



# Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements of Guangnan (Holdings) Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The subsidiaries of the Company are primarily engaged in manufacturing and sales of tinplates and related products, development and leasing of properties, distribution of live and fresh foodstuffs and foodstuffs trading. The Group’s principal activities are mainly carried out in Hong Kong and in the Guangdong Province of the PRC.

The analysis of the Group’s turnover by principal activities, the Group’s operating result by business segments and by geographical segments during the financial year are respectively set out in notes 3 and 14 on the financial statements.

## RESULTS AND DIVIDENDS

The Group’s consolidated results for the year ended 31 December 2005 and the state of the Company’s and the Group’s affairs as at that date are set out in the financial statements on pages 33 to 121.

The Directors resolved not to make the payment of an interim dividend (2004: Nil) and recommend the payment of a final dividend of 1.5 HK cents per share (2004: Nil) for the year ended 31 December 2005.

The proposed final dividend, if approved at the 2006 Annual General Meeting of the Company, is expected to be paid on 30 June 2006 to shareholders whose names appear on the register of members of the Company on 9 June 2006.

## FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in notes 15(a) and 15(b) on the financial statements respectively.

## PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company’s principal subsidiaries and associates as at 31 December 2005 are set out in notes 36 and 38 on the financial statements respectively.

## **BORROWINGS AND INTEREST CAPITALISED**

Details of borrowings of the Group are set out in note 24 on the financial statements. No interest was capitalised by the Group during the year.

## **SHARE CAPITAL**

Details of the share capital of the Company are set out in note 27(c) on the financial statements.

## **RESERVES**

Consolidated profits attributable to equity shareholders of the Company, before dividend, of HK\$175,759,000 (2004 (restated): HK\$146,616,000) have been transferred to reserves. Other movements in the reserves of the Group and the Company during the year are set out in notes 27(a) and 27(b) on the financial statements respectively.

## **RETIREMENT BENEFITS SCHEME**

Details of the Group's retirement benefits scheme are set out in note 32 on the financial statements.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 December 2005, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

The largest supplier for the year ended 31 December 2005 represented 63.9% of the Group's total purchases (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 74.8% of the Group's total purchases for the year.

At no time during the year have the directors, their associates or any shareholder of the Company, who to the knowledge of the Directors, owns more than 5% of the Company's share capital, had any interests in these major customers and suppliers.

## **PROPERTIES**

Particulars of the major properties of the Group are set out on page 125.

## **FINANCIAL SUMMARY**

A summary of the results, assets and liabilities of the Group for the past five years ended 31 December 2005 is set out on pages 126 and 128.



# Report of the Directors

## DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

### Executive Directors

LIANG Jiang  
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

The Company has received confirmation of independence from the Independent Non-executive Directors, namely Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. The Company and its Nomination Committee consider each of the Independent Non-executive Directors to be independent.

## RETIREMENT AND RE-ELECTION OF DIRECTORS

In accordance with Article 101 of the Company's Articles of Association, Messrs. Tan Yunbiao and Tsang Hon Nam and Miss Liang Jianqin would retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

As at 31 December 2005, 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 (the "Listing Rules") on the Stock Exchange were as follows:

**(I) Long positions in shares**

(i) *The Company*

<b>Name of Director</b>	<b>Number of ordinary shares held (personal interests)</b>	<b>Approximate % of issued share capital</b>
Liang Jiang	230,000	0.026%
Zhao Leili	700,000	0.078%

(ii) *Guangdong Investment Limited*

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

(iii) *Kingway Brewery Holdings Limited*

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

(iv) *Guangdong Tannery Limited*

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

# Report of the Directors

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

Name of Director	Date of share options granted <sup>#</sup>	Number of share options		Exercisable period of share options	Total consideration paid for share options granted HK\$	Price per share to be paid on exercise of share options HK\$	During the year number of share options			Number of share options held on 31 December 2005 '000
		Held on 1 January 2005 '000	Granted during the year '000				Exercised '000	Lapsed '000	Cancelled '000	
Liang Jiang	06/02/04	2,000	—	06/05/04 to 05/05/09*	10	1.582	—	—	—	2,000
Tan Yunbiao	06/02/04	1,500	—	06/05/04 to 05/05/09*	10	1.582	—	—	—	1,500

# 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 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 31 December 2005, 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.

### SHARE OPTION SCHEMES OF THE COMPANY

On 11 June 2004, the Company adopted a new share option scheme ("2004 Share Option Scheme") and terminated its share option scheme that was adopted on 24 August 2001 ("2001 Share Option Scheme"). Options granted prior to the termination of the 2001 Share Option Scheme remain valid until lapsed.

#### 2001 Share Option Scheme

Pursuant to the 2001 Share Option Scheme, the exercise price of the options under the Scheme is determinable by the Directors in their discretion, but may not be less than the higher of (i) the nominal value of the shares of the Company; and (ii) 80% of the average of the closing prices per share as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the date of grant of an option.

Pursuant to the 2001 Share Option Scheme, the Directors are authorized, at their discretion, to invite full-time employees of the Company and its subsidiaries, including Executive Directors but excluding Non-executive Directors to take up options to subscribe for shares of the Company. A grant of options under the 2001 Share Option Scheme may be accepted in writing and upon payment of a consideration of HK\$10 in total by the grantee to the Company within 21 days from the date of grant. Options granted under the 2001 Share Option Scheme is exercisable within a period of 5 years commencing on the business day immediately following the expiry of 3 months after the date of grant and expiring at the close of business on the last business day of such 5 year period.

### **2004 Share Option Scheme**

The purpose of the 2004 Share Option Scheme of the Company is to enable the Company to have a new scheme with terms compatible with modern practice to recruit and retain quality employees to serve the Group on a long-term basis, to maintain good relationships with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the 2004 Share Option Scheme include the Company's Directors (including Non-executive and Independent Non-executive Directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The 2004 Share Option Scheme unless otherwise terminated or amended, will remain in force for 10 years from 25 June 2004.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be granted under the 2004 Share Option Scheme and any other share option schemes of the Company may not exceed 30% of its shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the 2004 Share Option Scheme and any other share option schemes of the Company may not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the 2004 Share Option Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the 2004 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant may not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

# Report of the Directors

The grant of share options under the 2004 Share Option Scheme may be accepted within 14 days from the date of grant upon payment of a consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the Directors of the Company, commences after a certain vesting period and ends on a date which is not more than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the Directors, but shall at least be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

During the year, 250,000 options were lapsed under the 2001 Share Option Scheme and no options were granted under the 2004 Share Option Scheme. As at 31 December 2005, options were outstanding under the 2001 Share Option Scheme entitling the holders to subscribe for 11,790,000 shares of the Company.

As at 31 December 2005, save as disclosed in the section of "Long positions in options relating to ordinary shares of the Company", certain employees of the Company had the following interests in rights to subscribe for shares of the Company granted under the 2001 Share Option Scheme. Each option gives the holder the right to subscribe for one share of par value HK\$0.1 each of the Company. Further details are set out in note 27(c) on the financial statements.

Category	Date of share options granted <sup>#</sup>	Number of share options			Total consideration paid for share options granted HK\$	Price per share to be paid on exercise of share options HK\$	During the year number of share options			Number of share options held on 31 December 2005 '000
		Held on 1 January 2005 '000	Granted during the year '000	Exercisable period of share options			Exercised '000	Lapsed '000	Cancelled '000	
Employees and other participants	24/08/01	3,350	—	26/11/01 to 25/11/06*	10	1.495	—	—	—	3,350
	06/02/04	5,190	—	06/05/04 to 05/05/09**	10	1.582	—	250	—	4,940

# 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.

Note: The underlying shares of the outstanding share options under the 2001 Share Option Scheme as at 31 December 2005 represent 1.31% of the issued share capital of the Company.

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Except for the share options held by the Directors, at no time during the year was the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was a party or were parties and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, Mr. Zhao Leili, Director of the Company, was also a director of Guangdong Yue Gang Investment Holdings Company Limited ("Yue Gang") and GDH Limited ("GDH"). Messrs. Liang Jiang and Luo Fanyu, Directors of the Company, were also directors of GDH. GDH is a wholly-owned subsidiary of Yue Gang. Yue Gang and its subsidiaries other than the Group (the "Yue Gang Group") have a wide range of business interests which include distribution of live and fresh foodstuffs, development of properties and leasing of properties. There may be some overlapping between the scope of the aforementioned business interests of the Yue Gang Group and that of the Group. However, the Directors of the Company do not believe that there exist any direct or indirect competition in any material respect between the businesses of the Yue Gang Group and those of the Group.

## DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries that is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

## TRANSACTIONS DISCLOSED IN ACCORDANCE WITH THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Details of the transactions disclosed in accordance with the Listing Rules are set out on pages 122 to 124.





# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2005, 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") (Note)	536,380,868	59.49%	Long position
GDH Limited ("GDH")	536,380,868	59.49%	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 31 December 2005, 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.

## CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS OR ITS SUBSIDIARIES

In addition to the disclosures contained in the Transactions Disclosed in Accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as set out on pages 122 to 124, the Company or its subsidiary had the following contracts of significance with GDH, the controlling shareholder of the Company, and its subsidiary.

On 25 March 2002, Zhongyue Industry Material Limited, a wholly owned subsidiary of the Company, entered into a loan agreement with Richway Resources Limited ("Richway"), a wholly owned subsidiary of GDH, for the provision by Richway of a loan in the amount of RMB50,000,000. The loan is unsecured, interest free and without fixed term of repayment. As at 31 December 2005, the loan has an outstanding balance of RMB25,000,000.

On 7 July 2004, the Company entered into a loan agreement with GDH whereby GDH agreed to provide a loan to the extent of not exceeding HK\$50,000,000 to the Company upon better than normal commercial terms, without security and for a term of six months from the date of draw down. As at date of the report, the loan has not been drawn down by the Company.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **PUBLIC FLOAT**

As at the date of this report, the Company has maintained the prescribed public float as required under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

### **REVIEW OF ANNUAL RESULTS**

The annual results of the Group for the year ended 31 December 2005 have been reviewed by the Audit Committee of the Company.

### **AUDITORS**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There was no change in auditors of the Company in any of the preceding three years.

On behalf of the Board

**Liang Jiang**

*Chairman*

Hong Kong, 19 April 2006