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CNT GROUP LIMITED

北海集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 701)

ANNOUNCEMENT OF 2016 INTERIM RESULTS

| FINANCIAL HIGHLIGHTS | | | |
|---|---------------------------------|--------------------|---------------|
| | Six months ended 30 June | | Change |
| | 2016 | 2015 | |
| | (Unaudited) | (Unaudited) | |
| | HK\$'000 | HK\$'000 | |
| Results | | | |
| Revenue | 468,453 | 504,016 | -7.1% |
| Gross profit | 167,151 | 146,477 | +14.1% |
| Gross profit margin | 35.7% | 29.1% | +22.7% |
| Profit attributable to shareholders of the Company | 30,770 | 21,181 | +45.3% |
| Earnings per share (HK cents) | 1.62 | 1.12 | +44.6% |
| | As at | As at | |
| | 30 June | 31 December | |
| | 2016 | 2015 | |
| | (Unaudited) | (Audited) | |
| | HK\$'000 | HK\$'000 | Change |
| Financial Position | | | |
| Total cash and bank balances (including cash and cash equivalents, structured deposits, pledged deposits and restricted cash) | 404,630 | 512,732 | -21.1% |
| Bank and other borrowings | 128,182 | 205,350 | -37.6% |
| Gearing ratio | 10.7% | 17.1% | -37.4% |
| Net asset value per share (HK\$) | 0.77 | 0.77 | 0% |

INTERIM RESULTS

The board of directors (the “Board”) 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 2016 together with comparative amounts for the corresponding period in 2015. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

| | | Six months ended 30 June | |
|--|-------|----------------------------|----------------------------|
| | | 2016 | 2015 |
| | Notes | (Unaudited) HK\$’000 | (Unaudited) HK\$’000 |
| REVENUE | 3 | 468,453 | 504,016 |
| Cost of sales | | <u>(301,302)</u> | <u>(357,539)</u> |
| Gross profit | | 167,151 | 146,477 |
| Other income and gains, net | 3 | 6,297 | 10,955 |
| Selling and distribution expenses | | (72,261) | (72,949) |
| Administrative expenses | | (68,200) | (62,275) |
| Other expenses, net | | <u>(52)</u> | <u>(105)</u> |
| | | 32,935 | 22,103 |
| Fair value gains on investment properties, net | 10 | 5,453 | 9,967 |
| Finance costs | 4 | (1,414) | (1,903) |
| Share of profits and losses of associates | | <u>1,358</u> | <u>468</u> |
| PROFIT BEFORE TAX | 5 | 38,332 | 30,635 |
| Income tax expenses | 6 | <u>(7,617)</u> | <u>(9,754)</u> |
| PROFIT FOR THE PERIOD | | <u>30,715</u> | <u>20,881</u> |
| ATTRIBUTABLE TO: | | | |
| Owners of the parent | | 30,770 | 21,181 |
| Non-controlling interests | | <u>(55)</u> | <u>(300)</u> |
| | | <u>30,715</u> | <u>20,881</u> |
| EARNINGS PER SHARE | | | |
| ATTRIBUTABLE TO ORDINARY | | | |
| EQUITY HOLDERS OF THE PARENT | 7 | | |
| Basic and diluted | | <u>HK1.62 cents</u> | <u>HK1.12 cents</u> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| PROFIT FOR THE PERIOD | <u>30,715</u> | <u>20,881</u> |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | (22,337) | 661 |
| Share of other comprehensive income/(loss) of an associate | <u>70</u> | <u>(33)</u> |
| Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | <u>(22,267)</u> | <u>628</u> |
| Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods: | | |
| Remeasurement of net pension scheme assets | (459) | – |
| Gains on property revaluation | <u>–</u> | <u>7,569</u> |
| Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods | <u>(459)</u> | <u>7,569</u> |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD | <u>(22,726)</u> | <u>8,197</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u><u>7,989</u></u> | <u><u>29,078</u></u> |
| ATTRIBUTABLE TO: | | |
| Owners of the parent | 8,132 | 29,376 |
| Non-controlling interests | <u>(143)</u> | <u>(298)</u> |
| | <u><u>7,989</u></u> | <u><u>29,078</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

| | | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|--|----|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 270,986 | 275,956 |
| Investment properties | 10 | 573,700 | 569,937 |
| Properties under development | | 28,000 | 28,000 |
| Prepaid land lease payments | | 19,450 | 20,181 |
| Interests in associates | | 12,504 | 11,076 |
| Available-for-sale investments | | 96,083 | 96,083 |
| Deposits for purchases of properties, and plant and equipment | | 59,930 | 32,477 |
| Net pension scheme assets | | 1,629 | 2,178 |
| Deferred tax assets | | 7,657 | 7,985 |
| | | 1,069,939 | 1,043,873 |
| CURRENT ASSETS | | | |
| Inventories | | 58,256 | 62,464 |
| Trade and bills receivables | 11 | 347,547 | 354,360 |
| Prepayments, deposits and other receivables | | 42,953 | 47,184 |
| Structured deposits | | 134,494 | 160,549 |
| Pledged deposits | | 2,998 | 3,179 |
| Restricted cash | | 70,090 | 71,610 |
| Cash and cash equivalents | | 197,048 | 277,394 |
| | | 853,386 | 976,740 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 12 | 132,761 | 128,656 |
| Other payables and accruals | | 138,755 | 145,164 |
| Derivative financial instrument | | – | 10 |
| Due to an associate | | 2,800 | 2,800 |
| Interest-bearing bank and other borrowings | | 115,012 | 189,211 |
| Tax payable | | 14,202 | 19,534 |
| | | 403,530 | 485,375 |
| NET CURRENT ASSETS | | 449,856 | 491,365 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,519,795 | 1,535,238 |

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|--|--|--|
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank and other borrowings | 13,170 | 16,139 |
| Deferred tax liabilities | 45,195 | 46,406 |
| Deferred income | 2,598 | 2,813 |
| | <hr/> | <hr/> |
| Total non-current liabilities | 60,963 | 65,358 |
| | <hr/> | <hr/> |
| Net assets | 1,458,832 | 1,469,880 |
| | <hr/> <hr/> | <hr/> <hr/> |
| EQUITY | | |
| Equity attributable to owners of the parent | | |
| Issued capital | 190,369 | 190,369 |
| Reserves | 1,264,763 | 1,275,668 |
| | <hr/> | <hr/> |
| | 1,455,132 | 1,466,037 |
| Non-controlling interests | 3,700 | 3,843 |
| | <hr/> | <hr/> |
| Total equity | 1,458,832 | 1,469,880 |
| | <hr/> <hr/> | <hr/> <hr/> |

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 (the “Listing Rules”) 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 2015, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”, which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA which are effective for the Group’s annual period beginning on 1 January 2016.

| | |
|--|---|
| HKFRS 14 | <i>Regulatory Deferral Accounts</i> |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | <i>Investment Entities: Applying the Consolidation Exception</i> |
| Amendments to HKFRS 11 | <i>Accounting for Acquisitions of Interests in Joint Operations</i> |
| Amendments to HKAS 1 | <i>Disclosure Initiative</i> |
| Amendments to HKAS 16 and HKAS 38 | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> |
| Amendments to HKAS 16 and HKAS 41 | <i>Agriculture: Bearer Plants</i> |
| Amendments to HKAS 27 (2011) <i>Annual Improvements 2012-2014 Cycle</i> | <i>Equity Method in Separate Financial Statements</i> Amendments to a number of HKFRSs |

The adoption of these new and revised standards has had no significant financial effect on these unaudited condensed consolidated interim financial statements.

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 9 | <i>Financial Instruments</i> ² |
| HKFRS 15 | <i>Revenue from Contracts with Customers</i> ² |
| HKFRS 16 | <i>Leases</i> ³ |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴ |
| Amendments to HKAS 7 | <i>Disclosure Initiative</i> ¹ |
| Amendments to HKAS 12 | <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ¹ |

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Originally effective for the annual periods beginning on or after 1 January 2016, which has been deferred/removed and the adoption of the amendments continues to be permitted

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.

The 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 2015.

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, commercial and industrial 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, provision of advertising services, and investment holding.

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, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, fair value gains on structured deposits, finance costs, as well as head office and corporate expenses are excluded from such measurement.

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

Segment liabilities exclude the derivative financial instrument, interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on mutually agreed terms.

The following tables present revenue and profit information for the Group's reportable operating segments for the six months ended 30 June 2016 and 2015.

| | 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 2016 | | | | | |
| Segment revenue: | | | | | |
| Sales to external customers | 388,437 | 17,202 | 62,814 | – | 468,453 |
| Intersegment sales | – | 3,096 | – | 2,978 | 6,074 |
| Other revenue and gains, net | 2,498 | 5,477 | 308 | (417) | 7,866 |
| | <u>390,935</u> | <u>25,775</u> | <u>63,122</u> | <u>2,561</u> | <u>482,393</u> |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment sales | | | | | <u>(6,074)</u> |
| Total | | | | | <u><u>476,319</u></u> |
| Segment results | 20,866 | 17,933 | 2,134 | 400 | 41,333 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment results | | | | | (232) |
| Interest income | | | | | 1,873 |
| Fair value gains on structured deposits | | | | | 2,011 |
| Finance costs | | | | | (1,414) |
| Corporate and other unallocated expenses | | | | | <u>(5,239)</u> |
| Profit before tax | | | | | <u><u>38,332</u></u> |

| | 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 2015 | | | | | |
| Segment revenue: | | | | | |
| Sales to external customers | 379,305 | 10,187 | 114,524 | – | 504,016 |
| Intersegment sales | – | 8,481 | – | 3,740 | 12,221 |
| Other revenue and gains | 4,727 | 9,987 | 312 | 78 | 15,104 |
| | <u>384,032</u> | <u>28,655</u> | <u>114,836</u> | <u>3,818</u> | <u>531,341</u> |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment sales | | | | | <u>(12,221)</u> |
| Total | | | | | <u><u>519,120</u></u> |
| Segment results | | | | | |
| | 5,181 | 23,921 | 2,395 | 919 | 32,416 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment results | | | | | (261) |
| Interest income | | | | | 3,041 |
| Fair value gains on structured deposits | | | | | 2,777 |
| Finance costs | | | | | (1,903) |
| Corporate and other unallocated expenses | | | | | <u>(5,435)</u> |
| Profit before tax | | | | | <u><u>30,635</u></u> |

The following tables present segment assets and liabilities as at 30 June 2016 and 31 December 2015, and segment capital expenditure for the six months ended 30 June 2016 and 2015 of the Group's reportable operating segments.

| | 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 |
|---|--|---|--|-----------------------------------|----------------------------------|
| At 30 June 2016 | | | | | |
| Segment assets | 630,523 | 739,841 | 43,490 | 96,052 | 1,509,906 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment receivables | | | | | (1,012) |
| Corporate and other unallocated assets | | | | | 414,431 |
| Total assets | | | | | <u>1,923,325</u> |
| Segment liabilities | 252,581 | 6,359 | 14,818 | 662 | 274,420 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment payables | | | | | (1,012) |
| Corporate and other unallocated liabilities | | | | | 191,085 |
| Total liabilities | | | | | <u>464,493</u> |
| | | | | | |
| | Paint products (Audited) HK\$'000 | Property investment (Audited) HK\$'000 | Iron and steel trading (Audited) HK\$'000 | Others (Audited) HK\$'000 | Total (Audited) HK\$'000 |
| At 31 December 2015 | | | | | |
| Segment assets | 647,011 | 707,481 | 47,647 | 96,057 | 1,498,196 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment receivables | | | | | (1,027) |
| Corporate and other unallocated assets | | | | | 523,444 |
| Total assets | | | | | <u>2,020,613</u> |
| Segment liabilities | 256,342 | 5,958 | 13,767 | 690 | 276,757 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment payables | | | | | (1,027) |
| Corporate and other unallocated liabilities | | | | | 275,003 |
| Total liabilities | | | | | <u>550,733</u> |

| | 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 2016 | | | | | |
| Segment capital expenditure: | | | | | |
| Capital expenditure | 11,049 | 28,547 | 30 | – | 39,626 |
| Corporate and other unallocated | | | | | – |
| | | | | | <u>39,626*</u> |
| Six months ended 30 June 2015 | | | | | |
| Segment capital expenditure: | | | | | |
| Capital expenditure | 8,875 | 25 | – | – | 8,900 |
| Corporate and other unallocated | | | | | 354 |
| | | | | | <u>9,254*</u> |

* Capital expenditure consists of additions to property, plant and equipment, investment properties and deposits for purchases of properties, and plant and equipment.

During the six months ended 30 June 2016 and 2015, no revenue from any single customer accounted for 10% or more of the Group's revenue.

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue, other income and gains, net is as follows:

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Revenue | | |
| Sale of paint products and related services | 388,437 | 379,305 |
| Sale of iron and steel products | 62,814 | 114,524 |
| Gross rental income from investment properties | 17,202 | 10,187 |
| | 468,453 | 504,016 |
| Other income and gains, net | | |
| Bank interest income | 1,873 | 3,041 |
| Commission income | 60 | 78 |
| Government grants received from Mainland China authorities* | 307 | 3,087 |
| Fair value gains | | |
| Structured deposits | 2,011 | 2,777 |
| Derivative instrument – transaction not qualifying as hedge | 10 | – |
| Foreign exchange differences, net | 419 | – |
| Gain on disposal of items of property, plant and equipment, net | – | 8 |
| Recognition of deferred income | 153 | 160 |
| Others | 1,464 | 1,804 |
| | 6,297 | 10,955 |

* Various government grants have been received from the PRC government authorities in recognition of the Group's efforts in the technology development on paint products. There are no unfulfilled conditions or contingencies relating to these grants.

4. FINANCE COSTS

An analysis of finance costs is as follows:

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Interest on bank loans | 1,413 | 1,899 |
| Interest on finance leases | 1 | 4 |
| | <hr/> | <hr/> |
| Total interest expense on financial liabilities | 1,414 | 1,903 |

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Cost of inventories sold | 301,302 | 357,539 |
| Depreciation | 10,250 | 9,730 |
| Amortisation of prepaid land lease payments | 266 | 278 |
| Provision for impairment of trade receivables | 4,952 | 1,194 |
| Write-down/(write-back) of inventories to net realisable value, net | (3,987) | 1,446 |
| Gain on disposal of items of property, plant and equipment, net* | – | (8) |
| Foreign exchange differences, net* | (419) | 65 |
| | <hr/> | <hr/> |

* These balances are included in “Other income and gains, net” for gains and “Other expenses, net” for losses in the condensed consolidated statement of profit or loss.

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2015: 16.5%) 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.

The share of tax attributable to an associate amounting to HK\$160,000 (six months ended 30 June 2015: HK\$158,000) is included in “Share of profits and losses of associates” in the condensed consolidated statement of profit or loss.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the six months ended 30 June 2016 attributable to ordinary equity holders of the parent of HK\$30,770,000 (six months ended 30 June 2015: HK\$21,181,000) and the weighted average number of ordinary shares of 1,903,685,690 (six months ended 30 June 2015: 1,891,782,486) in issue during the period.

The Group had no potential dilutive ordinary shares in issue during the six months ended 30 June 2016.

The diluted earnings per share for the six months ended 30 June 2015 is calculated by adjusting the weighted average number of 1,891,782,486 ordinary shares in issue with the weighted average number of 4,203,416 ordinary shares deemed to be issued assuming the exercise of the share options.

8. DIVIDEND

At the annual general meeting held on 2 June 2016, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2015 of HK1.0 cent (year ended 31 December 2014: HK1.2 cents) per share which amounted to approximately HK\$19,037,000 (year ended 31 December 2014: HK\$22,844,000).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired items of properties, plant and equipment at costs of HK\$9,924,000 (six months ended 30 June 2015: HK\$8,393,000).

During the six months ended 30 June 2015, an owner-occupied property of HK\$2,531,000 was transferred to investment property at the then fair value of HK\$10,100,000 following the end of owner-occupation, with gain on property valuation of HK\$7,569,000 recognised in other comprehensive income.

Items of properties, plant and equipment with an aggregate net book value of HK\$433,000 (six months ended 30 June 2015: HK\$112,000) were disposed of by the Group during the six months ended 30 June 2016.

10. INVESTMENT PROPERTIES

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|--|--|--|
| Carrying amount at beginning of period/year | 569,937 | 401,980 |
| Additions | 557 | 898 |
| Fair value gains, net | 5,453 | 30,131 |
| Transfer from owner-occupied properties | – | 121,160 |
| Transfer from deposits for purchases of properties, and plant and equipment | – | 18,627 |
| Exchange realignment | (2,247) | (2,859) |
| | <hr/> | <hr/> |
| Carrying amount at end of period/year | 573,700 | 569,937 |

The Group's investment properties were revalued on 30 June 2016 based on valuations performed by BMI Appraisals Limited, an independent professionally qualified valuer. Fair values of the Group's investment properties are generally derived by using the income capitalisation method.

11. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance may require. 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 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

| | 30 June 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|---|--|--|
| Within three months | 259,711 | 254,316 |
| Over three months and within six months | 39,631 | 41,799 |
| Over six months | 48,205 | 58,245 |
| | <hr/> | <hr/> |
| | 347,547 | 354,360 |

12. TRADE AND BILLS PAYABLES

An ageing 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 2016 (Unaudited) HK\$'000 | 31 December 2015 (Audited) HK\$'000 |
|---|--|--|
| Within three months | 132,576 | 127,720 |
| Over three months and within six months | 185 | 925 |
| Over six months | – | 11 |
| | <u>132,761</u> | <u>128,656</u> |

The trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 30 June 2016, bills payable with an aggregate carrying amount of HK\$9,993,000 (31 December 2015: HK\$9,251,000) were secured by time deposits of HK\$2,998,000 (31 December 2015: HK\$3,179,000).

13. SHARE OPTION SCHEMES

The 2002 Scheme

On 28 June 2002, the Company adopted a share option scheme (the “2002 Scheme”), which was approved by the shareholders of the Company at the special general meeting held on the same date. 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.

152,800,000 share options was granted on 27 May 2010 under the 2002 Scheme to employees of the Group to subscribe for a total of 152,800,000 new shares of the Company of HK\$0.10 each, and vested 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 vested on 27 May 2011, 10% of the share options vested on 27 May 2012, 10% of the share options vested on 27 May 2013 and 20% of the share options vested 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.

During the six months ended 30 June 2015, 15,280,000 share options were exercised and 122,240,000 share options were lapsed upon the expiry of exercise period of five years from the grant date.

As at 31 December 2015, there was no share options outstanding under the 2002 Scheme.

The 2002 Scheme has been expired on 27 May 2015.

The 2012 Scheme

The 2012 share option scheme (the “2012 Scheme”) was adopted by the Company on 28 June 2012, pursuant to a resolution passed at the annual general meeting held on the same date. Unless terminated by resolution in general meeting or by the Board, the 2012 Scheme remains valid and effective for the period of 10 years commencing on 28 June 2012, after which period no further options will be issued but, in all other aspects, the provision of the 2012 Scheme shall remain in full force and effect. Further details are set out in the circular of the Company dated 30 April 2012.

The 2012 Scheme will expire on 27 June 2022. During the six months ended 30 June 2016 and 2015, no share options were granted under the 2012 Scheme.

INTERIM DIVIDEND

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2016, the sluggish European economy and the recent Brexit event have disrupted the global economic landscape, causing turmoil in global equity markets and foreign currency markets, which further aggravated the global economic recovery. Mainland China’s economy remained relatively stable with a slower pace of development for the first half of 2016. According to the data published by the National Bureau of Statistics of China, Mainland China’s GDP grew by 6.7% for the first half of 2016, which hit the growth target set at the beginning of the year.

The Group actively responded to market changes and adopted appropriate sales strategies and marketing activities to promote our paint products. The core paint operation and the expanding properties investment continuously supported the Group’s revenue and profit.

The Group recorded a profit attributable to the shareholders of the parent company of approximately HK\$30.77 million for the six months ended 30 June 2016 as compared with that of approximately HK\$21.18 million for the last corresponding period. The increase in the profit attributable to the shareholders of the parent company was mainly due to the increase in gross profit of the paint business.

The Group recorded revenue of approximately HK\$468.45 million representing a decrease of 7.1% as compared with last corresponding period. The decrease in the Group’s revenue was mainly due to the decrease in revenue from the trading of iron and steel products. The Group’s gross profit for the period increased by 14.1% as compared with that of last corresponding period to approximately HK\$167.15 million. The increase in the Group’s gross profit was mainly due to the improvement of gross profit margin of the paint business during the period under review.

The manufacture and sale of paint products continued to be the core business of the Group and contributed approximately 82.9% to the Group's total revenue for the period under review.

Paint Products

Revenue for the period amounted to approximately HK\$388.44 million representing an increase of 2.4% as compared with last corresponding period. The increase in sales of paint products was mainly due to the increase in demand of paint products. As compared with last corresponding period, the gross profit margin improved by 8.4% to 37.9%, resulting from the drop in raw material costs and the strict control on production overheads. Segment profit amounted to approximately HK\$20.87 million, representing an increase of approximately 302.7% as compared with that of approximately HK\$5.18 million in last corresponding period.

Property Investment

Revenue for the period amounted to approximately HK\$17.20 million as compared with that of approximately HK\$10.19 million in last corresponding period. Segment profit amounted to approximately HK\$17.93 million as compared with that of approximately HK\$23.92 million in last corresponding period. The decrease in segment profit for the period was mainly due to the decrease in the net fair value gains on the investment properties of approximately HK\$4.52 million. The net increase in fair values of the Group's investment properties for the period was approximately HK\$5.45 million while the increase in fair values for the last corresponding period was approximately HK\$9.97 million. This reflected the general market conditions of the commercial and industrial investment property markets in Hong Kong and Mainland China for the period under review.

The Group is continuously considering the feasibility to broaden the portfolio of the Group's property investment by acquiring additional properties in Hong Kong and/or the PRC with stable income and capital gain potential. In April 2016, the Group entered into a pre-sale contract with an independent property developer for the acquisition of a commercial property in Beijing, the PRC at the consideration of approximately RMB33.56 million, which was financed by internal resources of the Group. The property is expected to be handed over to the Group on 31 October 2016. The Group intends to hold the property for investment purpose and lease out the property for rental income purpose.

The review application under Section 17 of the Town Planning Ordinance ("TPO") to seek the Town Planning Board's ("TPB") approval for a proposed columbarium on the Group's existing land located in Au Tau, Yuen Long, Hong Kong was rejected in December 2014. The Group had lodged an appeal to the Appeal Board Panel (Town Planning) under Section 17B of TPO in February 2015 and the appeal is in progress.

In May 2016, the Group submitted a planning application under Section 16 of TPO to seek TPB's approval for the proposed residential development on the Group's existing warehouses located in Sai Kung, New Territories, Hong Kong (the "Land"). The purpose of applying for the change in the permitted usage of the Land is to secure a re-development opportunity for the purpose of achieving a high investment return or enhancing the property portfolios of the Group. The Group has not made any final decision on the re-development of the Land. The Group will consider the prevailing and the anticipated property market conditions for different types of commercial, residential and industrial properties, the availability and the terms of the financial resources, the likely investment return, the long-term development plan as well as the interest of the Group and the shareholders of the Company as a whole.

Iron and Steel Trading and Related Investments

Revenue for the period amounted to approximately HK\$62.81 million as compared with that of approximately HK\$114.52 million in last corresponding period. The decrease in revenue was mainly due to the over-supply of tin plate products as a result of excess production capacity in the PRC. Despite of the significant drop in the revenue, the improvement in gross profit margin together with the increase in share of profit from an associate, the segment profit for the period dropped slightly to approximately HK\$2.13 million as compared with that of approximately HK\$2.40 million in last corresponding period.

Available-for-sale Investments

The Group has an effective interest of 11.9% 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 luxury columbarium niches. Guangzhou, Guangdong Province, the PRC is a major target market for the cemetery business. Two sales offices were recently established in Guangzhou, making a total of six sales offices established in Guangzhou. The establishment of sales offices together with the implementation of a promotion campaign in Guangzhou can enhance the awareness and improve sales in long run. In the development aspect, twelve graveyards and a mausoleum were constructed to provide grave plots and niches for sales.

FINANCIAL REVIEW

Liquidity and Financial Information

The Group's business operation is generally financed by its internal funding and bank borrowings. The cash and cash equivalents amounted to approximately HK\$197.05 million as at 30 June 2016 as compared with approximately HK\$277.39 million as at 31 December 2015. The total cash and bank balances, including cash and cash equivalents, structured deposits, pledged deposits and restricted cash, amounted to approximately HK\$404.63 million as at 30 June 2016 as compared with approximately HK\$512.73 million as at 31 December 2015. Bank and other borrowings amounted to approximately HK\$128.18 million as at 30 June 2016 as compared with approximately HK\$205.35 million as at 31 December 2015. 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 2016, approximately HK\$115.01 million (89.7%) is payable within one year, approximately HK\$6.01 million (4.7%) is payable in the second year and the remaining balance of approximately HK\$7.16 million (5.6%) is payable in the third to fifth years.

The Group's cash, bank balances and bank and other borrowings are mainly denominated in Hong Kong Dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 30 June 2016. However, the Group will continue to monitor its foreign exchange exposure and requirements closely and will arrange hedging facilities when necessary.

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 10.7% as at 30 June 2016 as compared with 17.1% as at 31 December 2015. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 2.11 times as at 30 June 2016 as compared with 2.01 times as at 31 December 2015.

Equity and Net Asset Value

Shareholders' funds of the Group as at 30 June 2016 was approximately HK\$1,455.13 million as compared with approximately HK\$1,466.04 million as at 31 December 2015. Adjusted capital of the Group, being shareholders' fund less the unrealised leasehold land and building revaluation reserve and investment property revaluation reserve, as at 30 June 2016 was approximately HK\$1,192.51 million as compared with approximately HK\$1,203.41 million as at 31 December 2015. Net asset value per share as at 30 June 2016 and 31 December 2015 was approximately HK\$0.77.

Contingent Liabilities

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2016 amounted to approximately HK\$138.11 million as compared with approximately HK\$214.53 million as at 31 December 2015.

Pledge of Assets

At 30 June 2016, certain land and buildings, investment properties, restricted cash and cash deposits with aggregate net book value of approximately HK\$638.52 million (31 December 2015: HK\$637.84 million) were pledged to banks as collaterals for bank and other borrowings. At 30 June 2016, total outstanding secured bank and other borrowings amounted to approximately HK\$128.18 million as compared with approximately HK\$196.58 million as at 31 December 2015.

STAFF

As at 30 June 2016, the Group's staff headcount was 1,060 (30 June 2015: 1,199). Staff costs (excluding directors' emoluments) amounted to approximately HK\$90.33 million for the period under review as compared with approximately HK\$83.48 million for the last corresponding period. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employees.

OUTLOOK

Looking forward to the second half of 2016, the Brexit event added further uncertainties to the recovery of global economy. The challenges are unprecedented while opportunities exist. In Mainland China, the government's continuous effort on the massive financial stimulus package unleashed appears to support the economic growth in the coming years. The monetary policy still maintained a moderate-to-loose level while the interest rate as a whole experienced a trend of decline. Recent economic data, like improving infrastructure investment and the rebound in the composite purchasing managers' index suggested that the economy is on the verge of stabilization.

In 2016, the Chinese Government plans to renovate more than 6 million units of housing under the shanty area renovation plan and to implement the two-child policy and the National New-type Urbanization Plan. It is expected that the economy and the property market of Mainland China will remain stable.

The increase in urban population as well as the ongoing improvement in household disposable income and living standards are expected to reinforce the demand for real estate and therefore give a stable demand for paint products. The Group believes that our paint operation will benefit from the reforms.

In order to enhance competitiveness and become a leading manufacturer of high quality green and safe paint products, the Group will continue to manufacture and sell high-quality paint products. The Group will continue focus on green production, technological innovation and development. For improvement of the production efficiency, the Group will continue to invest in research and development to strengthen the technological innovation and streamline process flow. The Group will continue to pay attention on cost control and technological innovation to improve the material utilisation.

Mainland China's real estate market continued to recover during the first half of 2016, especially in the first-tier cities. The supply and demand in the real estate market showed signs of adjustment under the support of favourable policies. The Group will continue to monitor the commercial and residential property markets in Hong Kong and Mainland China closely and consider the feasibility to acquire additional properties in order to diversify and broaden the investment portfolio of the Group.

While maintaining its existing core business of paint operation, the Group continues to invest in property investment as well as iron and steel trading business.

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.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2016, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, except the following:

- (1) The non-executive directors of the Company and the independent non-executive directors of the Company are not appointed for a specific term. According to the Company's bye-laws, they are subject to the requirement to retire by rotation at least once every three years. The Board considers that the requirement has the same effect of accomplishing the same objective as a specific term of appointment.
- (2) The Company does not have a nomination committee as the role and the function of such committee are performed by the full Board. The Board collectively reviews the structure, size and composition (including the skills, knowledge and experience) of the Board and the appointment of any new director. Also, the Board as a whole is responsible for approving the succession plan for the directors, including the chairman and the managing director.

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 the Model Code for Securities Transactions by Directors of Listed Issuers as contained 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 2016.

On behalf of the Board
Lam Ting Ball, Paul
Chairman

Hong Kong, 25 August 2016

As at the date of this announcement, the Board comprises Mr. Lam Ting Ball, Paul, Mr. Tsui Ho Chuen, Philip and Mr. Chong Chi Kwan as executive directors; Mr. Chan Wa Shek, Mr. Zhang Yulin and Mr. Hung Ting Ho, Richard as non-executive directors; and Sir David Akers-Jones, Mr. Danny T Wong, Dr. Steven Chow and Mr. Zhang Xiaojing as independent non-executive directors.