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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 2017 INTERIM RESULTS

	Six months ended 30 June		Change
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	
FINANCIAL HIGHLIGHTS			
Results			
Revenue	492,318	468,453	+5.1%
Gross profit	127,044	167,151	-24.0%
Gross profit margin	25.8%	35.7%	-27.7%
Profit attributable to shareholders of the Company	835	30,770	-97.3%
Earnings per share (HK cents) Basic and diluted	0.04	1.62	-97.5%
	As at 30 June 2017 (Unaudited) HK\$'000	As at 31 December 2016 (Audited) HK\$'000	Change
Financial Position			
Total cash and bank balances (including cash and cash equivalents, structured deposits and pledged deposits)	263,955	367,311	-28.1%
Bank and other borrowings	170,355	165,918	+2.7%
Gearing ratio	13.9%	13.7%	+1.5%
Net asset value per share (HK\$)	0.78	0.78	0.0%

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 2017 together with comparative amounts for the corresponding period in 2016. 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 2017

		Six months ended 30 June	
	Notes	2017	2016
		(Unaudited)	(Unaudited)
		HK\$’000	HK\$’000
REVENUE	3	492,318	468,453
Cost of sales		(365,274)	(301,302)
Gross profit		127,044	167,151
Other income and gains, net	3	6,008	6,297
Selling and distribution expenses		(76,032)	(65,916)
Administrative expenses		(63,814)	(64,692)
Other expenses, net		(4,037)	(9,905)
Fair value gains on investment properties, net	10	13,585	5,453
Finance costs	4	(1,156)	(1,414)
Share of profits and losses of associates		(689)	1,358
PROFIT BEFORE TAX	5	909	38,332
Income tax credit/(expenses)	6	9	(7,617)
PROFIT FOR THE PERIOD		918	30,715
ATTRIBUTABLE TO:			
Owners of the parent		835	30,770
Non-controlling interest		83	(55)
		918	30,715
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted		HK0.04 cents	HK1.62 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>918</u>	<u>30,715</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	24,259	(22,337)
Share of other comprehensive income of an associate	<u>237</u>	<u>70</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>24,496</u>	<u>(22,267)</u>
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Remeasurement of net pension scheme assets	<u>–</u>	<u>(459)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>24,496</u>	<u>(22,726)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>25,414</u></u>	<u><u>7,989</u></u>
ATTRIBUTABLE TO:		
Owners of the parent	25,219	8,132
Non-controlling interest	<u>195</u>	<u>(143)</u>
	<u><u>25,414</u></u>	<u><u>7,989</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	270,872	265,785
Investment properties	10	662,630	644,323
Properties under development		28,000	28,000
Prepaid land lease payments		18,697	18,389
Interests in associates		11,399	11,851
Available-for-sale investments		96,083	96,083
Deposits for purchases of properties, and plant and equipment		9,516	8,662
Net pension scheme assets		2,372	2,372
Deferred tax assets		8,338	7,731
		1,107,907	1,083,196
TOTAL non-current assets			
CURRENT ASSETS			
Inventories		97,116	79,466
Trade and bills receivables	11	535,061	497,235
Prepayments, deposits and other receivables		70,065	56,214
Structured deposits		19,749	98,666
Pledged deposits		5,215	2,268
Cash and cash equivalents		238,991	266,377
		966,197	1,000,226
TOTAL current assets			
CURRENT LIABILITIES			
Trade and bills payables	12	216,488	214,208
Other payables and accruals		137,349	154,042
Due to an associate		2,800	2,800
Interest-bearing bank and other borrowings		161,959	154,324
Tax payable		12,519	17,313
		531,115	542,687
TOTAL current liabilities			
NET CURRENT ASSETS		435,082	457,539
TOTAL ASSETS LESS CURRENT LIABILITIES		1,542,989	1,540,735

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	8,396	11,594
Deferred tax liabilities	44,691	45,541
Deferred income	2,271	2,346
	<hr/>	<hr/>
Total non-current liabilities	55,358	59,481
	<hr/>	<hr/>
Net assets	1,487,631	1,481,254
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	190,369	190,369
Reserves	1,293,449	1,287,267
	<hr/>	<hr/>
	1,483,818	1,477,636
Non-controlling interest	3,813	3,618
	<hr/>	<hr/>
Total equity	1,487,631	1,481,254
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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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). 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 2016, except for the adoption of the following 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 2017.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to a number of HKFRSs

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

The 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 2016.

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.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ¹
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> ¹
HKFRS 9	<i>Financial Instruments</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to HKFRS 15	<i>Clarification to HKFRS 15 Revenue from Contracts with Customers</i> ¹
HKFRS 16	<i>Leases</i> ²
Amendments to HKAS 40	<i>Transfers of Investment Property</i> ¹
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ²
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to a number of HKFRSs ⁴

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but available for adoption

⁴ Effective for annual periods beginning on or after 1 January 2018, with early application permitted

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.

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, the provision of advertising services, and investment holding.

The chief operating decision maker regularly reviews the operating results of the Group's operating segments separately for the purpose of resource 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, 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, pledged deposits, 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 the 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.

	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 2017					
Segment revenue:					
Sales to external customers	383,942	16,616	91,760	–	492,318
Intersegment sales	–	3,034	–	1,457	4,491
Other revenue and gains, net	<u>3,553</u>	<u>13,615</u>	<u>475</u>	<u>540</u>	<u>18,183</u>
	387,495	33,265	92,235	1,997	514,992
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(4,491)</u>
Total					<u><u>510,501</u></u>
Segment results	(19,482)	26,796	(285)	438	7,467
<i>Reconciliation:</i>					
Elimination of intersegment results					(302)
Interest income					646
Fair value gains on structured deposits					764
Finance costs					(1,156)
Corporate and other unallocated expenses					<u>(6,510)</u>
Profit before tax					<u><u>909</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 2016					
Segment revenue:					
Sales to external customers	388,437	17,202	62,814	–	468,453
Intersegment sales	–	3,096	–	1,794	4,890
Other revenue and gains, net	2,498	5,477	308	(417)	7,866
	<u>390,935</u>	<u>25,775</u>	<u>63,122</u>	<u>1,377</u>	<u>481,209</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(4,890)</u>
Total					<u><u>476,319</u></u>
Segment results	22,050	17,933	2,134	(784)	41,333
<i>Reconciliation:</i>					
Elimination of intersegment results					(232)
Interest income					1,873
Fair value gains on structured deposits					2,011
Finance costs					(1,414)
Corporate and other unallocated expenses					<u>(5,239)</u>
Profit before tax					<u><u>38,332</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
At 30 June 2017					
Segment assets	844,804	776,499	82,423	96,123	1,799,849
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(1,011)
Corporate and other unallocated assets					<u>275,266</u>
Total assets					<u><u>2,074,104</u></u>
Segment liabilities	322,493	8,488	26,439	142	357,562
<i>Reconciliation:</i>					
Elimination of intersegment payables					(1,011)
Corporate and other unallocated liabilities					<u>229,922</u>
Total liabilities					<u><u>586,473</u></u>
	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 2016					
Segment assets	766,562	759,392	84,499	96,041	1,706,494
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(952)
Corporate and other unallocated assets					<u>377,880</u>
Total assets					<u><u>2,083,422</u></u>
Segment liabilities	341,779	8,211	19,836	228	370,054
<i>Reconciliation:</i>					
Elimination of intersegment payables					(952)
Corporate and other unallocated liabilities					<u>233,066</u>
Total liabilities					<u><u>602,168</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 2017					
Segment capital expenditure:					
Capital expenditure	9,038	1,064	-	-	10,102
Corporate and other unallocated					<u>7</u>
					<u><u>10,109*</u></u>
Six months ended 30 June 2016					
Segment capital expenditure:					
Capital expenditure	11,049	28,547	30	-	39,626
Corporate and other unallocated					<u>-</u>
					<u><u>39,626**</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 2017 and 2016, no revenue from any single customer accounted for 10% or more 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue		
Sale of paint products and related services	383,942	388,437
Sale of iron and steel products	91,760	62,814
Gross rental income from investment properties	16,616	17,202
	<u>492,318</u>	<u>468,453</u>
Other income and gains, net		
Bank interest income	646	1,873
Commission income	57	60
Government grants*	1,581	307
Fair value gains		
Structured deposits	764	2,011
Derivative instrument – transaction not qualifying as hedge	–	10
Foreign exchange differences, net	1,486	419
Recognition of deferred income	145	153
Others	1,329	1,464
	<u>6,008</u>	<u>6,297</u>

* Government grants have been received from certain government authorities of the PRC in recognition of the Group's efforts in environmental awareness and protection and technological development. There are no unfulfilled conditions or contingencies relating to these grants.

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Interest on bank loans	1,114	1,413
Interest on finance leases	42	1
	<u>1,156</u>	<u>1,414</u>

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	365,274	301,302
Depreciation	9,840	10,250
Amortisation of prepaid land lease payments	252	266
Provision for impairment of trade receivables*	–	4,952
Write down/(write-back) of inventories to net realisable value, net	396	(3,987)
Loss on disposal of items of property, plant and equipment, net*	29	–
	<u> </u>	<u> </u>

* These balances are included in "Other expenses, net" 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 2016: 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.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (six months ended 30 June 2016: 25%) during the period, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (six months ended 30 June 2016: 15%) had been applied during the period.

The share of tax attributable to an associate amounting to HK\$158,000 (six months ended 30 June 2016: HK\$160,000) is included in "Share of profits and losses of associates" in 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 2017 attributable to ordinary equity holders of the parent of HK\$835,000 (six months ended 30 June 2016: HK\$30,770,000) and the weighted average number of ordinary shares of 1,903,685,690 (six months ended 30 June 2016: 1,903,685,690) 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 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the periods.

8. DIVIDEND

At the annual general meeting held on 1 June 2017, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2016 of HK1.0 cent (year ended 31 December 2015: HK1.0 cent) per share which amounted to approximately HK\$19,037,000 (year ended 31 December 2015: HK\$19,037,000).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired items of properties, plant and equipment at costs of HK\$8,302,000 (six months ended 30 June 2016: HK\$9,924,000).

Items of properties, plant and equipment with an aggregate net book value of HK\$48,000 (six months ended 30 June 2016: HK\$433,000) were disposed of by the Group during the six months ended 30 June 2017.

10. INVESTMENT PROPERTIES

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Carrying amount at beginning of period/year	644,323	569,937
Additions	–	557
Fair value gains, net	13,585	20,042
Transfer from deposits for purchases of properties, and plant and equipment	–	61,147
Exchange realignment	4,722	(7,360)
	<u>662,630</u>	<u>644,323</u>
Carrying amount at end of period/year	662,630	644,323

The Group's investment properties were revalued on 30 June 2017 based on valuations performed by BMI Appraisals Limited, an independent professionally qualified valuer. Fair values of the Group's investment properties are generally derived by using the income capitalisation 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 may require. 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 ageing 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 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within three months	356,521	424,748
Over three months and within six months	41,538	44,098
Over six months	137,002	28,389
	535,061	497,235

12. TRADE AND BILLS PAYABLES

An ageing 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 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within three months	215,068	212,648
Over three months and within six months	1,264	1,548
Over six months	156	12
	216,488	214,208

The trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 30 June 2017, bills payable with an aggregate carrying amount of HK\$17,384,000 (31 December 2016: HK\$7,554,000) were secured by time deposits of HK\$5,215,000 (31 December 2016: HK\$2,268,000).

13. SHARE OPTION SCHEME

The 2012 Scheme

The 2012 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 2017 and 2016, no share option was granted under the 2012 Scheme.

14. EVENTS OCCURRING AFTER REPORTING PERIOD

On 10 July 2017, the Group announced that completion of the spin-off and the global offering of CPM Group Limited (“CPM”) had taken place on 10 July 2017. Following completion of the global offering, dealings in the CPM shares on the main board of the Stock Exchange commenced at 9:00 a.m. on 10 July 2017 and the stock code of CPM is 1932.

15. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and the directors consider that such reclassifications will allow a more appropriate presentation of the condensed consolidated statement of profit or loss and better reflect 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 2017 (six months ended 30 June 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2017, there was slight rebound in the economy of Mainland China. According to the data published by the National Bureau of Statistics of China on 18 July 2017, Mainland China's Gross Domestic Product ("GDP") expanded by 6.9% for the first half of 2017 when compared to its GDP of 6.7% for the first half of 2016. However, the changes in the international political landscape cast shadow of uncertainty over the global economic development. Market concerns about U.S. Federal Reserve's faster pace of rate hikes and China's continued slower economic growth which created uncertainty to the market.

The Group actively responded to market changes and adopted appropriate sales strategies and marketing activities to promote our businesses. The core paint operation and the expanding properties investment as well as the trading of iron and steel products continuously supported the Group's revenue and profit.

The Group recorded a profit attributable to the shareholders of the parent company of approximately HK\$0.84 million for the six months ended 30 June 2017 as compared with that of approximately HK\$30.77 million for the last corresponding period. The decrease in the profit attributable to the shareholders of the parent company was mainly due to the decrease in gross profit of the paint business.

The Group recorded revenue of approximately HK\$492.32 million representing an increase of 5.1% when compared with last corresponding period. The increase in Group's revenue was mainly due to the increase in revenue from the trading of iron and steel products. The Group's gross profit for the period decreased by 24.0% when compared with that of last corresponding period to approximately HK\$127.04 million. The decrease in Group's gross profit was mainly due to the significant drop in gross profit margin of the paint business during the period under review.

The manufacturing and sale of paint products (the "Paint Business") accounted for approximately 78.0% to the Group's total revenue for the period under review. The Paint Business was spun-off and listed on the main board of the Stock Exchange on 10 July 2017.

Paint Products

Revenue for the period amounted to approximately HK\$383.94 million representing a decrease of 1.2% when compared with last corresponding period. The decrease in revenue was mainly due to the net effect of the increase in revenue generated from sales of the paint products in Hong Kong by HK\$5.73 million in the period under review and the decrease in sales of paint products in Mainland China by HK\$10.22 million from HK\$343.90 million in corresponding period to HK\$333.68 million in the period under review. Although CPM reduced the average selling price of its paint products during the period under review, the increase in market share and the quantities sold of paint products during the period under review has rendered the revenue generated from Mainland China increased by RMB5.97 million from RMB289.23 million in corresponding period to RMB295.20 million in the period under review. However, the average exchange rate of RMB for the period under review depreciated against HK\$ by approximately 4.9% when compared with last corresponding period, which resulted in the decrease in revenue generated in Mainland China when translated into the presentation currency of the Company in HK\$.

The gross profit margin was decreased by 9.9 percentage point (“pp”) from 37.9% in last corresponding period to 28.0% in the period under review. The significant decrease in gross profit margin was mainly due to the increase in raw material costs and the reduction of average selling prices of paint products. Segment loss amounted to approximately HK\$19.48 million when compared with segment profit of approximately HK\$22.05 million in last corresponding period.

The demand for our paint products is affected by the seasonality factor of the manufacturing industries of toys, electronics and electrical appliances and the pattern that most of the construction, repairs and renovation undertakings would be completed during the second half of a calendar year.

Property Investment

Revenue for the period amounted to approximately HK\$16.62 million when compared with that of approximately HK\$17.20 million in last corresponding period. Segment profit amounted to approximately HK\$26.80 million when compared with that of approximately HK\$17.93 million in last corresponding period. The increase in segment profit for the period was mainly due to the increase in the net fair value gains on the investment properties of approximately HK\$8.14 million. The fair value of the Group’s investment properties at the period end was approximately HK\$13.59 million while the fair value at the last corresponding period end was approximately HK\$5.45 million. This reflected the general market conditions of the commercial and industrial investment property market in Hong Kong and Mainland China for the period under review.

The Group is continuously considering the feasibility to broaden the portfolio of the Group's property investment by acquiring additional properties in Hong Kong and/or the PRC with stable income and capital gain potential. In May 2017, the Group had entered into agreement with an independent property developer for the acquisition of five residential premises in Zhongshan, Guangdong Province, the PRC in its pre-sale period at the consideration of approximately RMB4.38 million, which will be financed by internal resources of the Group. The properties are expected to be handed over to the Group in late 2018. The Group intends to lease out the property to earn rental income for long term investment purposes.

The review application under Section 17 of the Town Planning Ordinance ("TPO") to seek the 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 rejected in December 2014. The Group had lodged an appeal to the Town Planning Appeal Board under Section 17B of TPO in February 2015. The appeal hearing was completed in April 2017 and the Group is awaiting for the result.

In May 2016, the Group submitted a planning application under Section 16 of TPO to seek TPB's approval for the proposed residential development on the Group's existing warehouses location in Sai Kung, New Territories, Hong Kong ("the Land"). The Group is in the progress of submitting further information to TPB in replying various comments from relevant government bodies. The purpose of applying for the change in the permitted usage of the Land is to secure a re-development opportunity for the purpose of achieving a high investment return or enhancing the property portfolios of the Group. The Group has not yet made any final decision on the re-development plan of the Land. The Group will consider the prevailing and the anticipated property market conditions for different types of commercial, residential and industrial properties, the availability and the terms of the financial resources, the likely investment return, the long-term development plan as well as the interest of the Group and the shareholders as a whole.

Iron and Steel Trading and Related Investments

Revenue for the period amounted to approximately HK\$91.76 million when compared with that of approximately HK\$62.81 million in last corresponding period, representing an increase of 46.1%. The increase in revenue was mainly due to the increase in demand of tin mill black plate during the period under review. The gross profit margin decreased by 1.4pp from 4.5% in last corresponding period to 3.1% in current period. The decrease in gross profit margin was mainly due to the increase in sales of comparatively lower profit margin tin mill black plate during the period under review. Segment loss for the period amounted to approximately HK\$0.29 million when compared with segment profit of approximately HK\$2.13 million in last corresponding period. The segment loss for the period was mainly due to the share of loss from an associate of approximately HK\$1.49 million as compared to the share of profit from an associate of approximately HK\$0.55 million in last corresponding period. After exclusion of the share of profit or loss from the associate, the adjusted segment profit amounted to approximately HK\$1.20 million and HK\$1.58 million for the period under review and the last corresponding period respectively.

Available-for-sale Investments

We have an effective interest of 12.2% in the cemetery project (“the Cemetery”) situated in Sihui, Guangdong Province, the PRC. The Cemetery is operated under the name of “Fortune Wealth Memorial Park”. Its principal activities 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.

The Cemetery comprises a site of 518 mu, of which 100 mu have been substantially completed and remaining 418 mu have commenced design work, and an adjacent site of 4,482 mu, which has been reserved, making up a total of 5,000 mu.

In the development aspect, the Cemetery has completed 12 graveyards with 5,485 grave plots and a mausoleum with 550 niches. The Cemetery has further obtained the land use rights certificates of approximately 46.8 mu of land which is planned for an additional 4,300 grave plots.

In the sales aspect, sales offices are established in Guangzhou to promote the sales and marketing for the Cemetery. The establishment of sales offices together with the implementation of promotion campaign in Guangzhou can enhance the awareness and improve sales in long run.

Spin-off of Paint Business

Purpose of the Spin-Off

The principal purpose of the spin-off (the “Spin-Off”) and the listing (the “Listing”) of CPM is to create separate listing platform on the Stock Exchange for the Paint Business and the business activities engaged by the Group following completion of the Spin-off and the Listing (the “Remaining Group”), namely (i) the property investment business; (ii) the trading business; and (iii) the other business (collectively known as the “Remaining Businesses”) so that these business activities may raise equity and debt financing independently according to their respective business needs. The market positions and the valuation of the Paint Business and the Remaining Businesses are distinctively different. Prior to the Spin-Off and the Listing, directors of the Group received from time to time feedbacks from shareholders and prospective investors that the positioning of the Group is unclear and that it would be difficult to appraise the value of the Group as a whole with such diverse business activities. Investors who have interest in the Paint Business as one of the well-recognised paint manufacturing businesses in the industrial sector may not at the same time have interest in the Remaining Businesses. Likewise, investors who prefer investing in the Remaining Businesses may not have interest in businesses in the manufacturing sector. The situation limited the efforts of the Group in broadening its investor base. By implementing the Spin-Off and the Listing, the value of each of the Paint Business and the Remaining Businesses would not rely on each other and can be fully reflected in the respective trading prices of their shares.

Benefits of the Spin-Off

The Spin-Off and the Listing are beneficial to the Company for the following reasons:

- (a) the Spin-Off will create an investment opportunity which would enable investors to have a better understanding of the business of the Remaining Group rather than a conglomerate of diversified business activities. The Remaining Businesses can then be valued on a standalone basis, which can release its true intrinsic value;
- (b) the Spin-Off and the Listing will allow the Company to target its shareholder base more effectively, which would in turn improve capital raising on a competitive basis and have better capital allocation to enhance growth within the Remaining Group;
- (c) the Spin-Off and the Listing will lead to a more direct alignment of the responsibilities and accountability of the management of the Remaining Businesses with its operating and financial performance.
- (d) the Spin-Off and the Listing will enable each of the Company and CPM to have its own fund raising platform to directly and independently access both the debt and equity capital markets; and
- (e) the Spin-Off and the Listing will deliver greater shareholder value to the Company on its merits and increase operational and financial transparency through which investors would be able to appraise and assess the performance and potential of the Remaining Businesses.

Based on the above backgrounds and benefits, the Board had decided to spin-off the Paint Business under separately listed company, CPM and submitted applications to the Stock Exchange in November 2014 and April 2016. The spin-off exercise was completed on 10 July 2017 and CPM became a separately listed company on the Stock Exchange with stock code 1932.

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\$238.99 million as at 30 June 2017 compared with approximately HK\$266.38 million as at 31 December 2016. The total cash and bank balances, including structured deposits and pledged deposits, amounted to approximately HK\$263.96 million as at 30 June 2017 compared with approximately HK\$367.31 million as at 31 December 2016. Bank and other borrowings amounted to approximately HK\$170.36 million as at 30 June 2017 compared with approximately HK\$165.92 million as at 31 December 2016. 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 2017, approximately HK\$161.96 million (95.1%) is payable within one year, approximately HK\$5.43 million (3.2%) is payable in the second year and the remaining balance of approximately HK\$2.97 million (1.7%) is payable in the third to fifth years.

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. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 30 June 2017. However, the Group will continue to monitor its foreign exchange exposure and requirements closely and arrange hedging facilities when 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 13.9% as at 30 June 2017 compared with 13.7% as at 31 December 2016. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.82 times as at 30 June 2017 compared with 1.84 times as at 31 December 2016.

Equity and Net Asset Value

Shareholders' funds of the Group as at 30 June 2017 was approximately HK\$1,483.82 million compared with approximately HK\$1,477.64 million as at 31 December 2016. Adjusted capital of the Group, being shareholders' fund less the unrealised leasehold land and building revaluation reserve and investment property revaluation reserve, as at 30 June 2017 was approximately HK\$1,221.19 million compared with approximately HK\$1,215.01 million as at 31 December 2016. Net asset value per share as at 30 June 2017 and 31 December 2016 was approximately HK\$0.78.

Contingent Liabilities

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2017 amounted to approximately HK\$186.12 million compared with approximately HK\$171.68 million as at 31 December 2016.

Pledge of Assets

At 30 June 2017, certain land and buildings, investment properties and cash deposits with aggregate net book value of approximately HK\$587.80 million (31 December 2016: HK\$571.58 million) were pledged to banks as collaterals for bank and other borrowings. At 30 June 2017, total outstanding secured bank and other borrowings amounted to approximately HK\$161.46 million as compared with approximately HK\$143.34 million as at 31 December 2016.

STAFF

As at 30 June 2017, the Group's staff headcount was 1,089 (30 June 2016: 1,060). Staff costs (excluding directors' emoluments) amounted to approximately HK\$88.44 million for the period under review as compared with approximately HK\$90.33 million in 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

On the global economy, the second half of 2017 is challenging due to various geopolitical uncertainties and the global sentiment on the upward pressure on interest rate by the U.S. Federal Reserve and its monetary policies in reducing its enlarged balance sheet in the near term. It is expected that the global economic growth in the second half of the year is still challenging, among which, the growth rate of China economy may slow down as a result of the restricted purchase and loan policy in real estate market. It is expected that the infrastructure and real estates investment will be affected by the tightening momentary liquidity and tightening credit against the backdrop of deleveraging and risk prevention. While facing a greater pressure of economic slowdown, it is anticipated that the domestic economy will show a stable yet slow development momentum overall.

Upon the success listing of Paint Business, the Remaining Group will focus on the property investment and trading of iron and steel business. The Group will pay close attention on the changes in policies, economic environment and property market in Hong Kong and Mainland China. The Group will grab every good investment chance in the future in order to maintain a healthy growth rate in recurring earnings and stable financial profile.

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 2017, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to 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 of the Company 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 2017.

UPDATE ON PETITION

As of the date of this announcement, there is no update to the petition filed on 22 June 2017 by Chinaculture.com Limited, a substantial shareholder of the Company, against (1) Prime Surplus Limited, a substantial shareholder of the Company; and (2) the Company as disclosed in the announcements of the Company dated 22 June 2017, 30 June 2017 and 7 July 2017.

On behalf of the Board
CNT Group Limited
Lam Ting Ball, Paul
Chairman

Hong Kong, 30 August 2017

As at the date of this announcement, the Board comprises Mr. Lam Ting Ball, Paul and Mr. Chong Chi Kwan as executive directors; Mr. Tsui Ho Chuen, Philip, Mr. Chan Wa Shek, Mr. Zhang Yulin and Mr. Hung Ting Ho, Richard as non-executive directors; and Mr. Wu Hong Cho, Mr. Danny T Wong and Mr. Zhang Xiaojing as independent non-executive directors.