

Interim Report 2004



GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司



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CORPORATE INFORMATION

Board of Directors

Executive Directors

LIANG Jiang (*Chairman*)
TAN Yunbiao
TSANG Hon Nam

Non-executive Directors

ZHAO Leili
LUO Fanyu
LIANG Jianqin

Independent Non-executive Directors

Gerard Joseph McMAHON
TAM Wai Chu, Maria
LI Kar Keung, Caspar

Company Secretary

CHEUNG Mo Ching

Registered Office

15th Floor, Tianjin Building
167 Connaught Road West
Hong Kong

Auditors

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Nanyang Commercial Bank, Limited
Standard Chartered Bank

The Board of Directors (the “Board”) of Guangnan (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 together with comparative figures. The results have been reviewed by the Company’s auditors, KPMG, and the Company’s audit committee.

INTERIM RESULTS

(Expressed in Hong Kong dollars)

Consolidated profit and loss account for the six months ended 30 June 2004 – unaudited

	Note	Six months ended 30 June	
		2004 \$'000	2003 \$'000
Turnover	2	389,555	745,165
Cost of sales		(326,663)	(669,260)
Gross profit		62,892	75,905
Other revenue		6,472	8,475
Other net income		281	180
Distribution costs		(6,583)	(16,523)
Administrative expenses		(23,979)	(28,911)
Other operating expenses		(5,948)	(5,154)
Profit from operations		33,135	33,972
Non-operating income	3	76,223	10,647
Finance costs	4(a)	(343)	(3,945)
Share of profits less losses of associates		18,133	9,513
Profit from ordinary activities before taxation	4	127,148	50,187
Income tax	5	(25,447)	(3,428)
Profit from ordinary activities after taxation		101,701	46,759
Minority interests		(4,584)	(1,698)
Profit attributable to shareholders		97,117	45,061
Transfer to other reserve		13,529	8,922
Earnings per share			
Basic	6(a)	1.08 cents	0.50 cents
Diluted	6(b)	N/A	0.49 cents
Interim dividend		Nil	Nil

The notes on pages 8 to 17 form part of this interim financial report.

Consolidated balance sheet at 30 June 2004 – unaudited*(Expressed in Hong Kong dollars)*

	<i>Note</i>	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Non-current assets			
Fixed assets			
– Investment properties		183,859	185,988
– Other property, plant and equipment		178,673	177,423
		362,532	363,411
Interest in associates		170,840	154,978
Investment securities		419	540
Deferred tax assets		1,962	3,778
Negative goodwill		(16,523)	(17,246)
		519,230	505,461
Current assets			
Inventories		38,251	44,228
Trade and other receivables	7	99,106	148,582
Other securities		3,200	3,247
Restricted deposit	12(b)	4,712	–
Cash and cash equivalents	8	290,315	254,457
		435,584	450,514
Current liabilities			
Interest-bearing borrowings		7,878	57,700
Trade and other payables	9	199,603	262,436
Current taxation		16,715	3,871
		224,196	324,007
Net current assets		211,388	126,507
Total assets less current liabilities		730,618	631,968

Consolidated balance sheet at 30 June 2004 – unaudited (continued)
(Expressed in Hong Kong dollars)

		At 30 June 2004 \$'000	At 31 December 2003 \$'000
	<i>Note</i>		
Non-current liability			
Deferred tax liabilities		10,211	9,335
Minority interests		19,088	20,384
		701,319	602,249
Capital and reserves			
Share capital	<i>10</i>	901,583	901,583
Reserves		(200,264)	(299,334)
		701,319	602,249

The notes on pages 8 to 17 form part of this interim financial report.

Consolidated Statement of Changes in Equity for the six months ended 30 June 2004 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004	2003
	<i>\$'000</i>	<i>\$'000</i>
Shareholders' equity at 1 January	602,249	494,864
Recognition of deferred tax of investment properties revaluation reserve	–	(4,629)
Exchange differences arising on translation of the People's Republic of China (other than Hong Kong) (the "PRC") subsidiaries and associates	1,953	127
Net gains/(losses) not recognised in the profit and loss account	1,953	(4,502)
Profit attributable to shareholders	97,117	45,061
Shareholders' equity at 30 June	701,319	535,423

The notes on pages 8 to 17 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement for the six months ended 30 June 2004 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004	2003
	<i>\$'000</i>	<i>\$'000</i>
Net cash from operating activities	37,859	16,128
Net cash from/(used in) investing activities	813	(1,129)
Net cash (used in)/from financing activities	(2,814)	4,589
Increase in cash and cash equivalents	35,858	19,588
Cash and cash equivalents at 1 January	254,457	243,010
Cash and cash equivalents at 30 June	290,315	262,598

The notes on pages 8 to 17 form part of this interim financial report.

Notes on the unaudited interim financial report

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) (previously known as Hong Kong Society of Accountants). KPMG’s independent review report to the Board is included on page 18.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2003 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 8 April 2004.

The same accounting policies adopted in the financial statements for the year ended 31 December 2003 have been applied to the interim financial report, except as disclosed in notes 1(a) and 1(b) below.

(a) Securities purchased under agreement to resell

The cost of securities acquired under purchase and resell agreements with banks is considered to be, in substance, deposits with banks. Therefore, amounts paid to banks under these agreements are recorded as “Advances to bank”. The difference between the purchase price and resale price is recognised as interest income which is accrued over the term of the agreement.

(b) Revenue recognition

Commission income is recognised when the relevant services are provided.

2. Turnover and segment reporting

Segment information is presented in respect of the Group’s business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group’s internal financial reporting.

Business segments

The Group comprises the following main business segments:

Tinplating	:	Production and sales of tin-plate and related products which are used as packaging materials for the food processing manufacturers
Live and fresh foodstuffs distribution	:	Distribution/agent of live and fresh foodstuffs
Feed production and livestock farming	:	Production and trading of feeds, pig rearing and distribution
Foodstuffs trading	:	Purchase and sale of foodstuffs
Property leasing	:	Leasing of properties to generate rental income

2. Turnover and segment reporting (continued)

Business segments (continued)

	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Foodstuffs trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Consolidated \$'000
Period ended 30 June 2004								
Revenue from external customers	280,527	19,704	61,312	15,397	12,615	-	-	389,555
Inter-segment revenue	652	-	-	-	30	(682)	-	-
Other revenue from external customers	-	-	-	-	-	-	4,889	4,889
Total	281,179	19,704	61,312	15,397	12,645	(682)	4,889	394,444
Segment result	27,297	6,377	(3,888)	(73)	7,841			37,554
Unallocated operating income and expenses								(4,419)
Profit from operations								33,135
Finance costs								(343)
Share of profits less losses of associates	-	(38)	-	-	-	-	18,171	18,133
Non-operating income								76,223
Income tax								(25,447)
Minority interests								(4,584)
Profit attributable to shareholders								97,117

In prior years, turnover in respect of the Group's live and fresh foodstuffs distribution business represented the gross sales value of live and fresh foodstuffs. Effective 1 January 2004, turnover in respect of the Group's live and fresh foodstuffs distribution business includes commission income derived from its agency business in trading of live and fresh foodstuffs, following the execution of agency agreements with most of the suppliers concerned. The change in the mode of operation has resulted in a significant decrease in the Group's turnover during the six months ended 30 June 2004. However, the change has no significant impact on the gross profit of the Group's live and fresh foodstuffs distribution business.

2. Turnover and segment reporting (continued)

Business segments (continued)

	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Foodstuffs trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Consolidated \$'000
Period ended 30 June 2003								
Revenue from external customers	275,913	342,731	81,790	29,412	15,319	-	-	745,165
Inter-segment revenue	524	-	-	-	-	(524)	-	-
Other revenue from external customers	-	-	-	-	-	-	6,171	6,171
Total	276,437	342,731	81,790	29,412	15,319	(524)	6,171	751,336
Segment result	31,738	4,494	(7,456)	685	10,792			40,253
Unallocated operating income and expenses								(6,281)
Profit from operations								33,972
Finance costs								(3,945)
Share of profits less losses of associates	-	(67)	-	-	-	-	9,580	9,513
Non-operating income								10,647
Income tax								(3,428)
Minority interests								(1,698)
Profit attributable to shareholders								45,061

2. Turnover and segment reporting (continued)

Geographical segments

The Group's business participates in two principal economic environments. Hong Kong is the major market for live and fresh foodstuffs distribution, whereas the PRC is the major market for most of the Group's other businesses. In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers.

	Group turnover	
	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Hong Kong	36,267	365,796
The PRC	353,288	372,042
Others	—	7,327
	<u>389,555</u>	<u>745,165</u>

3. Non-operating income

	Note	Six months ended 30 June	
		2004	2003
		\$'000	\$'000
Write-back of liabilities	(i)	76,223	—
Recovery of bad and doubtful debts	(ii)	—	10,647
		<u>76,223</u>	<u>10,647</u>

Notes:

- (i) The amounts mainly represent the write-back of liabilities which have been outstanding for a long time with no demand for settlements. The Directors are of the opinion that the creditors will not lodge claims against the Group.
- (ii) The amounts mainly represent the recovery of bad and doubtful debts previously written off or provided for as the recoverability was in doubt. During the period ended 30 June 2003, certain bad debts were recovered and the related write-off amounts of \$10,647,000 were written back to the profit and loss account accordingly.

4. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2004 \$'000	2003 \$'000
(a) <i>Finance costs:</i>		
Interest on bank advances and other borrowings repayable within 5 years	343	2,160
Interest on convertible notes	—	1,785
	<u>343</u>	<u>3,945</u>
(b) <i>Staff costs:</i>		
Net (refunded from)/contributions to defined contribution plan	(155)	624
Salaries, wages and other benefits	20,578	20,753
	<u>20,423</u>	<u>21,377</u>
(c) <i>Other items:</i>		
Depreciation	3,422	4,572
Amortisation of negative goodwill	(723)	(723)
Dividend income from listed securities	(118)	(143)
Loss on sale of investment/other securities	—	236
Net unrealised loss/(gains) on other securities carried at fair value	47	(282)
Operating lease charges in respect of properties rentals	305	509
Rentals receivable from investment properties less direct outgoings of \$549,000 (period ended 30 June 2003: \$1,194,000)	<u>(12,066)</u>	<u>(14,125)</u>

5. Income tax in the consolidated profit and loss account

Taxation in the consolidated profit and loss account represents:

	Six months ended 30 June	
	2004 \$'000	2003 \$'000
<i>Current tax – Provision for Hong Kong Profits Tax</i>		
Provision for Hong Kong Profits Tax at 17.5% on the estimated assessable profits for the period	1,061	618
<i>Current tax – the PRC</i>		
Tax for the period	17,583	5,054
Under-provision in respect of prior years	413	480
	17,996	5,534
<i>Deferred tax</i>		
Origination and reversal of temporary differences	2,665	6,353
Effect of increase in tax rate on deferred tax balances	–	(4,009)
	2,665	2,344
Share of associates' taxation	3,725	(5,068)
	25,447	3,428

Income tax for subsidiaries or associates established and operating in other places within the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC.

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$97,117,000 (period ended 30 June 2003: \$45,061,000) and the weighted average of 9,015,833,000 (period ended 30 June 2003: 8,998,333,000) ordinary shares in issue during the period.

(b) Diluted earnings per share

The diluted earnings per share for the period ended 30 June 2004 is not presented as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

The calculation of diluted earnings per share for the period ended 30 June 2003 is based on the adjusted profit attributable to ordinary shareholders of \$46,846,000 and the weighted average number of ordinary shares of 9,514,462,000 shares after adjusting for the effects of all dilutive potential ordinary shares.

7. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of provision for bad and doubtful debts) with the following ageing analysis based on invoice date:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Within 1 month	34,299	116,852
1 to 3 months	34,750	6,294
More than 3 months but less than 12 months	15,850	947
More than 1 year but less than 2 years	—	328
More than 2 years	219	46
	85,118	124,467

The Group maintains a defined policy with credit period ranging from advance payment to not more than 180 days (31 December 2003: 180 days).

8. Cash and cash equivalents

Analysis of the balances of cash and cash equivalents is set out below:

	<i>Note</i>	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Advances to bank	<i>(i)</i>	114,368	—
Cash at bank and in hand		175,947	254,457
	<i>(ii)</i>	290,315	254,457

Notes:

- (i) During the period, the Group entered into certain purchase and resell agreements of securities with a bank. Under the agreement, the bank will repurchase the securities at the agreed resale price at the end of the contract period, which is generally within 3 months. The difference between the purchase price and the resale price is recognised as interest income. Accordingly, the outstanding purchase cost at 30 June 2004 which amounts to \$114,368,000 (2003: \$Nil) is classified as advances to banks and which is considered to be, in substance, deposits with banks.

In accordance with the terms of the agreements, the advances were fully repaid by the bank subsequent to the period end.

- (ii) Included in cash and cash equivalents is a balance of RMB216,166,000 (2003: RMB157,995,000) which is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

9. Trade and other payables

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Due within 1 month or on demand	46,320	74,443
Due after 1 month but within 3 months	600	334
Due after 3 months but within 12 months	–	13
Due after 1 year but within 2 years	–	23
Over 2 years	36	70
	<u>46,956</u>	<u>74,883</u>

10. Share capital

	At 30 June 2004		At 31 December 2003	
	Number of shares (thousand)	\$'000	Number of shares (thousand)	\$'000
<i>Authorised:</i>				
Ordinary shares of \$0.1 each	<u>15,000,000</u>	<u>1,500,000</u>	<u>15,000,000</u>	<u>1,500,000</u>
<i>Issued and fully paid:</i>				
At 1 January	9,015,833	901,583	8,998,333	899,833
Shares issued under share option scheme	–	–	17,500	1,750
At 30 June/31 December	<u>9,015,833</u>	<u>901,583</u>	<u>9,015,833</u>	<u>901,583</u>

11. Commitments

- (a) Capital commitments outstanding at 30 June 2004 not provided for in the financial statements were as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Contracted for	10,531	971
Authorised but not contracted for	38,015	2,814
	<u>48,546</u>	<u>3,785</u>

11. Commitments (continued)

- (b) At 30 June 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Within 1 year	594	625
After 1 year but within 5 years	40	939
After 5 years	—	4,342
	634	5,906

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

- (c) At 30 June 2004, the Company committed to provide finance of \$6,489,000 (31 December 2003: \$6,489,000) to an associate of the Group.

12. Litigations

- (a) At 30 June 2004, the Group had an outstanding litigation against a former minority shareholder of a subsidiary in respect of amounts due to the Group totalling approximately \$40,000,000. The Group has pledged an equivalent amount of bills receivable with an authorised bank in the PRC in order to obtain a guarantee issued in favour of the Group to the Dongguan Intermediate People's Court. Full provision has previously been made against the amounts due from the former minority shareholder.
- (b) In May 2004, a PRC third party filed a claim against a subsidiary of the Group alleging that the subsidiary had not yet settled an outstanding amount due to it. The Intermediate People's Court of Yueyang City has ordered to freeze a bank deposit of the subsidiary amounted to approximately \$4,700,000 in this regard.

Based on the available information to date and legal opinion obtained, the Directors are of the opinion that the subsidiary has a considerable prospect of success in the above litigation. Accordingly, no provision for the claim has been made in the interim financial report.

13. Material related party transactions

Material related party transactions during the period are summarised as follows:

	Note	Six months ended 30 June	
		2004 \$'000	2003 \$'000
Sales of goods to related companies	(i)	–	2,123
Purchases of goods from related companies	(i)	1,991	14,560
Interest income from an associate	(ii)	409	846
Provision of electricity/water and leasing services to a fellow subsidiary		1,580	1,535
Commission paid to related companies		–	718
Interest on convertible notes payable to a fellow subsidiary	4(a)	–	1,785

Notes:

- (i) Related companies to/from which goods were sold and purchased included associates and minority shareholders of partly-owned subsidiaries.
- (ii) In 1999, the Company entered into an unsecured shareholders' loan agreement with an associate, Yellow Dragon Food Industry Company Limited. Pursuant to the agreement, the Company advanced US\$6,700,000 to the associate at an interest rate of 7.8% per annum. The amount is repayable in full in 5 years commencing from 1 January 2000 and the principal and interest shall be payable twice annually. At the balance sheet date, the outstanding loan and interest receivable from the associate amounted to \$9,782,000 (31 December 2003: \$9,782,000) and \$409,000 (31 December 2003: \$Nil) respectively.

14. Post balance sheet events

On 23 July 2004, the Group entered into a share transfer agreement with a party which is not connected with the Company for the disposal of the Group's 51% interest in 高要廣南畜牧發展有限公司 (Gaoyao Guangnan Stock Development Co., Ltd) at a consideration of Rmb1,560,000. According to the agreement, the transaction would be completed subject to fulfilment of certain conditions, including the receipt of the consideration in full and obtaining the necessary approvals from the PRC government authorities. A gain of approximately \$1,890,000 is expected from the transaction.



**INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF
GUANGNAN (HOLDINGS) LIMITED**

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 3 to 17.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group’s management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the period ended 30 June 2004.

KPMG

Certified Public Accountants

Hong Kong, 17 September 2004

INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2004 (period ended 30 June 2003: Nil).

RESULTS

In the first half of 2004, the Group's results recorded a growth. The unaudited consolidated profit attributable to shareholders was HK\$97,117,000, representing an increase of 115.5% as compared with HK\$45,061,000 during the corresponding period of last year. The basic earnings per share was 1.08 Hong Kong cents, representing an increase of 116% as compared with 0.5 Hong Kong cents of the corresponding period of last year. The Board resolved not to distribute any interim dividend.

BUSINESS REVIEW

In the first half of 2004, the operating environment remained undesirable, due to the impact of a bird flu, which was more serious than last year, on live and fresh foodstuffs business, the shortage of raw materials of tinplates and the nearly historical highs of the prices of various kinds of raw materials. During the period under review, the Group achieved satisfactory results by adopting various measures, such as an adjustment of its management structure, a reform of its operating mechanism, the implementation of an assessment and accountability system for operating objectives, and the invitation to tender/tender exercise under the Sunshine Project (陽光工程). Although the live and fresh foodstuffs distribution business was affected by the bird flu at the beginning of the year, to meet the increase of the demand for live pigs in Hong Kong, the Group actively sought to increase the export of live pigs from Guangdong Province. This not only compensated the loss caused by the fall of income from poultry agency business, but also brought about an increase of 41.9% in operating profit as compared with last year. As the tinplating business has not suffered from the negative impact of the macro-economic adjustment and control measures adopted by the State, its output remained normal; the product quality was improved and the products continued their brisk sales momentum. The turnover increased slightly as compared with the corresponding period of last year. Nevertheless, under the constraint of shortages of raw plates and the substantial surge of the price of the principal raw materials, when compared with the corresponding period of last year, the gross profit margin fell by 4 per cent, and the operating profit was down. Yellow Dragon Food Industry Co., Ltd., an associate of the Group, continued to operate with a strong momentum. Its profit before taxation increased by 105.2% when compared with the corresponding period of last year, and the profit attributable to the Group increased by HK\$9,520,000.

BUSINESS REVIEW *(continued)*

During the period under review, the consolidated profit attributable to shareholders was HK\$97,117,000, representing an increase of 115.5% when compared with the corresponding period of last year. Profit before taxation was HK\$127,148,000, increased by HK\$76,961,000 when compared with the corresponding period of last year. The increase was mainly resulted from an increase of HK\$65,576,000 of non-operating income to HK\$76,223,000 for the period. The amounts represented the write-back of liabilities which have been outstanding for a long time with no demand for settlement. However, since 1 January 2004, when new agency agreements were made in relation to the live and fresh foodstuffs agency business, there has been a change of the operation mode from the sale and purchase of commodities to pure agency business for which commissions was charged, thus avoiding the risks associated with trading business without affecting the gross profit, and any relevant amounts which would have been recorded as turnover under past practice were recorded as commission, resulting in HK\$323,027,000 fall of the turnover of the live and fresh foodstuffs distribution business and HK\$355,610,000 decrease of the Group's consolidated turnover to HK\$389,555,000 for the period. If comparison was made with last year using the same criteria, the turnover of the live and fresh foodstuffs distribution business would only have recorded a fall of HK\$3,710,000.

Tinplating

In the first half of 2004, the tinplate production of the Group's subsidiary, Zhongshan Zhongyue Tinplate Industrial Co., Ltd., amounted to 45,280 tonnes and its sales amounted to 44,503 tonnes, both representing a decrease of 8.2% as compared with the corresponding period of last year. The turnover was HK\$281,179,000, representing an increase of 1.7% as compared with the corresponding period of last year. The operating profits decreased by HK\$4,441,000 as compared with the corresponding period of last year, representing a decrease of 14.0%. The decrease was mainly due to the shortage of raw plates and the significant increase of the prices of raw materials, such as raw plates, crude oil and tin ingots. The increase of costs was comparatively larger than that of selling prices.

The tinplating business remained to be the core business which made the greatest contribution to the Group's profit with the most promising prospects and it therefore will be our focus of development in future. In the first half of the year, the tinplating business maintained its brisk momentum, which was unaffected by the State policy of macro-economic adjustments and control. However, owing to the hot sales of steel products worldwide, the supply of raw plate was tighter than last year. Faced with this problem, the management paid special attention to the globalization of the raw plate procurement on one hand, and to increasing the use of raw plates produced in China on the other hand. In order to increase the supply of raw plates, we sent delegations to visit steel companies around the world to open up new sourcing channels. We also organized tests on PRC-produced raw plates. Our efforts produced preliminary results. The Company looks forward to procuring an adequate supply of raw plates by the middle of next year when our new production line commences operation, which would bring forth an increase of our tinplate output.

BUSINESS REVIEW *(continued)***Tinplating** *(continued)*

The first half of the year saw the commencement of the project for the construction of a new tin-free steel production line, which will be capable of achieving an annual output of 80,000 tonnes. Currently, we have completed the invitation to tender exercise for 4 major items and the infrastructure site clearing. The invitation to tender for factory building construction will be completed by September. High-calibre employees have been recruited for the new production line, and their practice and training has already commenced.

Property Leasing

The Group's leasing properties included plant and staff dormitory of Zhongyue Shan Hai Industrial Co., Ltd. ("Shan Hai"), and the office building in Hong Kong. In the first half of 2004, the total revenue of leasing properties owned by the Group was recorded at HK\$12,645,000, which decreased by 17.5% as compared with the corresponding period of last year. The operating profit of leasing properties totalled HK\$7,841,000, which decreased by 27.3% as compared with the corresponding period of last year. The decrease was mainly attributable to the fact that the leasing contracts of some of the leased plants of Shan Hai entered into ten years ago were expired while the new leases reduced the unit area rent in accordance with market rate.

Live and Fresh Foodstuffs Distribution

In the first half of 2004, the turnover of live and fresh foodstuffs distribution business was recorded at HK\$19,704,000, which decreased by HK\$323,027,000 as compared with the corresponding period of last year, representing a decrease of 94.3%. This was principally attributable to a change of the operation mode in the year from the sale and purchase of commodities to pure agency services on commission basis. If comparison was made with last year using the same criteria, the Group would have recorded a fall of HK\$3,710,000 in turnover, representing a decrease of 15.8%. In the first half of the year, faced with the outbreak of the bird flu in the beginning of the year, the Group further downsized its personnel to lower its operating costs on one hand, while seeking to increase its quota for importation of live pigs from Guangdong to meet the increasing demands for pork on the other hand, in order to increase the income from livestock business to offset the loss in poultry business caused by the bird flu. In the first six months of the year, the operating profit of live and fresh foodstuffs distribution was recorded at HK\$6,377,000, which increased by HK\$1,883,000 as compared with the corresponding period of last year, representing an increase of 41.9%.

Live and fresh foodstuffs distribution is the traditional business of the Group. By taking measures to open up new sources of revenue and reduce costs, as well as to explore various possibilities to enhance benefits, the Company continued to stabilize its live and fresh foodstuffs agency business so as to maintain its competitiveness and provide the Group with a stable source of profit.

BUSINESS REVIEW *(continued)***Feed Production**

In the first half of 2004, the turnover of the Group's subsidiary, Guangnan (Zhan Jiang) Jiafeng Feed Co. Ltd. ("Guangnan Jiafeng"), amounted to HK\$61,312,000, representing an increase of 7.7% as compared with the corresponding period of last year. However, as the majority of the farming households ran into operating difficulties in the beginning of the year owing to the serious outbreak of bird flu, the Group had to make a provision for bad debts of HK\$4,674,000 and recorded an operating loss of HK\$1,647,000.

The management considered that the feed production industry relies heavily on raw materials processing and its gross profit is very low. The fluctuation of raw material prices is difficult to control. In addition, since the customers are stricken by bird flu from time to time, the account receivables were subject to substantial risk exposure. Therefore, the Group decided last year to gradually withdraw from the feed production business. However, the outbreak of bird flu in the beginning of year fenced off the majority of potential purchasers. The Group will continue its efforts in the second half of the year to actively seek a purchaser for the sale of Guangnan Jiafeng in its entirety.

Foodstuffs Trading

In the first half of 2004, as affected by the outbreak of bird flu, the Group's foodstuffs trading business recorded a turnover of HK\$15,397,000, representing a decrease of 47.7% as compared with the corresponding period of last year. The operating loss was HK\$73,000, indicating a return to loss.

The management considered that the foodstuffs trading business is a less profitable non-core and non-advantageous business, contributing less profit to the Group. The management decided to conduct a resources realignment exercise for the foodstuffs trading business and, when conditions mature, to withdraw gradually from the business.

Livestock Farming

The Group's only livestock farming company – Gaoyao Guangnan Stock Development Co., Ltd was closed during the period under review, and a contract was concluded on 23 July 2004, pursuant to which the 51% equity owned by the Group in the company would be sold to a party which is not connected with the Company for RMB1,560,000. As such, the Group has withdrawn completely from the livestock farming business.

FINANCIAL POSITION

As at 30 June 2004, the Group's total assets amounted to HK\$954,814,000, and total liabilities stood at HK\$234,407,000, representing a decrease of HK\$1,161,000 and HK\$98,935,000 respectively when compared with the position as at the end of 2003. The net current assets of the Group increased from HK\$126,507,000 as at the end of 2003 to HK\$211,388,000, and the current ratio (current assets divided by current liabilities) increased by 55.2% when compared with the position as at the end of 2003. The Group has a very sound financial position, paving the way for future business expansion.

FINANCIAL POSITION *(continued)***Liquidity and Financing Resources**

As at 30 June 2004, the Group maintained cash and cash equivalent balances of HK\$290,315,000, an increase of 14.1% from the cash and cash equivalent balances as at the end of 2003. During the period under review, the major cash outflow was a repayment of HK\$23,250,000 to a fellow subsidiary.

As at 30 June 2004, the Group's interest-bearing borrowings totalled HK\$7,878,000, being repayment on demand and carrying interest at an annual rate of 7.5%. Accordingly, the Group's gearing ratio, which was measured on the basis of the Group's total interest-bearing borrowings over the shareholders' fund, decreased significantly from 9.6% as at the end of 2003 to 1.1%.

As at 30 June 2004, the Group's total available credit facilities amounted to HK\$213,025,000, of which HK\$76,609,000 have been utilized. The unutilized facilities amounted to HK\$136,416,000. With its cash and cash equivalent holdings and the recurring cash flow from its operations, the Group believes that it will have sufficient funds to meet its present operation requirements and to further develop its business in the foreseeable future.

Charge on Group's Assets

As at 30 June 2004, certain of the Group's fixed assets with net book value of HK\$2,827,000 were pledged to secure general banking facilities amounting to HK\$9,046,000 of the Group.

In addition, certain bills receivable of the Group amounting to approximately HK\$40,000,000 as at 30 June 2004 has been pledged with an authorized bank in the PRC in order to obtain a guarantee issued in favour of the Group to the Dongguan Intermediate People's Court as a security provided for the legal preservation applied by the Group in a litigation against a former minority shareholder of a subsidiary for recovering an equivalent amount due to the Group.

Exchange Rate Exposure

The Group's assets, liabilities and transactions were primarily denominated either in Hong Kong dollars, US dollars or Renminbi. As the exchange rates of Hong Kong dollars, US dollars or Renminbi were relatively stable during the period, the Group was not exposed to significant exchange risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2004, the Group has a total of 548 full-time employees, increased by 4 as compared with the end of 2003, of whom 25 were based in Hong Kong and 523 were based in mainland China. The staff remuneration is determined in accordance with the responsibility for the post, workload, skills, hardship, working conditions, individual performance and prevailing industry practice. In 2004, the Group continued to implement control on the staffing, headcount and total salaries of each subsidiary. The performance bonus incentive scheme continued to be carried out for the management. Through the assessment of the performance of each subsidiary and based on the net cash flow from operation and profit after tax, performance bonus was calculated at applicable rate on different profit levels. In addition, bonus will be rewarded to the management, key personnel and outstanding staff through assessment of individual performance. All of the above rewards will raise the morale of our staff members. The Company has also adopted a share option scheme to reward, attract, retain and motivate excellent and brilliant participants to continue their contribution to the Group.

FUTURE PROSPECT

The operation environment in the second half of 2004 is still challenging. Due to the shortage of raw materials for tinplate and increase of prices, tinplating business will experience a “bottle neck”. Following the realignment of our business structure, the gradual withdrawal from feed production and foodstuffs trading, the turnover of the year was affected to a certain extent. Aiming at alleviating unfavourable factors of production and business in 2004 by taking an active role and advocating our future development, the Group decided to adopt the following measures: (1) Problems on the shortage of raw materials for tinplates will be actively solved, such as by exploring various sources to import raw materials and alternate materials. Besides, the management will review the possibility of using local raw plates and search of market and production potential to realize our current target. (2) To organize for and construct exclusive tin-free steel production line without affecting day-to-day production, aiming at commencing production at the earliest opportunity to achieve our targets on effectiveness. (3) Five-year plan on corporate development will be implemented, organized and carried out. The Group dedicates to develop new products and varieties of tinplate and its related business with promising market prospects. The Group firmly believes, by virtue of the advantage that our tinplate products were granted as brand name products in Guangdong Province in 2003, comparative advantage in producing tin-free steel in China and the sound financial position and strong management team, the Group will realize our aims to establish a professional corporate in the foreseeable years.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(I) Long positions in shares

(i) The Company

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jiang	800,000	0.009%

(ii) Guangdong Investment Limited

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jianqin	200,000	0.003%

(iii) Kingway Brewery Holdings Limited

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Luo Fanyu	70,000	0.005%
Liang Jianqin	46,000	0.003%

(iv) Guangdong Tannery Limited

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Luo Fanyu	70,000	0.013%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(II) Long positions in options relating to ordinary shares of the Company

Name of Director	Date of share options granted [#]	Number of share options		Exercisable period of share options	Total consideration paid for share options granted	Price per share to be paid on exercise of share options	During the period			Number of options held on 30 June 2004	Share price	
		Held on 1 January 2004	Granted during the period				Exercised	Lapsed	Cancelled		At options grant date (**)	At options exercise date
		'000	'000		HK\$	HK\$	'000	'000	'000	'000	HK\$	HK\$
Liang Jiang	06/02/04	-	20,000	06/05/04 to 05/05/09*	10	0.1582	-	-	-	20,000	0.155	-
Tan Yunbiao	06/02/04	-	15,000	06/05/04 to 05/05/09*	10	0.1582	-	-	-	15,000	0.155	-

The vesting period of the share options is from the date of grant until the commencement of the exercise period or the grantee's completion of half year's full time service with the Company or its subsidiaries, whichever is the later.

* If 5 May 2009 is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.

** The share price disclosed as at the date of grant of share options is the closing price of the shares of the Company quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the share options.

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company held by the Directors in trust for the Company, as at 30 June 2004, none of the Directors and chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, so far as is known to any Directors or chief executives of the Company, the following persons (other than Directors and chief executives of the Company) had interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under Section 336 of the SFO:

Name	Number of ordinary shares beneficially held	Approximate % of issued share capital	Long/short positions
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (“Yue Gang”) <i>(Note)</i>	5,364,948,680	59.51%	Long position
GDH Limited (“GDH”)	5,364,948,680	59.51%	Long position

Note: The attributable interest which Yue Gang has in the Company is held through its 100 per cent. direct interest in GDH.

Save as disclosed above, as at 30 June 2004, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

On 11 June 2004, the shareholders of the Company passed a resolution to adopt a new share option scheme (the “2004 Share Option Scheme”) enabling the Company to attract, retain and motivate high calibre and talented participants to make contributions to the Group. On the same day, the shareholders of the Company also passed a resolution to terminate the share option schemes that were adopted by the Company on 21 November 1994 (the “1994 Share Option Scheme”) and 24 August 2001 (the “2001 Share Option Scheme”). Please refer to the circular of the Company dated 19 May 2004 for further details.

During the period, no share options were outstanding under the 1994 Share Option Scheme and no share options were granted under the 2004 Share Option Scheme by the Company.

As at 30 June 2004, the following share options were outstanding under the 2001 Share Option Scheme:

Category	Date of share options granted ^d	Number of share options		Exercisable period of share options	Total consideration paid by each grantee for share options granted HK\$	Price per share to be paid on exercise of share options HK\$	During the period			Number of options held on 30 June 2004 '000	Share price	
		Held on 1 January 2004 '000	Granted during the period '000				Exercised '000	Lapsed '000	Cancelled '000		At options grant date (***) HK\$	At options exercise date HK\$
Employees and other participants	24/08/01	33,500	-	26/11/01 to 25/11/06*	10	0.1495	-	-	-	33,500	0.185	-
	06/02/04	-	71,900	06/05/04 to 05/05/09**	10	0.1582	-	-	-	71,900	0.155	-

The vesting period of the share options is from the date of grant until the commencement of the exercise period or the grantee’s completion of half year’s full time service with the Company or its subsidiaries, whichever is the later.

* If 25 November 2006 is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.

** If 5 May 2009 is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.

*** The share price disclosed as at the date of grant of share options is the closing price of the shares of the Company quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the share options.

SHARE OPTION SCHEMES *(continued)*

In assessing the theoretical aggregate value of the share options granted during the period, the Black-Scholes option pricing model has been used.

Date of Grant	:	06/02/2004
Vesting Period	:	06/02/2004 – 06/05/2004
Exercise Period	:	06/05/2004 – 05/05/2009
Exercise Price	:	HK\$0.1582 per share

At 6 February 2004*(Note (2))*

Number of share options	106,900,000
Theoretical value of share options	HK\$0.0725 per share
Total theoretical value of share options	HK\$7,750,250

Notes:

- (1) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK\$0.155.
- (2) According to the Black-Scholes model[#], the total theoretical value of the options was estimated at HK\$7,750,250 as at 6 February 2004 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	2.831%*, being the approximate yield of 5-year Exchange Fund Note traded on 06/02/2004
Expected Volatility	:	49.96%, being the annualised volatility of the closing price of the ordinary shares of the Company from 06/02/2003 – 06/02/2004
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	5.24 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period of 06/02/2003 – 06/02/2004.

- (3) No forfeiture clause was contained in the relevant share option scheme.

The Black-Scholes model (the “Model”) is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. It should be noted that the Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors’ opinion, the Model gives the theoretical value of the share options only and should not be interpreted as the market or actual value of the option.

* According to Rule 17.08 of the Listing Rules, the risk-free rate should be the rate prevailing on debt securities issued by the state, such as the Exchange Fund Notes in case of Hong Kong based entities.

CORPORATE GOVERNANCE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with Appendix 14 of the Listing Rules of the Stock Exchange, except that the non-executive Directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules of the Stock Exchange as the code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period under review.

The Group's interim report for the six months ended 30 June 2004 has not been audited but has been reviewed by the audit committee and the Company's auditors, Messrs. KPMG.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its securities during the six months ended 30 June 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the period.

By Order of the Board
Liang Jiang
Chairman

Hong Kong, 17 September 2004