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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 2012**

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 2012 together with comparative amounts for the corresponding period in 2011 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

| | <i>Notes</i> | 2012 HK\$'000 | 2011 HK\$'000 (Restated) |
|--|--------------|--------------------------------|--------------------------------|
| REVENUE | 4 | 1,315,597 | 1,309,221 |
| Cost of sales | | <u>(1,011,984)</u> | <u>(1,017,198)</u> |
| Gross profit | | 303,613 | 292,023 |
| Other income and gains | 4 | 29,075 | 27,008 |
| Selling and distribution expenses | | (120,979) | (142,538) |
| Administrative expenses | | (112,818) | (113,018) |
| Other expenses, net | | (3,003) | (7,460) |
| Equity-settled share option expense | | (4,278) | (6,478) |
| Fair value gains on investment properties, net | | 24,767 | 13,785 |
| Impairment of an available-for-sale investment | | (24,700) | — |
| Finance costs | 5 | (3,415) | (4,117) |
| Share of profits and losses of associates | | <u>1,508</u> | <u>2,506</u> |
| PROFIT BEFORE TAX | 6 | 89,770 | 61,711 |
| Income tax expenses | 7 | <u>(30,420)</u> | <u>(19,760)</u> |
| PROFIT FOR THE YEAR | | <u>59,350</u> | <u>41,951</u> |

| | <i>Notes</i> | 2012 HK\$'000 | 2011 HK\$'000 (Restated) |
|---------------------------------------|--------------|--------------------------------|--------------------------------|
| PROFIT/(LOSS) ATTRIBUTABLE TO: | | | |
| Owners of the parent | | 59,394 | 42,273 |
| Non-controlling interests | | <u>(44)</u> | <u>(322)</u> |
| | | <u>59,350</u> | <u>41,951</u> |
| EARNINGS PER SHARE | | | |
| ATTRIBUTABLE TO ORDINARY | | | |
| EQUITY HOLDERS OF THE PARENT | | | |
| | 8 | | (Restated) |
| Basic and diluted | | <u>HK3.15 cents</u> | <u>HK2.24 cents</u> |

Details of the proposed dividend for the year are disclosed in note 9.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2012

| | 2012 | 2011 |
|---|-----------------------------|------------------------|
| | HK\$'000 | HK\$'000 (Restated) |
| PROFIT FOR THE YEAR | <u>59,350</u> | <u>41,951</u> |
| OTHER COMPREHENSIVE INCOME | | |
| Gain on property revaluation | — | 4,767 |
| Share of other comprehensive income of an associate | 415 | 1,315 |
| Exchange differences on translation of foreign operations | <u>5,128</u> | <u>19,579</u> |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | <u>5,543</u> | <u>25,661</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u><u>64,893</u></u> | <u><u>67,612</u></u> |
| TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO: | | |
| Owners of the parent | 64,899 | 67,734 |
| Non-controlling interests | <u>(6)</u> | <u>(122)</u> |
| | <u><u>64,893</u></u> | <u><u>67,612</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

| | | 31 December Notes 2012 HK\$'000 | 31 December 2011 HK\$'000 (Restated) | 1 January 2011 HK\$'000 (Restated) |
|--|----|--|---|---|
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | | 331,824 | 311,821 | 309,784 |
| Investment properties | | 166,451 | 141,825 | 138,444 |
| Properties under development | | 28,000 | 28,000 | 28,000 |
| Prepaid land lease payments | | 22,672 | 23,034 | 22,541 |
| Intangible asset | | — | — | 1,300 |
| Interests in associates | | 11,511 | 10,734 | 7,597 |
| Available-for-sale investments | | 101,083 | 125,783 | 126,163 |
| Deposits for purchases of items of property, plant and equipment | | 21,635 | 9,384 | 12,576 |
| Net pension scheme assets | | 2,574 | 2,531 | 2,171 |
| Deferred tax assets | | 11,746 | 5,560 | — |
| Total non-current assets | | <u>697,496</u> | <u>658,672</u> | <u>648,576</u> |
| CURRENT ASSETS | | | | |
| Inventories | | 95,828 | 81,160 | 79,932 |
| Trade and bills receivables | 10 | 252,448 | 292,287 | 255,229 |
| Prepayments, deposits and other receivables | | 31,771 | 23,660 | 13,902 |
| Equity investments at fair value through profit or loss | | 21,183 | 300 | 174 |
| Structured deposits | | 75,029 | — | — |
| Pledged deposits | | — | — | 1,956 |
| Cash and cash equivalents | | 328,728 | 319,476 | 281,701 |
| | | <u>804,987</u> | <u>716,883</u> | <u>632,894</u> |
| Non-current assets classified as held for sale | | — | — | 20,126 |
| Total current assets | | <u>804,987</u> | <u>716,883</u> | <u>653,020</u> |
| CURRENT LIABILITIES | | | | |
| Trade and bills payables | 11 | 170,258 | 167,822 | 171,896 |
| Other payables, accruals and provision | | 152,737 | 127,708 | 128,277 |
| Derivative financial instruments | | 146 | — | — |
| Due to associates | | 4,260 | 2,200 | 1,900 |
| Interest-bearing bank and other borrowings | | 121,113 | 100,186 | 106,125 |
| Tax payable | | 23,725 | 9,466 | 6,013 |
| Total current liabilities | | <u>472,239</u> | <u>407,382</u> | <u>414,211</u> |
| NET CURRENT ASSETS | | <u>332,748</u> | <u>309,501</u> | <u>238,809</u> |

| | 31 December <i>Notes</i> 2012 HK\$'000 | 31 December 2011 HK\$'000 (Restated) | 1 January 2011 HK\$'000 (Restated) |
|--|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>1,030,244</u> | <u>968,173</u> | <u>887,385</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 33,402 | 38,990 | 44,745 |
| Deferred tax liabilities | 26,816 | 21,709 | 15,018 |
| Deferred income | 3,885 | 4,168 | 4,286 |
| Provision | 27,870 | 24,764 | — |
| Total non-current liabilities | <u>91,973</u> | <u>89,631</u> | <u>64,049</u> |
| Net assets | <u>938,271</u> | <u>878,542</u> | <u>823,336</u> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 188,841 | 188,841 | 188,841 |
| Reserves | 745,726 | 685,991 | 630,663 |
| | 934,567 | 874,832 | 819,504 |
| Non-controlling interests | 3,704 | 3,710 | 3,832 |
| Total equity | <u>938,271</u> | <u>878,542</u> | <u>823,336</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 (the “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 classified as property, plant and equipment, structured deposits, derivative financial instruments, equity investments 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. Changes in accounting policy and disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

| | |
|--------------------|--|
| HKFRS 1 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> |
| HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i> |
| HKAS 12 Amendments | Amendments to HKAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i> |

Other than as further explained below regarding the impact of amendments to HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. Prior to the adoption of the amendments, deferred tax with respect to the Group's investment properties was provided on the basis that the carrying amount will be recovered through use, and accordingly the profits tax rate had been applied to the calculation of deferred tax arising on the revaluation of the Group's investment properties. Upon the adoption of HKAS 12 Amendments, deferred tax in respect of the Group's investment properties is provided on the presumption that the carrying amount will be recovered through sale. The effects of the above change are summarised below:

| | 2012 | 2011 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| <i>Consolidated income statement for the year ended 31 December</i> | | |

| | | |
|---|-------------|-------------|
| Decrease in income tax expenses | <u>906</u> | <u>437</u> |
| Increase in profit for the year | <u>906</u> | <u>437</u> |
| Increase in basic and diluted earnings per share (HK cents) | <u>0.05</u> | <u>0.02</u> |

Consolidated statement of financial position at 31 December

| | | |
|--|----------------|--------------|
| Decrease in deferred tax liabilities and total non-current liabilities | <u>(1,403)</u> | <u>(497)</u> |
| Increase in net assets and reserves | <u>1,403</u> | <u>497</u> |

2011
HK\$'000

Consolidated statement of financial position at 1 January

| | |
|--|-------------|
| Decrease in deferred tax liabilities and total non-current liabilities | <u>(60)</u> |
| Increase in net assets and reserves | <u>60</u> |

2.2. 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 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans</i> ² |
| HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> ² |
| HKFRS 9 | <i>Financial Instruments</i> ⁴ |
| HKFRS 10 | <i>Consolidated Financial Statements</i> ² |
| HKFRS 11 | <i>Joint Arrangements</i> ² |
| HKFRS 12 | <i>Disclosure of Interests in Other Entities</i> ² |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — <i>Transition Guidance</i> ² |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — <i>Investment Entities</i> ³ |
| HKFRS 13 | <i>Fair Value Measurement</i> ² |
| HKAS 1 Amendments | Amendments to HKAS 1 <i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i> ¹ |
| HKAS 19 (2011) | <i>Employee Benefits</i> ² |
| HKAS 27 (2011) | <i>Separate Financial Statements</i> ² |
| HKAS 28 (2011) | <i>Investments in Associates and Joint Ventures</i> ² |
| HKAS 32 Amendments | Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> ³ |
| HK(IFRIC)-Int 20 <i>Annual Improvements 2009-2011 Cycle</i> | <i>Stripping Costs in the Production Phase of a Surface Mine</i> ² Amendments to a number of HKFRSs issued in June 2012 ² |

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

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

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

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

3. **Operating segment information**

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

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

The chief operating decision maker regularly reviews the operating results of its operating segments separately for the purpose of resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit/(loss) before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents, structured deposits, deferred tax assets, net pension scheme assets and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on mutually agreed terms.

Year ended 31 December 2012

| | Paint products HK\$'000 | Property investment HK\$'000 | Iron and steel trading HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|---|--|---|--|----------------------------|---------------------------|
| Segment revenue: | | | | | |
| Sales to external customers | 967,647 | 6,915 | 341,035 | — | 1,315,597 |
| Intersegment sales | — | 8,500 | — | 4,979 | 13,479 |
| Other revenue and gains | <u>7,667</u> | <u>26,889</u> | <u>4,926</u> | <u>11,605</u> | <u>51,087</u> |
| | 975,314 | 42,304 | 345,961 | 16,584 | 1,380,163 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment sales | | | | | <u>(13,479)</u> |
| Total revenue | | | | | <u><u>1,366,684</u></u> |
| Segment results | 73,395 | 34,659 | 10,959 | (16,097) | 102,916 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment results | | | | | 6,419 |
| Interest income | | | | | 2,755 |
| Finance costs | | | | | (3,415) |
| Equity-settled share option expense | | | | | (4,278) |
| Corporate and other unallocated expenses | | | | | <u>(14,627)</u> |
| Profit before tax | | | | | <u><u>89,770</u></u> |
| Segment assets | 566,897 | 333,728 | 61,767 | 123,328 | 1,085,720 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment receivables | | | | | (1,882) |
| Corporate and other unallocated assets | | | | | <u>418,645</u> |
| Total assets | | | | | <u><u>1,502,483</u></u> |
| Segment liabilities | 326,645 | 8,375 | 20,495 | 582 | 356,097 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment payables | | | | | (1,882) |
| Corporate and other unallocated liabilities | | | | | <u>209,997</u> |
| Total liabilities | | | | | <u><u>564,212</u></u> |

Year ended 31 December 2012

| | Paint products HK\$'000 | Property investment HK\$'000 | Iron and steel trading HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|---|-------------------------------|------------------------------------|--|--------------------|-------------------|
| Other segment information: | | | | | |
| Share of profits and losses of associates | — | (1,167) | (345) | 4 | (1,508) |
| Interests in associates | — | 2,121 | 9,390 | — | 11,511 |
| Depreciation | 16,742 | 4,073 | 3 | 4 | 20,822 |
| Corporate and other unallocated | | | | | 105 |
| | | | | | 20,927 |
| Capital expenditure | 53,162 | 300 | 76 | — | 53,538 |
| Corporate and other unallocated | | | | | 20 |
| | | | | | 53,558* |
| Fair value gains on investment properties | — | (24,767) | — | — | (24,767) |
| Fair value gains on equity investments at fair value through profit or loss - held for trading, net | — | — | — | (11,122) | (11,122) |
| Impairment of an available-for-sale investment | — | — | — | 24,700 | 24,700 |
| Impairment of an other receivable | — | — | — | 1,366 | 1,366 |
| Reversal/recovery of amounts due from associates previously impaired/written off | — | (1,819) | (3,806) | — | (5,625) |
| Reversal of impairment of trade receivables | (1,534) | — | — | — | (1,534) |
| Write-back of inventories to net realisable value | (4,615) | — | — | — | (4,615) |

Year ended 31 December 2011

| | Paint products HK\$'000 | Property investment HK\$'000 | Iron and steel trading HK\$'000 | Others HK\$'000 | Total HK\$'000 (Restated) |
|---|-------------------------------|------------------------------------|--|--------------------|---------------------------------|
| Segment revenue: | | | | | |
| Sales to external customers | 1,086,271 | 6,197 | 216,753 | — | 1,309,221 |
| Intersegment sales | — | 7,070 | — | — | 7,070 |
| Other revenue and gains | <u>7,047</u> | <u>30,109</u> | <u>1,125</u> | <u>652</u> | <u>38,933</u> |
| | 1,093,318 | 43,376 | 217,878 | 652 | 1,355,224 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment sales | | | | | <u>(7,070)</u> |
| Total revenue | | | | | <u>1,348,154</u> |
| Segment results | 44,485 | 33,855 | 3,410 | (5,099) | 76,651 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment results | | | | | 7,744 |
| Interest income | | | | | 1,860 |
| Finance costs | | | | | (4,117) |
| Equity-settled share option expense | | | | | (6,478) |
| Corporate and other unallocated expenses | | | | | <u>(13,949)</u> |
| Profit before tax | | | | | <u>61,711</u> |
| Segment assets | 557,349 | 313,738 | 45,709 | 131,285 | 1,048,081 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment receivables | | | | | (1,222) |
| Corporate and other unallocated assets | | | | | <u>328,696</u> |
| Total assets | | | | | <u>1,375,555</u> |
| Segment liabilities | 314,748 | 7,199 | 2,298 | 324 | 324,569 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment payables | | | | | (1,222) |
| Corporate and other unallocated liabilities | | | | | <u>173,666</u> |
| Total liabilities | | | | | <u>497,013</u> |

Year ended 31 December 2011

| | Paint products HK\$'000 | Property investment HK\$'000 | Iron and steel trading HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|---|-------------------------------|------------------------------------|--|--------------------|-------------------|
| Other segment information: | | | | | |
| Share of profits and losses of associates | — | (1,242) | (2,878) | 1,614 | (2,506) |
| Interests in associates | — | 2,104 | 8,630 | — | 10,734 |
| Depreciation | 30,233 | 4,501 | 1 | 5 | 34,740 |
| Corporate and other unallocated | | | | | 107 |
| | | | | | 34,847 |
| Amortisation of an intangible asset | — | — | — | 150 | 150 |
| Capital expenditure | 35,486 | 832 | — | 17 | 36,335 |
| Corporate and other unallocated | | | | | 67 |
| | | | | | 36,402* |
| Fair value gains on investment properties, net | — | (13,785) | — | — | (13,785) |
| Fair value gains on equity investments at fair value through profit or loss held for trading, net | — | — | — | (126) | (126) |
| Impairment of an intangible asset | — | — | — | 1,150 | 1,150 |
| Impairment of an amount due from an associate | — | 120 | — | — | 120 |
| Provision for impairment of trade receivables | 4,331 | — | — | — | 4,331 |
| Write-down/(write-back) of inventories to net realisable value | <u>(1,086)</u> | <u>—</u> | <u>—</u> | <u>145</u> | <u>(941)</u> |

* Capital expenditure consists of additions to property, plant and equipment, deposits for purchases of items of property, plant and equipment and investment properties.

Geographical information:

(a) Revenue from external customers

| | 2012 | 2011 |
|-----------------|-------------------------|-------------------------|
| | HK\$'000 | HK\$'000 |
| Hong Kong | 91,255 | 92,549 |
| Mainland China | 1,223,800 | 1,216,455 |
| Other countries | 542 | 217 |
| | <u>1,315,597</u> | <u>1,309,221</u> |

The revenue information above is based on the locations of the customers.

(b) Non-current assets

| | 2012 | 2011 |
|-----------------|-----------------------|-----------------------|
| | HK\$'000 | HK\$'000 |
| Hong Kong | 309,876 | 300,829 |
| Mainland China | 272,153 | 223,891 |
| Other countries | 64 | 78 |
| | <u>582,093</u> | <u>524,798</u> |

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets, financial instruments and post-employment benefit assets.

During the year ended 31 December 2012, revenue generated from one of the Group's customers in the iron and steel trading segment amounting to approximately HK\$205,483,000 individually accounted for over 10% of the Group's revenue.

During the year ended 31 December 2011, no transaction with any individual external customers derived revenue that amounted for over 10% of the Group's revenue.

4. Revenue, other income and gains

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

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---|-------------------------|-------------------------|
| Revenue | | |
| Sale of paint products and related services | 967,647 | 1,086,271 |
| Sale of iron and steel products | 341,035 | 216,753 |
| Gross rental income from investment properties | <u>6,915</u> | <u>6,197</u> |
| | <u>1,315,597</u> | <u>1,309,221</u> |
| Other income | | |
| Bank interest income | 2,755 | 1,860 |
| Government grants received from Mainland China authorities | 2,419 | 4,158 |
| Commission income | 724 | 658 |
| Recognition of deferred income | 315 | 308 |
| Others | <u>4,582</u> | <u>3,645</u> |
| | <u>10,795</u> | <u>10,629</u> |
| Gains | | |
| Fair value gains, net: | | |
| Equity investments at fair value through profit or loss - held for trading | 11,122 | 126 |
| Structured deposits | 479 | — |
| Reversal/recovery of amounts due from associates previously impaired/written off | 5,625 | — |
| Gain on disposal of items of property, plant and equipment | 141 | — |
| Gain on disposal of an equity investment at fair value through profit or loss - held for trading | 82 | — |
| Gain on disposal of subsidiaries | 60 | 9,853 |
| Gain on disposal of non-current assets classified as held for sale | — | 6,400 |
| Foreign exchange differences, net | <u>771</u> | <u>—</u> |
| | <u>18,280</u> | <u>16,379</u> |
| Total other income and gains | <u>29,075</u> | <u>27,008</u> |

5. Finance costs

An analysis of finance costs is as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|---------------------|---------------------|
| Interest on: | | |
| Bank loans wholly repayable within five years | 3,446 | 3,920 |
| Bank loans not wholly repayable within five years | 667 | 792 |
| Finance leases | <u>5</u> | <u>32</u> |
| Total interest expense on financial liabilities | 4,118 | 4,744 |
| Less: Interest capitalised | <u>(886)</u> | <u>(627)</u> |
| | 3,232 | 4,117 |
| Other finance costs: | | |
| Increase in discounted amounts of provision arising from the passage of time | <u>183</u> | <u>—</u> |
| | <u><u>3,415</u></u> | <u><u>4,117</u></u> |

6. Profit before tax

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

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Cost of inventories sold | 1,011,984 | 1,016,862 |
| Cost of services provided | — | 336 |
| Depreciation | 20,927 | 34,847 |
| Amortisation of an intangible asset | — | 150 |
| Amortisation of prepaid land lease payments | 548 | 536 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | (141) | 1,496 |
| Write-off of items of property, plant and equipment | 1,361 | 2,047 |
| Impairment of an intangible asset | — | 1,150 |
| Impairment of an amount due from an associate | — | 120 |
| Impairment of an other receivable | 1,366 | — |
| Write-back of inventories to net realisable value | (4,615) | (941) |
| Provision for/(reversal of) impairment of trade receivables | <u>(1,534)</u> | <u>4,331</u> |

7. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) 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.

| | 2012 | 2011 |
|---|-----------------------|---------------|
| | HK\$'000 | HK\$'000 |
| | | (Restated) |
| Current - Hong Kong | | |
| Charge for the year | 985 | 42 |
| Overprovision in prior years | (36) | — |
| Current - Elsewhere | | |
| Charge for the year | 30,633 | 18,324 |
| Underprovision/(overprovision) in prior years | (130) | 263 |
| Deferred | <u>(1,032)</u> | <u>1,131</u> |
| Total tax charge for the year | <u>30,420</u> | <u>19,760</u> |

The share of tax attributable to associates amounting to HK\$226,000 (2011: HK\$221,000) is included in “Share of profits and losses of associates” on the face of the consolidated income statement.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$59,394,000 (2011: HK\$42,273,000 (as restated)), and the weighted average number of ordinary shares of 1,888,405,690 (2011: 1,888,405,690) in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the years ended 31 December 2012 and 2011 in respect of a potential dilution as the exercise prices of the outstanding share options granted by the Company were higher than the average market price of the shares of the Company during these years, and accordingly, the share options had an anti-dilutive effect on the basic earnings per share amounts presented.

No other diluting events existed during the years ended 31 December 2012 and 2011.

9. Dividend

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Proposed final - HK1 cent (2011: HK0.5 cent) per ordinary share | <u>18,884</u> | <u>9,442</u> |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The actual amount will be accounted for as an appropriation of the distributable reserves in the year ending 31 December 2013.

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

10. Trade and bills receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers and reputable banks, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

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

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Neither past due nor impaired | 172,482 | 246,520 |
| Within three months past due | 73,205 | 40,523 |
| Over three months and within six months past due | 5,867 | 4,547 |
| Over six months past due | <u>894</u> | <u>697</u> |
| | <u>252,448</u> | <u>292,287</u> |

11. Trade payables

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---|-----------------------|-----------------------|
| Within three months | 166,626 | 164,936 |
| Over three months and within six months | 3,605 | 2,872 |
| Over six months | <u>27</u> | <u>14</u> |
| | <u><u>170,258</u></u> | <u><u>167,822</u></u> |

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

DIVIDEND

The directors have resolved to recommend the payment of a final dividend of HK1 cent per share (2011: HK0.5 cent) to the shareholders. The final dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid on Wednesday, 26 June 2013 to the shareholders whose names appear on the Company's register of members on Thursday, 13 June 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Wednesday, 12 June 2013 and Thursday, 13 June 2013, during the period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 11 June 2013.

CHAIRMAN'S STATEMENT

In 2012, the Group faced a challenging operating environment resulting from the slow-down of Mainland China's growth momentum. As a result of the strengthened Chinese Government's macro control over real estate market, our paint operation encountered a slow-down in the demand of paint products. However, the drop in raw material prices during the year together with the implementation of cost control measures to reduce those controllable administrative expenses as well as selling and distribution expenses improved the operating profit of the Group.

RESULTS

The Group recorded a profit attributable to the shareholders of the Company for the year of approximately HK\$59.39 million, representing an increase of approximately 40.5% when compared with that of last year.

Revenue for the year amounted to approximately HK\$1,315.60 million, representing an increase of approximately HK\$6.38 million when compared with that of last year. Gross profit was slightly increased by approximately 4.0% when compared with that of last year to approximately HK\$303.61 million due to the improvement of gross profit margin.

OPERATIONS

Paint Products

Revenue for the year amounted to approximately HK\$967.65 million, representing a decrease of approximately 10.9% when compared with that of last year. The operation focused its business on Mainland China market and encountered a drop of approximately 11.7% in revenue over that of 2011. The Group will continue to focus on Mainland China market. The segment profit for the year amounted to approximately HK\$73.40 million representing an increase of approximately HK\$28.91 million when compared with that of last year.

The Group's first phase of production plant in Xinfeng, the PRC has been completed and is applying for the relevant production licenses. It is expected that the trial production will be commenced in the second half of 2013.

The Group believes that the new manufacturing lines would enable the Group to enhance its overall production capacity and to effectively control its production costs to cope with the future business expansion of the Group.

Property Investment

Revenue for the year amounted to approximately HK\$6.92 million, representing an increase of approximately 11.6% when compared with that of last year. Segment profit for the year amounted to approximately HK\$34.66 million when compared with that of approximately HK\$33.86 million last year.

The application under Section 16 of Town Planning Ordinance to seek Town Planning Board's ("TPB") approval for a proposed columbarium on the Group's existing land located in Au Tau, Yuen Long, Hong Kong was refused. The Group had submitted a letter to the TPB to review the application under Section 17 of Town Planning Ordinance. The Group has been submitting further information in support of the development proposal for TPB's consideration.

Iron and Steel Trading and Related Investments

Revenue for the year amounted to approximately HK\$341.04 million, representing an increase of approximately 57.3% when compared with that of last year. Segment profit for the year amounted to approximately HK\$10.96 million when compared with that of approximately HK\$3.41 million last year.

The improvement in segment profit for the year was mainly due to the increase in gross profit as a result of the increase in revenue together with the recovery of amounts due from an associate previously written off of HK\$3.81 million.

Available-for-sale Investments

The Group has an effective interest of 11.9% (2011: 11.7%) in the cemetery project situated in Sihui, Guangdong Province, the PRC. The principal activities of which are the development, construction, management and operation of a cemetery. The main types of products for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches. Sales offices are established in Hong Kong and South China region for marketing purpose. Promotion campaigns have been launched to build up awareness among target elderly.

The cemetery comprises a site of 518 mu, of which 100 mu have commenced development, and an adjacent site of 4,482 mu has been reserved, making up a total of 5,000 mu. As a result of the slow-down of the Chinese economy, the development plan for the remaining 4,900 mu will be deferred and therefore the Group has made an impairment of HK\$24.70 million on this available-for-sale investment.

OUTLOOK

Looking ahead, the less robust economic outlook in Mainland China and the continuance of existing control measures to monitor the real estate market will be challenging to the Group.

Urbanisation has been a continuing theme in Mainland China for recent years and was formally established at the 18th National Congress of the Communist Party of China as one of the key directions of the national development plan. It is expected that the demand of paint products will increase steadily.

To generate and preserve its long-term value, the Group will continue to position itself as a quality-focused paint manufacturer focusing on manufacturing and selling high quality paint products with technological innovation and environment-friendly to differentiate itself from its competitors. The Group will continue to enhance the competitiveness of its prestigious brands through brand building. The Group will strive to enhance its competitive edge by strengthening sales channels to capture the increase in demand from the urbanisation. The Group will continue to invest in research and development to strengthen the technological innovation and streamline the process flow to improve the production efficiency. In face of the volatility of raw material prices, the Group will track and analyse raw material prices movement and continue to develop long-term relationship with suppliers to enhance bargaining power and through its technological innovation to improve the material utilisation.

While maintaining its existing core business of paint operation, the Group continues to invest in iron and steel trading business as well as property investment in order to diversify and broaden the investment portfolio of the Group. Nevertheless, 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 recorded a profit attributable to the shareholders of the Company of approximately HK\$59.39 million for the year when compared with that of approximately HK\$42.27 million last year. Revenue for the year amounted to approximately HK\$1,315.60 million, representing an increase of approximately 0.5% when compared with that of last year. Gross profit for the year amounted to approximately HK\$303.61 million, representing an increase of approximately 4.0% when compared with that of last year.

SEGMENT INFORMATION

Business Segments

Paint operation continued to be the principal business of the Group with a revenue of approximately HK\$967.65 million accounting for approximately 73.6% of the Group's total revenue. It also represented a decrease of approximately 10.9% when compared with that of last year. Despite the decrease in revenue, the improvement in gross profit for the year together with the reduction in selling and distribution expenses rendered segment profit for the year amounted to approximately HK\$73.40 million representing an increase of approximately 65.0% when compared with that of last year.

Property investment operation reported a revenue of approximately HK\$6.92 million, accounting for approximately 0.5% of the Group's total revenue. Segment profit for the year was slightly increased to approximately HK\$34.66 million when compared with that of approximately HK\$33.86 million last year.

Iron and steel operation reported a revenue of approximately HK\$341.04 million, accounting for approximately 25.9% of the Group's total revenue. Segment profit for the year amounted to approximately HK\$10.96 million when compared with that of approximately HK\$3.41 million last year.

Geographical Segments

All of the Group's business is mainly in Mainland China and Hong Kong. Revenue from operations in Mainland China and Hong Kong amounted to approximately HK\$1,223.80 million (2011: HK\$1,216.46 million) and approximately HK\$91.26 million (2011: HK\$92.55 million) respectively.

LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation was generally financed by its internal funding and bank borrowings. Total cash balances amounted to approximately HK\$328.73 million as at 31 December 2012 when compared with approximately HK\$319.48 million as at 31 December 2011. Bank and other borrowings amounted to approximately HK\$154.52 million as at 31 December 2012 when compared with approximately HK\$139.18 million as at 31 December 2011. The Group's bank and other borrowings mainly carried interest at floating rates. Of the Group's total bank and other borrowings as at 31 December 2012, approximately HK\$121.11 million (78.4%) was payable within one year, approximately HK\$5.68 million (3.7%) was payable in the second year, approximately HK\$17.55 million (11.3%) was payable in the third to fifth years and the remaining balance of HK\$10.18 million (6.6%) was payable beyond the fifth year.

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. However, in view of the strong and supportive treasury policy in Mainland China, the Renminbi exchange rate is expected to remain relatively stable and hence the Group's currency exposure is not significant. The Group considers that no hedging measures are necessary.

Gearing ratio of the Group which expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 17.7% as at 31 December 2012 compared with 17.1% as at 31 December 2011. Liquidity ratio of the Group which expressed as a percentage of current assets to current liabilities was 1.70 times as at 31 December 2012 compared with 1.76 times as at 31 December 2011.

Equity and Net Asset Value

Shareholders' funds of the Group as at 31 December 2012 was approximately HK\$934.57 million compared with approximately HK\$874.83 million as at 31 December 2011. 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 2012 was approximately HK\$874.51 million compared with approximately HK\$814.78 million as at 31 December 2011. Net assets value per share as at 31 December 2012 was HK\$0.50 compared with HK\$0.47 as at 31 December 2011.

Contingent Liabilities

At 31 December 2012, the banking facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK\$148.76 million compared with HK\$68.80 million as at 31 December 2011.

Pledge of Assets

Certain land and buildings, investment properties and trade receivables with an aggregate net book value of HK\$473.92 million as at 31 December 2012 (31 December 2011: HK\$492.32 million) were pledged as collaterals for bank and other borrowings. At 31 December 2012, total outstanding secured bank and other borrowings amounted to HK\$154.52 million as compared with HK\$126.85 million as at 31 December 2011.

STAFF

Headcount as at 31 December 2012 was 1,097 (31 December 2011: 1,156). Staff costs (excluding directors' emoluments) amounted to HK\$145.96 million for the year when compared with HK\$157.73 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 schemes.

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 year.

AUDIT COMMITTEE REVIEW

The annual consolidated results of the Group for the year ended 31 December 2012 have been reviewed by the audit committee.

CORPORATE GOVERNANCE CODE

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

- (1) The non-executive directors are not appointed for a specific term. According to the Company's bye-laws, the non-executive directors are subject to re-election at least once every three years.
- (2) The Company does not have a nomination committee as the role and the function of such committee are performed by the full board. The board collectively reviews the structure, size and composition (including the skills, knowledge and experience) of the board and the appointment of any new director. Also, the board as a whole is responsible for approving the succession plan for the directors, including the chairman and the managing director.

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

On behalf of the board
Lam Ting Ball, Paul
Chairman

Hong Kong, 27 March 2013

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