approximately HK\$9.34 million last period. The reduction of operating profit was mainly due to the increase in selling and advertising expenses during the period under review. The increase in selling and advertising expenses aimed at promoting our paint business, especially new products, for the long term benefits of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

Property investment

Revenue for the period amounted to approximately HK\$2.42 million, representing a decrease of approximately 18.5% when compared with that of last period. Operating profit amounted to approximately HK\$2.21 million, compared with that of approximately HK\$0.28 million last period.

During the period under review, the Group has entered into a sale and purchase agreement to acquire a luxury residential house in “The Vineyard” at a consideration of approximately HK\$36.48 million and the transaction will be completed in the second half of the year. The Group intends to hold it as a long term investment. Subsequent to the period under review, the Group has entered into a sale and purchase agreement to dispose levels 3 and 4 of Xinruike Building in Futian Bonded Zone, Shenzhen, the PRC, for cash consideration of HK\$25.00 million and the transaction is expected to complete in the last quarter of the year. Through the disposal, the Group has an estimated gain (before deduction of expenses) of approximately HK\$3.00 million.

Others

Iron and steel trading

Revenue for the period amounted to approximately HK\$22.56 million, representing an increase of approximately 34.3% when compared with that of last period. Operating profit for the period amounted to approximately HK\$2.06 million, representing a decrease of approximately 20.2% when compared with that of last period. Despite the increase in revenue, the reduction in commission income received during the period resulting in a decrease 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 11.5% interest in the cemetery project situated in Si Hui City, Guangdong Province, the PRC. The principal activities of which are the development and operation of a cemetery garden. The main types of products for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches. Development work of first 100 mu area (approximately 66,600 m²) in relation to the initial stage of the development has been completed with an entrance square, a sales and administration building, four graveyards and a mausoleum have been built. Sales offices have been set up of which two in the PRC and one in Hong Kong for marketing purpose.

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\$128.13 million as at 30 June 2007 compared with approximately HK\$128.46 million as at 31 December 2006. Bank and other borrowings amounted to approximately HK\$90.67 million as at 30 June 2007 compared with approximately HK\$73.44 million as at 31 December 2006. 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 2007, approximately HK\$44.79 million (49.4%) is payable within one year, approximately HK\$8.16 million (9.0%) is payable in the second year, approximately HK\$15.79 million (17.4%) is payable in the third to fifth years and the remaining balance of HK\$21.93 million (24.2%) 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 14.0% as at 30 June 2007 compared with 11.0% as at 31 December 2006. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.47 times as at 30 June 2007 compared with 1.65 times as at 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW(continued)

Equity and net asset value

During the period under review, the proposed reduction of the share premium account and the capital redemption reserve account of the Company was approved by the shareholders. Amounts of approximately HK\$701.69 million standing to the credit of the share premium account and approximately HK\$6.17 million standing to the credit of the capital redemption reserve account of the Company were being cancelled accordingly. The aggregate amount of the credit arising from the cancellations of approximately HK\$707.86 million was transferred to the contributed surplus account of the Company, out of which an amount of approximately HK\$562.96 million was utilized to set off against the accumulated losses of the Company as at 31 December 2006.

During the period under review, the proposed declaration of final dividend of HK1 cent per share for the year ended 31 December 2006 by way of distribution out of the contributed surplus account of the Company was also approved by the shareholders. An amount of approximately HK\$15.40 million was transferred from the equity section to current liabilities of the Company accordingly.

Shareholders' funds of the Group as at 30 June 2007 was approximately HK\$647.38 million compared with approximately HK\$669.77 million as at 31 December 2006. Net asset value per share as at 30 June 2007 was HK\$0.42 compared with HK\$0.44 as at 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW(continued)

Contingent liabilities

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2007 amounted to approximately HK\$50.30 million compared with approximately HK\$40.16 million as at 31 December 2006.

Pledge of assets

At 30 June 2007, leasehold land and buildings and investment properties with aggregate net book value of approximately HK\$259.04 million (31 December 2006: HK\$261.98 million) were pledged to banks as collaterals for general banking facilities. At 30 June 2007, total outstanding secured bank and other borrowings amounted to approximately HK\$86.40 million as compared with approximately HK\$60.16 million as at 31 December 2006.

STAFF

As at 30 June 2007, the Group's staff headcount was 1,093 (30 June 2006 : 1,119). Staff costs (excluding directors' emoluments) amounted to approximately HK\$39.90 million for the period under review as compared with approximately HK\$39.87 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 has also adopted a share option scheme that provides incentives to directors and other eligible persons.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OUTLOOK

Looking ahead, we expect the business environment in the second half year of 2007 will still be challenging and volatile. The impacts on the global economy, as caused by subprime mortgage crisis in the U.S. and carry trade, are more severe than generally expected. This will inevitably hinder the growth of the consumer market in the U.S. as well as the global economy. On the other hand, the recent increase in interest rates and the reduction of VAT refunds on certain export goods of the PRC also increases the costs of our paint products. Due to keen market competition, we can only able to pass some of the costs increase to our customers. Despite the difficulties around, we expect the economy of the PRC will remain bullish with its growing consumer buying power continue to support its economic growth, which the Group will benefit from. The Group will continue to expand its paint operation in the PRC and devote its commitment to produce 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 2007, 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	Beneficial owner & beneficiary of trust	19,034,000	—	—	337,473,906	356,507,906	23.15%
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	2	Founder of discretionary trust	option	98,000,000
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

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 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 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.

Save as disclosed above, as at 30 June 2007, 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.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2007, 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%
Ho Mei Po, Mabel	2	Interest of spouse	356,507,906	—	23.15%
	2	Interest of spouse	—	98,000,000	6.36%
Wang Wing Mu, Amy	3	Interest of spouse	349,873,906	—	22.72%
	3	Interest of spouse	—	98,000,000	6.36%
Ng Shou Ping, Lucilla	4	Interest of spouse	338,597,906	—	21.99%
	4	Interest of spouse	—	98,000,000	6.36%
Chinaculture.com Limited	5	Beneficial owner	195,500,000	—	12.69%
Chuang's China Investments Limited	5	Interest of controlled corporation	195,500,000	—	12.69%
Profit Stability Investments Limited	5	Interest of controlled corporations	195,500,000	—	12.69%
Chuang's Consortium International Limited	5	Interest of controlled corporations	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
Evergain Holdings Limited	5	Interest of controlled corporations	195,500,000	—	12.69%
Chuang (Chong) Shaw Swee, Alan	5	Interest of controlled corporations	195,500,000	—	12.69%
Chong Ho Pik Yu	5	Interest of spouse	195,500,000	—	12.69%
West Avenue Group Company Limited	6	Beneficial owner	181,000,000	—	11.75%
Tsai Wu Chang	6	Interest of controlled corporation	181,000,000	—	11.75%
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%

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
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%

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. Ho Mei Po, Mabel is the wife of Mr. Tsui Ho Chuen, Philip and was taken to be interested in 356,507,906 shares and 98,000,000 underlying shares under equity derivatives in which her spouse was interested under the SFO.
- (3) 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 98,000,000 underlying shares under equity derivatives in which her spouse was interested 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 338,597,906 shares and 98,000,000 underlying shares under equity derivatives in which her spouse was interested under the SFO.

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

Notes: (continued)

- (5) 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 61.36% 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 34.86% of the issued 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 195,500,000 shares which were owned by Chinaculture.

- (6) The 181,000,000 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.
- (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”).

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

Notes: (continued)

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 Messrs. Li Ka-Shing, Li Tzar Kuoi, Victor and 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 2007 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 2007, 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 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 2007 or during the period from their appointment to 30 June 2007 (as for the directors appointed during the period under review).

On behalf of the board
Lam Ting Ball, Paul
Chairman

Hong Kong, 17 September 2007

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

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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