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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 RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The directors of CNT Group Limited (the “Company”) announce the annual consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2008 together with comparative amounts for the corresponding period in 2007 as follows:

#### CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
REVENUE	4	941,817	734,806
Cost of sales		(690,358)	(516,392)
Gross profit		251,459	218,414
Other income and gains	4	17,576	28,890
Selling and distribution costs		(143,326)	(110,651)
Administrative expenses		(112,772)	(111,180)
Other expenses, net	6	(70,701)	(1,284)
Finance costs	5	(6,051)	(5,095)
Share of profits and losses of associates		873	885
PROFIT/(LOSS) BEFORE TAX	6	(62,942)	19,979
Tax	7	(8,237)	(10,976)
PROFIT/(LOSS) FOR THE YEAR		(71,179)	9,003
ATTRIBUTABLE TO:			
Equity holders of the parent		(71,515)	12,302
Minority interests		336	(3,299)
		(71,179)	9,003
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		(HK4.54 cents)	HK0.79 cents
Diluted		N/A	N/A

# **CONSOLIDATED BALANCE SHEET**

*At 31 December 2008*

	<i>Notes</i>	<b>2008</b> <b>HK\$'000</b>	<b>2007</b> <b>HK\$'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>292,871</b>	262,225
Investment properties		<b>121,517</b>	101,700
Properties under development		<b>32,000</b>	74,000
Prepaid land premiums		<b>21,321</b>	16,766
Intangible asset		<b>3,000</b>	—
Interests in associates		<b>3,461</b>	1,767
Available-for-sale investments		<b>123,163</b>	167,077
Deposits for purchases of properties		<b>10,976</b>	6,757
Long term receivable		<b>757</b>	1,212
Deferred tax asset		<b>—</b>	6
Net pension scheme assets		<b>2,199</b>	1,740
Total non-current assets		<b>611,265</b>	633,250
<b>CURRENT ASSETS</b>			
Inventories		<b>61,934</b>	65,901
Trade receivables	9	<b>159,028</b>	106,508
Prepayments, deposits and other receivables		<b>13,904</b>	13,681
Due from an associate		<b>1,523</b>	—
Equity investment at fair value through profit or loss		<b>31</b>	119
Pledged deposits		<b>—</b>	14,238
Cash and cash equivalents		<b>121,767</b>	157,064
Total current assets		<b>358,187</b>	357,511
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	<b>85,249</b>	104,098
Other payables and accruals		<b>92,052</b>	78,097
Interest-bearing bank and other borrowings		<b>82,971</b>	38,195
Tax payable		<b>6,336</b>	6,710
Total current liabilities		<b>266,608</b>	227,100
<b>NET CURRENT ASSETS</b>		<b>91,579</b>	130,411
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>702,844</b>	763,661
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>60,461</b>	64,776
Deferred tax liabilities		<b>9,884</b>	10,619
Deferred income		<b>4,765</b>	4,750
Total non-current liabilities		<b>75,110</b>	80,145
<b>Net assets</b>		<b>627,734</b>	683,516
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital		<b>157,367</b>	157,367
Reserves		<b>466,173</b>	522,517
		<b>623,540</b>	679,884
Minority interests		<b>4,194</b>	3,632
<b>Total equity</b>		<b>627,734</b>	683,516

## Notes to Consolidated Financial Statements

### 1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings, certain available-for-sale investments, an equity investment at fair value through profit or loss and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

### 2.1 Impact of new and revised Hong Kong Financial Reporting Standards

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year’s financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and HKFRS 7 <i>Financial Instruments: Disclosures — Reclassification of Financial Assets</i>
HK(IFRIC)-Int 11	<i>HKFRS 2 — Group and Treasury Share Transactions</i>
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i>
HK(IFRIC)-Int 14	<i>HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The adoption of these new interpretations and amendments has had no financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

### 2.2. Impact of issued but not yet effective Hong Kong Financial Reporting Standards

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> <sup>1</sup>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i> <sup>1</sup>
HKFRS 3 (Revised)	<i>Business Combinations</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i> <sup>1</sup>
HKFRS 8	<i>Operating Segments</i> <sup>1</sup>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> <sup>1</sup>
HKAS 23 (Revised)	<i>Borrowing Costs</i> <sup>1</sup>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> <sup>2</sup>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i> <sup>1</sup>
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> <sup>2</sup>

HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement — Embedded Derivatives</i> <sup>5</sup>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> <sup>3</sup>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i> <sup>1</sup>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i> <sup>4</sup>
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i> <sup>2</sup>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> <sup>2</sup>

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs*\* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

<sup>5</sup> Effective for annual periods ending on or after 30 June 2009

\* *Improvements to HKFRSs* contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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.

### 3. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. The Group is organised into four (2007: three) main business segments. Summary details of the business segments are as follows:

- (a) the paint products segment engages in the manufacture and sale of paint products;
- (b) the property investment segment comprises:
  - (i) the investment in residential and commercial premises for their rental income potential;
  - (ii) the development and sale of properties;
- (c) the iron and steel trading segment comprises the trading of iron and steel products; and
- (d) the "others" segment comprises, principally, securities trading and investment.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at mutually agreed terms.

(a) **Business segments**

The following tables present revenue, profit/(loss), certain asset and liability, income and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

<b>Year ended 31 December 2008</b>	<b>Paint products HK\$'000</b>	<b>Property investment HK\$'000</b>	<b>Iron and steel trading HK\$'000</b>	<b>Others HK\$'000</b>	<b>Eliminations HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>Segment revenue:</b>						
Sales to external customers	803,405	6,649	131,763	—	—	941,817
Intersegment sales	—	7,052	—	—	(7,052)	—
Other income and gains	6,326	1,432	6,525	1,597	—	15,880
Total	<u>809,731</u>	<u>15,133</u>	<u>138,288</u>	<u>1,597</u>	<u>(7,052)</u>	<u>957,697</u>
<b>Segment results</b>	<u>27,225</u>	<u>(21,812)</u>	<u>1,711</u>	<u>(43,598)</u>	<u>10,129</u>	<u>(26,345)</u>
Interest income						1,696
Unallocated expenses						(33,115)
Finance costs						(6,051)
Share of profits and losses of associates						873
Loss before tax						(62,942)
Tax						(8,237)
Loss for the year						<u>(71,179)</u>
<b>Assets and liabilities:</b>						
Segment assets	377,415	326,962	11,007	2,595	(1,420)	716,559
Interests in associates	—	3,192	—	269	—	3,461
Unallocated assets:						
Available-for-sale investments						123,163
Others						126,269
Total assets						<u>969,452</u>
Segment liabilities	173,733	5,769	5,429	244	(1,420)	183,755
Unallocated liabilities						157,963
Total liabilities						<u>341,718</u>
<b>Other segment information:</b>						
Depreciation	13,432	4,792	1	—	—	18,225
Capital expenditure	41,151	13,283	5	3,000	—	57,439
Fair value losses on investment properties	—	9,051	—	—	—	9,051
Impairment of a property under development	—	14,247	—	—	—	14,247
Impairment of available-for-sale investments, net	—	—	—	43,914	—	43,914
Loss on disposal of a subsidiary	—	2,837	—	—	—	2,837
Write-back of impairment of amounts due from an associate	—	—	—	(1,523)	—	(1,523)
Impairment of trade receivables	2,748	—	—	—	—	2,748
Write-down of inventories to net realisable value	<u>1,999</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,999</u>

Year ended 31 December 2007	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>Segment revenue:</b>						
Sales to external customers	680,240	5,586	48,980	—	—	734,806
Intersegment sales	—	5,209	—	—	(5,209)	—
Other income and gains	<u>3,699</u>	<u>16,692</u>	<u>4,446</u>	<u>2,206</u>	<u>—</u>	<u>27,043</u>
Total	<u>683,939</u>	<u>27,487</u>	<u>53,426</u>	<u>2,206</u>	<u>(5,209)</u>	<u>761,849</u>
<b>Segment results</b>	<u>34,334</u>	<u>14,801</u>	<u>(95)</u>	<u>740</u>	<u>9,549</u>	59,329
Interest income						1,847
Unallocated expenses						(36,987)
Finance costs						(5,095)
Share of profits of associates						<u>885</u>
Profit before tax						19,979
Tax						<u>(10,976)</u>
Profit for the year						<u>9,003</u>
<b>Assets and liabilities:</b>						
Segment assets	300,379	343,017	5,262	1,556	(868)	649,346
Interests in associates	—	1,767	—	—	—	1,767
Unallocated assets:						
Available-for-sale investments						167,077
Others						<u>172,571</u>
Total assets						<u>990,761</u>
Segment liabilities	183,504	5,468	3,399	105	(868)	191,608
Unallocated liabilities						<u>115,637</u>
Total liabilities						<u>307,245</u>
<b>Other segment information:</b>						
Depreciation	11,139	3,178	—	131	—	14,448
Capital expenditure	33,170	38,438	—	77	—	71,685
Gain on disposal of subsidiaries	—	(3,146)	—	—	—	(3,146)
Fair value gains on investment properties	—	(9,600)	—	—	—	(9,600)
Write-back of impairment of a property under development	—	(1,177)	—	—	—	(1,177)
Write-back of a trade payable	(882)	—	—	—	—	(882)
Write-back of inventories to net realisable value	(3,856)	—	—	—	—	(3,856)
Write-back of impairment of an other receivable	<u>—</u>	<u>—</u>	<u>—</u>	<u>(500)</u>	<u>—</u>	<u>(500)</u>

(b) **Geographical segments**

The following table presents revenue, certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

	Hong Kong		Mainland China		Others		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue:</b>										
Sales to external customers	<u>91,414</u>	<u>91,175</u>	<u>850,386</u>	<u>643,617</u>	<u>17</u>	<u>14</u>	<u>—</u>	<u>—</u>	<u>941,817</u>	<u>734,806</u>
<b>Other segment information:</b>										
Segment assets	<u>365,989</u>	<u>389,554</u>	<u>585,934</u>	<u>583,308</u>	<u>17,529</u>	<u>17,899</u>	<u>—</u>	<u>—</u>	<u>969,452</u>	<u>990,761</u>
Capital expenditure	<u>20,494</u>	<u>41,353</u>	<u>36,945</u>	<u>30,332</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>57,439</u>	<u>71,685</u>

4. **Revenue, other income and gains**

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

	2008 HK\$'000	2007 HK\$'000
<b>Revenue</b>		
Sale of paint products	803,405	680,240
Sale of iron and steel products	131,763	48,980
Gross rental income from investment properties	<u>6,649</u>	<u>5,586</u>
	<u>941,817</u>	<u>734,806</u>
<b>Other income</b>		
Bank interest income	1,648	1,775
Interest income from a long term receivable	48	72
Commission income	6,147	3,971
Government grants received from Mainland China authorities	2,135	—
Recognition of deferred income	287	91
Dividend income from an available-for-sale investment	—	781
Others	<u>3,687</u>	<u>4,242</u>
	<u>13,952</u>	<u>10,932</u>
<b>Gains</b>		
Write-back of impairment of amounts due from an associate	1,523	—
Gain on disposal of items of property, plant and equipment, net	316	—
Foreign exchange differences, net	1,785	1,796
Fair value gains on investment properties	—	9,600
Fair value gain on an equity investment at fair value through profit or loss		
— held for trading	—	68
Gain on disposal of subsidiaries	—	3,146
Write-back of impairment of a property under development	—	1,177
Write-back of a trade payable	—	882
Write-back of impairment of deposits and other receivables	—	500
Others	<u>—</u>	<u>789</u>
	<u>3,624</u>	<u>17,958</u>
Total other income and gains	<u>17,576</u>	<u>28,890</u>

5. **Finance costs**

	2008 HK\$'000	2007 HK\$'000
Interest on bank loans and other loans wholly repayable within five years	4,380	3,275
Interest on other loans	1,557	1,736
Interest on finance leases	114	84
	<u>6,051</u>	<u>5,095</u>

6. **Profit/(loss) before tax**

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

	2008 HK\$'000	2007 HK\$'000
Cost of inventories sold	690,358	516,392
Depreciation	18,225	14,448
Loss on disposal of items of property, plant and equipment, net*	—	367
Write-off of items of property, plant and equipment*	470	470
Fair value losses on investment properties*	9,051	—
Impairment of a property under development*	14,247	—
Impairment of available-for-sale investments, net*	43,914	10
Loss on disposal of a subsidiary*	2,837	—
Fair value loss on an equity investment at fair value through profit or loss — held for trading*	88	—
Write-down/(write-back) of inventories to net realisable value	1,999	(3,856)
Impairment of trade receivables	<u>2,748</u>	<u>175</u>

\* The amounts are included in "Other expenses, net" on the face of the consolidated income statement.

7. **Tax**

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2008 HK\$'000	2007 HK\$'000
Group:		
Current — Hong Kong		
Charge for the year	273	—
Overprovision in prior years	—	(2)
Current — Elsewhere		
Charge for the year	8,342	10,706
Deferred	<u>(378)</u>	<u>272</u>
	<u>8,237</u>	<u>10,976</u>

The share of tax attributable to associates amounting to HK\$230,000 (2007: HK\$198,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.



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

The calculation of basic earnings/(loss) per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK\$71,515,000 (2007: profit of HK\$12,302,000) and the weighted average number of ordinary shares of 1,573,671,409 (2007: 1,556,244,000) in issue during the year.

No diluted earnings/(loss) per share amount is presented for the years ended 31 December 2008 and 2007 as there was no diluting event existed during the years.

9. **Trade receivables**

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	2008 HK\$'000	2007 HK\$'000
Neither past due nor impaired	131,814	46,497
Within three months	22,535	51,086
Three to six months	2,943	5,407
Over six months	<u>1,736</u>	<u>3,518</u>
	<u>159,028</u>	<u>106,508</u>

10. **Trade and bills payables**

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

	2008 HK\$'000	2007 HK\$'000
Within three months	78,504	87,154
Three to six months	6,385	15,143
Over six months	<u>360</u>	<u>1,801</u>
	<u>85,249</u>	<u>104,098</u>

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

## **11. Comparative amounts**

During the year, the Group has determined that iron and steel trading is one of its principal activities and therefore, iron and steel trading is presented as a reportable segment. Segment information for the year ended 31 December 2007 has been restated to conform with the current year's presentation. In the opinion of the directors, such reclassification will allow a more appropriate presentation and better reflects the nature of the transactions/balances.

## **DIVIDEND**

The directors do not recommend the payment of any dividend for the year ended 31 December 2008 (2007: Nil).

## **CHAIRMAN'S STATEMENT**

2008 was a challenging year for the Group largely deriving from the outbreak of the U.S. sub-prime mortgage crisis which grew into a global financial crisis. However, despite the difficult business conditions, the Group's revenue for the year amounted to approximately HK\$941.82 million, representing an increase of approximately 28.2% when compared with that of last year. The growth was mainly attributable to the increase in revenue by 18.1% to approximately HK\$803.41 million from the Group's paint operation as a result of the reinforcement of sales and marketing teams in the PRC.

As a result of the current adverse financial and economic conditions, the Group has recorded a decrease in fair value on our investment properties and properties under development and an impairment on available-for-sale investments this year.

## **RESULTS**

The Group incurred a net loss attributable to the equity holders of the parent company for the year was approximately HK\$71.52 million, as compared to a profit of approximately HK\$12.30 million last year.

Revenue for the year amounted to approximately HK\$941.82 million, representing an increase of approximately 28.2% when compared with that of last year. Gross profit increased by approximately 15.1% when compared with that of last year to approximately HK\$251.46 million. The increase was mainly due to the increase in gross profit of paint operation.

## **OPERATIONS**

### **Paint products**

Revenue for the year amounted to approximately HK\$803.41 million, representing an increase of approximately 18.1% when compared with that of last year. The operation focused its business on the PRC market and achieved an increase of approximately 20.9% in revenue over that of 2007. The Group will continue to focus on the PRC market. Despite the

increase in revenue, operating profit for the year amounted to approximately HK\$27.23 million representing a decrease of approximately 20.7% when compared with that of last year. This was mainly due to the increase in selling and distribution costs for the reinforcement of sales and marketing teams in the PRC.

### **Property investment**

Revenue for the year amounted to approximately HK\$6.65 million, representing an increase of approximately 19.0% when compared with that of last year. Operating loss for the year amounted to approximately HK\$21.81 million compared with a profit of approximately HK\$14.80 million last year. The Group has recorded a decrease in fair value of approximately HK\$23.30 million on our investment properties and properties under development this year as a result of the downturn of the property markets in Hong Kong.

### **Iron and steel trading**

Revenue for the year amounted to approximately HK\$131.76 million, representing an increase of approximately 169.0% when compared with that of last year. Operating profit for the year amounted to approximately HK\$1.71 million as compared to a loss of approximately HK\$95 thousand last year.

### **Available-for-sale investments**

The Group has an effective interest of 11.7% (2007: 11.5%) in the cemetery project situated in Sihui, Guangdong Province, the PRC, which was acquired at cost of HK\$161.13 million. The principal activities of which are the development, construction, management and operation of a cemetery. The main types of products for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury 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 tours of the cemetery, blessing ceremonies in the cemetery and participation in the Asia Funeral Expo 2008 in Macau to boost the publicity. Because of the uncertainty of the global economic environment, the Group has made an impairment on available-for-sale investments amounted to approximately HK\$43.91 million this year.

## **OUTLOOK**

Looking ahead, 2009 will still be a challenging and volatile year for the Group. The global financial crisis deepened in late 2008 when the world-wide stock markets crashed. The impact was unprecedented in speed and magnitude. In order to minimise the impact and stabilise the economic environment, the Chinese government has taken proactive stimulative measures, such as increase in spending on infrastructure, implementing policies that bolster real estate, automotive and other business sectors, to maintain the long term growth of the economy. The Group expects that local spending momentum will continue and help the PRC economy to maintain a positive GDP growth for 2009. As a result of the Chinese government's measures to stimulate the domestic economy, we believe that our paint

operation in the PRC will benefit from steadily growing demand for paint products. In view of enormous growth opportunities in the PRC, the Group is planning to establish a new production plant on our existing land located in Shanghai, the PRC. The construction cost will be financed by the Group's internal resources and bank borrowings. 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.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS**

The Group incurred a net loss attributable to equity holders of the parent company of approximately HK\$71.52 million for the year as compared to a profit of approximately HK\$12.30 million last year. Revenue for the year amounted to approximately HK\$941.82 million, representing an increase of approximately 28.2% when compared with that of last year. Gross profit for the year amounted to approximately HK\$251.46 million, representing an increase of approximately 15.1% when compared with that of last year. The increase in gross profit was mainly due to the increase in sales of paint operation. However, the decrease in the fair value on our investment properties and properties under development combined with the impairment loss on available-for-sale investments have resulted in an operating loss in this year.

### **SEGMENT INFORMATION**

#### **Business segments**

Paint operation continues to be the principal business of the Group with a revenue of approximately HK\$803.41 million accounting for approximately 85.3% of the Group's total revenue. It also represents an increase of approximately 18.1% when compared with that of last year. Despite the increase in revenue and gross profit for the year, segment result for the year amounted to approximately HK\$27.23 million representing a decrease of approximately 20.7% when compared with that of last year. This was mainly due to the increase in selling and distribution costs for the reinforcement of sales and marketing teams in the PRC.

Property investment operation reported a revenue of approximately HK\$6.65 million, representing approximately 0.7% of the Group's total revenue. Segment result for the year amounted to a loss of approximately HK\$21.81 million compared with a profit of approximately HK\$14.80 million last year. This was mainly due to the decrease in fair value of approximately HK\$23.30 million on our investment properties and properties under development this year.

During the year, the Group has acquired a shop in Mongkok, Kowloon at a consideration of HK\$8.80 million. The Group intends to use it as a customer services center for the paint operation and hold it as a long term investment.

Iron and steel operation reported a revenue of approximately HK\$131.76 million, representing an increase of approximately 169.0% when compared with that of last year. This was mainly due to the increased demand in iron and steel products in the PRC market.

## **Geographical segments**

All of the Group's business is mainly in the PRC and Hong Kong. Revenue from operations in the PRC and Hong Kong amounted to approximately HK\$850.39 million (2007: HK\$643.62 million) and approximately HK\$91.41 million (2007: HK\$91.18 million) respectively.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's business operation is generally financed by its internal funding and bank borrowings. Total cash balances amounted to approximately HK\$121.77 million as at 31 December 2008 compared with approximately HK\$171.30 million as at 31 December 2007. Bank and other borrowings amounted to approximately HK\$143.43 million as at 31 December 2008 compared with approximately HK\$102.97 million as at 31 December 2007. The Group's bank and other borrowings are mainly interest bearing at floating rates. Of the Group's total bank and other borrowings as at 31 December 2008, approximately HK\$82.97 million (57.8%) is payable within one year, approximately HK\$10.70 million (7.5%) is payable in the second year, approximately HK\$16.37 million (11.4%) is payable in the third to fifth years and the remaining balance of HK\$33.39 million (23.3%) is payable beyond the fifth year.

The Group's bank and other borrowings are mainly in HK\$ and RMB and hence the risk of currency exposure is insignificant.

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 25.2% as at 31 December 2008 compared with 16.5% as at 31 December 2007. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.34 times as at 31 December 2008 compared with 1.57 times as at 31 December 2007.

## **Equity and net assets value**

Shareholders' funds of the Group as at 31 December 2008 was approximately HK\$623.54 million compared with approximately HK\$679.88 million as at 31 December 2007. Adjusted capital of the Group, being shareholders' funds less the unrealised leasehold land and building revaluation reserve and investment property revaluation reserve, as at 31 December 2008 was approximately HK\$568.25 million compared with approximately HK\$624.95 million as at 31 December 2007. Net assets value per share as at 31 December 2008 was HK\$0.40 compared with HK\$0.43 as at 31 December 2007.

## **Contingent liabilities**

At 31 December 2008, guarantee issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 31 December 2008 amounted to HK\$66.89 million compared with HK\$74.76 million as at 31 December 2007.

## **Pledge of assets**

Certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of HK\$444.23 million (31 December 2007: HK\$408.48 million) were pledged as collaterals for bank and other borrowings. At 31 December 2008, total outstanding secured bank and other borrowings amounted to HK\$132.64 million as compared with HK\$99.77 million as at 31 December 2007.

## **STAFF**

Headcount as at 31 December 2008 was 1,182 (31 December 2007: 1,095). Staff costs (excluding directors' emoluments) amounted to HK\$115.67 million for the year as compared with HK\$87.35 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employees. In addition, the Group also provides an attractive staff option scheme.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

## **AUDIT COMMITTEE REVIEW**

The annual consolidated results of the Group for the year ended 31 December 2008 have been reviewed by the audit committee.

## **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 of Hong Kong Limited for the year ended 31 December 2008, 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.

On behalf of the board  
**Lam Ting Ball, Paul**  
Chairman

Hong Kong, 7 April 2009

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