



## 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 2007

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 2007 together with comparative amounts for the corresponding period in 2006 as follows:

#### CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
<b>CONTINUING OPERATIONS</b>			
REVENUE	4	<b>734,806</b>	611,052
Cost of sales		<b>(516,392)</b>	(425,492)
Gross profit		<b>218,414</b>	185,560
Other income and gains	4	<b>28,890</b>	38,512
Selling and distribution costs		<b>(110,651)</b>	(84,634)
Administrative expenses		<b>(111,180)</b>	(107,072)
Other expenses, net		<b>(1,284)</b>	(16,319)
Finance costs	5	<b>(5,095)</b>	(7,573)
Share of profits of associates		<b>885</b>	1,936
PROFIT BEFORE TAX	6	<b>19,979</b>	10,410
Tax	7	<b>(10,976)</b>	(3,505)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		<b>9,003</b>	6,905
<b>DISCONTINUED OPERATIONS</b>			
Gain on disposal of discontinued operations		<b>—</b>	11,581
PROFIT FOR THE YEAR		<b>9,003</b>	18,486
ATTRIBUTABLE TO:			
Equity holders of the parent		<b>12,302</b>	18,739
Minority interests		<b>(3,299)</b>	(253)
		<b>9,003</b>	18,486

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
<b>DIVIDEND</b>			
Proposed conditional final	8	<u>—</u>	<u>15,395</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
	9		
Basic			
- For profit for the year		<u><b>HK0.79 cents</b></u>	<u>HK1.22 cents</u>
- For profit from continuing operations		<u><b>HK0.79 cents</b></u>	<u>HK0.47 cents</u>
Diluted			
- For profit for the year		<u>N/A</u>	<u>N/A</u>
- For profit from continuing operations		<u>N/A</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

	2007	2006
	Notes	
	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	262,225	226,404
Investment properties	101,700	113,900
Properties under development	74,000	26,800
Prepaid land premiums	16,766	1,567
Goodwill	—	—
Interests in associates	1,767	17,447
Available-for-sale investments	167,077	167,087
Deposits for purchases of properties	6,757	46,000
Long term receivable	1,212	—
Deferred tax asset	6	6
Net pension scheme assets	1,740	1,217
Total non-current assets	<u>633,250</u>	<u>600,428</u>
<b>CURRENT ASSETS</b>		
Inventories	65,901	52,287
Trade receivables	10	106,508
Prepayments, deposits and other receivables	13,681	18,000
Equity investment at fair value through profit or loss	119	—
Pledged deposits	14,238	—
Cash and cash equivalents	157,064	128,459
Total current assets	<u>357,511</u>	<u>303,453</u>
<b>CURRENT LIABILITIES</b>		
Trade and bills payables	11	104,098
Other payables and accruals	78,097	65,126
Interest-bearing bank and other borrowings	38,195	40,773
Tax payable	6,710	933
Total current liabilities	<u>227,100</u>	<u>184,396</u>
<b>NET CURRENT ASSETS</b>	<u>130,411</u>	<u>119,057</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>763,661</u>	<u>719,485</u>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	64,776	32,667
Deferred tax liabilities	10,619	10,347
Deferred income	4,750	—
Total non-current liabilities	<u>80,145</u>	<u>43,014</u>
<b>Net assets</b>	<u>683,516</u>	<u>676,471</u>
<b>EQUITY</b>		
Equity attributable to equity holders of the parent		
Issued capital	157,367	153,947
Reserves	522,517	500,430
Proposed conditional final dividend	—	15,395
	<u>679,884</u>	<u>669,772</u>
Minority interests	3,632	6,699
Total equity	<u>683,516</u>	<u>676,471</u>

## 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, 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, 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 and revised HKFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKFRS 7	<i>Financial Instruments : Disclosures</i>
HKAS 1 Amendment	<i>Capital Disclosures</i>
HK(IFRIC)-Int 7	<i>Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	<i>Scope of HKFRS 2</i>
HK(IFRIC)-Int 9	<i>Reassessment of Embedded Derivatives</i>
HK(IFRIC)-Int 10	<i>Interim Financial Reporting and Impairment</i>

#### 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 2 (Amendments)	<i>Share-based Payments - Vesting Conditions and Cancellations</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</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 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 14	<i>HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far it has concluded that while the adoption of HKAS1 (Revised) and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to 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. Summary details of the business segments are as follows:

- (a) the paint products segment engages in the manufacturing 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; and
- (c) the "others" segment comprises, principally, the trading of steel products and 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 2007 and 2006.

<b>Year ended 31 December 2007</b>	<b>Paint products</b>	<b>Property investment</b>	<b>Others</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Continuing operations</b>					
Segment revenue:					
Sales to external customers	680,240	5,586	48,980	—	734,806
Intersegment sales	—	5,209	—	(5,209)	—
Other income and gains	3,699	16,692	6,652	—	27,043
Total	<u>683,939</u>	<u>27,487</u>	<u>55,632</u>	<u>(5,209)</u>	<u>761,849</u>
Segment results	<u>34,334</u>	<u>14,801</u>	<u>645</u>	<u>9,549</u>	59,329
Interest income					1,847
Unallocated expenses					(36,987)
Finance costs					(5,095)
Share of profits of associates					885
Profit before tax					19,979
Tax					(10,976)
Profit for the year					<u>9,003</u>
<b>Assets and liabilities:</b>					
Segment assets	300,379	343,017	6,818	(868)	649,346
Interests in associates	—	1,767	—	—	1,767
Unallocated assets:					
Available-for-sale investments					167,077
Others					172,571
Total assets					<u>990,761</u>
Segment liabilities	183,504	5,468	3,504	(868)	191,608
Unallocated liabilities					115,637
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	—	—	(500)	—	(500)

Year ended 31 December 2006	Paint products HK\$'000	Property investment HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>Continuing operations</b>					
Segment revenue:					
Sales to external customers	569,427	6,098	35,527	—	611,052
Intersegment sales	—	5,209	—	(5,209)	—
Other income and gains	<u>8,162</u>	<u>3,458</u>	<u>25,211</u>	<u>—</u>	<u>36,831</u>
 Total	 <u>577,589</u>	 <u>14,765</u>	 <u>60,738</u>	 <u>(5,209)</u>	 <u>647,883</u>
 Segment results	 <u>37,281</u>	 <u>(11,173)</u>	 <u>16,381</u>	 <u>11,425</u>	 53,914
Interest income					1,681
Unallocated expenses					(39,548)
Finance costs					(7,573)
Share of profits of associates					<u>1,936</u>
Profit before tax					10,410
Tax					<u>(3,505)</u>
					6,905
<b>Discontinued operations</b>					
Gain on disposal of discontinued operations					<u>11,581</u>
Profit for the year					<u>18,486</u>
<b>Assets and liabilities:</b>					
Segment assets	263,022	321,836	5,293	(868)	589,283
Interests in associates	—	17,447	—	—	17,447
Unallocated assets:					
Available-for-sale investments					167,087
Others					<u>130,064</u>
Total assets					<u>903,881</u>
 Segment liabilities	 133,713	 4,815	 2,599	 (868)	 140,259
Unallocated liabilities					<u>87,151</u>
Total liabilities					<u>227,410</u>
<b>Other segment information:</b>					
Depreciation	9,993	2,951	155	—	13,099
Capital expenditure	15,147	350	129	—	15,626
Loss on disposal of subsidiaries, net	—	—	59	—	59
Gain on disposal of an available-for-sale investment	—	—	(15,237)	—	(15,237)
Gain on disposal of assets/liabilities of disposal groups classified as held for sale, net	—	(299)	—	—	(299)
Gain on subsequent remeasurement of assets of disposal groups classified as held for sale, net	—	(473)	—	—	(473)
Write-back of impairment of a property under development	—	(1,450)	—	—	(1,450)
Impairment of an amount due from an associate	—	10,233	—	—	10,233
Write-down of inventories to net realisable value	1,530	—	—	—	1,530
Fair value loss on investment properties, net	—	1,780	—	—	1,780
Impairment of trade receivables	1,163	—	—	—	1,163
Write-back of impairment of deposits and other receivables	<u>—</u>	<u>—</u>	<u>(1,996)</u>	<u>—</u>	<u>(1,996)</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 2007 and 2006.

	Hong Kong		Mainland China		Others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue from continuing operations:										
Sales to external customers	<u>91,175</u>	<u>103,839</u>	<u>643,617</u>	<u>507,196</u>	<u>14</u>	<u>17</u>	<u>—</u>	<u>—</u>	<u>734,806</u>	<u>611,052</u>
Other segment information:										
Segment assets	<u>389,554</u>	<u>338,390</u>	<u>583,308</u>	<u>547,588</u>	<u>17,899</u>	<u>17,903</u>	<u>—</u>	<u>—</u>	<u>990,761</u>	<u>903,881</u>
Capital expenditure	<u>41,353</u>	<u>1,258</u>	<u>30,332</u>	<u>14,368</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>71,685</u>	<u>15,626</u>

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

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

	2007 HK\$'000	2006 HK\$'000
<b>Revenue</b>		
Sale of paint products	<b>680,240</b>	569,427
Sale of other goods	<b>48,980</b>	35,527
Gross rental income from investment properties	<b>5,586</b>	6,098
	<u><b>734,806</b></u>	<u>611,052</u>
<b>Other income</b>		
Bank interest income	<b>1,775</b>	1,681
Interest income from a long term receivable	<b>72</b>	—
Dividend income from an available-for-sale investment	<b>781</b>	—
Commission income	<b>3,971</b>	7,136
Government grants received/receivable from Mainland China authorities	<b>—</b>	3,940
Recognition of deferred income	<b>91</b>	—
Others	<b>4,242</b>	4,535
	<u><b>10,932</b></u>	<u>17,292</u>
<b>Gains</b>		
Fair value gains on investment properties	<b>9,600</b>	—
Fair value gain on an equity investment at fair value through profit or loss	<b>68</b>	—
Gain on disposal of subsidiaries	<b>3,146</b>	—
Gain on disposal of an available-for-sale investment	<b>—</b>	15,237
Gain on disposal of assets/liabilities of disposal groups classified as held for sale, net	<b>—</b>	299
Gain on subsequent remeasurement of assets of disposal groups classified as held for sale, net	<b>—</b>	473
Write-back of impairment of a property under development	<b>1,177</b>	1,450
Write-back of impairment of deposits and other receivables	<b>500</b>	1,996
Write-back of a trade payable	<b>882</b>	—
Write-back of other payables and accruals	<b>—</b>	149
Foreign exchange differences, net	<b>1,796</b>	1,616
Others	<b>789</b>	—
	<u><b>17,958</b></u>	<u>21,220</u>
Total other income and gains	<u><b>28,890</b></u>	<u>38,512</u>



5. **Finance costs**

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years	3,275	5,439
Interest on other loans	1,736	2,090
Interest on finance leases	<u>84</u>	<u>44</u>
	<u><b>5,095</b></u>	<u><b>7,573</b></u>

6. **Profit before tax**

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Cost of inventories sold	516,392	425,492
Depreciation	14,448	13,099
Loss on disposal of items of property, plant and equipment, net	367	712
Write-off of items of property, plant and equipment	470	—
Loss on disposal of an investment property	—	102
Fair value losses on investment properties, net	—	1,780
Impairment of an amount due from an associate	—	10,233
(Write-back)/write-down of inventories to net realisable value	(3,856)	1,530
Impairment of trade receivables	<u>175</u>	<u>1,163</u>

7. **Tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. 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.

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Group:		
Current - Hong Kong		
Charge for the year	—	187
Overprovision in prior years	(2)	(3)
Current - Elsewhere		
Charge for the year	10,706	3,539
Deferred	<u>272</u>	<u>(218)</u>
	<u><b>10,976</b></u>	<u><b>3,505</b></u>

The share of tax attributable to associates amounting to HK\$198,000 (2006: HK\$400,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

## 8. Dividend

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed conditional final - Nil (2006: HK1 cent) per ordinary share	<u>—</u>	<u>15,395</u>

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$12,302,000 (2006: HK\$18,739,000) and the weighted average number of ordinary shares of 1,556,244,000 (2006: 1,535,590,000) in issue during the year.

The calculation of basic earnings per share amounts from continuing operations is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$12,302,000 (2006: HK\$7,158,000) and the weighted average number of ordinary shares of 1,556,244,000 (2006: 1,535,590,000) in issue during the year.

No diluted earnings per share amount is presented for the year ended 31 December 2007, as there is no diluting event existed during the year.

A diluted earnings per share amount for the year ended 31 December 2006 had not been disclosed as the exercise prices of the Company's outstanding share options were higher than the average market price of the Company's ordinary shares during that year and accordingly, the share options had no dilutive effect.

## 10. 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 as at the balance sheet date, based on payment due date and net of impairment, is as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within three months	97,583	96,081
Four to six months	5,407	4,723
Over six months	<u>3,518</u>	<u>3,903</u>
	<u>106,508</u>	<u>104,707</u>

## 11. 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:

	<b>2007</b>	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within three months	<b>87,154</b>	71,582
Four to six months	<b>15,143</b>	5,207
Over six months	<b><u>1,801</u></b>	<u>775</u>
	<b><u>104,098</u></b>	<u>77,564</u>

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

## **DIVIDEND**

The directors do not recommend the payment of any dividend for the year ended 31 December 2007 (2006: HK1 cent per share).

## **CHAIRMAN'S STATEMENT**

The year 2007 has been another successful year of the Group and its results continued to record profit this year. The Group's paint operation continued to benefit from the strong economic growth in the PRC. Despite the increase in raw material and labour costs, we are still able to maintain our profit margin. The launch of new paint products during the year enabled the Group to broaden our product range and strengthen our presence in the market. Additional selling and advertising expenses were incurred during the year to promote our paint products for the long term benefit of the Group.

There was also a significant improvement in the performance of our property investment operation during the year. The Group has disposed of certain investment properties in the PRC before the recent correction of the property market in the PRC and the resulting gain recognised in the accounts. On the other hand, the economic growth in Hong Kong together with the increase in inflation rate and the continuance of interest rates cuts resulting in an anticipation of the coming of negative real interest rates environment, has directed market resources to purchase assets, especially real estate properties, and therefore push up the prices of these assets. As a result, fair value gains on our investments properties in Hong Kong has been recognised in the accounts. During the year, the Group also completed the acquisitions of a luxury residential house and certain lots of land, both in Yuen Long, Hong Kong, in order to broaden our asset base and for the long term benefit of the Group.

## **RESULTS**

Profit attributable to the equity holders of the parent company for the year was approximately HK\$12.30 million, compared with that of approximately HK\$18.74 million and HK\$7.16 million from continuing operations respectively last year. The paint business contributed an operating profit of approximately HK\$34.33 million, together with the gain on disposal of certain investment properties in the PRC and fair value gains on our investment properties, the Group continued to record a profit this year.

Revenue for the year amounted to approximately HK\$734.81 million, representing an increase of approximately 20.3% when compared with that of last year. Gross profit increased by approximately 17.7% when compared with that of last year to approximately HK\$218.41 million. The increase was mainly due to the increase in gross profit of paint operations.

## **OPERATIONS**

### **Paint products**

Revenue for the year amounted to approximately HK\$680.24 million, representing an increase of approximately 19.5% when compared with that of last year. The operation focused its business on the PRC market and achieved an increase of approximately 26.2% in revenue over that of 2006. The Group will continue to focus on the PRC market. Despite the increase in revenue, operating profit for the year amounted to approximately HK\$34.33 million representing a decrease of approximately 7.9% when compared with that of last year. This was mainly due to the increase in selling and advertising expenses for the development and promotion of our paint business, especially new products, for the long term benefit of the Group. During the year, the Group has held new products release conferences to promote our new anti-formaldehyde odourless paint products. It is a green environmental product that can decompose formaldehyde and is resistant to alkali and fungus.

### **Property investment**

Revenue for the year amounted to approximately HK\$5.59 million, representing a decrease of approximately 8.4% when compared with that of last year. Operating profit for the year amounted to approximately HK\$14.80 million compared with a loss of approximately HK\$11.17 million last year. This was mainly due to the gain on disposal of certain investment properties in the PRC and the fair value gains on our investment properties recognised this year.

### **Others**

#### *Iron and steel trading*

Revenue for the year amounted to approximately HK\$48.98 million, representing an increase of approximately 37.9% when compared with that of last year. The business continued to have steady contribution to the Group.

#### *Other investments*

Last year, the Group has disposed of certain investments and a significant amount of gains was recognised in the accounts. This was not recurrent this year resulting in a reduction in operating profit.

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

### *Cemetery project*

The Group has an effective 11.5% interest in the cemetery project situated in Si Hui City, Guangdong Province, the PRC. The principal activities of which are the development, construction, management and operation of a cemetery garden. The main types of products for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches. During the year, the major shareholder of this investment has been changed to Midas International Holdings Limited, a listed company in Hong Kong. Sales and marketing campaigns have been launched, including a familiarization tour to the cemetery for members of the Funeral Business Association of Hong Kong. Sales network has been established in Hong Kong and it also plans to extend the network to Macau, Taiwan, Singapore and Malaysia for promoting the services of the cemetery to residents of Chinese origin in those areas.

## **OUTLOOK**

Looking ahead, we expect that 2008 will be difficult. The subprime mortgage crisis in U.S. has resulted in the deterioration of its financial markets and slow down of its economy. The result of its funds injection in the credit markets and interest rates cuts is yet to being seen. While the U.S. faces the likelihood of an economic recession or even stagflation, the PRC continues its macro economic control policy with tightening monetary policy to ease the pressure of its inflation. Together with the introduction of New China Labour Law and New Corporate Income Tax Law, which increase the income tax rate for our foreign-invested PRC subsidiaries gradually from 15% to 25% in the coming 5 years, will inevitably increase our costs and challenges ahead. Despite the uncertain global economic conditions, we expect that the economic growth in the PRC and Hong Kong will continue in the year 2008 and the Group will focus on its paint operation. The Group will continue with its current growth momentum, devote its commitment to produce high quality green and safe products and increase its market share by reinforcing its sales and marketing team in the PRC.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS**

Profit attributable to equity holders of the parent company for the year was approximately HK\$12.30 million compared with that of approximately HK\$18.74 million and HK\$7.16 million from continuing operations respectively last year. Revenue for the year amounted to approximately HK\$734.81 million, representing an increase of approximately 20.3% when compared with that of last year. Gross profit for the year amounted to approximately HK\$218.41 million, representing an increase

of approximately 17.7% when compared with that of last year. The increase in gross profit was mainly due to the increase in gross profit of paint operations. Together with the fair value gains on our investment properties, the Group's results continued to record profit this year.

## **SEGMENT INFORMATION**

### **Business segments**

Paint operation continues to be the principal business of the Group with a revenue of approximately HK\$680.24 million accounting for approximately 92.6% of the Group's total revenue. It also represents an increase of approximately 19.5% 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\$34.33 million representing a decrease of approximately 7.9% when compared with that of last year. This was mainly due to the increase in selling and advertising expenses for the development and promotion of our paint business, especially new products, for the long term benefit of the Group.

Property investment operation reported a revenue of approximately HK\$5.59 million, representing approximately 0.8% of the Group's total revenue. Segment result for the year amounted to approximately HK\$14.80 million compared with a loss of approximately HK\$11.17 million last year. This was mainly due to the gain on disposal of certain investment properties in the PRC and fair value gains on our investment properties recognised this year. During the year under review, the Group has disposed of levels 3 and 4 of Xinruike Building in Futian Bonded Zone, Shenzhen, the PRC for cash consideration of HK\$25 million and a gain of approximately HK\$3.15 million was recognised.

During the year under review, the Group has acquired a luxury residential house in "The Vineyard", Yuen Long, Hong Kong for cash consideration of approximately HK\$36.48 million. The Group has also completed the acquisition of certain lots of land in Au Tau, Yuen Long, Hong Kong and town planning application for a comprehensive residential development in the land has been made. Through the captioned acquisitions, the Group has broadened its property portfolio which could take advantage from the recent increase in property prices in Hong Kong and would also benefit the Group in the long term.

### **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\$643.62 million (2006: HK\$507.20 million) and approximately HK\$91.18 million (2006 : HK\$103.84 million) respectively.

## **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\$171.30 million as at 31 December 2007 compared with approximately HK\$128.46 million as at 31 December 2006. Bank and other borrowings amounted to approximately HK\$102.97 million as at 31 December 2007 compared with approximately HK\$73.44 million as at 31 December 2006. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as at 31 December 2007, approximately HK\$38.19 million (37.1%) is payable within one year, approximately HK\$9.47 million (9.2%) is payable in the second year, approximately HK\$17.54 million (17.0%) is payable in the third to fifth years and the remaining balance of HK\$37.77 million (36.7%) is payable beyond the fifth year.

The Group's bank and other borrowings were mainly in HK\$ and RMB and hence the risk of currency exposure was 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 16.5% as at 31 December 2007 compared with 11.9% as at 31 December 2006. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.57 times as at 31 December 2007 compared with 1.65 times as at 31 December 2006.

### **Equity and net asset value**

During the year under review, the proposed reduction of the share premium account and the capital redemption reserve account of the Company was approved by the shareholders. Amounts of approximately HK\$701.69 million standing to the credit of the share premium account and approximately HK\$6.17 million standing to the credit of the capital redemption reserve account of the Company were being cancelled accordingly. The aggregate amount of the credit arising from the cancellations of approximately HK\$707.86 million was transferred to the contributed surplus account of the Company, out of which an amount of approximately HK\$562.96 million was utilized to set off against the accumulated losses of the Company as at 31 December 2006.

During the year under review, the proposed declaration of final dividend of HK1 cent per share for the year ended 31 December 2006 by way of distribution out of the contributed surplus account of the Company was also approved by the shareholders. The 2006 final dividend in the amount of approximately HK\$15.40 million was payable by allotment of new shares with a cash option to the shareholders. As a result, approximately 34.20 million new shares were issued by the Company pursuant to the captioned scrip dividend scheme.



Shareholders' funds of the Group as at 31 December 2007 was approximately HK\$679.88 million compared with approximately HK\$669.77 million as at 31 December 2006. Adjusted capital of the Group, being shareholders' funds less the unrealized leasehold land and building revaluation reserve and investment property revaluation reserve, as at 31 December 2007 was approximately HK\$624.95 million compared with approximately HK\$614.83 million as at 31 December 2006. Net asset value per share as at 31 December 2007 was HK\$0.43 compared with HK\$0.44 as at 31 December 2006.

### **Contingent liabilities**

At 31 December 2007, guarantee issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 31 December 2007 amounted to HK\$74.76 million compared with HK\$40.16 million as at 31 December 2006.

### **Pledge of assets**

Certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of HK\$408.48 million (31 December 2006 : HK\$332.24 million) were pledged as collaterals for bank and other borrowings. At 31 December 2007, total outstanding secured bank and other borrowings amounted to HK\$99.77 million as compared with HK\$60.16 million as at 31 December 2006.

### **STAFF**

Headcount as at 31 December 2007 was 1,095 (31 December 2006: 1,147). Staff costs (excluding directors' emoluments) amounted to HK\$87.35 million for the year as compared with HK\$81.65 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 2007 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 2007, 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, 14 April 2008

*The board of directors of the Company as at the date of this announcement comprises Messrs. Tsui Tsin Tong, Lam Ting Ball, Paul, Tsui Ho Chuen, Philip, Tsui Yam Tong, Terry and Wong Chi Keung, Alvin 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.*