



CNT GROUP LIMITED

北海集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code : 701)

**INTERIM
REPORT**

2011

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 2011 together with comparative amounts for the corresponding period in 2010. These condensed consolidated interim 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 2011

		Six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE		575,671	517,301
Cost of sales		(457,701)	(385,229)
Gross profit		117,970	132,072
Other income and gains	3	10,646	1,685
Selling and distribution costs		(55,087)	(69,382)
Administrative expenses		(50,963)	(61,778)
Other expenses, net		(2,237)	(575)
		20,329	2,022
Equity-settled share option expense	12	(3,825)	(7,813)
Finance costs	4	(2,213)	(2,895)
Share of profits and losses of associates		1,422	147
PROFIT/(LOSS) BEFORE TAX	5	15,713	(8,539)
Income tax expenses	6	(5,307)	(5,647)
PROFIT/(LOSS) FOR THE PERIOD		10,406	(14,186)

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)*For the six months ended 30 June 2011*

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
Notes	HK\$'000	HK\$'000
PROFIT/(LOSS) ATTRIBUTABLE TO:		
Owners of the parent	10,451	(14,044)
Non-controlling interests	(45)	(142)
	<u>10,406</u>	<u>(14,186)</u>
EARNINGS/(LOSS) PER SHARE		
ATTRIBUTABLE TO ORDINARY		
EQUITY HOLDERS OF		
THE PARENT	7	
Basic and diluted	<u>HK0.55 cents</u>	<u>(HK0.87 cents)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2011*

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	10,406	(14,186)
OTHER COMPREHENSIVE INCOME		
Gain on property revaluation	4,767	—
Share of other comprehensive income of an associate	916	—
Exchange differences on translation of foreign operations	8,463	3,526
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	14,146	3,526
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	24,552	(10,660)
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Owners of the parent	24,501	(10,566)
Non-controlling interests	51	(94)
	24,552	(10,660)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2011*

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	304,591	309,784
Investment properties		148,175	138,444
Properties under development		28,000	28,000
Prepaid land lease payments		22,776	22,541
Intangible asset		1,225	1,300
Interests in associates		9,488	7,597
Available-for-sale investments		125,763	126,163
Deposits for purchases of items of property, plant and equipment		12,678	12,576
Net pension scheme assets		2,171	2,171
		<hr/>	<hr/>
Total non-current assets		654,867	648,576
CURRENT ASSETS			
Inventories		115,523	79,932
Trade and bills receivables	10	205,564	255,229
Prepayments, deposits and other receivables		19,122	13,902
Equity investment at fair value through profit or loss		318	174
Pledged deposits		662	1,956
Cash and cash equivalents		265,784	281,701
		<hr/>	<hr/>
		606,973	632,894
Non-current assets classified as held for sale		—	20,126
		<hr/>	<hr/>
Total current assets		606,973	653,020

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2011

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
CURRENT LIABILITIES			
Trade and bills payables	11	152,486	171,896
Other payables and accruals		92,338	128,277
Dividend payable		18,884	—
Due to an associate		1,900	1,900
Interest-bearing bank and other borrowings		96,782	106,125
Tax payable		5,653	6,013
Total current liabilities		<u>368,043</u>	<u>414,211</u>
NET CURRENT ASSETS		<u>238,930</u>	<u>238,809</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>893,797</u>	<u>887,385</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		41,723	44,745
Deferred tax liabilities		15,078	15,078
Deferred income		4,227	4,286
Total non-current liabilities		<u>61,028</u>	<u>64,109</u>
Net assets		<u>832,769</u>	<u>823,276</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		188,841	188,841
Reserves		640,045	630,603
		<u>828,886</u>	<u>819,444</u>
Non-controlling interests		<u>3,883</u>	<u>3,832</u>
Total equity		<u>832,769</u>	<u>823,276</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to owners of the parent

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Contributed surplus (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 (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2011	188,841	81,145	11,871	377,677	41,732	13,557	10,144	23,263	28,866	42,348	819,444	3,832	823,276
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	10,451	10,451	(45)	10,406
Other comprehensive income for the period:													
Gain on property revaluation	-	-	-	4,767	-	-	-	-	-	-	4,767	-	4,767
Share of other comprehensive income of an associate	-	-	-	-	-	-	-	79	837	-	916	-	916
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	8,367	-	-	8,367	96	8,463
Total comprehensive income for the period	-	-	-	-	4,767	-	-	8,446	837	10,451	24,501	51	24,552
Final 2010 dividend declared	-	-	-	(18,884)	-	-	-	-	-	-	(18,884)	-	(18,884)
Equity-settled share option arrangement	-	-	3,825	-	-	-	-	-	-	-	3,825	-	3,825
At 30 June 2011	188,841	81,145 [†]	15,696 [†]	358,793 [†]	46,999 [†]	13,557 [†]	10,144 [†]	31,709 [†]	29,703 [†]	52,799 [†]	828,886	3,883	832,769

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to owners of the parent											
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Share contributed surplus (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	12,286	28,866	7,483	4,056	659,803
Loss for the period	—	—	—	—	—	—	—	—	—	(14,044)	(142)	(14,186)
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	3,478	—	—	48	3,526
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	—	3,478	—	(14,044)	(94)	(10,660)
Issue of shares	31,474	74,671	—	—	—	—	—	—	—	—	—	106,145
Share issue expenses	—	(161)	—	—	—	—	—	—	—	—	—	(161)
Equity-settled share option arrangement	—	—	7,813	—	—	—	—	—	—	—	—	7,813
At 30 June 2010	188,841	81,145 ^a	7,813 ^b	377,677 ^c	41,732 ^d	13,557 ^e	10,144 ^f	15,764 ^g	28,866 ^h	(6,561) ⁱ	3,962	762,940

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 condensed consolidated 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\$640,045,000 (2010: HK\$570,137,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash flows used in operating activities	(27,831)	(18,961)
Net cash flows from/(used in) investing activities	28,469	(11,134)
Net cash flows from/(used in) financing activities	(13,372)	112,986
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	(12,734)	82,891
Cash and cash equivalents at beginning of period	248,846	138,126
Effect of foreign exchange rate changes, net	4,128	1,377
	<hr/>	<hr/>
Cash and cash equivalents at end of period	240,240	222,394
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	156,017	215,443
Non-pledged time deposits with original maturity of less than three months when acquired	83,561	5,746
Pledged time deposits with original maturity of less than three months when acquired	662	1,205
	<hr/>	<hr/>
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	240,240	222,394
Time deposits with original maturity of more than three months when acquired	26,206	465
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Cash and cash equivalents and pledged deposits as stated in the condensed consolidated statement of financial position	266,446	222,859
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis for preparation and accounting policies

These 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 2010, except that 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 are adopted for the first time for the current period’s unaudited condensed consolidated interim financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

The adoption of these new and revised HKFRSs 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Basis for preparation and accounting policies (continued)

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

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ⁴
HKFRS 11	<i>Joint Arrangements</i> ⁴
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ⁴
HKFRS 13	<i>Fair Value Measurement</i> ⁴
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ³
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ²
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits</i> ⁴
HKAS 27 (Revised)	<i>Separate Financial Statements</i> ⁴
HKAS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i> ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Basis for preparation and accounting policies (continued)

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 the Group's 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 2010.

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 related investments; 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 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Operating segment information (continued)

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.

The following tables present revenue and profit/(loss) information for the Group's reportable operating segments for the six months ended 30 June 2011 and 2010.

	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
Six months ended					
30 June 2011					
Segment revenue:					
Sales to external customers	449,653	3,070	122,948	—	575,671
Intersegment sales	—	3,406	—	—	3,406
Other income and gains	2,236	6,412	592	527	9,767
	<u>451,889</u>	<u>12,888</u>	<u>123,540</u>	<u>527</u>	<u>588,844</u>
Reconciliation:					
Elimination of intersegment sales					(3,406)
Total revenue					<u>585,438</u>
Segment results	19,418	6,765	2,622	(1,114)	27,691
Reconciliation:					
Elimination of intersegment results					3,815
Interest income					879
Finance costs					(2,213)
Equity-settled share option expense					(3,825)
Corporate and other unallocated expenses					(10,634)
Profit before tax					<u>15,713</u>

NOTES TO THE 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
Six months ended					
30 June 2010					
Segment revenue:					
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
	<u>450,519</u>	<u>6,527</u>	<u>65,351</u>	<u>48</u>	<u>522,445</u>
<u>Reconciliation:</u>					
Elimination of intersegment sales					<u>(3,694)</u>
Total revenue					<u><u>518,751</u></u>
Segment results	12,584	1,954	(84)	(953)	13,501
<u>Reconciliation:</u>					
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					<u>(14,935)</u>
Loss before tax					<u><u>(8,539)</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Operating segment information (continued)

The following tables present segment assets of the Group's reportable operating segments as at 30 June 2011 and 31 December 2010.

	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
As at 30 June 2011					
Segment assets	515,147	317,478	30,838	130,100	993,563
<u>Reconciliation:</u>					
Elimination of intersegment receivables					(1,222)
Corporate and other unallocated assets					269,499
Total assets					1,261,840
	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
As at 31 December 2010					
Segment assets	513,421	335,297	36,748	130,378	1,015,844
<u>Reconciliation:</u>					
Elimination of intersegment receivables					(1,022)
Corporate and other unallocated assets					286,774
Total assets					1,301,596

During the six months ended 30 June 2011, revenue generated from one of the Group's customers in the iron and steel trading segment amounting to approximately HK\$62,341,000 individually accounted for over 10% of the Group's revenue. No revenue from any single customer accounted for 10% or more of the total revenue of the Group for the six months ended 30 June 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Other income and gains

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	879	235
Commission income	359	91
Government grants received from Mainland China authorities	710	99
Fair value gain on an equity investment at fair value through profit or loss – held for trading	144	—
Gain on disposal of non-current assets classified as held for sale	6,400	—
Recognition of deferred income	152	146
Others	2,002	1,114
	<u>10,646</u>	<u>1,685</u>

4. Finance costs

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans and other loans wholly repayable within five years	1,747	2,174
Bank loans not wholly repayable within five years	445	669
Finance leases	21	52
	<u>2,213</u>	<u>2,895</u>

NOTES TO THE 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	457,701	385,229
Depreciation	11,321	11,948
Impairment/(write-back of impairment) of trade receivables	2,151	(1,366)
Write-down of inventories to net realisable value	1,261	1,378
	<u>1,261</u>	<u>1,378</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 associates amounting to HK\$256,000 (2010: HK\$80,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

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

The calculation of basic earnings/(loss) per share amount is based on the profit for the six months ended 30 June 2011 attributable to ordinary equity holders of the parent of HK\$10,451,000 (six months ended 30 June 2010: loss of HK\$14,044,000) and the weighted average number of ordinary shares of 1,888,405,690 (six months ended 30 June 2010: 1,615,404,131) in issue during the period.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2011 in respect of a potential dilution as the exercise price of the outstanding share options granted by the Company was higher than the average market price of the shares of the Company during the period, and accordingly, the share options had no potential dilutive effect.

There was no other diluting events existed during the six months ended 30 June 2011 and 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Dividend

At the annual general meeting held on 28 June 2011, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2010 of HK1 cent per share which amounted to approximately HK\$18,884,000 (six months ended 30 June 2010: Nil).

9. Property, plant and equipment

During the six months ended 30 June 2011, the Group acquired items of property, plant and equipment at costs of HK\$7,985,000 (six months ended 30 June 2010: HK\$13,625,000).

Items of property, plant and equipment with an aggregate net book value of HK\$257,000 (six months ended 30 June 2010: HK\$889,000) were disposed of by the Group during the six months ended 30 June 2011, resulting in a net loss on disposal of HK\$35,000 (six months ended 30 June 2010: HK\$18,000).

10. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Trade and bills receivables (continued)

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Neither past due nor impaired	163,205	221,617
Within three months	37,153	27,662
Over three months and within six months	4,003	3,133
Over six months	1,203	2,817
	<u>205,564</u>	<u>255,229</u>

11. Trade and bills payables

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within three months	149,142	169,769
Over three months and within six months	3,323	2,123
Over six months	21	4
	<u>152,486</u>	<u>171,896</u>

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

NOTES TO THE 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 ordinary 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 four 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 five years from the grant date, and if not so exercised, the share options shall lapse. These share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

None of the share options granted during 2010 under the 2002 Scheme were exercised, cancelled or lapsed during the six months ended 30 June 2011 and 2010. No share option was granted during the six months ended 30 June 2011.

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\$3,825,000 during the six months ended 30 June 2011 (six months ended 30 June 2010: HK\$7,813,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Related party transactions

(a) *Outstanding balance with related parties:*

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Loans to an associate	1,758	1,699
Due to an associate	(136)	(398)
	<u><u> </u></u>	<u><u> </u></u>

The loans 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 another associate included in the Group's current liabilities as at 30 June 2011 totalling HK\$1,900,000 (31 December 2010: HK\$1,900,000) is unsecured, interest-free and repayable with not less than 30 days' prior written notice.

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

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Short term employee benefits	7,195	8,243
Post-employment benefits	403	425
	<u> </u>	<u> </u>
Total compensation paid/payable to key management personnel	7,598	8,668
	<u><u> </u></u>	<u><u> </u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Capital commitments

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Contracted, but not provided for:		
Purchases of land use rights	1,880	1,839
Capital contribution to subsidiaries	20,383	20,256
Construction and purchases of items of property, plant and equipment	52,423	25,502
	<u>74,686</u>	<u>47,597</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 2011.

INTERIM DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the year ending 31 December 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2011, the persistently high level of raw material costs further reduced the gross profit margin of the Group. However, as a result of the implementation of cost control measures to reduce those controllable administrative expenses as well as selling and distribution costs, the Group recorded a profit attributable to the shareholders of the Company of approximately HK\$10.45 million for the six months ended 30 June 2011 as compared with a loss of approximately HK\$14.04 million for the last corresponding period.

The Group recorded revenue of approximately HK\$575.67 million representing an increase of 11.3% when compared with that of last period. The Group's gross profit for the period decreased by 10.7% when compared with that of last period to approximately HK\$117.97 million was mainly due to the increase in raw material costs during the period under review.

The manufacturing and sale of paint products continued to be the core business of the Group. Its weight in the total revenue was approximately 78.1% for the period under review.

Paint products

Revenue for the period amounted to approximately HK\$449.65 million which was nearly same as last period. The increase in raw material costs rendered the drop in gross profit when compared with that of last period. However, as a result of the cost reduction in administrative expenses and selling and distribution costs, the operating profit was improved to approximately HK\$19.42 million, representing an increase of approximately 54.3% when compared with that of last period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

Property investment

Revenue for the period amounted to approximately HK\$3.07 million when compared with that of approximately HK\$2.83 million last period. Operating profit amounted to approximately HK\$6.77 million, compared with that of approximately HK\$1.95 million last period. The increase in operating profit for the period was mainly due to the recognition of gain on disposal of property in Taiwan of approximately HK\$6.40 million.

Iron and steel trading and related investments

Revenue for the period amounted to approximately HK\$122.95 million, representing an increase of approximately 89.1% when compared with that of last period. Due to the increase in revenue, the operating profit for the period amounted to approximately HK\$2.62 million, when compared with a loss of HK\$84 thousand of last period.

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.

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. Total cash balances amounted to approximately HK\$266.45 million as at 30 June 2011 compared with approximately HK\$283.66 million as at 31 December 2010. Bank and other borrowings amounted to approximately HK\$138.51 million as at 30 June 2011 compared with approximately HK\$150.87 million as at 31 December 2010. 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 2011, approximately HK\$96.78 million (69.9%) is payable within one year, approximately HK\$5.57 million (4.0%) is payable in the second year, approximately HK\$17.17 million (12.4%) is payable in the third to fifth years and the remaining balance of HK\$18.99 million (13.7%) is payable beyond the fifth year.

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Liquidity and financial information (continued)

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 18.0% as at 30 June 2011 compared with 19.7% as at 31 December 2010. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.65 times as at 30 June 2011 compared with 1.58 times as at 31 December 2010.

Equity and net asset value

Shareholders' funds of the Group as at 30 June 2011 was approximately HK\$828.89 million compared with approximately HK\$819.44 million as at 31 December 2010. 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 2011 was approximately HK\$768.83 million compared with approximately HK\$764.16 million as at 31 December 2010. Net asset value per share as at 30 June 2011 was approximately HK\$0.44 compared with approximately HK\$0.44 as at 31 December 2010.

Contingent liabilities

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2011 amounted to approximately HK\$52.68 million compared with approximately HK\$63.86 million as at 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Pledge of assets

As at 30 June 2011, certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of approximately HK\$446.66 million (31 December 2010 : HK\$486.15 million) were pledged to banks as collaterals for bank and other borrowings. As at 30 June 2011, total outstanding secured bank and other borrowings amounted to approximately HK\$114.43 million as compared with approximately HK\$125.04 million as at 31 December 2010.

STAFF

As at 30 June 2011, the Group's staff headcount was 1,162 (30 June 2010 : 1,432). Staff costs (excluding directors' emoluments) amounted to approximately HK\$65.81 million for the period under review as compared with approximately HK\$67.99 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

OUTLOOK

Looking forward to the second half of 2011, the future economic environment is still challenging. The inflation in Mainland China together with Europe and U.S. debt crisis leading to uncertainty and volatility in the global economic performance and outlook. The tightening financial measures adopted by the Chinese Government may affect the growth momentum in Mainland China.

In facing the challenges, the Group will enhance its fundamental management, continuously improve its production efficiency, reduce production costs and apply strict control to daily administrative expenses and adopt proactive measures to constrain all controllable expenses in order to raise the Group's profitability.

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 2011, 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	—	—	346,231,521 *	346,231,521 *	346,231,521	18.33%

* 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

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 2011, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the directors and the chief executives had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the period under review.

SHARE OPTIONS

Details of the 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 1.1.2011	Number of shares under options			Balance at 30.6.2011
					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

Note:

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.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2011, 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
10% or more of issued share capital					
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	346,231,521	—	18.33%
	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%

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%
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%
Below 10% of issued share capital					
West Avenue Group Co., Ltd.	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%

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 346,231,521 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.

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. Chong Shaw Swee, Alan (“Mr. Chong”) was interested in 100% of the issued share capital of Evergain. Ms. Chong Ho Pik Yu (“Mrs. Chong”) is the wife of Mr. Chong.

Chuang’s China, Profit Stability, Chuang’s Consortium, Evergain, Mr. Chong and Mrs. Chong 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 Co., Ltd. (“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 2011 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 2011, 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:

Mr. Hung Ting Ho, Richard is the chairman and the managing director of Midas International Holdings Limited (“Midas”) which is a 60.76% owned subsidiary of Chuang’s Consortium. Mr. Ko Sheung Chi is the managing director of Chuang’s Consortium. Mr. Chong Shaw Swee, Alan (appointed as alternate director to Mr. Hung Ting Ho, Richard on 5 August 2011) is the chairman and executive director of Chuang’s Consortium, the honorary chairman of Chuang’s China and Midas. Chuang’s Consortium and Chuang’s China are substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Chong Shaw Swee, Alan is the controlling shareholder of Chuang’s Consortium.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the “Model Code”). After specific enquiry by the Company, all directors (except Mr. Chong Shaw Swee, Alan who was appointed as alternate director on 5 August 2011) 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 2011.

On behalf of the board
Lam Ting Ball, Paul
Chairman

Hong Kong, 30 August 2011

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

(Chong Shaw Swee, Alan as his alternate)

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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