



GUANGNAN (HOLDINGS) LIMITED  
廣南(集團)有限公司

INTERIM REPORT 2005



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## CORPORATE INFORMATION

### ***Board of Directors***

#### *Executive Directors*

LIANG Jiang (*Chairman*)

TAN Yunbiao

TSANG Hon Nam

#### *Non-executive Directors*

ZHAO Lili

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***

22/F., Tesbury Centre

No. 24-32 Queen's Road East

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

### ***Website***

<http://www.gdguangnan.com>

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 2005 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 2005 – unaudited

	Note	<i>Six months ended 30 June</i>	
		2005	2004 (restated)
		\$'000	\$'000
<b>Turnover</b>	3	<b>399,791</b>	389,555
Cost of sales		<u>(343,515)</u>	<u>(326,829)</u>
<b>Gross profit</b>		<u>56,276</u>	<u>62,726</u>
<b>Net valuation gains on investment properties</b>		<u>22,149</u>	<u>–</u>
Other revenue		7,248	6,472
Other net income		215	281
Distribution costs		(5,870)	(6,583)
Administrative expenses		(15,945)	(23,979)
Other operating expenses		<u>(40)</u>	<u>(6,671)</u>
<b>Profit from operations</b>		<b>64,033</b>	32,246
Non-operating income	4	44,509	76,223
Finance costs	5(a)	–	(343)
Share of profits less losses of associates		<u>15,633</u>	<u>18,133</u>
<b>Profit from ordinary activities before taxation</b>	5	<b>124,175</b>	126,259
Income tax	6	<u>(4,564)</u>	<u>(25,384)</u>
<b>Profit after taxation</b>		<u><b>119,611</b></u>	<u>100,875</u>

**Consolidated profit and loss account for the six months ended 30 June 2005 – unaudited** *(continued)*

	<i>Note</i>	<i>Six months ended 30 June</i>	
		<i>2005</i>	<i>2004</i> <i>(restated)</i>
		<b>\$'000</b>	<b>\$'000</b>
<b>Attributable to:</b>			
Equity holders of the Company		<b>117,355</b>	96,296
Minority interests		<b>2,256</b>	4,579
<b>Profit after taxation</b>		<b>119,611</b>	100,875
<b>Transfer to other reserve</b>		<b>876</b>	13,529
<b>Earnings per share – Basic</b>	7	<b>1.30 cents</b>	1.07 cents
<b>Interim dividend</b>		<b>Nil</b>	Nil

**Consolidated balance sheet at 30 June 2005 – unaudited**

*(Expressed in Hong Kong dollars)*

		<i>At</i> <b>30 June</b> <b>2005</b>	<i>At</i> <b>31 December</b> <b>2004</b> <i>(restated)</i>
	<i>Note</i>	<b>\$'000</b>	<b>\$'000</b>
<b>Non-current assets</b>			
Fixed assets			
– Investment properties		<b>206,415</b>	184,298
– Other property, plant and equipment	8(a)	<b>212,194</b>	177,656
	8	<b>418,609</b>	361,954
Interest in leasehold land held for own use under an operating lease		<b>8,729</b>	8,854
Interest in associates		<b>168,750</b>	169,689
Other financial assets		<b>202</b>	202
		<b>596,290</b>	540,699
<b>Current assets</b>			
Other investments		<b>3,200</b>	3,200
Inventories		<b>97,132</b>	30,707
Trade and other receivables	9	<b>166,701</b>	120,079
Tax recoverable		<b>12,015</b>	–
Cash and cash equivalents	10	<b>236,950</b>	293,383
		<b>515,998</b>	447,369
<b>Current liabilities</b>			
Interest-bearing borrowings		–	7,851
Trade and other payables	11	<b>175,821</b>	170,127
Current taxation		<b>20,044</b>	14,556
		<b>195,865</b>	192,534
<b>Net current assets</b>		<b>320,133</b>	254,835
<b>Total assets less current liabilities</b>		<b>916,423</b>	795,534

**Consolidated balance sheet at 30 June 2005 – unaudited** *(continued)*  
*(Expressed in Hong Kong dollars)*

		<i>At</i> <b>30 June</b> 2005	<i>At</i> <i>31 December</i> 2004 <i>(restated)</i>
	<i>Note</i>	<b>\$'000</b>	<b>\$'000</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		<u>11,412</u>	<u>9,833</u>
		<b>905,011</b>	<b>785,701</b>
<b>Capital and reserves</b>			
Share capital	12	<b>901,583</b>	901,583
Reserves		<u>(23,594)</u>	<u>(140,668)</u>
<b>Total equity attributable to equity holders of the Company</b>	12	<b>877,989</b>	760,915
<b>Minority interests</b>	12	<u>27,022</u>	<u>24,786</u>
<b>Total equity</b>	12	<u><b>905,011</b></u>	<u>785,701</u>

**Consolidated statement of changes in equity for the six months ended 30 June 2005 – unaudited**  
*(Expressed in Hong Kong dollars)*

	Note	Six months ended 30 June	
		2005	2004 (restated)
		\$'000	\$'000
<b>Total equity at 1 January:</b>			
Attributable to equity holders of the Company (as previously reported at 31 December)	12	767,010	602,249
Minority interests (as previously presented separately from liabilities and equity at 31 December)	12	25,107	20,384
		<u>792,117</u>	<u>622,633</u>
Prior period adjustments arising from changes in accounting policies	2(a)(i) & (ii), 12	(6,416)	(4,372)
As restated, before opening balance adjustments	12	785,701	618,261
Opening balance adjustments arising from changes in accounting policies	12	–	17,246
		<u>–</u>	<u>17,246</u>
At 1 January, after prior period and opening balance adjustments	12	<u>785,701</u>	<u>635,507</u>



**Consolidated statement of changes in equity for the six months ended 30 June 2005 – unaudited**  
*(continued)*  
*(Expressed in Hong Kong dollars)*

	Note	Six months ended 30 June		2004	
		2005	2005	(restated)	(restated)
		\$'000	\$'000	\$'000	\$'000
<b>Net income for the period recognised directly in equity:</b>					
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong (2004: as restated)	12	(270)		1,323	
Share of associates' reserves	12	(26)		694	
			(296)		2,017
<b>Net profit for the period:</b>					
Attributable to equity holders of the Company (as previously reported)					97,117
Minority interests (as previously presented separately in the consolidated profit and loss account)					4,584
Prior period adjustments arising from changes in accounting policies	2(a)(iii)				(826)
Net profit for the period (2004: as restated)	12		119,611		100,875

**Consolidated statement of changes in equity for the six months ended 30 June 2005 – unaudited**  
*(continued)*  
*(Expressed in Hong Kong dollars)*

	Note	Six months ended 30 June	
		2005	2004 <i>(restated)</i>
		\$'000	\$'000
<b>Total recognised income and expense for the period (2004: as restated)</b>			
Attributable to:			
– Equity holders of the Company	12	117,355	96,296
– Minority interests	12	2,256	4,579
		<u>119,611</u>	<u>100,875</u>
Dividends declared to minority shareholders	12	(2,212)	(5,944)
Contribution by minority shareholders	12	2,207	–
<b>Total equity at 30 June</b>	12	<u>905,011</u>	<u>732,455</u>
<b>Restatements of total recognised income and expense for the period are attributable to:</b>			
– Equity holders of the Company			(821)
– Minority interests			(5)
			<u>(826)</u>
Arising from restatements of:			
– Net income recognised directly in equity	2(a)(iv)		–
– Net profit for the period	2(a)(iii)		(826)
			<u>(826)</u>

The notes on pages 11 to 24 form part of this interim financial report.

**Condensed consolidated cash flow statement for the six months ended 30 June 2005 – unaudited**  
*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<i>Six months ended 30 June</i>	
		<i>2005</i>	<i>2004</i>
		<b>\$'000</b>	<b>\$'000</b>
Cash (used in)/generated from operations		<b>(22,770)</b>	44,072
Tax paid		<b>(5,840)</b>	(6,213)
Net cash (used in)/from operating activities		<b>(28,610)</b>	37,859
Net cash (used in)/from investing activities		<b>(23,189)</b>	813
Net cash used in financing activities		–	(2,814)
(Decrease)/increase in cash and cash equivalents		<b>(51,799)</b>	35,858
Cash and cash equivalents at 1 January	10	<b>288,749</b>	254,457
Cash and cash equivalents at 30 June	10	<b>236,950</b>	290,315

## Notes on the unaudited interim financial report

*(Expressed in Hong Kong dollars)*

### 1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 20 September 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company and by the auditors, KPMG, in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG’s independent review report to the Board is included on page 25.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information 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 2004 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 April 2005.

### 2. Changes in accounting policies

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board has determined the accounting policies expected to be adopted in the preparation of the Group’s annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretations or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group’s financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

2. **Changes in accounting policies (continued)**

(a) **Summary of the effect of changes in the accounting policies**

(i) *Effect on opening balance of total equity at 1 January 2005 (as adjusted)*

The following table sets out the adjustments that have been made to the opening balances at 1 January 2005. These are the aggregate effect of retrospective adjustments to the net assets as at 31 December 2004 and the opening balance adjustments made as at 1 January 2005.

Note	Accumulated losses \$'000	Capital and other reserves \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
<i>Effect of new policy – increase/(decrease)</i>					

*Prior period adjustments:*

HKAS 40

Investment properties	2(d)	<u>30,768</u>	<u>(36,863)</u>	<u>(6,095)</u>	<u>(321)</u>	<u>(6,416)</u>
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(ii) *Effect on opening balance of total equity at 1 January 2004 (as adjusted)*

The following table sets out only those adjustments that have been made to the opening balances at 1 January 2004. As explained in notes 2(b) and (e), certain of the changes in policies did not result in retrospective adjustments being made to the opening balances as at 1 January 2004 as this was prohibited by the relevant transitional provisions.

Note	Accumulated losses \$'000	Capital and other reserves \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
<i>Effect of new policy – increase/(decrease)</i>					

HKAS 40

Investment properties	2(d)	<u>16,400</u>	<u>(20,553)</u>	<u>(4,153)</u>	<u>(219)</u>	<u>(4,372)</u>
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2. **Changes in accounting policies (continued)**

(a) **Summary of the effect of changes in the accounting policies (continued)**

(iii) *Effect on profit after taxation for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)*

In respect of the six months ended 30 June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six months ended 30 June 2004, the table discloses the adjustments that have been made to the profits as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, as explained in notes 2(b) and (e), the amounts shown for the six months ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

	Note	Six months ended 30 June 2005			Six months ended 30 June 2004		
		Equity holders of the Company \$'000	Minority interests \$'000	Total \$'000	Equity holders of the Company \$'000	Minority interests \$'000	Total \$'000
<i>Effect of new policy – increase/(decrease)</i>							
<i>HKFRS 3</i>							
Business combinations (Note)		-	-	-	(723)	-	(723)
<i>HKAS 40</i>							
Investment properties	2(d)	20,960	66	21,026	(98)	(5)	(103)
		<u>20,960</u>	<u>66</u>	<u>21,026</u>	<u>(821)</u>	<u>(5)</u>	<u>(826)</u>

*Note:* The Group had early adopted HKFRS 3 issued by the HKICPA for the year ended 31 December 2004. As a result, negative goodwill existed at 1 January 2004 of \$17,246,000 had been derecognised by way of an adjustment to the accumulated losses as at 1 January 2004. Comparative information was restated for the amortisation of negative goodwill.

	Six months ended 30 June 2005			Six months ended 30 June 2004		
	Equity holders of the Company cents	Minority interests cents	Total cents	Equity holders of the Company cents	Minority interests cents	Total cents
<i>Effect of new policy – increase/(decrease)</i>						
Effect on earnings per share:						
- basic	0.23	-	0.23	(0.01)	-	(0.01)
- diluted	N/A	N/A	N/A	N/A	N/A	N/A
	<u>0.23</u>	<u>-</u>	<u>0.23</u>	<u>(0.01)</u>	<u>-</u>	<u>(0.01)</u>

2. **Changes in accounting policies (continued)**

(a) **Summary of the effect of changes in the accounting policies (continued)**

(iv) *Effect on net income recognised directly in equity for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)*

In respect of the six months ended 30 June 2005, the following table provides estimates of the extent to which the income or expenses recognised directly in equity are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six months ended 30 June 2004, the table discloses the adjustments that have been made to the net income or expenses as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs.

Note	Six months ended 30 June 2005			Six months ended 30 June 2004		
	Equity holders of the Company		Minority interests	Equity holders of the Company		Minority interests
	\$'000	\$'000		\$'000	\$'000	
			Total \$'000	Total \$'000		Total \$'000
	<i>Effect of new policy – increase/(decrease)</i>					
	<i>HKAS 40</i>					
	<i>Investment properties</i>					
	<i>– effect on investment properties revaluation reserve</i>					
2(d)	(18,959)	39	(18,920)	–	–	–

(b) **Employee share option scheme (HKFRS 2, Share-based payment)**

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium of the Company were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group is required to recognise the fair value of such options as an expense in the profit and loss account, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise the options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained profits.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (a) all options granted to employees on or before 7 November 2002; and
- (b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

All the options granted by the Company fall within the above two categories. This change in accounting policy has no impact on the results of the Group for the six months ended 30 June 2005. Details of the employee share option scheme can be found in the Company's annual report for the year ended 31 December 2004.

2. **Changes in accounting policies (continued)**

(c) **Discontinuing operations (HKFRS 5, Non-current Assets Held for Sale and Discontinued Operations)**

With effect from 1 January 2005, in order to comply with HKFRS 5, the Group is required to classify operations as discontinued when the criteria to be classified as held for sale have been met or the Group has disposed of the operation. Held for sale is when the carrying amount of an operation will be recovered principally through a sale transaction and not through continuing use.

This new accounting policy has no impact on the financial statements for the six months ended 30 June 2005 and the comparative information.

(d) **Investment properties (HKAS 40, Investment property, and HK(SIC) Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)**

Changes in accounting policies relating to investment properties are as follows:

(i) *Timing of recognition of movements in fair value in the profit and loss account*

In prior years, movements in the fair value of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the profit and loss account had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the profit and loss account.

Upon adoption of HKAS 40 as from 1 January 2005:

- all changes in the fair value of investment properties are recognised directly in the profit and loss account in accordance with the fair value model in HKAS 40; and
- dual use properties are treated as own use properties, unless the portions could be separately sold (or leased out under a finance lease), or the own use portion is insignificant.

These changes in accounting policy have been adopted retrospectively by decreasing the opening balance of accumulated losses as of 1 January 2005 by \$30,768,000 (1 January 2004: \$16,400,000) to include all of the Group's previous investment properties revaluation reserve and adjustments on accumulated depreciation of own use properties previously classified as dual use properties.

As a result of this new policy, the Group's profit before taxation for the six months ended 30 June 2005 has increased by \$21,625,000 (six months ended 30 June 2004: decreased by \$166,000), being the net increase in the fair value of the Group's investment properties.

(ii) *Measurement of deferred tax on movements in fair value*

In prior years, the Group was required to apply the tax rate that would be applicable to the rental income of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties.

As from 1 January 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

This new interpretation has no impact on the financial statements for the six months ended 30 June 2005 and the comparative information.



2. **Changes in accounting policies (continued)**

(e) **Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)**

Changes in accounting policies relating to financial instruments are as follows:

*Changes in measurement of financial instruments*

In prior years, the accounting policies for certain financial instruments were as follows:

- equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision; and
- other investments were stated at fair value with changes in fair value recognised in the profit and loss account.

With effect from 1 January 2005, and in accordance with HKAS 39, the following new accounting policies are adopted for the financial instruments mentioned above:

- Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment losses; all other investments are classified as at fair value through profit and loss and carried at fair value. Changes in fair value are recognised in the profit and loss account.

This new accounting policy has no impact on the financial statements for the six months ended 30 June 2005 and the comparative information.

- All derivative financial instruments entered into by the Group are stated at fair value. Changes in the fair value of derivatives held as hedging instruments in a cash flow hedge of committed future transactions are recognised in equity to the extent that the hedge is effective. Any ineffective portion of the changes in fair value of the derivatives is recognised in the profit and loss account.

This new accounting policy has no impact on the financial statements for the six months ended 30 June 2005 and the comparative information.

(f) **Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)**

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated profit and loss account as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, consolidated profit and loss account and consolidated statement of changes in equity for the comparative period has been restated accordingly.

### 3. Turnover and segment reporting

The Group's primary format for reporting segment information is business segments. Revenue from external customers (turnover) represents the sales value of goods supplied to customers and rental income. Net gains from revaluation of investment properties are included in the segment result for the property leasing segment.

#### **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 of live and fresh foodstuffs
Feed production and livestock farming (discontinued)	:	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

	<i>Tinplating</i> \$'000	<i>Live and fresh foodstuffs distribution</i> \$'000	<i>Foodstuffs trading</i> \$'000	<i>Property leasing</i> \$'000	<i>Inter-segment elimination</i> \$'000	<i>Unallocated</i> \$'000	<i>Consolidated</i> \$'000
<i>Period ended 30 June 2005</i>							
Revenue from external customers	332,477	33,532	20,875	12,907	-	-	399,791
Inter-segment revenue	977	-	-	56	(1,033)	-	-
Other revenue from external customers	-	-	-	-	-	5,160	5,160
<b>Total</b>	<b>333,454</b>	<b>33,532</b>	<b>20,875</b>	<b>12,963</b>	<b>(1,033)</b>	<b>5,160</b>	<b>404,951</b>
Segment result	24,246	7,276	438	31,436	-	-	63,396
Unallocated operating income and expenses							637
<b>Profit from operations</b>							<b>64,033</b>

	<i>Tinplating</i> \$'000	<i>Live and fresh foodstuffs distribution</i> \$'000	<i>Feed production and livestock farming (discontinued)</i> \$'000	<i>Foodstuffs trading</i> \$'000	<i>Property leasing</i> \$'000	<i>Inter-segment elimination</i> \$'000	<i>Unallocated</i> \$'000	<i>Consolidated</i> \$'000
<i>Period ended 30 June 2004 (restated)</i>								
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
<b>Total</b>	<b>281,179</b>	<b>19,704</b>	<b>61,312</b>	<b>15,397</b>	<b>12,645</b>	<b>(682)</b>	<b>4,889</b>	<b>394,444</b>
Segment result	27,341	6,377	(3,888)	(73)	7,631	-	-	37,388
Unallocated operating income and expenses								(5,142)
<b>Profit from operations</b>								<b>32,246</b>

#### 4. Non-operating income

	Note	<i>Six months ended 30 June</i>	
		2005	2004
		\$'000	\$'000
Write-back of liabilities	(i)	27,623	76,223
Recovery of bad debts	(ii)	16,886	–
		<u>44,509</u>	<u>76,223</u>

*Notes:*

- (i) The amounts mainly represent the write-back of liabilities which have been outstanding for a long period of 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 debts previously provided for or written off to the profit and loss account as the recoverability was in doubt. During the period, certain bad debts were recovered and the related provisions were written back to the profit and loss account accordingly.

#### 5. Profit from ordinary activities before taxation

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

	<i>Six months ended 30 June</i>	
	2005	2004
	\$'000	(restated) \$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	–	343
(b) Staff costs:		
Net contributions to/(refunded from) defined contribution plan	497	(155)
Salaries, wages and other benefits	12,127	20,578
	<u>12,624</u>	<u>20,423</u>
(c) Other items:		
Depreciation	2,587	3,588
Dividend income from listed securities	(118)	(118)
Net unrealised loss on other securities carried at fair value	–	47
Operating lease charges in respect of properties	297	305
Rentals receivable from investment properties less direct outgoings of \$801,000 (six months ended 30 June 2004 (restated): \$715,000)	(12,106)	(11,900)

6. **Income tax in the consolidated profit and loss account**

*Taxation in the consolidated profit and loss account represents:*

		<i>Six months ended 30 June</i>	
		<i>2005</i>	<i>2004</i>
			<i>(restated)</i>
	<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Current tax – Provision for Hong Kong Profits Tax</b>			
Provision for Hong Kong Profits Tax at 17.5% on the estimated assessable profits for the period		<u>1,522</u>	<u>1,061</u>
<b>Current tax – the PRC</b>			
Tax for the period		9,196	17,583
Under-provision in respect of prior years		<u>612</u>	<u>413</u>
		<u>9,808</u>	<u>17,996</u>
<b>Deferred tax</b>			
Origination and reversal of temporary differences		<u>1,585</u>	<u>2,602</u>
<b>Tax refund</b>	(i)	<u>(12,030)</u>	<u>–</u>
<b>Share of associates' taxation</b>		<u>3,679</u>	<u>3,725</u>
	(ii)	<u>4,564</u>	<u>25,384</u>

*Notes:*

- (i) The Group has successfully obtained tax refunds of PRC Enterprise Income Tax from the Tax Bureau of Zhongshan following the capitalisation of retained earnings of Zhongshan Zhongyue Tinplate Industrial Co., Ltd (“Tinplate”) during the year ended 31 December 2004.

In addition, the Group is in the process of applying for tax refunds for the capitalisation of retained earnings of Tinplate during the six months ended 30 June 2005. The estimated amount of the refund is approximately RMB8,200,000, which has not been recognised in this interim financial report.

- (ii) 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.

7. **Earnings per share**

(a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of \$117,355,000 (period ended 30 June 2004 (restated): \$96,296,000) and the weighted average of 9,015,833,000 (six months ended 30 June 2004: 9,015,833,000) ordinary shares in issue during the period.

(b) **Diluted earnings per share**

The diluted earnings per share for the six months ended 30 June 2005 and 2004 are not presented as there are no dilutive potential ordinary shares at the period ends.

## 8. Fixed assets

### (a) Acquisitions and disposals

During the six months ended 30 June 2005, the Group acquired items of plant and machinery with a cost of \$37,016,000 (six months ended 30 June 2004: \$2,043,000). No fixed asset was disposed of during the six months ended 30 June 2005. Items of plant and machinery with a net book value of \$432,000 were disposed of during the six months ended 30 June 2004, resulting in a gain on disposal of \$222,000.

### (b) Valuation of investment properties

Investment properties situated in Hong Kong carried at fair value were revalued on an open market value basis at 30 June 2005 by an independent firm of surveyors, Centaline Surveyors Limited, who have among their staff Fellows of Hong Kong Institute of Surveyors. Investment properties situated in mainland China carried at fair value were revalued by an independent firm of valuers in the PRC, 廣東至正會計師事務所有限公司—中國註冊房地產估價師, on an open market value basis. As a result of the update, a net gain of \$22,149,000 (2004: \$Nil), and deferred tax thereon of \$1,585,000 (2004: \$Nil), have been included in the consolidated profit and loss account.

### (c) Leases

The Group leases out investment properties, a pig farm and several items of machinery under operating leases. The leases run for an initial period of one to twenty eight years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were \$206,415,000 (2004: \$184,298,000) and \$97,900,000 (2004: \$78,200,000) respectively. The gross carrying amount of machinery of the Group held for use in operating leases was \$720,000 (2004: \$720,000) and the related accumulated depreciation was \$648,000 (2004: \$648,000).

## 9. 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:

	<i>At</i> <b>30 June</b> <b>2005</b> <b>\$'000</b>	<i>At</i> <b>31 December</b> <b>2004</b> <b>\$'000</b>
Within 1 month	<b>53,213</b>	35,256
1 to 3 months	<b>40,205</b>	39,152
More than 3 months but less than 12 months	<b>30,071</b>	27,676
	<b>123,489</b>	102,084

The Group maintains a defined policy with credit period ranging from advance payment to not more than 180 days (2004: 180 days).

## 10. Cash and cash equivalents

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

		<i>At</i> <b>30 June</b> <b>2005</b> \$'000	<i>At</i> <b>31 December</b> <b>2004</b> \$'000
Deposits with banks		<b>149,027</b>	157,597
Cash at bank and in hand		<b>87,923</b>	135,786
		<b>236,950</b>	293,383
Restricted cash deposits	(i)	–	(4,634)
	(ii)	<b>236,950</b>	288,749

Notes:

- (i) In May 2004, a PRC third party filed a claim against a subsidiary of the Group alleging that the subsidiary had not settled an outstanding amount due to it. The Intermediate People's Court of Yue Yang City (“岳陽市中級人民法院”) has ordered to freeze a bank deposit of the subsidiary amounted to \$4,634,000 in this regard.

A judgement was made on 12 December 2004 by the Intermediate People's Court of Yue Yang City against the subsidiary ordering the payment of the outstanding amount and related court charges. The subsidiary lodged an appeal to the High People's Court of Hunan Province (“湖南省高級人民法院”) against the judgement and the judgement of the Intermediate People's Court of Yue Yang City was repudiated on 31 January 2005. Accordingly, the frozen bank deposit of \$4,634,000 has been released.

- (ii) Included in cash and cash equivalents is a balance of RMB152,184,000 (2004: RMB243,704,000) 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.

## 11. Trade and other payables

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

	<i>At</i> <b>30 June</b> <b>2005</b> \$'000	<i>At</i> <b>31 December</b> <b>2004</b> (restated) \$'000
Due within 1 month or on demand	<b>70,834</b>	49,051

## 12. Capital and reserves

<i>Attributable to equity holders of the Company</i>											
<i>Note</i>	<i>Share capital</i> \$'000	<i>Share premium</i> \$'000	<i>Capital redemption reserve</i> \$'000	<i>Capital reserve</i> \$'000	<i>Exchange reserves</i> \$'000	<i>Revaluation reserves investment properties</i> \$'000	<i>Other reserves</i> \$'000	<i>Accumulated losses</i> \$'000	<i>Total</i> \$'000	<i>Minority interests</i> \$'000	<i>Total equity</i> \$'000
At 1 January 2004:											
- as previously reported	901,583	1,747,098	971	49,050	(1,098)	20,600	12,007	(2,127,962)	602,249	20,384	622,633
- prior period adjustments in respect of investment properties	2(d)	-	-	-	47	(20,600)	-	16,400	(4,153)	(219)	(4,372)
- as restated, before opening balance adjustments	901,583	1,747,098	971	49,050	(1,051)	-	12,007	(2,111,562)	598,096	20,165	618,261
- opening balance adjustment in respect of negative goodwill	-	-	-	-	-	-	-	17,246	17,246	-	17,246
- as restated, after opening balance adjustment	901,583	1,747,098	971	49,050	(1,051)	-	12,007	(2,094,316)	615,342	20,165	635,507
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong (as restated)	-	-	-	-	1,254	-	-	-	1,254	69	1,323
Share of associates' reserves	-	-	-	-	694	-	-	-	694	-	694
Transfer to statutory reserves	-	-	-	-	-	-	13,529	(13,529)	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	(5,944)	(5,944)
Profit for the period (as restated)	-	-	-	-	-	-	-	96,296	96,296	4,579	100,875
At 30 June 2004 (as restated)	901,583	1,747,098	971	49,050	897	-	25,536	(2,011,549)	713,586	18,869	732,455

<i>Attributable to equity holders of the Company</i>											
<i>Note</i>	<i>Share capital</i> \$'000	<i>Share premium</i> \$'000	<i>Capital redemption reserve</i> \$'000	<i>Capital reserve</i> \$'000	<i>Exchange reserves</i> \$'000	<i>Revaluation reserves investment properties</i> \$'000	<i>Other reserves</i> \$'000	<i>Accumulated losses</i> \$'000	<i>Total</i> \$'000	<i>Minority interests</i> \$'000	<i>Total equity</i> \$'000
At 1 January 2005:											
- as previously reported	901,583	1,747,098	971	48,814	(985)	36,900	1,450	(1,968,821)	767,010	25,107	792,117
- prior period adjustments in respect of investment properties	2(d)	-	-	-	37	(36,900)	-	30,768	(6,095)	(321)	(6,416)
- as restated	901,583	1,747,098	971	48,814	(948)	-	1,450	(1,938,053)	760,915	24,786	785,701
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	-	(255)	-	-	-	(255)	(15)	(270)
Transfer to statutory reserves	-	-	-	-	-	-	876	(876)	-	-	-
Share of associates' reserves	-	-	-	-	(26)	-	-	-	(26)	-	(26)
Dividend declared to minority shareholders	-	-	-	-	-	-	-	-	-	(2,212)	(2,212)
Contribution by minority shareholders	-	-	-	-	-	-	-	-	-	2,207	2,207
Profit for the period	-	-	-	-	-	-	-	117,355	117,355	2,256	119,611
At 30 June 2005	901,583	1,747,098	971	48,814	(1,229)	-	2,326	(1,821,574)	877,989	27,022	905,011

### 13. Commitments

- (a) Capital commitments outstanding at 30 June 2005 not provided for in the financial statements were as follows:

	<i>At 30 June 2005 \$'000</i>	<i>At 31 December 2004 \$'000</i>
Contracted for	113,313	35,144
Authorised but not contracted for	198,453	6,281
	<u>311,766</u>	<u>41,425</u>

- (b) At 30 June 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<i>At 30 June 2005 \$'000</i>	<i>At 31 December 2004 \$'000</i>
Within 1 year	241	348
After 1 year but within 5 years	3	44
	<u>244</u>	<u>392</u>

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 the terms are renegotiated. None of the leases includes contingent rentals.

- (c) At 30 June 2005, the Company committed to provide finance of \$6,489,000 (2004: \$6,489,000) to an associate of the Group.

### 14. Litigations

At 30 June 2005, 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 amount due from the former minority shareholder.

A judgement in favour of the Group was obtained on 20 March 2005. The payment awarded pursuant to the judgement amounted to RMB27 million, together with interest thereon.

In view of the Group's overall interest, the Group has entered into a settlement agreement with the former minority shareholder on 23 August 2005 whereby the Group agreed to a final settlement of RMB11,000,000, the payment of which was subsequently received on 23 August 2005.

In the circumstance, the provision previously made against the receivable has been written back to the extent of the agreed final settlement amount during the period ended 30 June 2005.



## 15. Material related party transactions

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

		<i>Six months ended 30 June</i>	
	<i>Note</i>	<i>2005</i>	<i>2004</i>
		<i>\$'000</i>	<i>\$'000</i>
Sales of goods to related companies	(i)	<u>1,180</u>	<u>–</u>
Purchases of goods from related companies	(i)	<u>812</u>	<u>1,991</u>
Interest income from an associate	(ii)	<u>–</u>	<u>409</u>
Provision of electricity/water and leasing services to fellow subsidiaries		<u>1,665</u>	<u>1,580</u>

*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. The outstanding loan and interest receivable from the associate has been fully repaid as at 31 December 2004.

## 16. Post balance sheet event

On 12 August 2005, a special resolution has been passed to effect a capital reorganisation. The purpose of such reorganisation is to eliminate the entire amount of accumulated losses recorded by the Company as at 31 December 2004, in the aggregate amount of approximately \$2,139,578,000 and then to consolidate every ten issued and unissued reduced ordinary shares into one new ordinary share. The completion of the capital reorganisation is subject to the confirmation by the High Court for the capital reduction and permission from the Listing Committee of the Stock Exchange for consolidation of new ordinary shares.

## 17. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2005

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2005:

	<i>Effective for accounting periods beginning on or after</i>
HK(IFRIC) 4, Determining whether an arrangement contains a lease	1 January 2006
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006

The above amendments, new standards and interpretations were not applied in this interim financial report because the Board expect that the Group will not early apply them, where applicable when preparing the Group's annual financial statements for the year ending 31 December 2005.

The Group is in the process of making an assessment of the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.



**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 24.

**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 Hong Kong Accounting Standard 34 “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 Group 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 six months ended 30 June 2005.

**KPMG**

*Certified Public Accountants*

Hong Kong, 20 September 2005

## INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2005 (period ended 30 June 2004: Nil).

## RESULTS

For the first half of 2005, the Group's unaudited consolidated profit attributable to equity holders of the Company was HK\$117,355,000, representing an increase of 21.9% compared with HK\$96,296,000 (restated) of the corresponding period last year. Basic earnings per share was HK1.3 cents, representing an increase of 21.5% from HK1.07 cents (restated) of the corresponding period last year.

## BUSINESS REVIEW

During the period under review, consolidated turnover was HK\$399,791,000, an increase of 2.6% while consolidated profit attributable to equity holders of the Company was HK\$117,355,000, representing an increase of 21.9% from the corresponding period last year. For the first half of 2005, the continued shortage of black-plates resulted in the falling production and sales volume of tinplates. Nevertheless, with the compensation of price increase, there was an increase in the turnover of the tinplating business. Both the live and fresh foodstuffs distribution business and the foodstuffs trading business recovered from the impact of bird flu and saw a satisfactory increase in turnover. Such increase has partly offset the loss of turnover resulted by the disposal of non-core businesses last year. The net margin was squeezed by the rising prices of various major raw materials of tinplates as well as the falling sales volume. Net profit from live and fresh foodstuffs distribution and foodstuffs trading businesses increased. Despite a decrease in non-operating income and share of profit from the associates as compared with the corresponding period last year, the overall profit attributable to equity holders of the Company still recorded an increase.

### *Tinplating*

For the first half of 2005, the production and sales volume of Zhongshan Zhongyue Tinplate Industrial Co., Ltd., a subsidiary of the Group, amounted to 44,421 tonnes and 39,864 tonnes, representing a decrease of 1.9% and 10.4% respectively when compared with the corresponding period last year. The turnover of HK\$332,477,000 increased by 18.5% whereas operating profit decreased HK\$3,095,000 or 11.3% as compared with the corresponding period last year. The decrease was mainly due to the lack of black-plates and the surge of the prices of materials, such as black-plates, crude oil and tin ingots. The increase of costs was higher than the price increase.

The tinplating business is the core business of the Group which made the greatest profit contribution and has the most promising prospects and remains to be our focus of development. The production was affected to a certain extent by the continuous shortage of black-plates at the beginning of the year. The management utilized the Group's free fund to stock up black-plates while the tight supply started to ease in May to prepare for the commencement of production of its tin-free steel production line with annual capacity of 80,000 tonnes by the end of July. In view of the anticipated increase of production in the second half of the year, the Group beefed up its sales efforts apart from sourcing black-plates. In addition to the strengthening of its sales team and improvement of incentive system, the Group adopted a strategy to promote sales by focusing on its major markets and products. As a result, the turnover of goods improved. It is expected that production and sales of tinplate will attain a new record in the second half of the year.

### ***Property Leasing***

The Group's leasing properties included the plant and staff dormitory of Zhongyue Shan Hai Industrial Co., Ltd., and the office building in Hong Kong. For the first half of 2005, the total revenue of leasing properties owned by the Group was recorded at HK\$12,907,000, an increase of 2.3% compared with the corresponding period last year. The operating profit of leasing properties amounted to HK\$31,436,000, representing a substantial increase of 312% as compared with the corresponding period last year. Among this, HK\$22,149,000 was attributable to property revaluation gains under the new accounting standards this year.

### ***Live and Fresh Foodstuffs Distribution***

For the first half of 2005, turnover of live and fresh foodstuffs distribution business was recorded at HK\$33,532,000, representing an increase of HK\$13,828,000 or 70.2% as compared with the corresponding period last year. This was mainly attributable to the improvement of poultry agency business and live and fresh foodstuffs trading business when the impact of bird flu subsided. On the other hand, income from livestock business increased as a result of price increase while the growth of live poultry volume remained steady as last year. For the first six months of the year, the operating profit was recorded at HK\$7,276,000, which increased by HK\$899,000, or 14.1%, as compared with the corresponding period last year.

Live and fresh foodstuffs distribution is the traditional business of the Group. By taking measures such as opening up new sources of revenue, reducing costs and improving services, the Group will continue to maintain its agency business and actively expand its trading business of live and fresh foodstuffs distribution, so as to maintain its competitiveness and provide the Group with a stable income stream.

### ***Foodstuffs Trading***

For the first half of 2005, turnover of the Group's foodstuffs trading business amounted to HK\$20,875,000, representing an increase of 35.6% as compared with the corresponding period last year, while profit from operations was HK\$438,000. The Group's turnaround was mainly attributable to the absence of the impact of bird flu which significantly hampered the foodstuffs trading business last year.

In spite of the fact that the foodstuffs trading business is a non-core and non-advantageous business, the resources alignment exercise for the live and fresh foodstuffs distribution business and the foodstuffs trading business for centralized management, effective use of resources and complementation of businesses may contribute to the Group's profits.

## **FINANCIAL POSITION**

As at 30 June 2005, the Group's total assets amounted to HK\$1,112,288,000, and total liabilities stood at HK\$207,277,000, representing an increase of HK\$124,220,000 and HK\$4,910,000 respectively compared with the positions at the last year end. The net current assets increased from HK\$254,835,000 at the end of 2004 to HK\$320,133,000, and the current ratio (current assets divided by current liabilities) increased 13.4% from the end of 2004. The Group has a very sound financial position, paving the way for future business expansion.

### ***Liquidity and Financial Resources***

As at 30 June 2005, the Group maintained cash and cash equivalent balances of HK\$236,950,000. The currency was principally denominated in Renminbi with the amount equivalent to HK\$142,886,000 while the remaining was denominated in Hong Kong dollars and US dollars. Cash balances decreased by 19.2% from the end of the last year. During the period under review, the major cash outflow was contributed to the construction of a new production line with the amount of HK\$35,749,000, as well as the increase in the reserve of raw materials for the new production line to commence production.

As at 30 June 2005, the Group has no interest-bearing borrowings. 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 from 1% at the end of the last year to zero.

As at 30 June 2005, the Group's total available banking facilities amounted to HK\$237,600,152, of which HK\$120,766,560 have been utilized. The unutilized banking facilities amounted to HK\$116,833,592. With its cash and cash equivalents 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 the requirements to further develop its business in the foreseeable future.

### ***Charge on Group's Assets***

As at 30 June 2005, certain bills receivable of the Group amounting to approximately HK\$40,000,000 has been pledged with a licensed bank in the PRC in order to secure a guarantee issued in favour of the Group to the Dongguan Intermediate People's Court for a litigation against a former minority shareholder of a subsidiary for recovering an equivalent amount due to the Group. As the litigation was settled on 23 August 2005, cancellation of the guarantee is under process.

### ***Capital Restructuring***

As at 30 June 2005, the Group recommended to carry out capital restructuring to fully write off the accumulated losses as so as to prepare for future dividend distribution. Such recommendation was passed at the extraordinary general meeting on 12 August 2005 subject to the confirmation of High Court and the related approval from The Stock Exchange of Hong Kong Limited. Capital restructuring involves reduction of share capital, share premium account and capital redemption reserve, as well as the utilization of capital reserve and the consolidation of shares. Of the fund resulted from capital reduction, approximately HK\$110,000,000 will be set aside as special capital reserve while the remaining of about HK\$340,000,000, together with credit in share premium account, capital redemption reserve and capital reserve, will be used to eliminate accumulated losses. The nominal value of issued shares will be reduced from HK\$0.1 to HK\$0.05. Every 10 shares of HK\$0.05 each will be consolidated into a new share of HK\$0.50 each. Following the elimination of accumulated losses, the respective proportional shareholder interests will remain unchanged. The Group's assets, business, operations and shareholding of shareholders will not be affected by capital restructuring. There is no guarantee for the time and amount of future dividend. However, the legal impediment for the Company's dividend distribution will be eliminated after capital restructuring.

### *Litigation*

The Group filed a claim against a former minority shareholder of a subsidiary for approximately HK\$40,000,000 due to the Group. Provision was fully made against such receivable as at 31 December 2000.

In March 2005, a judgment of Dongguan Intermediate People's Court in favour of the Group had been obtained. The payment awarded under the judgment amounted to RMB27,000,000 together with interest thereon. The Group and the former minority shareholder respectively had lodged an appeal. Having considered the legal opinion and the Group's overall interest, the Group and the former minority shareholder as fostered and confirmed by the Court made a settlement of the case at RMB11,000,000 on 23 August 2005 and the settlement consideration was received by the Group on the same day.

### *Exchange Rate Exposure*

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

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2005, the Group has a total of 481 full-time employees, increased by 33 compared with that as at the end of 2004. 24 of the employees were based in Hong Kong and 457 were in mainland China. The staff remuneration is determined in accordance with the duties, workload, skill requirements, hardship, working conditions, individual performance with reference to the prevailing industry practices. In 2005, the Group continued to implement control on the headcount, organization structure and total salaries of each subsidiary. The performance bonus incentive scheme for the management remained effective. Through performance assessment of each subsidiary, performance bonus for various profit rankings was paid on basis of net cash inflow from operation and profit before tax. In addition, bonus will be rewarded to the management, key personnel and outstanding staff through assessment of individual performance. These incentive schemes have effectively improved the morale of our staff members. The Group has also adopted a share option scheme to reward, attract, retain and motivate excellent and brilliant participants for their contribution to the Group.

## **PROSPECTS**

The demand for tinfoil, one of the major raw materials for metal packaging, remains strong with promising prospect. As the new tin-free steel production line with an annual output of 80,000 tonnes commenced operation at the end of July and the supply of black-plates is becoming sufficient, the production and sales volume of tinfoil will possibly rise in the second half of 2005. Construction of the black-plate manufacturing plant with an annual output of 150,000 tonnes is well in progress and the plant is expected to commence operation by the end of 2006. By then, the shortage of black-plates that has been hindering the development of the tinfoil business will be largely relieved and a more stable and substantial profit contribution from the tinfoil business is anticipated.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2005, the interests and short positions of the Directors and chief executive 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 executive 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 ordinary 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

Note: The number of issued ordinary shares of the Company as at 30 June 2005 was 9,015,832,859.

#### (ii) Guangdong Investment Limited

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Luo Fanyu	200,000	0.004
Liang Jianqin	200,000	0.004

Note: The number of issued ordinary shares of Guangdong Investment Limited as at 30 June 2005 was 5,614,492,672.

#### (iii) Kingway Brewery Holdings Limited

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Zhao Leili	300,000	0.021
Luo Fanyu	70,000	0.005
Liang Jianqin	46,000	0.003

Note: The number of issued ordinary shares of Kingway Brewery Holdings Limited as at 30 June 2005 was 1,395,568,000.

## DIRECTORS' INTERESTS IN SECURITIES (continued)

### (I) Long positions in ordinary shares (continued)

#### (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

Note: The number of issued ordinary shares of Guangdong Tannery Limited as at 30 June 2005 was 524,154,000.

### (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 paid on exercise of share options	During the period number of share options			Number of options held on 30 June 2005
		Held on 1 January 2005	Granted during the period				Exercised	Lapsed	Cancelled	
		'000	'000		HKS	HKS	'000	'000	'000	'000
Liang Jiang	06/02/04	20,000	–	06/05/04 to 05/05/09*	10	0.1582	–	–	–	20,000
Tan Yunbiao	06/02/04	15,000	–	06/05/04 to 05/05/09*	10	0.1582	–	–	–	15,000

\* 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.

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 2005, none of the Directors and chief executive 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 executive 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 2005, so far as is known to any Directors or chief executive of the Company, the following persons (other than Directors and chief executive of the Company) had interests or short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

<b>Name</b>	<b>Number of ordinary shares beneficially held</b>	<b>Approximate % of issued share capital</b>	<b>Long/short positions</b>
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.*

## 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”).

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.

## SHARE OPTION SCHEMES (continued)

As at 30 June 2005, save as disclosed in the section of “Directors’ Interests in Securities” the following share options were outstanding under the 2001 Share Option Scheme:

Category	Date of share options granted <sup>#</sup>	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 share options			Number of options held on 30 June 2005 '000
		Held on 1 January 2005 '000	Granted during the period '000				Exercised	Lapsed	Cancelled	
							'000	'000	'000	
Employees and other participants	24/08/01	33,500	–	26/11/01 to 25/11/06*	10	0.1495	–	–	–	33,500
	06/02/04	51,900	–	06/05/04 to 05/05/09**	10	0.1582	–	–	–	51,900

# The vesting period of the share options is from the date of grant until the commencement of the exercisable 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.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### Code on Corporate Governance Practices

The Company has complied with the applicable code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2005, with the exception that certain non-executive directors are not appointed for specific terms as non-executive directors are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company’s Articles of Association.

### Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors’ 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 throughout the six months ended 30 June 2005.

## **CORPORATE GOVERNANCE AND OTHER INFORMATION** *(continued)*

### **Audit Committee**

The Company has established an audit committee to review the adequacy and effectiveness of the internal control and compliance procedures of the Group, the principles, policies and practices adopted in the preparation of the Group accounts and the annual financial statements for compliance with all statutory requirements and to maintain an appropriate relationship with the Company external auditors. The Committee comprises three independent non-executive directors and Mr. Gerard Joseph McMahon is the chairman of the Committee.

The Committee holds regular meetings and it met four times during the six months ended 30 June 2005.

### **Compensation Committee**

The Company has established a compensation committee to review the Company's remuneration policy of directors and senior management, to make recommendation concerning the remuneration policy, share option scheme and incentive schemes. The Committee comprises the Chairman of the Board, the general manager and three independent non-executive directors and Mr. Li Kar Keung, an independent non-executive director, is the chairman of the Committee.

A meeting was held and resolutions were passed by the Committee to explore into relevant issues during the six months ended 30 June 2005.

### **Nomination Committee**

During the six months ended 30 June 2005, the Company established a nomination committee to make recommendation on the selection of appropriate candidate for the appointment as director. The Committee comprises the Chairman of the Board and three independent non-executive directors and Mr. Liang Jiang, Chairman of the Board, is the chairman of the Committee.

### **Review of Interim Results**

The Group's interim financial report for the six months ended 30 June 2005 has not been audited, but has been reviewed by the Company's auditors, Messrs. KPMG, and the Audit Committee.

### **Purchase, sale and redemption of listed securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2005.

By order of the Board  
**Liang Jiang**  
*Chairman*