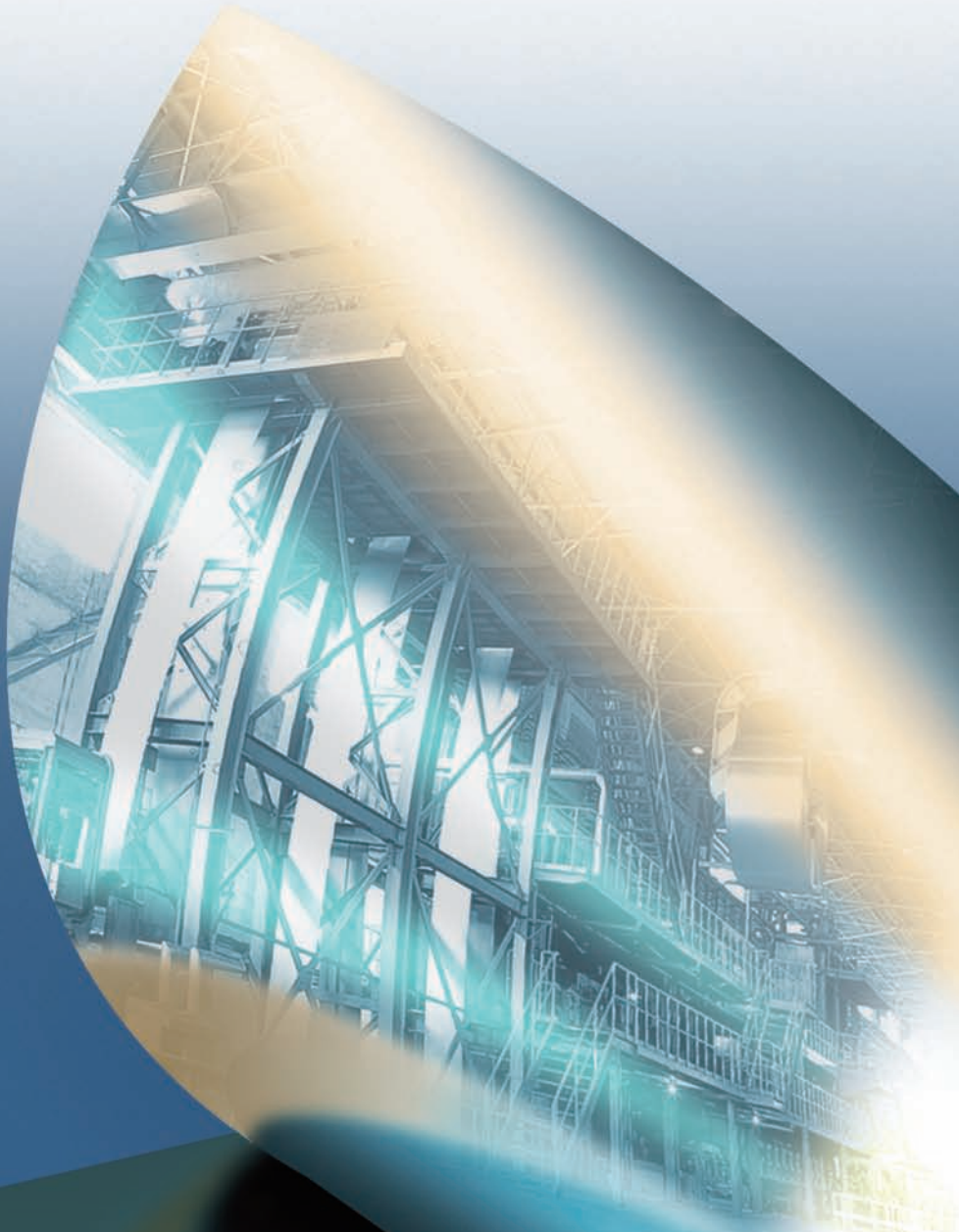




GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

Stock Code 股份代號: 1203



2007 中期報告
Interim Report



Interim Report 2007
GUANGNAN (HOLDINGS) LIMITED

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Corporate Information

(As at 18 September 2007)

Board of Directors

Executive Directors

LIANG Jiang (*Chairman*)
TAN Yunbiao (*General Manager*)
TSANG Hon Nam (*Chief Financial Officer*)

Non-Executive Directors

ZHAO Leili
LUO Fanyu
DONG Decai
HOU Zhuobing

Independent Non-Executive Directors

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

Qualified Accountant

TSANG Hon Nam

Company Secretary

CHEUNG Mo Ching

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited
Nanyang Commercial Bank, Limited
Industrial and Commercial Bank of China Limited, Zhongshan Branch
China Construction Bank Corporation, Zhongshan Branch
The Agricultural Bank of China, Qinhuangdao Branch
Industrial and Commercial Bank of China Limited, Qinhuangdao Branch

Registered Office

22/F., Tesbury Centre
No. 24–32 Queen's Road East
Hong Kong
Telephone: (852) 2828 3938
Facsimile: (852) 2583 9288
Website: <http://www.gdguangnan.com>

Auditors

KPMG

Share Registrar

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

Share Information

<i>Place of Listing</i>	Main Board of The Stock Exchange of Hong Kong Limited
<i>Stock Code</i>	1203
<i>Board lot</i>	2,000 shares
<i>Financial year end</i>	31 December

Shareholders' Calendar

<i>Closure of Register of Members</i>	16 October 2007 and 17 October 2007
<i>Interim Dividend Payment Date</i>	HK2.0 cents per share 31 October 2007

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 2007 together with comparative figures. The results have been reviewed by the Company's auditors, KPMG, and the Company's audit committee.

Interim Results

Consolidated Income Statement

for the six months ended 30 June 2007 — unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2007 \$'000	2006 \$'000
Turnover	2	688,733	622,781
Cost of sales		(600,350)	(541,695)
Gross profit		88,383	81,086
Other revenue	3	9,605	6,532
Other net income	3	3,366	8,585
Distribution costs		(12,260)	(10,913)
Administrative expenses		(24,418)	(23,538)
Other operating expenses		(5,570)	(6,500)
Profit from operations		59,106	55,252
Non-operating income	4(a)	40,021	—
Net valuation gains on investment properties		12,791	5,867
Finance costs	4(b)	(4,097)	(1,436)
Share of profits less losses of associates		13,463	11,762
Profit before taxation	4	121,284	71,445
Income tax	5	(3,400)	(10,409)
Profit for the period		117,884	61,036
Attributable to:			
Equity shareholders of the Company		118,207	58,624
Minority interests		(323)	2,412
Profit for the period		117,884	61,036
Dividends payable to equity shareholders of the Company attributable to the period:			
Interim dividend declared after the balance sheet date	6	18,078	13,524
Earnings per share			
Basic	7(a)	13.09 cents	6.50 cents
Diluted	7(b)	13.06 cents	6.50 cents

The notes on pages 8 to 20 form part of this interim financial report.

Consolidated Balance Sheet

at 30 June 2007 — unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2007 \$'000	At 31 December 2006 \$'000
Non-current assets			
Fixed assets			
— Investment properties		253,052	235,651
— Other property, plant and equipment		689,300	512,275
— Interest in leasehold land held for own use under operating leases		104,035	57,855
		1,046,387	805,781
Interest in associates	8	184,521	182,434
		1,230,908	988,215
Current assets			
Trading securities		4,894	3,153
Inventories	9	195,898	115,478
Trade and other receivables	10	346,760	274,706
Cash and cash equivalents	11	166,895	157,737
		714,447	551,074
Current liabilities			
Bank loans secured by bills receivable		227,209	81,557
Trade and other payables	12	392,392	306,377
Current taxation		18,996	18,757
		638,597	406,691
Net current assets		75,850	144,383
Total assets less current liabilities		1,306,758	1,132,598
Non-current liability			
Deferred tax liabilities		19,637	21,687
Net assets		1,287,121	1,110,911
Capital and reserves			
Share capital	13	451,952	450,792
Reserves		754,893	622,477
Total equity attributable to equity shareholders of the Company	13	1,206,845	1,073,269
Minority interests	13	80,276	37,642
Total equity	13	1,287,121	1,110,911

The notes on pages 8 to 20 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2007 — unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June			
		2007		2006	
		\$'000	\$'000	\$'000	\$'000
Total equity at 1 January:					
Attributable to:					
— equity shareholders of the Company	13	1,073,269		949,882	
— minority interests	13	37,642		29,334	
At 1 January	13	1,110,911		979,216	
Net income for the period recognised directly in equity:					
Exchange difference on translation of financial statements of subsidiaries and associates outside Hong Kong	13	30,408		6,891	
Net profit for the period:					
Net profit for the period	13	117,884		61,036	
Total recognised income and expense for the period carried forward		148,292		67,927	

Consolidated Statement of Changes in Equity (continued)

for the six months ended 30 June 2007 — unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June			
		2007		2006	
		\$'000	\$'000	\$'000	\$'000
Total recognised income and expense for the period brought forward			148,292		67,927
Attributable to:					
— equity shareholders of the Company		147,978		65,275	
— minority interests		314		2,652	
		148,292		67,927	
Dividends declared to:	13				
— minority shareholders			—		(4,199)
— equity shareholders of the Company			(18,072)		(13,524)
			(18,072)		(17,723)
Capital contributions by minority shareholders	13		79,962		—
Acquisition of minority interests	13		(37,642)		—
Movements in equity arising from capital transactions:					
Exercise of share options	13		3,670		—
Grant of share options	13		—		4,866
			3,670		4,866
Total equity at 30 June	13		1,287,121		1,034,286

The notes on pages 8 to 20 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2007 — unaudited

(Expressed in Hong Kong dollars)

	<i>Note</i>	Six months ended 30 June	
		2007 \$'000	2006 \$'000
Cash (used in)/generated from operations		(69,175)	111,035
Tax paid		(6,909)	(9,617)
Net cash (used in)/generated from operating activities		(76,084)	101,418
Net cash used in investing activities		(127,349)	(88,917)
Net cash generated from financing activities		211,212	76,439
Increase in cash and cash equivalents		7,779	88,940
Cash and cash equivalents at 1 January	11	157,737	96,871
Effect of foreign exchange rates changes		1,379	328
Cash and cash equivalents at 30 June	11	166,895	186,139

The notes on pages 8 to 20 form part of this interim financial report.

Notes to 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 18 September 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

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 2006 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 (“HKFRSs”).

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 Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 21.

The financial information relating to the financial year ended 31 December 2006 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 2006 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 April 2007.

2. 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.

Business segments

The Group comprises the following main business segments:

Tinplating : Production and sales of tinplate and related products which are used as packaging materials for food processing manufacturers

Foodstuffs distribution and trading : Distribution, purchase and sale of foodstuffs

Property leasing : Leasing of properties to generate rental income

	Tinplating \$'000	Foodstuffs distribution and trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Consolidated \$'000
Period ended 30 June 2007						
Revenue from external customers	619,034	56,390	13,309	—	—	688,733
Inter-segment revenue	—	—	119	(119)	—	—
Other revenue from external customers	7,439	625	38	—	4,869	12,971
Total	626,473	57,015	13,466	(119)	4,869	701,704
Segment result	44,865	11,491	9,060	—	—	65,416
Unallocated operating income and expenses						(6,310)
Profit from operations						59,106

	Tinplating \$'000	Foodstuffs distribution and trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Consolidated \$'000
Period ended 30 June 2006						
Revenue from external customers	569,047	42,149	11,585	—	—	622,781
Inter-segment revenue	1,038	115	71	(1,224)	—	—
Other revenue from external customers	—	—	—	—	13,460	13,460
Total	570,085	42,264	11,656	(1,224)	13,460	636,241
Segment result	35,661	8,381	8,159	—	—	52,201
Unallocated operating income and expenses						3,051
Profit from operations						55,252

Note: The directors consider that change in fair value on investment properties does not constitute part of the Group's operating performance. As a result, net valuation gains or losses on investment properties are not included in profit from operations.

3. Other revenue and net income

Other revenue

	Six months ended 30 June	
	2007	2006
	\$'000	\$'000
Sales of scrap materials	6,467	1,378
Interest income	1,485	1,657
Management income	199	207
Dividends from listed securities	118	118
Subsidy received	354	966
Others	982	2,206
	9,605	6,532

Other net income

	Six months ended 30 June	
	2007	2006
	\$'000	\$'000
Net realised and unrealised gain on trading securities	1,741	—
Write-back of long-outstanding payables	—	3,444
Recovery of bad debts	—	1,034
Exchange gain	1,625	4,109
Others	—	(2)
	3,366	8,585

4. Profit before taxation

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

	Note	Six months ended 30 June	
		2007	2006
		\$'000	\$'000
(a) Non-operating income:			
Gain on acquisition of minority interests in subsidiaries and dividend payable to the related minority shareholder		40,021	—

During the period, the Group acquired from the minority shareholder the 5% equity interest and dividend payable in each of Zhongyue Tinsplate Industrial Co., Ltd. ("Zhongyue Tinsplate") and Zhongshan Shan Hai Industrial Co., Ltd. ("Shanghai") for a total consideration of US\$499,000 (equivalent to \$3,890,000). Following the acquisition, Zhongyue Tinsplate and Shanghai became wholly-owned subsidiaries of the Group. The gain represents the difference between the consideration paid and the minority interests and dividend payable acquired. Both the Group and the minority shareholder are state-controlled entities.

4. Profit before taxation (continued)

	Note	Six months ended 30 June	
		2007 \$'000	2006 \$'000
(b) Finance costs:			
Interest on bank borrowings (discounted bills)		4,097	1,436
(c) Staff costs:			
Net contributions paid to defined contribution plans		2,174	1,123
Salaries, wages and other benefits		20,214	12,874
Equity-settled share-based payment expenses		—	4,866
		22,388	18,863
(d) Other items:			
Amortisation of land lease premium		895	888
Depreciation	(i)	16,126	5,450
Dividend income from trading securities		(118)	(118)
Operating lease charges in respect of properties		448	473
Share of associates' taxation	(ii)	1,857	3,414
Rentals receivable from investment properties less direct outgoings of \$1,071,000 (30 June 2006: \$748,000)		(12,238)	(10,837)

Notes:

- (i) The increase in depreciation compared to the previous period is mainly due to the commencement of operation of the black-plate manufacturing plant.
- (ii) Income tax for associates established and operating in the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC.

5. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Note	Six months ended 30 June	
		2007 \$'000	2006 \$'000
Current tax — Provision for Hong Kong Profits Tax			
Provision for Hong Kong Profits Tax at 17.5% on the estimated assessable profits for the period		131	1,038
Current tax — the PRC			
Tax for the period		6,042	6,827
Deferred tax			
Origination and reversal of temporary differences		2,584	2,544
Effect of change in tax rate in the PRC	(ii)	(5,357)	—
		(2,773)	2,544
	(i)	3,400	10,409

Notes:

- (i) Income tax for subsidiaries established and operating in the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC.
- (ii) This represents the financial effect of the change in tax rate on the deferred tax liabilities of the Group as a result of the Corporate Income Tax Law of the PRC passed on 16 March 2007.

6. Dividends

(a) Dividends attributable to the period

	Six months ended 30 June	
	2007 \$'000	2006 \$'000
Interim dividend declared and paid after the period of 2.0 cents per ordinary share (30 June 2006: 1.5 cents per ordinary share)	18,078	13,524

The interim dividend has not been recognised as a liability at the balance sheet date.

6. Dividends (continued)

- (b) *Dividends attributable to the previous financial year, approved and paid during the period*

	Six months ended 30 June	
	2007 \$'000	2006 \$'000
Final dividend in respect of the previous financial year, approved and paid during the period of 2.0 cents per ordinary share (30 June 2006: 1.5 cents per ordinary share) (Note 13)	18,072	13,524

7. Earnings per share

- (a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$118,207,000 (30 June 2006: \$58,624,000) and the weighted average number of 903,335,329 (30 June 2006: 901,583,285) ordinary shares in issue during the period.

- (b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$118,207,000 (30 June 2006: \$58,624,000) and the weighted average number of ordinary shares of 905,280,749 (30 June 2006: 901,725,417) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option schemes.

8. Fixed assets

- (a) *Acquisitions*

During the six months ended 30 June 2007, the Group acquired items of property, plant and equipment with a total cost of \$236,314,000 (30 June 2006: \$155,672,000), of which \$224,315,000 were acquired by a subsidiary, Zhongyue Posco (Qinhuangdao) Tinsplate Industrial Co., Ltd. ("Zhongyue Posco"). Zhongyue Posco, a foreign joint venture limited company, was incorporated on 16 February 2007 in accordance with the PRC law and is owned as to 66% by the Group and the remaining 34% by POSCO Co., Ltd. and POSCO-China Holding Corporation. It has a total registered capital of US\$30,000,000 (equivalent to \$234,000,000). Construction of the production facilities is in progress and the subsidiary will principally be engaged in the production and sale of tinsplate products.

- (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 2007 by an independent firm of surveyors, RHL Appraisal Limited, who have among their staff Members 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, 廣東財興資產評估土地房產估價有限公司, on an open market value basis. Based on the valuation, a net gain of \$12,791,000 (30 June 2006: \$5,867,000), and deferred tax thereon of \$2,640,000 (30 June 2006: \$1,738,000), have been included in the consolidated income statement.

8. Fixed assets (continued)

(c) Leases

The Group leases out investment properties under operating leases. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the Group held for use in operating leases was \$253,052,000 (31 December 2006: \$235,651,000).

9. Inventories

Inventories in the consolidated balance sheet comprise:

	At 30 June 2007 \$'000	At 31 December 2006 \$'000
Raw materials, spare parts and consumables	96,224	65,948
Work in progress	23,904	—
Finished goods	75,770	49,530
	195,898	115,478

Based on management's assessment of the net realisable value of inventories, there is no write-down of inventories to estimated net realisable value during the period (30 June 2006: \$3,156,000).

10. Trade and other receivables

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

	At 30 June 2007 \$'000	At 31 December 2006 \$'000
Within 1 month	108,985	149,105
1 to 3 months	145,690	92,386
More than 3 months but less than 1 year	48,741	6,779
More than 1 year but less than 2 years	129	—
	303,545	248,270

The Group grants credit periods ranging from advance payment to not more than 180 days (31 December 2006: 180 days).

11. Cash and cash equivalents

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

	At 30 June 2007 \$'000	At 31 December 2006 \$'000
Deposits with banks	97,149	37,477
Cash at bank and in hand	69,746	120,260
	166,895	157,737

Included in cash and cash equivalents is a balance of RMB102,368,000 (31 December 2006: RMB44,410,000).

12. Trade and other payables

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

	At 30 June 2007 \$'000	At 31 December 2006 \$'000
Due within 1 month or on demand	148,587	103,837

Trade and other payables include the following balances with related parties:

	At 30 June 2007 \$'000	At 31 December 2006 \$'000
Amount due to associate	19	18
Amounts due to holding company and fellow subsidiary	23,284	23,298
Amount due to minority shareholder of subsidiary	54,928	—
Amount due to company related to the above minority shareholder	71,306	—

13. Capital and reserves

	Attributable to equity shareholders of the Company											
	Note	Share capital \$'000	Share premium \$'000	Capital reserve — share options \$'000	Capital reserve \$'000	Exchange reserve \$'000	Special capital reserve \$'000	Other reserves \$'000	Retained profits \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
At 1 January 2007		450,792	—	3,376	657	37,949	107,440	3,523	469,532	1,073,269	37,642	1,110,911
Exchange difference on translation of financial statements of subsidiaries and associates outside Hong Kong		—	—	—	—	29,771	—	—	—	29,771	637	30,408
Exercise of share options	(i)	1,160	2,510	—	—	—	—	—	—	3,670	—	3,670
Acquisition of minority interests		—	—	—	—	—	—	—	—	—	(37,642)	(37,642)
Capital contributions by minority shareholders		—	—	—	—	—	—	—	—	—	79,962	79,962
Dividends approved in respect of the previous financial year	6(b)	—	—	—	—	—	—	—	(18,072)	(18,072)	—	(18,072)
Profit for the period		—	—	—	—	—	—	—	118,207	118,207	(323)	117,884
At 30 June 2007		451,952	2,510	3,376	657	67,720	107,440	3,523	569,667	1,206,845	80,276	1,287,121

	Attributable to equity shareholders of the Company											
	Note	Share capital \$'000	Share premium \$'000	Capital reserve — share options \$'000	Capital reserve \$'000	Exchange reserve \$'000	Special capital reserve \$'000	Other reserves \$'000	Retained profits \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
At 1 January 2006		450,792	—	—	657	12,260	107,440	2,783	375,950	949,882	29,334	979,216
Exchange difference on translation of financial statements of subsidiaries and associates outside Hong Kong		—	—	—	—	6,651	—	—	—	6,651	240	6,891
Grant of share options		—	—	4,866	—	—	—	—	—	4,866	—	4,866
Transfer to statutory reserves		—	—	—	—	—	—	1,734	(1,734)	—	—	—
Dividends declared to minority shareholders		—	—	—	—	—	—	—	—	—	(4,199)	(4,199)
Dividends approved in respect of the previous financial year	6(b)	—	—	—	—	—	—	—	(13,524)	(13,524)	—	(13,524)
Profit for the period		—	—	—	—	—	—	—	58,624	58,624	2,412	61,036
At 30 June 2006		450,792	—	4,866	657	18,911	107,440	4,517	419,316	1,006,499	27,787	1,034,286

13. Capital and reserves (continued)

(i) Equity-settled share-based transactions

During the six months ended 30 June 2007, 2,320,000 share options were exercised at a consideration of \$3,670,000 of which \$1,160,000 was credited to share capital and the balance of \$2,510,000 was credited to the share premium account.

In addition, 1,500,000 share options were lapsed during the six months ended 30 June 2007.

Total options outstanding at 30 June 2007 are 16,150,000 (31 December 2006: 19,970,000) and the weighted average exercise price is \$1.631 (31 December 2006: \$1.627).

14. Retirement benefits scheme

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the Group and administered by an independent trustee. Under the MPF Scheme, the Group and its employees are each required to make a contribution to the Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000 (the "Cap"). The amounts in excess of the Cap are contributed to the MPF Scheme by both employers and employees as voluntary contributions. Mandatory contributions to the MPF Scheme are vested to the employees immediately. Any unvested balance from voluntary contributions is refunded to the Group.

Employees engaged by the Group outside Hong Kong are covered by the appropriate local defined contribution schemes pursuant to the local labour rules and regulations.

The Group's pension cost charged to the consolidated income statement for the six months ended 30 June 2007 was \$2,197,000 (30 June 2006: \$1,123,000). The forfeited contribution refunded for the period amounted to \$23,000 (30 June 2006: Nil).

15. Commitments

(a) Capital commitments outstanding at 30 June 2007 not provided for in the interim financial report were as follows:

	At 30 June 2007 \$'000	At 31 December 2006 \$'000
Contracted for	94,721	3,463
Authorised but not contracted for	71,610	9,748
	166,331	13,211

15. Commitments (continued)

- (b) At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	At 30 June 2007 \$'000	At 31 December 2006 \$'000
Within 1 year	332	637
After 1 year but within 5 years	125	145
	457	782

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 2007, the Company is committed to provide finance of \$6,489,000 (31 December 2006: \$6,489,000) to an associate of the Group.

16. Contingent liabilities

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. As a result, the Intermediate People's Court of Yue Yang City ordered to freeze a bank deposit of the subsidiary in the amount of \$4,700,000.

According to the judgement of the Intermediate People's Court of Yue Yang City issued on 12 December 2004, the subsidiary was ordered to pay compensation and court charges amounting to RMB4,934,000 and RMB40,000 respectively. The subsidiary lodged an appeal to the High People's Court of Hunan Province 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 \$4,700,000 was released.

In 2006, the PRC third party filed a new claim of RMB5,788,000 to the Intermediate People's Court of Zhongshan City. The court proceedings are still in progress as at the date of issue of this interim financial report.

The directors have reviewed the nature of the claim under dispute and considered that no provision is required to be made in the interim financial report.

17. Material related party transactions

Other than those disclosed elsewhere in the interim financial report, the Group entered into the following material related party transactions.

(a) *Material related party transactions during the period are summarised as follows:*

	Six months ended 30 June	
	2007 \$'000	2006 \$'000
Purchase of fixed assets and related technical consultation services from a related company	139,617	—
Purchases of goods from related companies	294,920	476
Provision of electricity/water and leasing services to fellow subsidiaries	815	2,092
Maintenance fee paid to the immediate holding company	115	189

Note: Related companies to/from which goods or fixed assets and related services were sold and purchased include associates and the minority shareholder of a non-wholly owned subsidiary (including companies related to such minority shareholder).

(b) *Transactions with other state-controlled entities in the PRC*

The Group is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those transactions disclosed above, the Group also conducts business activities with other state-controlled entities which include but are not limited to the following:

- Sales and purchase of goods and ancillary materials;
- Rendering and receiving services;
- Lease of assets;
- Purchase of property, plant and equipment; and
- Obtaining finance.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval process do not depend on whether the counterparties are state-controlled entities or not.

17. Material related party transactions (continued)**(b) Transactions with other state-controlled entities in the PRC (continued)**

Having considered the potential transactions impacted by related party relationships, the entity's pricing strategy, buying and approval process, and what information would be necessary for an understanding of the potential effects of the transactions on the interim financial report, the directors are of the opinion that there are no other transactions that require disclosure as related party transactions.

(c) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors is as follows:

	Six months ended 30 June	
	2007 \$'000	2006 \$'000
Short-term employee benefits	1,450	1,555
Post-employment benefits	263	239
Equity compensation benefits	—	1,778
	1,713	3,572

18. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2007

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 2007 and which have not been adopted in this interim financial report.

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

In addition, the following development may result in new or amended disclosure in the Group's financial report:

	Effective for accounting periods beginning on or after
HKFRS 8, Operating segments	1 January 2009
HKAS 23 (revised), Borrowing costs	1 January 2009

Independent Review Report



TO THE BOARD OF DIRECTORS OF GUANGNAN (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 3 to 20 which comprises the consolidated balance sheet of Guangnan (Holdings) Limited as of 30 June 2007 and the related consolidated statements of income, and changes in equity and condensed consolidated statements of cash flows for the six month period then ended and explanatory notes. 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 directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18 September 2007

Results

For the first half of 2007, the Group's unaudited consolidated profit attributable to equity shareholders of the Company was HK\$118,207,000, representing an increase of 101.6%, compared with HK\$58,624,000 of the corresponding period last year. Basic earnings per share was HK13.09 cents, an increase of 101.4% from HK6.50 cents of the corresponding period last year.

Interim Dividend

The Board declares the payment of an interim dividend for the six months ended 30 June 2007 of HK2.0 cents per share (six months ended 30 June 2006: HK1.5 cents per share).

Business Review

During the period under review, consolidated turnover was HK\$688,733,000, representing an increase of HK\$65,952,000, or 10.6%, from HK\$622,781,000 of the corresponding period last year. Such increase was mainly attributable to the growth in the tinplating business. In the first half of the year, apart from actively tapping into the current production potential of tinplating to satisfy market needs, the Group also shifted more focus on its black-plate manufacturing plant and Qinhuangdao tinplating plant projects. For the black-plate manufacturing plant project, we strived to achieve the planned production capacity during the year on the basis of steady improvement in product quality; for the Qinhuangdao tinplating plant project, we strived to fulfill its strategy of "formulate, design, construct, install and commence production all in one year". Both projects are targeted at obtaining expected results next year.

Tinplating

During the first half of 2007, the tinplate production and sales volume of Zhongshan Zhongyue Tinplate Industrial Co., Ltd ("Zhongyue Tinplate"), a subsidiary of the Group, were 87,485 tonnes and 88,774 tonnes, an increase of 4.8% and 0.1% respectively when compared with the corresponding period last year. Turnover was HK\$619,034,000, representing an increase of 8.8% comparing to the same period last year. Operating profit was HK\$44,865,000, an increase of HK\$9,204,000, or 25.8% comparing to the same period last year. The tinplating business made the greatest profit contribution to the Group, with its turnover and operating profit accounting for 89.9% and 75.9% of the Group's turnover and operating profit respectively.

At the beginning of the year, the Group completed the acquisition of 5% interests in Zhongyue Tinplate from the PRC minority shareholder. Zhongyue Tinplate is now a wholly-owned subsidiary of the Group. There is ample room for further development and operations for Zhongyue Tinplate in the future.

The Group established a joint-venture, Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co., Ltd ("Zhongyue Posco"), with POSCO Co. Ltd. ("POSCO"), a steel enterprise with the fifth largest global steel output, on 16 February this year. The Group holds 66% interests of the new company while the remaining 34% is held by POSCO. The planned production capacity of tinplates is 250,000 tonnes per annum; construction for the project has been progressing well and is expected to commence production by the end of the year.

The black-plate manufacturing plant located in Zhongshan commenced production in the end of March this year, with the concerted efforts of our technical staff and production staff, gradually enhancing both quality and quantity of the products, providing favourable conditions to lower product costs and enter the diversified tinplating market comprehensively.

Property Leasing

The Group's leasing properties include the plant and staff dormitory of Zhongshan Shan Hai Industrial Co., Ltd. ("Shanghai"), and the office building in Hong Kong. In the first half of 2007, the total turnover of leasing properties of the Group was HK\$13,309,000, an increase of 14.9% compared with the same period last year. Profit from operations of leasing properties was HK\$9,060,000, representing an increase of 11.0% as compared with the same period last year.

At the beginning of the year, the Group completed the acquisition of 5% interests in Shanghai from the PRC minority shareholder. Shanghai is now a wholly-owned subsidiary of the Group.

Foodstuffs Distribution and Trading

During the first half of 2007, turnover of the foodstuffs distribution and trading business amounted to HK\$56,390,000, representing an increase of HK\$14,241,000 or 33.8% as compared with the same period last year, which was attributable to the fact that impact of bird flu no longer exists and the increase in provisional quotas of livestock distribution. For the first six months of this year, the foodstuffs distribution and trading business realised an operating profit of HK\$11,491,000, an increase of HK\$3,110,000 or 37.1% from the same period last year.

On 20 July 2007, the government of HKSAR announced that it has reached agreement with the Ministry of Commerce of the PRC, pursuant to which the government of HKSAR has agreed to admit Guangnan Hong Company Limited as the second Hong Kong-based distributor to import live pigs from the Mainland China. The Group is currently undergoing negotiations with governmental authorities of Hong Kong and China and related parties, so as to roll out the related new business as soon as possible.

Associates

During the first half of 2007, Yellow Dragon Food Industry Co., Limited ("Yellow Dragon"), a major associate of the Group, recorded a sales volume of 188,987 tonnes of corn starch, its major products, representing a decrease of 6.5% as compared with the same period last year. Turnover of Yellow Dragon amounted to HK\$604,077,000, a growth of 12.6% as compared with the same period last year while profit attributable to shareholders amounted to HK\$34,040,000, an increase of HK\$4,092,000 or 13.7%.

The Group owns 40% interest in Yellow Dragon and received a total dividend payment (in respect of the financial year 2006) of RMB16,793,000 (equivalent to HK\$17,054,000) in the first half of 2007.

Financial Position

As at 30 June 2007, the Group's total assets amounted to HK\$1,945,355,000, and total liabilities stood at HK\$658,234,000, representing an increase of HK\$406,066,000 and HK\$229,856,000 respectively compared with the positions at the end of last year. Net current assets decreased from HK\$144,383,000 at the end of last year to HK\$75,850,000, and current ratio (current assets divided by current liabilities) decreased from 1.36 as at the end of last year to 1.12. The Group maintains a healthy financial position.

Liquidity and Financial Resources

As at 30 June 2007, the Group's cash and cash equivalent balances amounted to HK\$166,895,000, representing an increase of 5.8% from the end of last year, of which an amount equivalent to HK\$105,061,000 was denominated in Renminbi and the remaining amounts were denominated in Hong Kong dollars and US dollars.

As at 30 June 2007, the Group's interest-bearing borrowings amounted to HK\$227,209,000. Accordingly, the Group's gearing ratio, measured by the Group's total interest-bearing borrowings over shareholders' fund, was 18.8%. The Group's interest-bearing borrowings will be repaid at maturity with proceeds from bills discounted to the banks, and carry interests at annual rates (or discounted rates) ranging from 2.97% to 4.5%.

As at 30 June 2007, the Group's total available banking facilities amounted to HK\$257,400,000, HK\$182,491,000 of which was issued with letters of credit, and HK\$74,909,000 was unutilised banking facilities while discounting bills as mentioned above did not use up any banking facilities. With its cash and cash equivalents on hand, the recurring cash flows from its operations and banking facilities, the Group believes that it will have sufficient funds to meet its present operation requirements and to further develop its businesses in the foreseeable future.

Litigation

In 2004, a claim was filed against a subsidiary of the Group alleging that the subsidiary had not repaid its outstanding amount due to the defendant. The legal dispute was heard in the Intermediate People's Court of Yue Yang City, Hunan which delivered a judgement in favour of the Group in January 2005. On 29 December 2006, the defendant filed a new claim against the subsidiary with the Intermediate People's Court of Zhongshan City. The amount of claim, together with damages arising from breach of contract was RMB5,788,000 (approximately HK\$5,940,000). According to information currently available, the Group is of the view that no provision is required to be made for this claim.

Exchange Rate Exposure

The Group's assets, liabilities and transactions are primarily denominated in Hong Kong dollars, US dollars or Renminbi. As the exchange rates of these currencies were relatively stable during the period, the Group was not exposed to significant exchange risk. Foreign exchange gain for the period was HK\$1,625,000.

Employees and Remuneration Policies

As at 30 June 2007, the Group had a total of 804 full-time employees, increased by 81 compared with that as of the end of 2006. Among them, 21 were based in Hong Kong and 783 were based in the Mainland China. Staff remuneration is determined in accordance with the duties, workload, skill requirements, hardship, working conditions and individual performance with reference to the prevailing industry practices. In 2007, the Group continued to implement control on the headcount, organization structure and payroll of each subsidiary, and the management continued to implement effective performance bonus incentive scheme. Through performance assessment of each subsidiary, performance bonus for various profit rankings was paid on the basis of net cash inflow from operation and profit after taxation. In addition, bonus will be distributed to the management, key personnel and outstanding staff according to the assessment results of individual performance. These incentive schemes have effectively improved the morale of our staff members. The Company has also adopted a share option scheme to reward, attract, retain and motivate excellent and talented participants for their contributions to the Group.

Prospects

Adjustments in the global industry and growth in domestic demand are introducing new business opportunities to the tinplating business in the Mainland China. The Group will aggressively capture such a rare chance to fully leverage on the favourable conditions brought about by the gradual completion of the integration of black-plate manufacturing plant and the commencement of production of the Qinhuangdao tinplating plant. We target to complete the strategic deployment of these two major tinplating production bases in the north and south respectively as soon as possible, so as to achieve an annual production capacity of 500,000 tonnes in the shortest time possible, and to optimize its tinplating product structure and upgrade its product quality. These measures are aimed at satisfying the increasing demand in the diversified tinplating product market, to fully prepare itself in anticipation of the Beijing Olympic Games in 2008.

Directors' Interests and Short Positions in Securities

As at 30 June 2007, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities ("Listing Rules") on the Hong Kong Stock Exchange were as follows:

Interests and short positions in the Company

(i) *Interests in ordinary shares*

<u>Name of Director</u>	<u>Capacity/ nature of interests</u>	<u>Number of ordinary shares held</u>	<u>Long/short position</u>	<u>Approximate percentage of interests held</u>
				<i>(Note)</i>
Liang Jiang	Personal	2,000,000	Long position	0.221%
Gerard Joseph McMahon	Personal	100,000	Long position	0.011%

Note: The approximate percentage of interests held was calculated on the basis of 903,903,285 ordinary shares of the Company in issue as at 30 June 2007.

(ii) Interests in options relating to ordinary shares

Name of Director	Date of share options granted [#] (dd.mm.yy)	Number of options held as at 1 January 2007 (‘000)	Period during which share options is exercisable* (dd.mm.yy)	Total consideration paid for share options granted (HK\$)	Price per ordinary share payable on exercise of options (HK\$)	During the period number of share options			Number of options held as at 30 June 2007 (‘000)	Share Price	
						Exercised (‘000)	Lapsed (‘000)	Cancelled (‘000)		At share option grant date** (HK\$)	At share option exercise date** (HK\$)
Liang Jiang	06.02.04 (Note)	2,000	06.05.04– 05.05.09	10	1.582	2,000	—	—	—	0.155	1.570
	09.03.06	2,000	09.06.06– 08.03.16	1	1.660	—	—	—	2,000	1.610	—
Tan Yunbiao	06.02.04 (Note)	1,500	06.05.04– 05.05.09	10	1.582	—	—	—	1,500	0.155	—
	09.03.06	2,000	09.06.06– 08.03.16	1	1.660	—	—	—	2,000	1.610	—
Tsang Hon Nam	09.03.06	300	09.06.06– 08.03.16	1	1.660	—	—	—	300	1.610	—
Zhao Leili	09.03.06	200	09.06.06– 08.03.16	1	1.660	—	—	—	200	1.610	—
Luo Fanyu	09.03.06	200	09.06.06– 08.03.16	1	1.660	—	—	—	200	1.610	—
Gerard Joseph McMahon	09.03.06	200	09.06.06– 08.03.16	1	1.660	—	—	—	200	1.610	—
Tam Wai Chu, Maria	09.03.06	200	09.06.06– 08.03.16	1	1.660	—	—	—	200	1.610	—
Li Kar Keung, Caspar	09.03.06	200	09.06.06– 08.03.16	1	1.660	—	—	—	200	1.610	—

[#] 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 the last day of any of the option periods is not a business day in Hong Kong, the option period shall end at the close of business on the last business day preceding that day.

^{**} The share prices disclosed as "At share option grant date" and "At share option exercise date" are the closing prices of the ordinary shares of the Company quoted on the Hong Kong Stock Exchange on the trading day immediately prior to the date of grant of the share options and the date of exercise of the share options respectively.

Note: For those options granted on 6 February 2004, the number of options outstanding and the exercise price were adjusted as a result of the consolidation of the ordinary shares of the Company that took effect on 19 December 2005.

Interests and short positions in Kingway Brewery Holdings Limited

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held
Luo Fanyu	Personal	86,444	Long position	0.005%

Note: The approximate percentage of interests held was calculated on the basis of 1,706,672,000 ordinary shares of Kingway Brewery Holdings Limited in issue as at 30 June 2007.

Interests and short positions in Guangdong Tannery Limited

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held
Luo Fanyu	Personal	70,000	Long position	0.013%

Note: The approximate percentage of interests held was calculated on the basis of 536,904,000 ordinary shares of Guangdong Tannery Limited in issue as at 30 June 2007.

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 2007, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company, its holding companies or any of its subsidiaries or associated corporation a party to any arrangements to enable the directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' Interests

As at 30 June 2007, so far as is known to any director and chief executive of the Company, the following persons (other than a director and chief executive of the Company) had an interest or short position 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:

<u>Name of Shareholder</u>	<u>Number of ordinary shares beneficially held</u>	<u>Long/short position</u>	<u>Approximate percentage of interests held</u>
<i>(Note 1)</i>			
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang") <i>(Note 2)</i>	536,380,868	Long position	59.34%
GDH Limited ("GDH")	536,380,868	Long position	59.34%

Note:

1. The approximate percentage of interests held was calculated on the basis of 903,903,285 ordinary shares of the Company in issue as at 30 June 2007.
2. 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, no other person (other than a director and chief executive of the Company) known to any director and chief executive of the Company as at 30 June 2007 had an interest or short position 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 as recorded in the register kept by the Company under Section 336 of the SFO.

Share Option Schemes

On 11 June 2004, the Company adopted a new share option scheme ("2004 Share Option Scheme") enabling the Company to attract, retain and motivate high caliber and talented participants to make contributions to the Group. On the same day, the Company also terminated its share option scheme that was adopted on 24 August 2001 ("2001 Share Option Scheme"). Options granted under the 2001 Share Option Scheme prior to 11 June 2004 remain valid until lapsed.

During the period, 1,500,000 share options were lapsed and no share options were granted under the 2004 Share Option Scheme by the Company.

During the period, 2,320,000 share options were exercised under the 2001 Share Option Scheme. As at 30 June 2007, options were outstanding under the 2001 and 2004 Share Option Schemes entitling the holders to subscribe for 6,000,000 shares and 10,150,000 shares of the Company respectively.

As at 30 June 2007, save as disclosed in the section of "Directors' Interests and Short Positions in Securities", the following share options were outstanding under the 2001 and 2004 Share Option Schemes. Each option gives the holder the right to subscribe for one share of par value HK\$0.5 each of the Company.

Category	Date of share options granted [#] (dd.mm.yy)	Number of options held as at 1 January 2007 (^{'000})	Period during which share options is exercisable* (dd.mm.yy)	Total consideration paid for share options granted (HK\$)	Price per ordinary share payable on exercise of options (HK\$)	During the period number of share option			Number of options held as at 30 June 2007 (^{'000})	Share Price	
						Exercised (^{'000})	Lapsed (^{'000})	Cancelled (^{'000})		At share option grant date** (HK\$)	At share option exercise date** (HK\$)
Former Director	09.03.06	200	09.06.06–08.03.16	1	1.660	—	—	—	200	1.610	—
Employees and other participants	06.02.04 (Note)	4,820	06.05.04–05.05.09	10	1.582	320	—	—	4,500	0.155	2.220
	09.03.06	6,150	09.06.06–08.03.16	1	1.660	—	1,500	—	4,650	1.610	—

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 the last day of any of the option periods is not a business day in Hong Kong, the option period shall end at the close of business on the last business day preceding that day.

** The share prices disclosed as "At share option grant date" and "At share option exercise date" are the closing prices of the shares of the Company quoted on the Hong Kong Stock Exchange on the trading day immediately prior to the date of grant of the share options and the date of exercise of the share options respectively.

Note: For those options granted on 6 February 2004, the number of options outstanding and the exercise price were adjusted as a result of the consolidation of the ordinary shares of the Company that took effect on 19 December 2005.

Corporate Governance and Other Information

Code on Corporate Governance Practices

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Listing Rules on the Hong Kong Stock Exchange throughout the six months ended 30 June 2007, 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 as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. All directors have confirmed, upon 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 2007.

Audit Committee

The Company established an audit committee (“Audit Committee”) in 1999 and its terms of reference are in line with the CG Code. The Audit Committee comprises the three independent non-executive directors, Mr. Gerard Joseph McMahon (chairman of the Audit Committee), Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company’s financial reports and the Group’s internal controls and risk management systems.

The Audit Committee holds regular meetings and it met three times during the six months ended 30 June 2007.

Compensation Committee

The Company established a compensation committee (“Compensation Committee”) in 1999 and its terms of reference are in line with the CG Code. The Compensation Committee comprises the chairman of the Board, Mr. Liang Jiang, executive director and general manager, Mr. Tan Yunbiao, and the three independent non-executive directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar (chairman of the Compensation Committee). The principal duties of the Compensation Committee include, inter alia, making recommendations to the Board relating to the Company’s policy for directors’ and senior management’s remuneration, determining the executive directors’ and senior management’s remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss of offices.

During the six months ended 30 June 2007, a meeting was held by the Compensation Committee to explore into relevant issues.

Nomination Committee

The Company established a nomination committee (“Nomination Committee”) in June 2005. The Nomination Committee comprises the Chairman of the Board, Mr. Liang Jiang who is also chairman of the Nomination Committee, and the three independent non-executive directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. The principal duties of the Nomination Committee include, inter alia, identifying suitable and qualified individuals to become board members and making recommendation on appointment and reappointment of directors.

During the six months ended 30 June 2007, a meeting was held by the Nomination Committee to explore into relevant issues.

Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial report and the interim report of the Group for the six months ended 30 June 2007. In addition, the Company's external auditors, KPMG, have reviewed the aforesaid unaudited interim financial report.

Purchase, Sale and Redemption of Listed Securities

During the six months ended 30 June 2007, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Hong Kong Stock Exchange.

Interim Dividend

The Board has resolved to declare the payment of an interim dividend of HK2.0 cents per share (six months ended 30 June 2006: HK1.5 cents per share) for the six months ended 30 June 2007. The interim dividend will be paid on 31 October 2007 to the shareholders whose names appear on the Register of Members on 17 October 2007.

Closure of Register of Members

The Register of Members of the Company will be closed on 16 October 2007 and 17 October 2007. During these two days, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 15 October 2007.

By order of the Board

Liang Jiang

Chairman

Hong Kong, 18 September 2007

