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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 2012 INTERIM RESULTS

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 2012 together with comparative amounts for the corresponding period in 2011. 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 2012

		Six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE		618,080	575,671
Cost of sales		<u>(487,446)</u>	<u>(457,701)</u>
Gross profit		130,634	117,970
Other income and gains	3	8,826	10,646
Selling and distribution costs		(56,621)	(55,087)
Administrative expenses		(55,876)	(50,963)
Other expenses, net		<u>(122)</u>	<u>(2,237)</u>
		26,841	20,329
Equity-settled share option expense	12	(2,507)	(3,825)
Finance costs	4	(1,556)	(2,213)
Share of profits and losses of associates		<u>1,200</u>	<u>1,422</u>
PROFIT BEFORE TAX	5	23,978	15,713
Income tax expenses	6	<u>(8,451)</u>	<u>(5,307)</u>
PROFIT FOR THE PERIOD		<u>15,527</u>	<u>10,406</u>
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Owners of the parent		15,513	10,451
Non-controlling interests		<u>14</u>	<u>(45)</u>
		<u>15,527</u>	<u>10,406</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted		<u>HK0.82 cents</u>	<u>HK0.55 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>15,527</u>	<u>10,406</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Gain on property revaluation	—	4,767
Share of other comprehensive income/(loss) of an associate	(18)	916
Exchange differences on translation of foreign operations	<u>(4,692)</u>	<u>8,463</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>(4,710)</u>	<u>14,146</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>10,817</u></u>	<u><u>24,552</u></u>
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Owners of the parent	10,843	24,501
Non-controlling interests	<u>(26)</u>	<u>51</u>
	<u><u>10,817</u></u>	<u><u>24,552</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

		30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000 (Restated)
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	313,743	311,821
Investment properties		141,656	141,825
Properties under development		28,000	28,000
Prepaid land lease payments		22,564	23,034
Interests in associates		11,686	10,734
Available-for-sale investments		125,783	125,783
Deposits for purchases of items of property, plant and equipment		14,143	9,384
Net pension scheme assets		2,531	2,531
Deferred tax assets		6,016	5,560
Total non-current assets		666,122	658,672
CURRENT ASSETS			
Inventories		83,663	81,160
Trade and bills receivables	10	289,737	292,287
Prepayments, deposits and other receivables		23,413	23,660
Equity investments at fair value through profit or loss		6,276	300
Cash and cash equivalents		288,133	319,476
Total current assets		691,222	716,883
CURRENT LIABILITIES			
Trade and bills payables	11	136,554	167,822
Other payables and accruals		113,998	127,708
Dividend payable		9,442	—
Due to an associate		2,550	2,200
Interest-bearing bank and other borrowings		112,355	100,186
Tax payable		9,563	9,466
Total current liabilities		384,462	407,382
NET CURRENT ASSETS		306,760	309,501
TOTAL ASSETS LESS CURRENT LIABILITIES		972,882	968,173

	Notes	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		36,215	38,990
Deferred tax liabilities		18,542	16,802
Deferred income		3,976	4,168
Provision		<u>26,818</u>	<u>24,764</u>
Total non-current liabilities		<u>85,551</u>	<u>84,724</u>
Net assets		<u>887,331</u>	<u>883,449</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		188,841	188,841
Reserves		<u>694,806</u>	<u>690,898</u>
		883,647	879,739
Non-controlling interests		<u>3,684</u>	<u>3,710</u>
Total equity		<u>887,331</u>	<u>883,449</u>

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 2011, 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 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>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i>

Except for the Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets* as further explained below, the adoption of these new and revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial statements.

Amendments to HKAS 12 were issued in December 2010 by HKICPA to clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value model in accordance with HKAS 40 *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. The amendments also require that deferred tax on non-depreciable assets measured using the revaluation model in accordance with HKAS 16 *Property, Plant and Equipment* should always be measured on a sale basis. As a result of the amendments, Hong Kong (SIC)-21 *Income Taxes — Recovery of Revalued Non-depreciable Assets* was superseded since the Amendments to HKAS 12 became effective.

Upon the adoption of the Amendments to HKAS 12, the Group measures deferred tax on investment properties assuming that their carrying amounts will be recovered through sale. The effects of the above changes are summarised below.

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Consolidated income statement</i>		
Decrease in income tax expenses	—	—
Increase in profit for the period	<u>—</u>	<u>—</u>
Increase in basic and diluted earnings per share	<u>—</u>	<u>—</u>

	30 June	31 December	1 January
	2012	2011	2011
	(Unaudited)	(Audited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000

Consolidated statement of financial position

Decrease in deferred tax liabilities	5,404	5,404	4,937
Increase in retained profits	<u>(5,404)</u>	<u>(5,404)</u>	<u>(4,937)</u>

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 — Government Loans</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> ²
HKFRS 7 and HKFRS 9 Amendments	Amendments to HKFRS 9 <i>Financial Instruments</i> and HKFRS 7 <i>Financial Instruments: Disclosures — Mandatory Effective Date of HKFRS 9 and Transition Disclosures</i> ⁴
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ²
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	<i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i> ²

HKFRS 11	<i>Joint Arrangements</i> ²
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ²
HKFRS 13	<i>Fair Value Measurement</i> ²
HKAS 1 Amendments	<i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i> ¹
HKAS 19 (2011)	<i>Employee Benefits</i> ²
HKAS 27 (2011)	<i>Separate Financial Statements</i> ²
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ²
HKAS 32 Amendments	<i>Amendments to HKFRS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> ³
HK(IFRIC) - Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ²
<i>Annual Improvements 2009 - 2011 Cycle</i>	Amendments to a number of HKFRSs contained in <i>Annual Improvements 2009 - 2011 Cycle</i> issued in June 2012 ²

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

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

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 2011.

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, other trading 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/(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 before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, deferred tax assets, 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 2012 and 2011.

	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 2012					
Segment revenue:					
Sales to external customers	424,961	3,272	189,847	—	618,080
Intersegment sales	—	3,755	—	—	3,755
Other income and gains, net	<u>3,949</u>	<u>(279)</u>	<u>4,270</u>	<u>157</u>	<u>8,097</u>
	428,910	6,748	194,117	157	629,932
<u>Reconciliation:</u>					
Elimination of intersegment sales					<u>(3,755)</u>
Total revenue					<u><u>626,177</u></u>
Segment results	22,160	2,876	6,547	(1,173)	30,410
<u>Reconciliation:</u>					
Elimination of intersegment results					4,103
Interest income					729
Finance costs					(1,556)
Equity-settled share option expense					(2,507)
Corporate and other unallocated expenses					<u>(7,201)</u>
Profit before tax					<u><u>23,978</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 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	<u>2,236</u>	<u>6,412</u>	<u>592</u>	<u>527</u>	<u>9,767</u>
	451,889	12,888	123,540	527	588,844
<u>Reconciliation:</u>					
Elimination of intersegment sales					<u>(3,406)</u>
Total revenue					<u><u>585,438</u></u>
Segment results	19,418	6,765	2,622	(1,114)	27,691
<u>Reconciliation:</u>					
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					<u>(10,634)</u>
Profit before tax					<u><u>15,713</u></u>

The following tables present segment assets of the Group's reportable operating segments as at 30 June 2012 and 31 December 2011.

	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 2012					
Segment assets	559,421	310,432	57,119	134,267	1,061,239
<u>Reconciliation:</u>					
Elimination of intersegment receivables					(1,282)
Corporate and other unallocated assets					<u>297,387</u>
Total assets					<u><u>1,357,344</u></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
As at 31 December 2011					
Segment assets	557,349	313,738	45,709	131,285	1,048,081
<u>Reconciliation:</u>					
Elimination of intersegment receivables					(1,222)
Corporate and other unallocated assets					<u>328,696</u>
Total assets					<u><u>1,375,555</u></u>

During the six months ended 30 June 2012, revenue generated from one of the Group's customers in the iron and steel trading segment amounting to approximately HK\$100,426,000 (six months ended 30 June 2011: HK\$62,341,000) individually accounted for over 10% of the Group's revenue.

3. Other income and gains

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	729	879
Commission income	275	359
Government grants received from Mainland China authorities	846	710
Fair value gain on an equity investment at fair value through profit or loss - held for trading	—	144
Foreign exchange differences, net	727	—
Gain on disposal of non-current assets classified as held for sale	—	6,400
Gain on disposal of items of property, plant and equipment, net	115	—
Gain on disposal of a subsidiary	60	—
Recognition of deferred income	158	152
Recovery of amounts due from an associate previously written off	3,806	—
Others	<u>2,110</u>	<u>2,002</u>
	<u>8,826</u>	<u>10,646</u>

4. Finance costs

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	1,861	1,913
Bank loans not wholly repayable within five years	345	445
Finance leases	<u>4</u>	<u>21</u>
	2,210	2,379
Less: Interest capitalised	<u>(654)</u>	<u>(166)</u>
	<u>1,556</u>	<u>2,213</u>

5. Profit before tax

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	487,446	457,701
Depreciation	11,024	11,321
Amortisation of an intangible asset	—	75
Amortisation of prepaid land lease payments	274	265
Provision for/(reversal of) impairment of trade receivables	(40)	2,151
Write-down of inventories to net realisable value	<u>1,463</u>	<u>1,261</u>

6. Income tax

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The share of tax attributable to an associate amounting to HK\$111,000 (six months ended 30 June 2011: HK\$256,000) is included in “Share of profits and losses of associates” on the face of the condensed consolidated income statement.

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

The calculation of basic earnings per share amount is based on the profit for the six months ended 30 June 2012 attributable to ordinary equity holders of the parent of HK\$15,513,000 (six months ended 30 June 2011: HK\$10,451,000) and the weighted average number of ordinary shares of 1,888,405,690 (six months ended 30 June 2011: 1,888,405,690) 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 2012 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 an anti-dilutive effect on the basic earnings per share amounts presented.

There was no other diluting events existed during the six months ended 30 June 2012 and 2011.

8. Dividend

At the annual general meeting held on 28 June 2012, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2011 of HK0.5 cent (year ended 31 December 2010: HK1 cent) per share which amounted to approximately HK\$9,442,000 (year ended 31 December 2010: HK\$18,884,000).

9. Property, plant and equipment

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment at costs of HK\$14,659,000 (six months ended 30 June 2011: HK\$7,985,000).

Items of property, plant and equipment with an aggregate net book value of HK\$347,000 (six months ended 30 June 2011: HK\$257,000) were disposed of by the Group during the six months ended 30 June 2012, resulting in a net gain on disposal of HK\$115,000 (six months ended 30 June 2011: net loss on disposal of HK\$35,000).

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. 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 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 the payment due date and net of impairment, is as follows:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Neither past due nor impaired	212,851	246,520
Within three months	62,652	40,523
Over three months and within six months	8,030	4,547
Over six months	<u>6,204</u>	<u>697</u>
	<u>289,737</u>	<u>292,287</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 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within three months	135,448	164,936
Over three months and within six months	1,085	2,872
Over six months	<u>21</u>	<u>14</u>
	<u>136,554</u>	<u>167,822</u>

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

12. Share option scheme

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

The equity-settled share options granted on 27 May 2010 vest over a period of 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 on 27 May 2010 under the 2002 Scheme were exercised, cancelled or lapsed during the six months ended 30 June 2012 and 2011. No share option was granted during the six months ended 30 June 2012 and 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\$2,507,000 during the six months ended 30 June 2012 (six months ended 30 June 2011: HK\$3,825,000).

13. Comparative amounts

As further explained in note 1, due to the adoption of HKAS 12 Amendments during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current period's presentation.

INTERIM DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the year ending 31 December 2012 (2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded a profit attributable to the shareholders of the Company of approximately HK\$15.51 million for the six months ended 30 June 2012 as compared with that of approximately HK\$10.45 million for the last corresponding period.

The Group recorded revenue of approximately HK\$618.08 million, representing an increase of 7.4% when compared with that of last period. The Group's gross profit for the period increased by 10.7% when compared with that of last period to approximately HK\$130.63 million. The increase in gross profit was mainly due to the decrease 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 68.8% for the period under review.

Paint products

Revenue for the period amounted to approximately HK\$424.96 million, representing a decrease of 5.5% when compared with that of last period. The decrease in raw material costs contributed the increase in gross profit when compared with that of last period. The operating profit was improved to approximately HK\$22.16 million, representing an increase of approximately 14.1% when compared with that of last period.

Property investment

Revenue for the period amounted to approximately HK\$3.27 million when compared with that of approximately HK\$3.07 million in last period. Operating profit amounted to approximately HK\$2.88 million compared with that of approximately HK\$6.77 million in last period. The decrease in operating profit for the period was mainly due to the recognition of a gain on disposal of property of approximately HK\$6.40 million in last period.

During the period under review, the Group had entered into an agreement for the sale and purchase of commodity housing for advance sale to acquire an office premise in Guangzhou, the PRC at a consideration of approximately HK\$12.45 million, which will be financed partly by internal resources of the Group and partly by bank loans and facilities, and the property is expected to be completed in June of 2013. The Group intends to use it as a sales office for the paint operation and hold it as a long term investment.

Iron and steel trading and related investments

Revenue for the period amounted to approximately HK\$189.85 million, representing an increase of approximately 54.4% when compared with that of last period. Due to the increase in revenue together with the recovery of amounts due from an associate previously written off of HK\$3.81 million, the operating profit for the period amounted to approximately HK\$6.55 million when compared with that of approximately HK\$2.62 million in 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.

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\$288.13 million as at 30 June 2012 compared with approximately HK\$319.48 million as at 31 December 2011. Bank and other borrowings amounted to approximately HK\$148.57 million as at 30 June 2012 compared with approximately HK\$139.18 million as at 31 December 2011. 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 2012, approximately HK\$112.35 million (75.6%) is payable within one year, approximately HK\$5.63 million (3.8%) is payable in the second year, approximately HK\$17.40 million (11.7%) is payable in the third to fifth years and the remaining balance of HK\$13.19 million (8.9%) 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 results can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. However, in view of the strong and supportive treasury policy in Mainland China, the Renminbi exchange rate is expected to remain relatively stable and hence the Group's currency exposure is not significant. The Group considers that no hedging measures are necessary.

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 18.0% as at 30 June 2012 compared with 17.0% as at 31 December 2011. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.80 times as at 30 June 2012 compared with 1.76 times as at 31 December 2011.

Equity and net asset value

Shareholders' funds of the Group as at 30 June 2012 was approximately HK\$883.65 million compared with approximately HK\$879.74 million as at 31 December 2011. 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 2012 was approximately HK\$823.59 million compared with approximately HK\$819.68 million as at 31 December 2011. Net asset value per share as at 30 June 2012 was approximately HK\$0.47 compared with approximately HK\$0.47 as at 31 December 2011.

Contingent liabilities

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2012 amounted to approximately HK\$142.90 million compared with approximately HK\$68.80 million as at 31 December 2011.

Pledge of assets

As at 30 June 2012, certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of approximately HK\$477.89 million (31 December 2011: HK\$492.32 million) were pledged to banks as collaterals for bank and other borrowings. As at 30 June 2012, total outstanding secured bank and other borrowings amounted to approximately HK\$148.57 million as compared with approximately HK\$126.85 million as at 31 December 2011.

STAFF

As at 30 June 2012, the Group's staff headcount was 1,142 (30 June 2011: 1,162). Staff costs (excluding directors' emoluments) amounted to approximately HK\$77.91 million for the period under review as compared with approximately HK\$65.81 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.

OUTLOOK

Looking ahead, the operating environment for the Group will be challenging but full of opportunities. The Chinese Government has relaxed monetary policies recently. The central bank cut interest rates together with the reduction of banks' reserve requirement ratio bring a positive signal to the market that the Chinese Government is going to boost the economy.

In addition, the continuous advancement of the urbanisation is expected to translate into a strong demand for paint products. The Group will actively seize opportunities brought by the accelerated urbanisation and improved living standards to increase our market share.

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.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2012, the Company has complied with the code provisions of the Code on Corporate Governance Practices (effective up to 31 March 2012) and of the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except the following:

- (1) 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.
- (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.
- (3) Two non-executive directors were unable to attend the annual general meeting of the Company held on 28 June 2012 due to other business commitment.

On behalf of the board
Lam Ting Ball, Paul
Chairman

Hong Kong, 23 August 2012

The board of directors of the Company as at the date hereof comprises Messrs. Lam Ting Ball, Paul, Tsui Ho Chuen, Philip, Tsui Yam Tong, Terry and Chong Chi Kwan as executive directors; Messrs. Chan Wa Shek, Hung Ting Ho, Richard, Zhang Yulin and Ko Sheung Chi as non-executive directors; Sir David Akers-Jones, Mr. Danny T Wong and Dr. Steven Chow as independent non-executive directors; and Mr. Chong Shaw Swee, Alan (alternate to Mr. Hung Ting Ho, Richard) as alternate director.