



# CNT GROUP LIMITED

## (北海集團有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 701)

### ANNOUNCEMENT OF 2006 INTERIM RESULTS

#### INTERIM RESULTS

The directors of CNT Group Limited (the “Company”) present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 together with comparative amounts for the corresponding period in 2005. These condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s audit committee.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

|  |       | Six months ended 30 June |                  |
|--|-------|--------------------------|------------------|
|  |       | 2006                     | 2005             |
|  |       | (Unaudited)              | (Unaudited)      |
|  | Notes | HK\$'000                 | HK\$'000         |
|  |       |                          | (Restated)       |
| CONTINUING OPERATIONS                            |       |                          |                  |
| REVENUE  | 3     | 253,007                  | 235,075          |
| Cost of sales                                    |       | <u>(178,629)</u>         | <u>(172,032)</u> |
| Gross profit                                     |       | 74,378                   | 63,043           |
| Other income and gains                           | 3     | 9,405                    | 10,447           |
| Selling and distribution costs                   |       | (31,221)                 | (36,075)         |
| Administrative expenses                          |       | (53,345)                 | (46,994)         |
| Other expenses, net                              |       | (964)                    | (1,458)          |
| Finance costs                                    | 4     | (3,877)                  | (3,304)          |
| Share of profits and losses of associates        |       | <u>816</u>               | <u>(263)</u>     |
| LOSS BEFORE TAX                                  | 5     | (4,808)                  | (14,604)         |
| Tax  | 6     | <u>(2,179)</u>           | <u>(1,053)</u>   |
| LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS   |       | (6,987)                  | (15,657)         |
| DISCONTINUED OPERATIONS                          |       |                          |                  |
| Loss for the period from discontinued operations |       | <u>—</u>                 | <u>(4,267)</u>   |
| LOSS FOR THE PERIOD                              |       | <u>(6,987)</u>           | <u>(19,924)</u>  |

|                                       | <b>Six months ended 30 June</b> |                        |
|---------------------------------------|---------------------------------|------------------------|
|                                       | <b>2006</b>                     | 2005                   |
|                                       | <i>(Unaudited)</i>              | <i>(Unaudited)</i>     |
| <i>Notes</i>                          | <i>HK\$'000</i>                 | <i>HK\$'000</i>        |
| <b>ATTRIBUTABLE TO:</b>               |                                 |                        |
| Equity holders of the parent          | (6,902)                         | (20,008)               |
| Minority interests                    | <u>(85)</u>                     | <u>84</u>              |
|                                       | <u><u>(6,987)</u></u>           | <u><u>(19,924)</u></u> |
| <b>LOSS PER SHARE</b>                 |                                 |                        |
|                                       | 7                               |                        |
| Basic                                 |                                 |                        |
| - For loss for the period             | <u>0.45 cents</u>               | <u>1.31 cents</u>      |
| - For loss from continuing operations | <u>0.45 cents</u>               | <u>1.03 cents</u>      |
| Diluted                               |                                 |                        |
| - For loss for the period             | <u>N/A</u>                      | <u>N/A</u>             |
| - For loss from continuing operations | <u>N/A</u>                      | <u>N/A</u>             |

## CONDENSED CONSOLIDATED BALANCE SHEET

|  |              | 30 June 2006<br><i>(Unaudited)</i> | 31 December 2005<br><i>(Audited)</i> |
|--|--------------|------------------------------------|--------------------------------------|
|  | <i>Notes</i> | <i>HK\$'000</i>                    | <i>HK\$'000</i>                      |
| <b>NON-CURRENT ASSETS</b>  |              |                                    |                                      |
| Property, plant and equipment  |              | 223,252                            | 225,065                              |
| Investment properties  |              | 93,880                             | 95,520                               |
| Properties under development   |              | 25,009                             | 25,000                               |
| Prepaid land premium   |              | 1,541                              | 1,546                                |
| Interests in associates  |              | 35,727                             | 34,538                               |
| Available-for-sale investments   |              | 167,087                            | 167,087                              |
| Deposit for purchase of a property   |              | 46,000                             | 46,000                               |
| Long term portion of a mortgage loan receivable  |              | —                                  | 766                                  |
| Deferred tax asset   |              | 6                                  | 6                                    |
| Pension scheme asset   |              | 890                                | 890                                  |
| Total non-current assets   |              | <u>593,392</u>                     | <u>596,418</u>                       |
| <b>CURRENT ASSETS</b>  |              |                                    |                                      |
| Inventories  |              | 55,612                             | 57,583                               |
| Trade receivables  | 8            | 100,784                            | 100,297                              |
| Prepayments, deposits and other receivables  |              | 23,003                             | 30,100                               |
| Equity investments at fair value through profit or loss  |              | 33                                 | 33                                   |
| Current portion of a mortgage loan receivable  |              | —                                  | 44                                   |
| Cash and cash equivalents  |              | <u>94,832</u>                      | <u>96,612</u>                        |
|  |              | 274,264                            | 284,669                              |
| Assets of disposal groups classified as held for sale  | 10           | <u>320,579</u>                     | <u>355,711</u>                       |
| Total current assets   |              | <u>594,843</u>                     | <u>640,380</u>                       |
| <b>CURRENT LIABILITIES</b>   |              |                                    |                                      |
| Trade and bills payables   | 9            | 77,055                             | 78,104                               |
| Other payables and accruals  |              | 99,759                             | 85,035                               |
| Interest-bearing bank and other borrowings   |              | 64,705                             | 112,582                              |
| Tax payable  |              | <u>1,622</u>                       | <u>1,679</u>                         |
|  |              | 243,141                            | 277,400                              |
| Liabilities directly associated with the assets of disposal groups classified as held for sale | 10           | <u>258,565</u>                     | <u>264,735</u>                       |
| Total current liabilities  |              | <u>501,706</u>                     | <u>542,135</u>                       |
| <b>NET CURRENT ASSETS</b>  |              | <u>93,137</u>                      | <u>98,245</u>                        |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>   |              | <u>686,529</u>                     | <u>694,663</u>                       |

|   | <b>30 June 2006</b><br><i>(Unaudited)</i> | 31 December 2005<br><i>(Audited)</i> |
|---|---|--------------------------------------|
|   | <i>Notes</i>                              |                                      |
|   | <i>HK\$'000</i>                           | <i>HK\$'000</i>                      |
| <b>NON-CURRENT LIABILITIES</b>                      |   |                                      |
| Interest-bearing bank and other borrowings          | 35,787                                    | 38,778                               |
| Deferred tax liabilities                            | <u>9,720</u>                              | <u>9,720</u>                         |
| Total non-current liabilities                       | <u>45,507</u>                             | <u>48,498</u>                        |
| Net assets  | <u><u>641,022</u></u>                     | <u><u>646,165</u></u>                |
| <b>EQUITY</b>                                       |   |                                      |
| Equity attributable to equity holders of the parent |   |                                      |
| Issued capital                                      | 153,947                                   | 153,297                              |
| Reserves  | <u>481,109</u>                            | <u>486,817</u>                       |
|   | 635,056                                   | 640,114                              |
| Minority interests                                  | <u>5,966</u>                              | <u>6,051</u>                         |
| Total equity  | <u><u>641,022</u></u>                     | <u><u>646,165</u></u>                |

## Notes to Condensed Consolidated Financial Statements

### 1. Accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Hong Kong (International Financial Reporting Interpretations Committee) - Interpretations (“HK(IFRIC) - Int”)) that affect the Group and are adopted for the first time for the current period’s financial statements:

|                              |  |
|------------------------------|--|
| HKAS 19 Amendment            | Actuarial Gains and Losses, Group Plans and Disclosures  |
| HKAS 21 Amendment            | The Effects of Changes in Foreign Exchange Rate - Net Investment in a Foreign Operation                    |
| HKAS 39 Amendment            | Cash Flow Hedge Accounting of Forecast Intragroup Transactions   |
| HKAS 39 Amendment            | The Fair Value Option  |
| HKAS 39 & HKFRS 4 Amendments | Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts |
| HK(IFRIC) - Int 4            | Determining whether an Arrangement contains a Lease  |

The adoption of the pronouncements listed above has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

The Group has not early applied any of the new standards, amendments or interpretations, that have been issued but not yet effective, in these condensed consolidated interim financial statements.

## 2. Segment information

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;
- (c) the "others" segment comprises, principally, the trading of steel products, the trading of marketable securities and the sale of crushed stone (discontinued in 2005);
- (d) the marble and granite segment engages in the processing and sale of marble and granite (discontinued in 2005); and
- (e) the fuel segment engages in the manufacturing and trading of fuel (discontinued in 2005).

Intersegment sales and transfers are transacted at mutually agreed terms.

## Business segment

The following tables present revenue and profit/(loss) for the Group's business segments for the six months ended 30 June 2006 and 2005.

| Six months ended<br>30 June 2006          | Continuing operations |                        |               |                |                | Discontinued operations  |             |              |             |                |
|---|-----------------------|------------------------|---------------|----------------|----------------|--------------------------|-------------|--------------|-------------|----------------|
|   | Paint<br>products     | Property<br>investment | Others        | Eliminations   | Total          | Marble<br>and<br>granite | Fuel        | Eliminations | Total       | Consolidated   |
|   | (Unaudited)           | (Unaudited)            | (Unaudited)   | (Unaudited)    | (Unaudited)    | (Unaudited)              | (Unaudited) | (Unaudited)  | (Unaudited) | (Unaudited)    |
|   | HK\$'000              | HK\$'000               | HK\$'000      | HK\$'000       | HK\$'000       | HK\$'000                 | HK\$'000    | HK\$'000     | HK\$'000    | HK\$'000       |
| Segment revenue:                          |                       |                        |               |                |                |                          |             |              |             |                |
| Sales to external customers               | 233,238               | 2,969                  | 16,800        | —              | 253,007        | —                        | —           | —            | —           | 253,007        |
| Intersegment sales                        | —                     | 2,605                  | —             | (2,605)        | —              | —                        | —           | —            | —           | —              |
| Other income and gains                    | 3,815                 | 185                    | 4,648         | —              | 8,648          | —                        | —           | —            | —           | 8,648          |
| Total                                     | <u>237,053</u>        | <u>5,759</u>           | <u>21,448</u> | <u>(2,605)</u> | <u>261,655</u> | <u>—</u>                 | <u>—</u>    | <u>—</u>     | <u>—</u>    | <u>261,655</u> |
| Segment results                           | <u>9,339</u>          | <u>275</u>             | <u>3,055</u>  | <u>3,147</u>   | 15,816         | <u>—</u>                 | <u>—</u>    | <u>—</u>     | —           | 15,816         |
| Interest income                           |                       |                        |               |                | 757            |                          |             |              | —           | 757            |
| Unallocated expenses                      |                       |                        |               |                | (18,320)       |                          |             |              | —           | (18,320)       |
| Finance costs                             |                       |                        |               |                | (3,877)        |                          |             |              | —           | (3,877)        |
| Share of profits and losses of associates |                       |                        |               |                | 816            |                          |             |              | —           | 816            |
| Loss before tax                           |                       |                        |               |                | (4,808)        |                          |             |              | —           | (4,808)        |
| Tax                                       |                       |                        |               |                | (2,179)        |                          |             |              | —           | (2,179)        |
| Loss for the period                       |                       |                        |               |                | <u>(6,987)</u> |                          |             |              | <u>—</u>    | <u>(6,987)</u> |

| Six months ended<br>30 June 2005          | Continuing operations |                        |               |                |                 | Discontinued operations  |                |                |                |                 |
|---|-----------------------|------------------------|---------------|----------------|-----------------|--------------------------|----------------|----------------|----------------|-----------------|
|   | Paint<br>products     | Property<br>investment | Others        | Eliminations   | Total           | Marble<br>and<br>granite | Fuel           | Eliminations   | Total          | Consolidated    |
|   | (Unaudited)           | (Unaudited)            | (Unaudited)   | (Unaudited)    | (Unaudited)     | (Unaudited)              | (Unaudited)    | (Unaudited)    | (Unaudited)    | (Unaudited)     |
|   | HK\$'000              | HK\$'000               | HK\$'000      | HK\$'000       | HK\$'000        | HK\$'000                 | HK\$'000       | HK\$'000       | HK\$'000       | HK\$'000        |
| Segment revenue:                          |                       |                        |               |                |                 |                          |                |                |                |                 |
| Sales to external customers               | 202,484               | 2,365                  | 30,226        | —              | 235,075         | 89                       | 1,839          | —              | 1,928          | 237,003         |
| Intersegment sales                        | 48                    | 2,869                  | —             | (2,917)        | —               | —                        | 1,641          | (1,641)        | —              | —               |
| Other income and gains                    | 1,788                 | 3,714                  | 4,727         | —              | 10,229          | 106                      | —              | —              | 106            | 10,335          |
| Total                                     | <u>204,320</u>        | <u>8,948</u>           | <u>34,953</u> | <u>(2,917)</u> | <u>245,304</u>  | <u>195</u>               | <u>3,480</u>   | <u>(1,641)</u> | <u>2,034</u>   | <u>247,338</u>  |
| Segment results                           | <u>2,136</u>          | <u>2,942</u>           | <u>1,699</u>  | <u>2,416</u>   | 9,193           | <u>(2,320)</u>           | <u>(2,379)</u> | <u>432</u>     | (4,267)        | 4,926           |
| Interest income                           |                       |                        |               |                | 218             |                          |                |                | —              | 218             |
| Unallocated expenses                      |                       |                        |               |                | (20,448)        |                          |                |                | —              | (20,448)        |
| Finance costs                             |                       |                        |               |                | (3,304)         |                          |                |                | —              | (3,304)         |
| Share of profits and losses of associates |                       |                        |               |                | (263)           |                          |                |                | —              | (263)           |
| Loss before tax                           |                       |                        |               |                | (14,604)        |                          |                |                | (4,267)        | (18,871)        |
| Tax                                       |                       |                        |               |                | (1,053)         |                          |                |                | —              | (1,053)         |
| Loss for the period                       |                       |                        |               |                | <u>(15,657)</u> |                          |                |                | <u>(4,267)</u> | <u>(19,924)</u> |

### 3. Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income.

|  | Six months ended 30 June        |   |
|--|---------------------------------|---|
|  | 2006<br>(Unaudited)<br>HK\$'000 | 2005<br>(Unaudited)<br>HK\$'000<br>(Restated) |
| Other income and gains:                        |                                 |   |
| Bank interest income                           | 757                             | 218   |
| Income from contracting out a mining right     | —                               | 1,327   |
| Fair value gains on investment properties, net | —                               | 938   |
| Service fee                                    | 141                             | 782   |
| Others   | <u>8,507</u>                    | <u>7,182</u>                                  |
|  | <u>9,405</u>                    | <u>10,447</u>                                 |

4. **Finance costs**

|  | <b>Six months ended 30 June</b> |                    |
|--|---------------------------------|--------------------|
|  | <b>2006</b>                     | 2005               |
|  | <i>(Unaudited)</i>              | <i>(Unaudited)</i> |
|  | <i>HK\$'000</i>                 | <i>HK\$'000</i>    |
| Interest on bank loans and overdrafts wholly repayable within five years | 2,880                           | 2,851              |
| Interest on other loans  | 973                             | 426                |
| Interest on finance leases   | 24                              | 27                 |
|  | <u>3,877</u>                    | <u>3,304</u>       |

5. **Loss before tax**

Loss before tax is arrived at after charging:

|                                      | <b>Six months ended 30 June</b> |                    |
|--------------------------------------|---------------------------------|--------------------|
|                                      | <b>2006</b>                     | 2005               |
|                                      | <i>(Unaudited)</i>              | <i>(Unaudited)</i> |
|                                      | <i>HK\$'000</i>                 | <i>HK\$'000</i>    |
|                                      |                                 | (Restated)         |
| Cost of inventories sold             | 178,629                         | 172,032            |
| Depreciation                         | 6,210                           | 6,838              |
| Provision for bad and doubtful debts | 1,956                           | 136                |
| Provision for inventories            | 2,414                           | 708                |
|                                      | <u>2,414</u>                    | <u>708</u>         |

6. **Tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

|                           | <b>Six months ended 30 June</b> |                    |
|---------------------------|---------------------------------|--------------------|
|                           | <b>2006</b>                     | 2005               |
|                           | <i>(Unaudited)</i>              | <i>(Unaudited)</i> |
|                           | <i>HK\$'000</i>                 | <i>HK\$'000</i>    |
| Current - Hong Kong       | 449                             | —                  |
| Current - Elsewhere       | 1,730                           | 1,053              |
| Tax charge for the period | <u>2,179</u>                    | <u>1,053</u>       |

Share of tax attributable to associates amounting to HK\$170,000 (2005: tax credit of HK\$209,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

7. **Loss per share**

The calculation of basic loss per share amounts is based on the net loss attributable to equity holders of the parent for the period of HK\$6,902,000 (2005: HK\$20,008,000) and the weighted average of 1,538,253,000 (2005: 1,532,970,000) ordinary shares in issue during the period.

The calculation of basic loss per share amounts from continuing operations is based on the net loss attributable to equity holders of the parent for the period of HK\$6,902,000 (2005: HK\$15,741,000) and the weighted average of 1,538,253,000 (2005: 1,532,970,000) ordinary shares in issue during the period.



No diluted loss per share amounts are presented for the six months ended 30 June 2006, as the potential ordinary shares outstanding during the period had no dilutive effect on the basic loss per share for the period.

Diluted loss per share amounts for the six months ended 30 June 2005 have not been shown as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

#### 8. 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 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 provisions, is as follows:

|                     | <b>30 June 2006</b><br><i>(Unaudited)</i><br><i>HK\$'000</i> | 31 December 2005<br><i>(Audited)</i><br><i>HK\$'000</i> |
|---------------------|--|---|
| Within three months | 90,011   | 82,176  |
| Four to six months  | 7,654  | 12,399  |
| Over six months     | <u>3,119</u>   | <u>5,722</u>  |
|                     | <u>100,784</u>   | <u>100,297</u>  |

#### 9. Trade and bills payables

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

|                     | <b>30 June 2006</b><br><i>(Unaudited)</i><br><i>HK\$'000</i> | 31 December 2005<br><i>(Audited)</i><br><i>HK\$'000</i> |
|---------------------|--|---|
| Within three months | 70,663   | 41,869  |
| Four to six months  | 3,331  | 26,175  |
| Over six months     | <u>3,061</u>   | <u>10,060</u>   |
|                     | <u>77,055</u>  | <u>78,104</u>   |

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

## 10. Assets and associated liabilities of disposal groups classified as held for sale

The directors resolved to dispose of the following disposal groups:

- (i) On 6 June 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of the remaining effective 95% equity interest in a subsidiary engaged in property development in Dalian, the PRC. The transaction is expected to be completed in 2006. Details of the transaction were also set out in the Company's circular to its shareholders dated 4 July 2005.
- (ii) On 12 December 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of a wholly-owned subsidiary which is engaged in property investment in Futian, Shenzhen. The transaction is expected to be completed in 2006. Details of the transaction were also set out in the Company's circular to its shareholders dated 9 January 2006.

The above assets and associated liabilities, which were expected to be sold within twelve months from 30 June 2006, have been classified as disposal groups held for sale and presented separately in the balance sheet.

The major classes of assets and associated liabilities of disposal groups were as follows:

|   | <b>30 June 2006</b><br><i>(Unaudited)</i><br>HK\$'000 | 31 December 2005<br><i>(Audited)</i><br>HK\$'000 |
|---|---|--|
| <b>Assets</b>   |   |  |
| Property, plant and equipment                                   | 334   | 2,992  |
| Investment properties   | 33,367  | 34,517   |
| Properties under development                                    | 231,560   | 239,046  |
| Prepaid land premium  | —   | 806  |
| Interests in associates   | —   | 25,422   |
| Prepayments, deposits and other receivables                     | 51,016  | 35,857   |
| Cash and cash equivalents                                       | <u>4,302</u>  | <u>17,071</u>                                    |
|   | <u>320,579</u>  | <u>355,711</u>                                   |
| <b>Liabilities</b>  |   |  |
| Other payables and accruals                                     | (161,137)   | (168,355)  |
| Interest-bearing bank and other borrowings                      | (97,000)  | (96,000)   |
| Tax payable   | <u>(428)</u>  | <u>(380)</u>                                     |
|   | <u>(258,565)</u>                                      | <u>(264,735)</u>                                 |
| Associated exchange reserve                                     | <u>13,702</u>   | <u>14,030</u>                                    |
| Net carrying value directly associated with the disposal groups | <u>75,716</u>   | <u>105,006</u>                                   |

## 11. Post balance sheet event

On 5 September 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire interest in and the shareholder's loan to Coral Reef Enterprises Limited, an indirect wholly-owned subsidiary of the Company which holds 45% equity interest in an associate, Treasure Auctioneer International Limited, for a cash consideration of HK\$9.00 million. The disposal would not result in any significant gain or loss to the Group.

## 12. Comparative amounts

Certain comparative amounts have been restated to conform with the current period's presentation in relation to discontinued operations.

## **INTERIM DIVIDEND**

The directors of the Company have resolved not to declare any interim dividend for the year ending 31 December 2006 (2005: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the period under review, the Group's core paint operation continued to have improvement both in terms of revenue and operating profits. Despite the improved performance of our paint operation, the business environment confronted by the Group remained difficult which experienced significant operating cost pressure. The Group's profitability was affected by higher raw material costs, energy prices and the increased minimum wages in the PRC during the period under review. Facing the environment, the Group continued to strengthen the cost control measures, including better purchasing and logistic management to reduce idle stock and production management to economize use of materials and consumables, in order to reduce the impact of the increasing operating cost on our Group.

The Group incurred a net loss attributable to the equity holders of the parent company of approximately HK\$6.90 million for the six months ended 30 June 2006, as compared to that of approximately HK\$20.01 million for the last corresponding period. The increase in the contribution from the paint operation, together with the reduction in losses of the marble and granite operation and the fuel operation which had been closed down last year, resulted in a reduction in the Group's loss during the period under review.

The Group's revenue for the period amounted to approximately HK\$253.01 million, representing an increase of approximately 7.6% when compared with that of last period. The increase was mainly due to the increase in revenue from the paint operation. The Group's gross profit for the period was increased by 18.0% when compared with that of last period to approximately HK\$74.38 million. The manufacturing and sale of paint products continued to be the core business of the Group. Its weight in the total revenue was approximately 92.2% for the period under review.

### **Paint products**

Revenue for the period amounted to approximately HK\$233.24 million, representing an increase of approximately 15.2% when compared with that of last period. The paint business continued to have a steady growth in the PRC. Operating profit for the period amounted to approximately HK\$9.34 million, representing an increase of approximately 337.2% when compared with that of last period. Despite the keen market competition, the paint operation was still able to achieve an increase in revenue and operating profits by means of the effort put to strengthen cost control and to improve operational efficiency.

## **Property investment**

Revenue for the period amounted to approximately HK\$2.97 million, representing an increase of approximately 25.5% when compared with that of last period. Operating profit amounted to approximately HK\$0.28 million, compared with that of approximately HK\$2.94 million last period. During last period, fair value gain was recognised upon transfer of certain properties of the Group from leasehold land and buildings to investment properties but no such transfer was made during the period under review.

## **Others**

### *Iron and steel trading*

Revenue for the period amounted to approximately HK\$16.80 million, representing a decrease of approximately 43.1% when compared with that of last period. Operating profit for the period amounted to approximately HK\$2.58 million, representing an increase of approximately 14.7% when compared with that of last period. Despite the decrease in revenue, additional commission income was received resulting in an increase in the overall operating profit during the period under review.

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

### *Cemetery project*

The Group has an effective 11.25% interest in the cemetery project situated in Si Hui City, Guangdong Province, the PRC. The main types of products for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches. The foundation works and buildings of 50 mu area (approximately 33,300 m<sup>2</sup>) in relation to the initial stage of the development have been completed and soft marketing commenced.

## **Other investments**

The performance of the auction house operation was steady and managed to have a small contribution to the Group during the period under review. Subsequent to the period under review, the Group entered into a sale and purchase agreement to dispose of our entire investment in the auction business for a cash consideration of HK\$9.00 million. The disposal would not result in any significant gain or loss to the Group.

The disposal of Shenzhen Huate Packing Co., Ltd., an associated company of the Group, has been completed during the period under review. The disposal did not have significant effect on the profit or loss of the Group.

## **FINANCIAL REVIEW**

### **Liquidity and financial information**

The Group's business operation is generally financed by its internal funding and bank borrowings. Cash and cash equivalents amounted to approximately HK\$94.83 million as at 30 June 2006 compared with approximately HK\$96.61 million as at 31 December 2005. Bank

and other borrowings (excluding those associated with the assets of disposal groups classified as held for sale) amounted to approximately HK\$100.49 million as at 30 June 2006 compared with approximately HK\$151.36 million as at 31 December 2005. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank borrowings as at 30 June 2006, approximately HK\$64.70 million (64.4%) is payable within one year, approximately HK\$6.64 million (6.6%) is payable in the second year, approximately HK\$15.94 million (15.9%) is payable in the third to fifth years and the remaining balance of HK\$13.21 million (13.1%) 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 shareholders' funds was 15.8% as at 30 June 2006 compared with 23.6% as at 31 December 2005. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.19 times as at 30 June 2006 compared with 1.18 times as at 31 December 2005.

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

Shareholders' funds of the Group as at 30 June 2006 was approximately HK\$635.06 million compared with approximately HK\$640.11 million as at 31 December 2005. Net asset value per share as at 30 June 2006 was HK\$0.41 compared with HK\$0.42 as at 31 December 2005. The reduction in shareholders' funds and the net asset value per share was mainly due to the loss incurred during the period under review.

### **Contingent liabilities**

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2006 amounted to approximately HK\$67.08 million compared with approximately HK\$75.47 million as at 31 December 2005.

### **Pledge of assets**

At 30 June 2006, leasehold land and buildings and investment properties with aggregate net book value of approximately HK\$265.97 million (31 December 2005: HK\$270.49 million) were pledged to banks as collaterals for general banking facilities. At 30 June 2006, total outstanding secured bank and other borrowings amounted to approximately HK\$85.14 million as compared with approximately HK\$134.79 million as at 31 December 2005.

### **STAFF**

As at 30 June 2006, the Group's staff headcount was 1,119 (30 June 2005: 1,030). Staff costs amounted to approximately HK\$39.87 million for the period under review as compared with approximately HK\$32.67 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. In addition, the Group also provides an attractive staff option scheme.

## **OUTLOOK**

Looking ahead, the global business environment will still be affected by the persistent high oil price, high interest rates, geopolitical tension and terrorist treats and the possible slow down of the economy of the United States. On the other hand, the increase in raw materials costs and the minimum wages together with the tightening of the safety and environmental protection regulations in the PRC result in our Group continue to experience significant operating cost pressure. The Group will continue to focus on its paint operation. To maintain the steady growth as well as the profitability of our paint operation, the Group will continue to improve its performance by means of strengthening cost control, improving operational efficiency as well as developing new 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.

## **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 (the "Listing Rules") for the six months ended 30 June 2006, 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 once every three years.

## **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). After specific enquiry by the Company, all directors (except Mr Wong Chi Keung, Alvin who was appointed on 1 August 2006) confirmed that they have complied with the required standard set out in the Model Code and the Company's own code during the six months ended 30 June 2006.

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

Hong Kong, 18 September 2006

*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; Mr. Hung Ting Ho, Richard as non-executive director and Sir David Akers-Jones, Messrs. Li Hui Yan and Danny T Wong as independent non-executive directors.*

Please also refer to the published version of this announcement in China Daily.