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ANNOUNCEMENT OF 2014 INTERIM RESULTS

INTERIM RESULTS

The board of directors (the “Board”) of CNT Group Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2014 together with comparative amounts for the corresponding period in 2013. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

		Six months ended 30 June	
	Notes	2014	2013
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
REVENUE	3	628,328	659,413
Cost of sales		(458,572)	(500,406)
		<hr/>	<hr/>
Gross profit		169,756	159,007
Other income and gains, net	3	7,587	12,024
Selling and distribution expenses		(65,784)	(65,260)
Administrative expenses		(57,881)	(58,610)
Other expenses, net		(1,834)	(9,847)
		<hr/>	<hr/>
Equity-settled share option expense	13	(916)	(1,659)
Fair value gains on investment properties	10	20,907	–
Finance costs	4	(1,943)	(1,755)
Share of profits and losses of associates		1,005	3,978
		<hr/>	<hr/>
PROFIT BEFORE TAX	5	70,897	37,878
Income tax expenses	6	(14,812)	(12,901)
		<hr/>	<hr/>
PROFIT FOR THE PERIOD		56,085	24,977
		<hr/> <hr/>	<hr/> <hr/>
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Owners of the parent		55,245	24,992
Non-controlling interests		840	(15)
		<hr/>	<hr/>
		56,085	24,977
		<hr/> <hr/>	<hr/> <hr/>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted		HK2.93 cents	HK1.32 cents
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>56,085</u>	<u>24,977</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(17,757)</u>	<u>11,150</u>
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive loss of an associate	(38)	(18)
Gains on property revaluation	<u>74,115</u>	<u>–</u>
Total other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	<u>74,077</u>	<u>(18)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	<u>56,320</u>	<u>11,132</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>112,405</u></u>	<u><u>36,109</u></u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	111,679	36,041
Non-controlling interests	<u>726</u>	<u>68</u>
	<u><u>112,405</u></u>	<u><u>36,109</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	288,705	321,764
Investment properties	10	410,936	293,794
Properties under development		28,000	28,000
Prepaid land lease payments		21,966	22,800
Interests in associates		17,244	16,277
Available-for-sale investments		96,083	96,083
Deposits for purchases of properties, and plant and equipment		27,715	28,406
Net pension scheme assets		3,297	3,297
Deferred tax assets		3,808	3,572
		897,754	813,993
TOTAL non-current assets			
CURRENT ASSETS			
Inventories		79,930	88,543
Trade and bills receivables	11	363,204	328,869
Prepayments, deposits and other receivables		34,927	42,954
Equity investment at fair value through profit or loss		–	312
Structured deposits		189,014	167,377
Pledged deposit		1,015	–
Restricted cash		49,984	51,232
Cash and cash equivalents		226,282	276,662
		944,356	955,949
TOTAL current assets			
CURRENT LIABILITIES			
Trade and bills payables	12	169,405	176,471
Other payables and accruals		149,367	168,756
Derivative financial instrument		15	15
Due to an associate		2,550	2,550
Interest-bearing bank and other borrowings		189,183	181,316
Tax payable		17,160	14,902
		527,680	544,010
TOTAL current liabilities			

	Notes	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
NET CURRENT ASSETS		416,676	411,939
TOTAL ASSETS LESS CURRENT LIABILITIES		1,314,430	1,225,932
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		24,925	27,909
Deferred tax liabilities		35,760	34,688
Deferred income		3,426	3,676
Total non-current liabilities		64,111	66,273
Net assets		1,250,319	1,159,659
EQUITY			
Equity attributable to owners of the parent			
Issued capital		188,841	188,841
Reserves		1,056,885	966,951
Non-controlling interests		1,245,726	1,155,792
		4,593	3,867
Total equity		1,250,319	1,159,659

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis for preparation and accounting policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA which are effective for the Group’s annual period beginning on 1 January 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> – <i>Offsetting Financial Assets and Financial Liabilities</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial statements.

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

HKFRS 9	<i>Financial Instruments</i> ⁵
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ⁵
HKFRS 11 Amendments	Amendments to HKFRS 11 <i>Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</i> ³
HKFRS 14	<i>Regulatory Deferral Accounts</i> ³
HKFRS 15	<i>Revenue from Contracts with Customers</i> ⁴
HKAS 16 and HKAS 38 Amendments	Amendments to HKAS 16 and HKAS 38 – <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ³
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits – Defined Benefit Plans: Employee Contributions</i> ¹
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of HKFRSs issued in January 2014 ²
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of HKFRSs issued in January 2014 ²

- ¹ Effective for annual periods beginning on or after 1 July 2014
- ² Generally effective of annual periods beginning, or transactions occurring, on or after 1 July 2014
- ³ Effective for annual periods beginning on or after 1 January 2016
- ⁴ Effective for annual periods beginning on or after 1 January 2017
- ⁵ No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

These unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2013.

2. Operating segment information

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

- (a) the paint products segment engages in the manufacture and sale of paint products and related services;
- (b) the property investment segment comprises:
 - (i) the investment in residential, commercial and industrial 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, provision of advertising services, other trading and investment holding.

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

Segment assets exclude cash and cash equivalents, restricted cash, pledged deposit, 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.

Intersegment sales and transfers are transacted on mutually agreed terms.

The following tables present revenue and profit/(loss) information for the Group's reportable operating segments for the six months ended 30 June 2014 and 2013.

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Six months ended 30 June 2014					
Segment revenue:					
Sales to external customers	473,512	7,236	147,428	152	628,328
Intersegment sales	–	10,080	–	4,727	14,807
Other revenue and gains	3,372	20,923	331	108	24,734
	<u>476,884</u>	<u>38,239</u>	<u>147,759</u>	<u>4,987</u>	<u>667,869</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(14,807)</u>
Total					<u><u>653,062</u></u>
Segment results	36,732	34,445	3,325	1,548	76,050
<i>Reconciliation:</i>					
Elimination of intersegment results					(431)
Interest income					1,863
Fair value gains on structured deposits, net					1,897
Finance costs					(1,943)
Equity-settled share option expense					(916)
Corporate and other unallocated expenses					<u>(5,623)</u>
Profit before tax					<u><u>70,897</u></u>

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Six months ended 30 June 2013					
Segment revenue:					
Sales to external customers	472,389	3,854	183,170	–	659,413
Intersegment sales	–	5,797	–	3,484	9,281
Other revenue and gains	2,450	1,723	4,405	52	8,630
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	474,839	11,374	187,575	3,536	677,324
<i>Reconciliation:</i>					
Elimination of intersegment sales					(9,281)
					<hr/>
Total					668,043
					<hr/> <hr/>
Segment results	34,041	8,334	10,815	(10,676)	42,514
<i>Reconciliation:</i>					
Elimination of intersegment results					3,178
Interest income					1,506
Fair value gains on structured deposits					1,888
Finance costs					(1,755)
Equity-settled share option expense					(1,659)
Corporate and other unallocated expenses					(7,794)
					<hr/>
Profit before tax					37,878
					<hr/> <hr/>

The following tables present segment assets as at 30 June 2014 and 31 December 2013, and segment capital expenditure for the six months ended 30 June 2014 and 2013 of the Group's reportable operating segments.

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 30 June 2014					
Segment assets	637,332	557,557	78,826	97,220	1,370,935
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(2,572)
Corporate and other unallocated assets					473,747
					<hr/>
Total assets					1,842,110
					<hr/> <hr/>
	Paint products (Audited) HK\$'000	Property investment (Audited) HK\$'000	Iron and steel trading (Audited) HK\$'000	Others (Audited) HK\$'000	Total (Audited) HK\$'000
At 31 December 2013					
Segment assets	626,409	465,040	76,355	103,395	1,271,199
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(3,792)
Corporate and other unallocated assets					502,535
					<hr/>
Total assets					1,769,942
					<hr/> <hr/>

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Six months ended 30 June 2014					
Segment capital expenditure:					
Capital expenditure	4,621	18	-	-	4,639
Corporate and other unallocated					<u>1</u>
					<u><u>4,640*</u></u>
Six months ended 30 June 2013					
Segment capital expenditure:					
Capital expenditure	4,615	20,639	-	-	25,254
Corporate and other unallocated					<u>3</u>
					<u><u>25,257**</u></u>

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

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

During the six months ended 30 June 2014, revenue generated from one of the Group's customers in the iron and steel trading segment amounting to approximately HK\$90,224,000 (six months ended 30 June 2013: HK\$103,992,000) individually accounted for over 10% of the Group's revenue.

3. Revenue, other income and gains, net

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sale of paint products and related services	473,512	472,389
Sale of iron and steel products	147,428	183,170
Sale of wine	36	–
Gross rental income from investment properties	7,236	3,854
Advertising services income	116	–
	<u>628,328</u>	<u>659,413</u>
Other income and gains, net		
Bank interest income	1,863	1,506
Commission income	99	359
Government grants received from Mainland China authorities	2,378	1,053
Fair value gains, net		
Equity investment at fair value through profit or loss		
– held for trading	11	–
Structured deposits		
– Realised	332	935
– Unrealised	1,565	953
Gain on disposal of items of property, plant and equipment, net	19	–
Recognition of deferred income	162	160
Recovery of amounts due from an associate previously written off	–	3,813
Write-back of an amount due to an associate	–	1,710
Others	1,158	1,535
	<u>7,587</u>	<u>12,024</u>

4. Finance costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	2,069	1,681
Bank loans not wholly repayable within five years	80	282
Finance leases	7	7
	<u>2,156</u>	<u>1,970</u>
Less: Interest capitalised	(213)	(215)
	<u>1,943</u>	<u>1,755</u>

5. Profit before tax

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	458,572	500,406
Depreciation	9,093	10,460
Amortisation of prepaid land lease payments	282	279
Provision for impairment of trade receivables	1,543	1,300
Write-down/(write-back) of inventories to net realisable value, net	2,293	(665)
Loss/(gain) on disposal of items of property, plant and equipment, net*	(19)	3
Fair value losses/(gains), net:		
Equity investment at fair value through profit or loss – held for trading		
– Realised*	(11)	8
– Unrealised*	–	8,811
Foreign exchange differences, net*	1,774	912
	<u>1,774</u>	<u>912</u>

* These balances are included in “Other income and gains, net” for gains and “Other expenses, net” for losses in the condensed consolidated statement of profit or loss.

6. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2013: 16.5%) 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 jurisdictions in which the Group operates.

The share of tax attributable to an associate amounting to HK\$133,000 (six months ended 30 June 2013: HK\$129,000) is included in “Share of profits and losses of associates” on the face of the condensed consolidated statement of profit or loss.

7. 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 six months ended 30 June 2014 attributable to ordinary equity holders of the parent of HK\$55,245,000 (six months ended 30 June 2013: HK\$24,992,000) and the weighted average number of ordinary shares of 1,888,405,690 (six months ended 30 June 2013: 1,888,405,690) in issue during the period.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2014 and 2013 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 periods, and accordingly, the share options had no dilutive effect on the basis earnings per share amounts presented.

No other diluting events existed during the six months ended 30 June 2014 and 2013.

8. Dividend

At the annual general meeting held on 5 June 2014, the Company’s shareholders approved the distribution of the final dividend for the year ended 31 December 2013 of HK1.2 cents (year ended 31 December 2012: HK1 cent) per share which amounted to approximately HK\$22,661,000 (year ended 31 December 2012: HK\$18,884,000).

9. Property, plant and equipment

During the six months ended 30 June 2014, the Group acquired items of properties, plant and equipment at costs of HK\$4,188,000 (six months ended 30 June 2013: HK\$4,532,000). Certain owner-occupied properties of HK\$23,525,000 were transferred to investment properties at the then fair value of HK\$97,640,000 following the end of owner-occupation, with gains on property valuation of HK\$74,115,000 recognised in other comprehensive income.

Items of properties, plant and equipment with an aggregate net book value of HK\$178,000 (six months ended 30 June 2013: HK\$54,000) were disposed of by the Group during the six months ended 30 June 2014, resulting in a net gain on disposal of HK\$19,000 (six months ended 30 June 2013: net loss on disposal of HK\$3,000).

10. Investment properties

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Carrying amount at beginning of period/year	293,794	166,451
Additions	–	21,411
Fair value gains, net	20,907	48,616
Transfer from owner-occupied properties	97,640	42,720
Transfer from deposits for purchases of properties, and plant and equipment	–	13,019
Exchange realignment	(1,405)	1,577
	<hr/>	<hr/>
Carrying amount at end of period/year	410,936	293,794
	<hr/> <hr/>	<hr/> <hr/>

The Group's investment properties were revalued on 30 June 2014 based on valuations performed by BMI Appraisals Limited, independent professionally qualified valuers. Fair values of the Group's investment properties are generally derived from using the income capitalisation method or depreciated replacement cost method.

11. 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 as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within three months	325,365	298,456
Over three months and within six months	23,850	22,944
Over six months	13,989	7,469
	<hr/>	<hr/>
	363,204	328,869
	<hr/> <hr/>	<hr/> <hr/>

12. Trade and bills payables

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within three months	168,980	170,817
Over three months and within six months	417	5,654
Over six months	8	–
	<hr/> 169,405 <hr/>	<hr/> 176,471 <hr/>

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

13. Share option schemes

The 2002 Scheme

On 28 June 2002, the Company adopted a share option scheme (the “2002 Scheme”), which was approved by the shareholders of the Company at the special general meeting held on the same date. The 2002 Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons, who made contributions to the Group.

152,800,000 share options was granted on 27 May 2010 under the 2002 Scheme to employees of the Group to subscribe for a total of 152,800,000 new shares of the Company of HK\$0.10 each, vest over a period of four years from the grant date, of which 50% of the share options vested immediately on the grant date, 10% of the share options vested on 27 May 2011, 10% of the share options vested on 27 May 2012, 10% of the share options vested on 27 May 2013 and 20% of the share options vested on 27 May 2014. These share options are exercisable at HK\$0.44 per share and must be exercised within five years from the grant date, and if not so exercised, the share options shall lapse. These share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

None of the share options granted on 27 May 2010 under the 2002 Scheme were exercised, cancelled or lapsed during the six months ended 30 June 2014 and 2013.

The fair value of the share options granted on 27 May 2010 was HK\$26,302,000, of which the Group recognised an equity-settled share option expense of HK\$916,000 during the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$1,659,000).

At the end of the reporting period, the Company had 152,800,000 share options outstanding under the 2002 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 152,800,000 additional ordinary shares of the Company and additional share capital of HK\$15,280,000 and share premium of HK\$51,952,000 (before issue expenses).

The 2002 Scheme expired on 27 June 2012 and no further options shall be issued thereafter but, in all other respects, the 2002 Scheme shall remain in force to the extent necessary to give effect to the exercise of the outstanding options granted. All outstanding share options under 2002 Scheme will continue to be valid and exercisable in accordance with the terms of the 2002 Scheme.

The 2012 Scheme

A new share option scheme (the “2012 Scheme”) was adopted by the Company on 28 June 2012, pursuant to a resolution passed at the annual general meeting held on the same date. Unless terminated by resolution in general meeting or by the board of directors, the 2012 Scheme remains valid and effective for the period of 10 years commencing on 28 June 2012, after which period no further options will be issued but, in all other aspects, the provision of the 2012 Scheme shall remain in full force and effect. Further details are set out in the circular of the Company dated 30 April 2012.

The 2012 Scheme will expire on 27 June 2022. During the six months ended 30 June 2014 and 2013, no share options were granted under the 2012 Scheme.

14. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current period’s presentation. In the opinion of the directors, such reclassification results in a more appropriate presentation and better reflects the nature of the transactions.

INTERIM DIVIDEND

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2014, Mainland China achieved stable economic growth thanks to a series of macro stabilizing measures which provide support to economic reforms and structural adjustments. According to the preliminary accounting results of the gross domestic product for the first half of 2014 published by the National Bureau of Statistics of China, Mainland China's gross domestic product grew by 7.4% for the first half of 2014, indicating a moderate growth rate compared with 7.6% for the same period of 2013. The Group actively responded to the market changes and adopted appropriate sales strategies and marketing activities to promote our paint products. The Group's core paint operation continued to maintain the segment revenue as well as segment profit.

The Group recorded a profit attributable to the shareholders of the parent company of approximately HK\$55.25 million for the six months ended 30 June 2014 as compared with that of approximately HK\$24.99 million for the last corresponding period. The increase in the profit attributable to the shareholders of the parent company was mainly due to the recognition of fair value gains on investment properties of approximately HK\$20.91 million during the period under review.

The Group recorded revenue of approximately HK\$628.33 million representing a decrease of 4.7% when compared with last corresponding period. The decrease in Group's revenue was mainly due to the decrease in revenue from the trading of iron and steel products. The Group's gross profit for the period increased by 6.8% when compared with that of last corresponding period to approximately HK\$169.76 million. The increase in gross profit was mainly due to the improvement of gross profit margin during the period under review.

The manufacturing and sale of paint products continued to be the core business of the Group and contributed approximately 75.4% to the Group's total revenue for the period under review.

Paint Products

Revenue for the period amounted to approximately HK\$473.51 million representing an increase of 0.2% when compared with last corresponding period. The drop in raw material costs and the strict control on overheads contributed the increase in gross profit. The segment profit was improved to approximately HK\$36.73 million, representing an increase of approximately 7.9% when compared with last corresponding period.

Property Investment

Revenue for the period amounted to approximately HK\$7.24 million when compared with that of approximately HK\$3.85 million in last corresponding period. Segment profit amounted to approximately HK\$34.45 million when compared with that of approximately HK\$8.33 million in last corresponding period. The increase in segment profit for the period was mainly due to the increase in the fair value gains on the investment properties and the increase in rental income.

Due to the rapid development of technology and the decrease in the demand of walk-in customer service, the Group closed the paint products customer service centre in Mong Kok, Hong Kong and put the shop into property market for lease in order to earn the rental income. Besides, the Group has implemented a series of procedures to improve the efficiency of logistic flow and to reduce the lead time of the paint products to be delivered from the PRC to Hong Kong. The inventory control policy successfully reduced the inventory level in the warehouse in Sai Kung, Hong Kong. In view of the reduction of storage space, the Group leased out the spare space of the warehouse to third parties in order to broaden the portfolio of the Group's property investment to increase the rental income as well as the future capital appreciation.

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 further information in respect of the application to TPB under Section 17 of Town Planning Ordinance. In July 2014, TPB decided to publish the further information for public comments. It is expected that the Group will receive a reply from TPB in 2014.

Iron and Steel Trading and Related Investments

Revenue for the period amounted to approximately HK\$147.43 million when compared with that of approximately HK\$183.17 million in last corresponding period. The decrease in revenue was mainly due to the decrease in demand of tin plate products in the PRC. The segment profit for the period amounted to approximately HK\$3.33 million when compared with that of approximately HK\$10.82 million in last corresponding period. The decrease in segment profit for the period was mainly due to the decrease in other income and decrease in share of profit from an associate.

Available-for-sale Investments

The Group has an effective interest of 11.9% in the cemetery project situated in Sihui, Guangdong Province, the PRC. The principal activities of which are the development, construction, management and operation of a cemetery. The main types of products of the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches. Sales offices are established in Hong Kong and South China region for marketing purpose. Recently, the Chinese Government has approved to establish a martyr memorial cemetery within the memorial park to commemorate martyrs so as to attract people to pay tribute and remembrance to the martyrs. It is believed that this establishment can enhance customer awareness and improve sales in the long run.

FINANCIAL REVIEW

Liquidity and Financial Information

The Group's business operation is generally financed by its internal funding and bank borrowings. The cash and cash equivalents amounted to approximately HK\$226.28 million as at 30 June 2014 compared with approximately HK\$276.66 million as at 31 December 2013. The total cash and bank balances, including structured deposits, pledged deposit and restricted cash, amounted to approximately HK\$466.30 million as at 30 June 2014 compared with approximately HK\$495.27 million as at 31 December 2013. Bank and other borrowings amounted to approximately HK\$214.11 million as at 30 June 2014 compared with approximately HK\$209.23 million as at 31 December 2013. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as at 30 June 2014, approximately HK\$189.18 million (88.4%) is payable within one year, approximately HK\$5.89 million (2.7%) is payable in the second year, approximately HK\$16.93 million (7.9%) is payable in the third to fifth years and the remaining balance of HK\$2.11 million (1.0%) is payable beyond the fifth year.

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

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 19.8% as at 30 June 2014 compared with 19.7% as at 31 December 2013. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.79 times as at 30 June 2014 compared with 1.76 times as at 31 December 2013.

Equity and Net Asset Value

Shareholders' funds of the Group as at 30 June 2014 was approximately HK\$1,245.73 million compared with approximately HK\$1,155.79 million as at 31 December 2013. Adjusted capital of the Group, being shareholders' fund less the leasehold land and building revaluation reserve and investment property revaluation reserve, as at 30 June 2014 was approximately HK\$1,079.96 million compared with approximately HK\$1,064.14 million as at 31 December 2013. Net asset value per share as at 30 June 2014 was approximately HK\$0.66 compared with approximately HK\$0.61 as at 31 December 2013.

Contingent Liabilities

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2014 amounted to approximately HK\$212.85 million compared with approximately HK\$203.38 million as at 31 December 2013.

Pledge of Assets

At 30 June 2014, certain land and buildings, investment properties, restricted cash and cash deposits with aggregate net book value of approximately HK\$508.39 million (31 December 2013: HK\$419.05 million) were pledged to banks as collaterals for bank and other borrowings. At 30 June 2014, total outstanding secured bank and other borrowings amounted to approximately HK\$197.93 million as compared with approximately HK\$209.23 million as at 31 December 2013.

STAFF

As at 30 June 2014, the Group's staff headcount was 1,172 (30 June 2013: 1,122). Staff costs (excluding directors' emoluments) amounted to approximately HK\$84.25 million for the period under review as compared with approximately HK\$81.45 million for the last corresponding period. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employees.

OUTLOOK

Looking forward to the second half of 2014, the recovery of the global economy is anticipated to maintain stable growth. It is expected that Mainland China will achieve healthy economic development for the year resulting from the Chinese Government's macro stabilizing measures which aim to stimulate the market, increase public goods supplies and support economic development. The measures includes the relaxation of one child policy, rural land reform, interest rate and capital accounts liberalization, and the acknowledgement of private enterprises as the key driver of the economy. Also, the Chinese Government planned to build more than 7 million units of government-subsidised housing in 2014. The Chinese Government started to build 75.7% of the total planned units as at 30 June 2014. It is expected that the economy and property markets of Mainland China will grow healthily and stable. Mainland China's increasing urban population and urbanization, as well as the ongoing improvement in household disposable income and living standards are expected to give a strong impetus to the demand for paint products in Mainland China. The Group believes that our paint operation will benefit from the urbanisation and the growth of household income in Mainland China.

In order to enhance competitiveness and become a leading manufacturer of high quality green and safe paint products, the Group will continue to manufacture and sell high-quality paint products. The Group will continue focus on green production, technological innovation and development. For improvement of the production efficiency, the Group will continue to invest in research and development to strengthen the technological innovation and streamline process flow. The Group will continue to pay attention on cost control and technological innovation to improve the material utilisation.

In the property market of Hong Kong, the Hong Kong Government implemented several harsh administrative measures (Buyer's Stamp Duty, Special Stamp Duty and Double Stamp Duty) to dampen investment demand and contain the property prices. However, the underlying demand continues to be strong. It is believed that this trend will continue until the interest rate environment finally turns. As a majority of commercial leases due for renewal have been committed, the Group is expected to have a steady performance for the rest of the year.

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the period under review.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2014, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except the following:

- (1) The non-executive directors of the Company and the independent non-executive directors of the Company are not appointed for a specific term. According to the Company's bye-laws, they are subject to the requirement to retire by rotation at least once every three years. The Board considers that the requirement has the same effect of accomplishing the same objective as a specific term of appointment.
- (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.

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 the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the “Model Code”). After specific enquiry by the Company, all directors 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 2014.

On behalf of the Board
Lam Ting Ball, Paul
Chairman

Hong Kong, 28 August 2014

As at the date of this announcement, the Board comprises Mr. Lam Ting Ball, Paul, Mr. Tsui Ho Chuen, Philip and Mr. Chong Chi Kwan as executive directors; Mr. Chan Wa Shek, Mr. Zhang Yulin and Mr. Ko Sheung Chi as non-executive directors; and Sir David Akers-Jones, Mr. Danny T Wong, Dr. Steven Chow and Mr. Zhang Xiaojing as independent non-executive directors.