



CHAIRMAN'S STATEMENT

I am pleased to report the annual results of CNT Group Limited for the financial year ended 31 December 2001.

RESULTS

The Group recorded a net profit of HK\$6.76 million against a net profit of HK\$23.88 million in 2000. The continuing slow down of global economy had a significant adverse impact on our results. Our core business, paint manufacturing, remained steady with operating profit of HK\$66.63 million (2000: HK\$70.23 million). Other businesses showed unsatisfactory performances particularly in the investment sector where provisions for impairment of long term investments of HK\$6.40 million were made (2000: Nil).

The Group's turnover for the year fell by 16.9% to HK\$369.51 million (2000: HK\$444.55 million). The drop in property business accounted for the majority of the fall.

BUSINESS REVIEW

Paint manufacturing

Paint manufacturing business had a fairly stable year in light of the poor economic conditions worldwide. Turnover fell slightly by 1.3% to HK\$355.03 million (2000: HK\$359.88 million) due to increasing market competition. Operating profit fell by 5.1% despite increased activities in Mainland China where profit margin was comparatively low. During the year, the Group had a gain of HK\$10.51 million on disposal of an associate. The Group has increased its activities in Mainland China to face challenges that would emerge from open policies of the country after it joined WTO in last November.

Property

The Group remained prudent in view of the sluggish property market. Turnover dropped sharply by 97.1% mainly due to the property disposals of HK\$61.78 million in 2000. Operating loss was HK\$3.46 million (2000: HK\$6.76 million). The improvement was mainly due to less amount of provisions required for revaluation of properties. Residential development projects in Sai Kung and Mui Wo were still in progress of land re-grant and in negotiations with the Hong Kong Government. Investments in Mainland China were medium term and progressing on schedules.

Although the property market had probably bottomed out and under low interest rate environment, the Group would remain cautious on formulating strategies for its portfolio.

Trading

Business in Mainland China comprised mainly iron and steel trading. Market activities were low with turnover reduced by 27.4% to HK\$9.47 million (2000: HK\$13.04 million). Gross profit was HK\$0.47 million (2000: HK\$0.52 million).

**Sale of marketable securities**

Turnover of HK\$3.15 million (2000: HK\$6.64 million) represented trading in listed securities in Hong Kong. Trading activities had been low during the year. Operating loss amounted to HK\$1.31 million (2000: HK\$0.69 million) mainly due to impairment provisions made on the investments.

Granite and marble mining and trading

Turnover of Elegant Stone International Ltd. ("Elegant Stone"), the Group's marble business operation, dropped marginally by 1.3% to HK\$49.86 million (2000: HK\$50.54 million). Overcast by economic recession, consumer power was still weak. Operating profit amounted to HK\$1.20 million (2000: HK\$22.54 million). The sharp fall was mainly due to an increase in cost of sales and non-recurring revenues of HK\$18.07 million in 2000. Construction contracts of approximately HK\$60.00 million were signed in 2001 and commenced in early 2002. On 12 April 2002, the Group entered into a sale and purchase agreement with a minority shareholder of Elegant Stone to acquire an additional 5.0% equity interest in Elegant Stone at a consideration of HK\$6.54 million. In order to increase management control over Elegant Stone, the Group exercised an option to acquire a further 26.7% equity interest in the company by applying the shortfall of guaranteed dividend granted under a deed of guarantee given by a major shareholder. The option, if completed, would make Elegant Stone become a 76.1% owned subsidiary of the Group.

Stone mining and trading

During the year, the Group increased its mining portfolio by acquiring an interest in a stone mining operation in Mainland China. The stone mine is located in Zhongshan with an annual production of over 1 million tons. The investment cost of RMB14.00 million was fully paid and treated as deposit pending completion of licence ownership registration in Mainland China. Production of stones would commence in the second quarter of year 2002 due to unexpected longer rainy season in 2001 and the longer time spent on clearing the top erosive layer.

Information technology

Treasure Auctioneer International Limited was in deficit and our share of its loss amounted to HK\$1.02 million (2000: HK\$0.31 million). Turnover increased slightly and is expected to improve in the coming years. The company is waiting for an expected recovery of economy and because of this, the Group entered into an agreement in July 2001 to acquire an additional 25.0% equity interest in the company for HK\$38.00 million to increase our control over its management. Deposits amounting to HK\$12.60 million were paid and the completion date was extended to 25 July 2002.

The Group's education web business was still in retrenchment stage and our share of loss was HK\$0.61 million (2000: HK\$0.32 million). Certain e-commerce programs were cut and operational costs were kept at minimum level. The company would continue focusing on student recruitment business whilst looking for new sources of revenues in Mainland China.



Information technology (continued)

In January 2002, the Group invested in a web business in Mainland China through the purchase of 70.0% equity interest in a BVI company, namely Dragon Century Investment Limited for a consideration of HK\$7.00 million. The company holds two Chinese portals, namely artsofchina.com and artsofchina.net engaged in providing an electronic market place for buying and selling Chinese commercial fine arts. The investment was made to extend our IT business in Mainland China. It is expected that the website would commence to generate revenues in the latter half of 2002.

Environmental projects

The patent right of GAIA Automotive Fuel remained outstanding and is likely to take time to clarify the situation between the claimed patent owner and the inventor. The Group has been keeping a close eye on the situation and may consider terminating the project if necessary.

During the year, a factory to manufacture catalytic converters had been set up in Shenzhen with two production lines installed. Annual production is expected to be 20,000 sets in the first year generating a turnover of HK\$7.30 million per annum. Formal production was commenced in January 2002. The Group increased its interest by 15.0% to 35.0% towards the end of the year to add control over its management.

OUTLOOK

U.S. economy showed signs of recovery in the first quarter of 2002 and is expected to grow steadily for the rest of the year. Interest rates are likely to climb up slowly from low levels. It is anticipated that the local economy would also recover gradually and may benefit from Mainland China's economic growth through WTO participation. The Group will formulate its investment and business plans to take advantage of the forthcoming economic recovery to provide future growth and value to its shareholders.

APPRECIATION

CNT Group would like to take this opportunity to express its hearty thanks to all customers, suppliers, business associates and shareholders for their participation and support in 2001. I would also like to thank the management and staff for their dedication and hard work.

Tsui Tsin Tong

Chairman

Hong Kong

20 April 2002