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

Annual Report 2000

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
YE Xuquan *(Chairman)*
LI Li
CHEN Lizhong

Non-executive Directors
WU Wai Chung, Michael
LUO Fanyu
HOU Zhuobing

Independent Non-executive Directors
Gerard Joseph McMAHON
TAM Wai Chu, Maria
LI Kar Keung, Caspar

COMPANY SECRETARY

CHEUNG Mo Ching

REGISTERED OFFICE

29th Floor, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

SOLICITORS

P.C. Woo & Co.
Room 1225, Prince's Building
10 Chater Road
Central
Hong Kong

FINANCIAL ADVISERS

Kingsway Capital Limited
5/F., Hutchison House
10 Harcourt Road, Central
Hong Kong

AUDITORS

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

SHARE REGISTRARS

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

PRINCIPAL BANKERS

HSBC
Nanyang Commercial Bank, Limited
Standard Chartered Bank

Chairman's Statement

Despite the completion of the Restructuring, the Board anticipates that there will be challenges ahead, with the Hong Kong economy continuing to remain sluggish and the new management having to deal with potential problems that may arise as a result of actions in the past. In the months ahead, the Group will adopt a prudent approach and will remain focused on building a solid foundation on its existing business and reinforcing its position in the live and fresh foodstuffs distribution business. However, the Board believes that the Group, with its competitive advantages in the food distribution, trading and supermarket operations in Hong Kong and connections in the People's Republic of China ("PRC"), in particular, the Guangdong Province, will be able to ride out the challenges, and to capitalize on the impending entry of the PRC into World Trade Organisation ("WTO"). With these in mind, the Board will use its best endeavours to return the Group to profitability.

By Order of the Board
Ye Xuquan
Chairman

Hong Kong, 9th April, 2001

Chairman's Statement

Guangnan (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") operated under very difficult conditions in the year 2000. During the past two years, the Group underwent a debt restructuring scheme (the "Restructuring") involving primarily a reduction of its debts and disposal of its non-core businesses whilst continuing to operate its core businesses. As a result, a substantial amount of its financial and management resources were diverted to implementing the Restructuring. This has adversely affected the operating results of the Group.

The Group recorded a total turnover of approximately HK$2,764.2 million for the year ended 31st December, 2000, representing a 3.5% decrease as compared to approximately HK$2,864.4 million in the previous year.

Following the Restructuring which was successfully completed on 22nd December, 2000, the Group disposed of certain non-core businesses to an asset management company as well as discharged all bank borrowings and convertible bonds incurred prior to the commencement of the Restructuring together with certain non-financial creditors. As a result, the Group recorded a net gain of approximately HK$1,433.3 million arising from the Restructuring. With the help of this exceptional gain from the Restructuring, the Group posted a turnaround in profit to approximately HK$866.1 million for the year ended 31st December, 2000 from a loss of approximately HK$194.2 million in the previous year. Excluding the gain from the Restructuring, the Group recorded a loss of approximately HK$567.2 million for the year ended 31st December, 2000.

While the Restructuring was still ongoing in the year under review, the Group was unable to obtain new banking facilities and favourable credit terms from its suppliers. These adversely affected the Group's competitiveness and increased the operating cost of its businesses. Nevertheless, upon the successful completion of the Restructuring on 22nd December, 2000 and the open offer for new shares in January 2001, the Group has restored to a positive net asset base which can enhance the Group's capability to obtain new financing and to negotiate better terms from its suppliers. In addition, the Group can concentrate its resources on consolidating those existing businesses with a higher profit potential and exploring new business opportunities to broaden its earning and asset base with a view to eventually enhancing the value of its shareholders' investment in the Company.

Several new directors were appointed to the board of directors (the "Board") of the Company in the latter half of the year 2000. The Board believes that the new management team, with their extensive experience in corporate management and operations, will implement new measures to improve the efficiency and financial performance of the Group. These measures will involve adopting sales strategies to maximize profit margins, closing down unprofitable businesses or outlets, cutting costs, streamlining its personnel and monitoring the collection of its accounts receivable.

Management Discussion and Analysis

CHARGES ON GROUP ASSETS

Pursuant to the condition of the Restructuring, there was a charge in favour of GDH Limited over the proceeds of the Open Offer to be received by the Company. Save as disclosed above, the Group did not have any charges on its assets as at 31st December, 2000.

CONTINGENCIES

As at 31st December, 2000, there was a contingent liability to the extent of approximately HK$21.8 million in respect of a guarantee given to banks to secure banking facilities granted to an associate of the Company.

PROSPECTS

With the successful completion of the Restructuring, the new management will be able to concentrate on realising a long-term growth strategy for the Group. Consolidating the core businesses of the Group remains a priority. The focus is on foodstuff and the Group will cautiously introduce new projects while at the same time continue to monitor cost, tighten its control mechanism and streamline its operation with a view to enhancing the profitability of the Group. This includes a constant review of its loss-making businesses to consider means for improvement which may involve seeking strategic partners to provide synergies to the business and, if necessary, disposing of or ceasing such businesses. Furthermore the Group, with its improved net asset base and being in a better position to obtain new financing, can now start to seek out new investment opportunities with higher profit margin to complement the Group's core businesses.

Industrial Investment

Industrial Investment comprises businesses in tinplating, pig farms and production of feeds.

The Group's tinplating joint ventures recorded a turnover growth of 18.4 per cent to approximately HK$397.1 million from a year earlier. However, owing to increases in the cost of certain raw materials, the operating profit for the year ended 31st December, 2000 decreased by 18.8% to approximately HK$35.6 million. On 22nd December, 2000, the Company disposed of its tinplating joint ventures to an asset management company as a condition of the Restructuring.

On 12th December, 2000, the Company disposed of its entire 20% interest in a co-operative joint venture established in the PRC engaging in the business of pig farming.

EMPLOYMENT, TRAINING AND DEVELOPMENT POLICIES

The total number of full-time employees as at 31st December, 2000 is approximately 1,400. Details in relation to staff costs are disclosed in note 8(b) on the accounts.

The Group regards human resources as one of its key assets to develop its business. In order to attract and to retain capable staff, the Group assigns a Compensation Committee to be responsible for receiving advice and making recommendation to the Board with respect to the remuneration policies of senior employees. The committee comprises the Chairman, general manager, and three independent non-executive directors. Three compensation committee meetings were held throughout the year under review.

The Group is implementing a performance assessment recommendation as put forward in a report commissioned by the Group's professional advisers in analyzing its operations. The Group hopes to raise operation standard through periodical assessment of the staff's performance. If necessary, the Group will further streamline the headcount in order to reduce cost.

The Group is implementing a new accounting software on a trial basis to standardise its financial and accounting systems. These systems will enable the Group to expedite its financial information gathering process, thus reducing both time and cost. Moreover, the systems, being more sophisticated, are useful for cost control and analysis of the Group's operations.

Management Discussion and Analysis

Supermarket

During the Restructuring, the supermarket business suffered from a lack of financing for expansion and sales promotion and from inability to negotiate favourable credit terms from suppliers. In addition, the Shanghai operations were closed down at the beginning of the year under review. As a result, for the year ended 31st December, 2000, the supermarket business recorded a turnover and an operating loss of about HK$708.8 million and HK$124.0 million respectively, representing a drop in turnover of about 6.3% and a rise in operating loss of about 5% against the corresponding period in 1999.

The Group has already strengthened the management of its supermarket business in Hong Kong, implemented cost-reduction plan, adopted new modus operandi and noted an improvement in its operations recently. However, fierce market competition has accentuated the problems encountered by management in operating the business. The management will continue to closely monitor the Group's supermarket business in Hong Kong and if necessary, adjust its strategy including considering closing any outlets which have incurred substantial losses.

The Group's loss-making supermarkets in Guangzhou continued to drain its financial resources. In order to stop this situation from deteriorating, the management has ceased its supermarket operation in Guangzhou. The Board is now reviewing various business strategies including looking for a suitable strategic partner to overhaul this business. If neither a suitable strategic partner nor an interested buyer can be found for this operation, the Directors will consider closing down this business in Guangzhou as soon as practicable.

Trading

The main focus of the trading activities of the Group ranges from rice, fruit, vegetable and additive to animal feeds. For the year ended 31st December 2000, the turnover and the operating loss was approximately HK$46.9 million and HK$2.3 million respectively signaling a decline in turnover of 35.9% and a drop in operating loss of 90% as compared to those for the year ended 31st December, 1999. The fall in turnover was mainly attributable to the discontinuance of the trading of non-foodstuffs as a result of consolidating the Group's core business. Notwithstanding the decline in turnover, its operating loss for the year in review has substantially reduced which was due to a stock provision of approximately HK$15.3 million made in the year of 1999.

The PRC impending accession to the WTO is expected to generate increased trading activities between PRC and the rest of the world. The Group intends to capture this opportunity by sourcing more products from the mainland to be exported overseas and by obtaining agency and distribution rights from overseas food manufacturers for the import of their products into the PRC, through the trading operations of the Group.

Management Discussion and Analysis

BUSINESS REVIEW

Most of the continuing businesses of the Group suffered from a drop in turnover and profitability while the Group was undergoing the Restructuring. The live and fresh foodstuffs distribution operation remains the Group's largest and most profitable business. Faced with intense competition, the supermarket business continued to incur losses. The tinplating joint ventures were disposed of towards the end of the year as a condition of the Restructuring, leaving only the farming and feeds production business in the industrial investment segment. The Group also disposed of its 20% interest in a PRC joint venture operating pig farming business during the end of the year but its interests in other pig farming businesses remained intact.

LIQUIDITY AND FINANCING RESOURCES

During the Restructuring, the Group could only rely on its own internal resources for financing its operation and could not obtain favourable credit terms from its suppliers. Following the successful completion of the Restructuring in December 2000 and the open offer for new shares in January 2001, all the bank borrowings and convertible bonds incurred prior to the commencement of the Restructuring of the Group together with certain non-financial creditors were discharged and a positive net asset base has been restored. The Group intends to obtain new bank financing and to negotiate better terms from its suppliers. In addition, the Group will continue to commit resources for its debt recovery program to speed up the process in order to enhance its cashflow position.

OPERATIONS REVIEW

Live and Fresh Foodstuffs

Despite being the largest and the most profitable business segment of the Group, for the year ended 31st December 2000, the live and fresh foodstuffs distribution business recorded a turnover and an operating profit of about HK$1,444.4 million and HK$12.8 million, representing a decline of about 6.1% and 49.8% against the same period in 1999 respectively. The decline in turnover was principally attributable to competition from alternative products like frozen foods, smuggling of the live and fresh foodstuffs into Hong Kong and weak consumption demand in Hong Kong while the fall in operating profit was mainly due to the rise in import cost.

In order to enhance profit margin, the Board is considering vertical integration by expanding this segment upwards to include the production of feeds and downwards to incorporate retailing. Through vertical integration, the Group is able to capitalize on its core businesses of farming and feeds production and supermarket operations.

Report of the Directors

PUBLICATION OF FURTHER INFORMATION ON THE HONG KONG STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Hong Kong Stock Exchange's website in due course.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year except that the Non-executive Directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

Complying with the Code of Best Practice, the Company has established an audit committee and the three Independent Non-executive Directors are members of the audit committee. Eight audit committee meetings were held throughout the year under review.

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
Ye Xuquan
Chairman

Hong Kong, 9th April, 2001

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

(a) The figure includes 518,918,247 shares deemed to be held by GDH which is a wholly-owned subsidiary of Yue Gang.

(b) The figure includes: (i) 517,778,247 shares deemed to be held by GD Trust which is a wholly-owned subsidiary of GDH; and (ii) 1,140,000 shares held by a wholly-owned subsidiary of Guangdong Investment Limited which is a subsidiary of GDH.

(c) The figure includes: (i) 517,678,247 shares deemed to be held by GAM which is a wholly-owned subsidiary of GD Trust; and (ii) 100,000 shares held by Guangdong Asia Insurance Company Limited.

(d) The figure includes 517,678,247 shares deemed to be held by Guangnan Hong. Guangnan Hong is a direct wholly-owned subsidiary of GAM 16 which is in turn a direct wholly-owned subsidiary of GAM 15. GAM 15 is a direct wholly-owned subsidiary of GAM.

(e) The figure includes 455,953,567 shares deemed to be held by GN Int'l. GN Int'l is 46% directly owned by GAM 44. GAM 44 is a direct wholly-owned subsidiary of GAM 43 which is in turn a direct wholly-owned subsidiary of GAM.

(f) The figure includes 455,953,567 shares deemed to be held by GN Int'l which is 54% directly owned by Guangnan Hong.

Save as disclosed herein, the Directors are not aware of any shareholders who had interests of 10% or more of the issued share capital of the Company as at 31st December, 2000.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the convertible bonds with an aggregate principal amount of US$100 million (the “Bonds”) issued in June 1997 by Guangnan Finance (Cayman) Limited, a then wholly-owned subsidiary of the Company, matured on 30th June, 2000. The Bonds were listed on the Luxembourg Stock Exchange. Holders of the Bonds have on 30th November, 2000 passed extraordinary resolutions to be bound by the exchange offer on the terms set out in the exchange offer memorandum which formed part of the restructuring of indebtedness of the group of companies of Guangdong Enterprises (Holdings) Limited, which included the Group. The restructuring was complete on 22nd December, 2000.

Save as aforesaid, during the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

TRANSACTIONS DISCLOSED IN ACCORDANCE WITH THE LISTING RULES

Details of the transactions disclosed in accordance with the Listing Rules are set out on pages 73 to 74.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	*Note*	**Number of ordinary shares beneficially held**
Guangdong Yue Gang Investment Holdings Company Limited ("Yue Gang")	*(a)*	518,918,247
GDH Limited ("GDH")	*(b)*	518,918,247
Guangdong Trust Limited ("GD Trust")	*(c)*	517,778,247
Guangdong Assets Management Ltd. ("GAM")	*(d) &(e)*	517,678,247
Guangdong Assets Management (BVI) No. 15 Limited ("GAM 15")	*(d)*	517,678,247
Guangdong Assets Management (BVI) No. 16 Limited ("GAM 16")	*(d)*	517,678,247
Guangnan Hong (Group) Limited ("Guangnan Hong")	*(f)*	517,678,247
Guangdong Assets Management (BVI) No. 43 Limited ("GAM 43")	*(e)*	455,953,567
Guangdong Assets Management (BVI) No. 44 Limited ("GAM 44")	*(e)*	455,953,567
Guangnan International (B.V.I.) Limited ("GN Int'l")		455,953,567

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Pursuant to two letters dated 22nd March, 1999 and 29th May, 2000, the Company appointed BNP Paribas Peregrine Capital Limited ("BNP Paribas Peregrine") as its financial advisors in respect of the Restructuring. Mr. Li Kar Keung, Caspar, an independent Non-executive Director, became a deputy managing director of BNP Paribas Peregrine in September 2000. The restructuring was complete on 22nd December, 2000.

Save as aforesaid, 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

Mr. Ye Xuquan, Director of the Company, is also a director of Guangdong Yue Gang Investment Holdings Company Limited and certain of its subsidiaries, namely GDH Limited, 深圳東深投資控股有限公司and Guangdong Investment Limited. Guangdong Yue Gang Investment Holdings Company Limited and its subsidiaries (the "Yue Gang Group") have a wide range of business interests which include, inter alia, manufacturing, trading, wholesaling and retailing etc. The aforementioned business interests of the Yue Gang Group cover the same or similar areas as some of those of the Group. However, the Directors of the Company do not believe that any of the businesses of the Yue Gang Group compete either directly or indirectly in any material respect with those of the Group.

Mr. Li Li, Director of the Company, is also a director and president of Macau Wholesale Market Nam Yue, Ltd and general manager of Nam Yue Food Stuff & Aquatics Co. Ltd., the businesses of which are the operation and management of a wholesale market in Macau for certain live and fresh foodstuffs and the distribution of live and fresh foodstuffs in Macau respectively. Since the aforesaid businesses of the two companies are conducted in Macau, the Directors of the Company do not believe that the businesses of the two companies compete either directly or indirectly in any material respect with those of the Group.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES (continued)

(II) SHARE OPTION

The Company

Name	Number of share options held on 31st December, 1999	Share options granted during the year Date granted	Share options granted during the year Number granted	Period during which share option is exercisable	Consideration paid per share option granted HK$	Price per share to be paid on exercise of share option HK$	Number of share options exercised during the year	Number of share options held on 31st December, 2000
Jiang Guoqiang (resigned as a Director on 4th April, 2001)	300,000	–	–	28/05/98 to 26/05/2001	–	9.60	–	300,000
	300,000	–	–	12/02/99 to 10/02/2002	–	4.08	–	300,000

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 31st December, 2000, none of the Directors and chief executive of the Company had or was deemed to have any interest in any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which requires notification pursuant to section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under section 31 or part 1 of the schedule to the SDI Ordinance) or which is required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, and none of the Directors and chief executives of the Company, or their spouse or children under the age of 18, had any right to subscribe for any securities of the Company, or had exercised any such right.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Except for the share options held by a Director as mentioned above and by two directors resigned during the year, 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 SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES

As at 31st December, 2000, the following Directors had interests in shares and/or rights to subscribe for shares of the Company and its associated corporations that are required to be recorded in the register kept by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"):

(I) SHARE

(i) Guangdong Investment Limited

Name	Number of Ordinary Shares held
Li Li	520,000
Chen Lizhong	300,000
Hou Zhuobing	100,000
Lu Qianli (resigned as a Director on 4th April, 2001)	100,000

(ii) Guangdong Brewery Holdings Limited

Name	Number of Ordinary Shares held
Luo Fanyu	70,000

(iii) Guangdong Tannery Limited

Name	Number of Ordinary Shares held
Hou Zhuobing	10,000
Luo Fanyu	70,000

Report of the Directors

DIRECTORS (continued)

Non-executive Directors

LUO Fanyu	(Appointed on 31st May, 2000)
HOU Zhuobing	(Appointed on 31st May, 2000)
LU Qianli	(Appointed on 31st May, 2000 and resigned on 4th April, 2001)
JIANG Guoqiang	(Appointed on 31st May, 2000 and resigned on 4th April, 2001)
WU Wai Chung, Michael	(Appointed on 9th April, 2001)

Independent Non-executive Directors

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

In accordance with Article 92 of the Company's Articles of Association, Messrs. Ye Xuquan, Chen Lizhong and Wu Wai Chung, Michael shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Li Li and Luo Fanyu shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in notes 24(a) and 24(b) on the accounts respectively.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in note 30 on the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, the turnover attributable to the aggregate of the five largest customers of the Group contributed less than 30% of the Group's turnover and the purchases attributable to the aggregate of the five largest suppliers contributed less than 30% of the Group's total purchases.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years ended 31st December, 2000 is set out on pages 75 and 76.

DIRECTORS

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

Executive Directors

YE Xuquan	(Appointed on 1st November, 2000)
LI Li	(Appointed on 31st May, 2000)
CHEN Lizhong	(Appointed on 1st December, 2000)
WOO King Hang	(Appointed on 27th June, 2000 and resigned on 4th April, 2001)
LIU Zhongsheng	(Resigned on 1st December, 2000)
KANG Dian	(Resigned on 1st November, 2000)
CAI Jinghua	(Resigned on 31st May, 2000)
WANG Xiangyuan	(Resigned on 31st May, 2000)
CEN Tingbiao	(Resigned on 31st May, 2000)
JIANG Lujun	(Resigned on 31st May, 2000)
FU Xiaoping	(Resigned on 31st May, 2000)
LI Fu Kay, Frankie	(Resigned on 27th March, 2000)

Report of the Directors

SHARE CAPTIAL

By an ordinary resolution passed at the Company's extraordinary general meeting held on 4th December, 2000, the Company's authorised share capital was increased to HK$1,500 million by the creation of an additional 13,500 million ordinary shares of HK$0.1 each, ranking pari passu in all respects with the existing shares of the Company.

Details of the share capital of the Company are set out in note 23 on the accounts.

SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company (the "Share Option Scheme") adopted on 21st November, 1994 and expiring on 20th November, 2004, the Directors may at their discretion grant options to directors and/or employees of the Company and its subsidiaries to subscribe for shares of the Company.

The price per share payable on the exercise of an option under the Share Option Scheme to be determined by the Directors will be a price being not less than the higher of the nominal value of the shares and an amount of 80% of the average of the closing prices of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the five trading days immediately preceding the date of grant of the option.

During the year, no option was granted nor exercised.

Details of the Company's outstanding share options are set out in note 23(b) on the accounts.

CONVERTIBLE BONDS

During the year, the convertible bonds with an aggregate principal amount of US$100 million (the "Bonds") issued in June 1997 by Guangnan Finance (Cayman) Limited, a then wholly-owned subsidiary of the Company, matured on 30th June, 2000. The Bonds were listed on the Luxembourg Stock Exchange. Holders of the Bonds had on 30th November, 2000 passed extraordinary resolutions to be bound by the exchange offer on the terms set out in the exchange offer memorandum which formed part of the restructuring of indebtedness of the group of companies of Guangdong Enterprises (Holdings) Limited, which included the Group. The restructuring was complete on 22nd December, 2000.

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The subsidiaries of the Company are primarily engaged in the distribution in Hong Kong of live and fresh foodstuffs produced in and exported from Guangdong; operation of supermarket chains; trading; industrial investment as well as livestock farming.

The analysis of the Group's turnover by principal activities and geographical locations and loss from operations by principal activities of the Company and its subsidiaries during the financial year are set out in note 4 on the accounts.

RESULTS AND DIVIDENDS

The Group's consolidated results for the year ended 31st December, 2000 are set out in the consolidated profit and loss account on page 26.

The Directors resolved not to make the payment of interim dividend (1999: Nil) and do not recommend the payment of a final dividend (1999 : Nil) for the year.

PROVISION FOR BAD AND DOUBTFUL DEBTS

For the year ended 31st December, 2000, the Group recorded a provision for bad and doubtful debts of about HK$51.7 million (1999: HK$182.0 million).

FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in notes 14(a) and 14(b) on the accounts respectively.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates as at 31st December, 2000 are set out in notes 34 and 35 on the accounts respectively.

BORROWINGS AND INTEREST CAPITALISED

Details of borrowings of the Group are set out in note 21 on the accounts. No interest was capitalised by the Group during the year.

Biograpical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS (continued)

Ms. HOU Zhoubing, aged 40, was appointed a Non-executive Director of the Company in May 2000. Ms. Hou graduated from the department of international finance of Jinan University. In 1988, Ms. Hou joined the finance department of Guangdong Enterprises (Holdings) Limited ("GDE") and is the general manager of the finance department of GDH Limited. She is well experienced in treasury management operations. Prior to joining GDE, she had worked for Guangzhou International Trust Investment Co., Ltd., Development Zone Branch.

Mr. LUO Fanyu, aged 45, was appointed a Non-executive Director of the Company in May 2000. Mr. Luo graduated from the economics department, Zhongshan University. He joined GDE in 1987 and is responsible for its legal affairs. Mr. Luo is the legal controller and general manager of the legal department of GDH Limited. Prior to joining GDE, he held various positions as assistant judge, judge and vice presiding judge of the Economy Court of Guangdong Higher People's Court.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gerard Joseph McMAHON, aged 57, was appointed an Independent Non-executive Director of the Company in June 1999. He was, until end 1996, an executive director and a member of the SFC, a member of the Hong Kong Takeovers and Mergers Panel and the SFC representative on the Hong Kong Standing Committee on Company Law Reform. He is also admitted as a barrister in Hong Kong. Since 1997, Mr. McMahon has been appointed non-executive director of a number of publicly listed companies in Hong Kong, Indonesia and Australia. He also acts as chairman of Businesses which advise listed companies on corporate finance and corporate governance.

Miss TAM Wai Chu, Maria, GBS, JP., LL.D (Honorary) LL.B. (Hons.), Barrister-at-Law, aged 56, was appointed an Independent Non-executive Director of the Company in June 1999. She is a non-executive director of five other listed companies, namely Wing On Company International Limited, Ryoden Development Limited, Onfem Holdings Limited, Sinopec Kantons Holdings Limited and Tong Ren Tang Technologies Company Limited. She is also a member of the Board of the Airport Authority of Hong Kong. Her public duties also include being a member of the HKSAR Basic Law Committee under the Standing Committee of the National People's Congress PRC and a member of the National People's Congress PRC.

Mr. LI Kar Keung, Caspar, aged 47, was appointed as Independent Non-executive Director of the Company in June 1999. He is a deputy managing director of BNP Paribas Peregrine Capital Limited. In addition, he had worked as an investment analyst and had held the position of head of Citicorp's equity research in Hong Kong. Mr. Li had also held the positions of executive director and chief financial officer with companies listed on the Hong Kong Stock Exchange.

Biograpical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. YE Xuquan, aged 46, was appointed the Chairman of the Company in November 2000. Mr. Ye graduated from the Department of Chinese Language and Literature and the Institute of Economy Research, South China Normal University and obtained a Master degree of Economics from the University. Currently, he is also a director and deputy general manager of both Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited, an executive director of Guangdong Investment Limited and a director and the chairman of Guangdong Yue Gang Water Supply Company Limited. Mr. Ye has 22 years' experience in the management of water supply infrastructures. He joined the Dongshen Water Bureau in 1978 and has acted as director of the Dongshen Water Bureau since 1997.

Mr. LI Li, aged 45, was appointed the Executive Vice Chairman of the Company in May 2000. Between 1986 and 1998, Mr. Li worked in Guangdong Foreign Economic Relations and Trade Committee. He was appointed a deputy director of the Economic and Trade Administration Office of the Committee in 1995. Since 1998, Mr. Li has acted as the general manager of Nam Yue Food Stuff & Aquatics Co., Limited and director and president of Macau Wholesale Market Nam Yue, Ltd.

Mr. CHEN Lizhong, aged 46, was appointed an Executive Director and general manager of the Company in December 2000. He is an accountant in the PRC and holds a Master's degree in Business Management. Mr. Chen joined Guangdong Dongshen Water Supply Bureau (the "Bureau") in 1975. He has become the general manager of Shenzhen Industrial Development Holding Company since 1994 and vice bureau head of the Bureau since 1996. He is also a director and the general manager of Shenzhen Dongshen Investment Holding Company Limited and vice president of Shenzhen Economics Society.

NON-EXECUTIVE DIRECTORS

Mr. WU Wai Chung Michael, aged 51, was appointed as a Non-executive Director of the Company in April 2001. Mr. Wu is currently a full-time adviser to the Chinese Securities Regulatory Commission in the PRC and was the former deputy chairman, chief operating officer and executive director responsible for the Intermediaries Division of the Hong Kong Securities and Futures Commission ("SFC") until his departure on 31st December, 1997. He was also responsible for the Corporate Resources Division of the SFC. Mr. Wu is currently independent non-executive director of two companies listed in Hong Kong, namely SW Kingsway Capital Holdings Limited and First Mobile Group Holdings Limited.

Notice of Annual General Meeting

(iv) The register of members of the Company will be closed from Thursday, 14th June, 2001 to Monday, 18th June, 2001, both days inclusive, during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars, Central Registration Hong Kong Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 13th June, 2001.

(v) A form of proxy for use at the meeting and an explanatory statement containing further details as regarding resolution no.5 are enclosed.

(vi) In relation to resolution no.4, approval is being sought from members for a general mandate to authorise the allotment of shares in the share capital of the Company. The Directors have no immediate plans to issue any new shares in the share capital of the Company pursuant to such general mandate other than shares which may fall to be issued under the share option scheme of the Company.

(vii) In relation to resolution no.5, approval is being sought from members for a general mandate to repurchase shares of the Company. The Directors have no immediate plans to repurchase any shares of the Company pursuant to such general mandate.

(viii) In relation to resolution no.6, approval is being sought from members to extend the general mandate to allot shares by adding repurchased shares to the 20 per cent. general mandate.

(B) the amount of the securities of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (A) of this Resolution shall not exceed 10 per cent. of the Shares in issue as at the date of the passing of this Resolution and the authority pursuant to paragraph (A) of this Resolution shall be limited accordingly.

6. To consider as Special Business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT** conditional upon resolutions nos.4 and 5 set out above being duly passed, the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot and issue shares pursuant to resolution no.4 set out above be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no.5 set out above, provided that such an amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution."

By Order of the Board
Cheung Mo Ching
Company Secretary

Hong Kong, 27th April, 2001

Registered Office:
29th Floor, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Notes:

(i) A member entitled to attend and vote at the meeting is entitled to appoint proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

(ii) In order to be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be lodged at the registered office of the Company not less than 48 hours before the time appointed for the holding of the meeting (or the adjourned meeting as the case may be).

(iii) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of joint holding.

(D) for the purpose of this Resolution and resolution no. 5:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of Hong Kong to be held; and

(iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to the holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

5. To consider as Special Business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"THAT:

(A) subject to paragraph (B) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK$0.10 each in the capital of the Company ("Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange under the Hong Kong Code on Share Repurchases for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved; and

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Guangnan (Holdings) Limited (the "Company") will be held at the Boardroom, Basement II, The Wharney Hotel Hong Kong, No.57-73 Lockhart Road, Wanchai, Hong Kong on Monday, 18th June, 2001 at 10:00 a.m. for the following purposes:

1. To receive and consider the Consolidated Financial Statements and the Reports of the Directors and the Auditors for the year ended 31st December, 2000.

2. To elect Directors and fix the Directors' remuneration.

3. To appoint Auditors and authorise the Directors to fix their remuneration.

4. To consider as Special Business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   "THAT:

   (A) subject to the following provisions of this Resolution and pursuant to Section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

   (B) the approval in paragraph (A) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

   (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (A) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the capital of the Company, or (iii) any existing specific authority, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

Report of the Auditors

KPMG

TO THE SHAREHOLDERS OF
GUANGNAN (HOLDINGS) LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 26 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2000, and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 9 April 2001

Consolidated Profit and Loss Account

for the year ended 31 December 2000
(Expressed in Hong Kong dollars)

	Note	2000 $'000	1999 $'000
Turnover	3 & 4	**2,764,198**	2,864,413
Cost of sales		**(2,505,482)**	(2,544,886)
Gross profit		**258,716**	319,527
Other revenue	5	**79,996**	32,451
Distribution costs		**(247,641)**	(245,290)
Administrative expenses		**(154,938)**	(179,363)
Other operating expenses		**(13,741)**	(46,853)
Loss from operations	4	**(77,608)**	(119,528)
Non-operating income	6	**1,447,070**	416,572
Non-operating expenses	7	**(336,783)**	(307,404)
Finance costs	8(a)	**(169,441)**	(203,187)
Share of profits less losses of associates		**7,952**	2,137
Profit/(loss) from ordinary activities before taxation	8	**871,190**	(211,410)
Taxation	9	**(6,018)**	1,252
Profit/(loss) from ordinary activities after taxation		**865,172**	(210,158)
Minority interests		**885**	15,939
Profit/(loss) attributable to shareholders	12	**866,057**	(194,219)
Earnings/(loss) per share			
Basic	13	**$0.95**	$(0.21)
Profit/(loss) for the year is retained as follows:			
By the Company and its subsidiaries		**858,623**	(195,751)
By associates		**7,434**	1,532
		866,057	(194,219)

The notes on pages 32 to 72 form part of these accounts.

Consolidated Statement of Recognised Gains and Losses

for the year ended 31 December 2000
(Expressed in Hong Kong dollars)

	Note	**2000** **$'000**	1999 $'000
Provision for diminution in value of land and buildings		**–**	(5,080)
Exchange differences arising on consolidation	24(a)	**(4,328)**	2,215
Net loss not recognised in the profit and loss account		**(4,328)**	(2,865)
Profit/(loss) for the year		**866,057**	(194,219)
Add: Net transfer from the profit and loss account on disposal of subsidiaries and dilution of investment in an associate		**8,867**	12,237
Less: Net transfer to the profit and loss account on liquidation of a subsidiary and exclusion of subsidiaries from consolidation		**–**	(25,696)
		874,924	(207,678)
Total recognised gains and losses		**870,596**	(210,543)

The notes on pages 32 to 72 form part of these accounts.

Consolidated Balance Sheet

at 31 December 2000
(Expressed in Hong Kong dollars)

	Note	2000 $'000	1999 $'000
Non-current assets			
Fixed assets	14(a)	**234,189**	712,396
Interest in associates	16	**171,160**	169,242
Pre-operating expenses		**–**	16,502
Investment securities	17(a)	**–**	137,648
		405,349	1,035,788
Current assets			
Inventories	18	**102,263**	218,228
Properties held for sale	19	**–**	52,033
Trade and other receivables	20	**91,879**	862,228
Other securities	17(b)	**16,373**	31,029
Cash and bank balances		**113,720**	190,161
		324,235	1,353,679
Current liabilities			
Interest-bearing borrowings	21	**8,429**	3,022,950
Trade and other payables	22	**384,696**	647,254
Taxation		**6,191**	1,015
		399,316	3,671,219
Net current liabilities		**(75,081)**	(2,317,540)
Total assets less current liabilities		**330,268**	(1,281,752)
Non-current liabilities			
Shareholders' loans to subsidiaries contributed by minority shareholders		**20,257**	33,561
Minority interests		**60,640**	78,912
		249,371	(1,394,225)
Capital and reserves			
Share capital	23	**90,951**	90,951
Reserves	24(a)	**(614,580)**	(1,485,176)
		(523,629)	(1,394,225)
Loan from intermediate holding company	25	**773,000**	–
		249,371	(1,394,225)

Approved by the board of directors on 9 April 2001

Ye Xuquan
Chairman

Li Li
Director

The notes on pages 32 to 72 form part of these accounts.

Balance Sheet

at 31 December 2000
(Expressed in Hong Kong dollars)

	Note	2000 $'000	1999 $'000
Non-current assets			
Fixed assets	14(b)	**58,355**	160,932
Interest in subsidiaries	15	**191,497**	805,317
Interest in associates	16	**181,365**	182,792
Investment securities	17(a)	**–**	115,611
		431,217	1,264,652
Current assets			
Properties held for sale	19	**–**	6,291
Trade and other receivables	20	**15,800**	479,238
Other securities	17(b)	**16,373**	–
Cash and bank balances		**31,896**	18,466
		64,069	503,995
Current liabilities			
Interest-bearing borrowings	21	**616**	1,929,041
Trade and other payables	22	**52,628**	198,409
Amounts due to subsidiaries		**35,500**	835,815
		88,744	2,963,265
Net current liabilities		**(24,675)**	(2,459,270)
		406,542	(1,194,618)
Capital and reserves			
Share capital	23	**90,951**	90,951
Reserves	24(b)	**(457,409)**	(1,285,569)
		(366,458)	(1,194,618)
Loan from intermediate holding company	25	**773,000**	–
		406,542	(1,194,618)

Approved by the board of directors on 9 April 2001

Ye Xuquan — *Chairman*

Li Li — *Director*

The notes on pages 32 to 72 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2000
(Expressed in Hong Kong dollars)

		2000		1999	
	Note	***$'000***	***$'000***	*$'000*	*$'000*
Net cash (outflow)/inflow before financing brought forward			**(67,458)**		54,979
Financing					
Repayment of shareholders' loans to minority shareholders	*26(b)*	–		(712)	
Repayment of bank borrowings	*26(b)*	**(17,412)**		(53,053)	
New bank loans	*26(b)*	**4,638**		77,542	
Repayment of other loans	*26(b)*	–		(21,901)	
Net cash (outflow)/inflow from financing			**(12,774)**		1,876
(Decrease)/increase in cash and cash equivalents			**(80,232)**		56,855
Cash and cash equivalents at 1 January			**190,161**		133,306
Cash and cash equivalents at 31 December	*26(f)*		**109,929**		190,161

The notes on pages 32 to 72 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2000
(Expressed in Hong Kong dollars)

	Note	2000 $'000	2000 $'000	1999 $'000	1999 $'000
Net cash inflow from operating activities	*26(a)*		**98,029**		327,011
Returns on investments and servicing of finance					
Interest received		**16,409**		10,108	
Dividends received from listed investment securities		**4,852**		4,303	
Dividends received from associates		**3,729**		–	
Finance costs paid		**(19,726)**		(188,814)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			**5,264**		(174,403)
Taxation					
Hong Kong Profits Tax paid		**(1,433)**		(19,747)	
PRC income tax paid		**(61)**		–	
Hong Kong Profits Tax refunded		**1,840**		3,279	
Tax refunded/(paid)			**346**		(16,468)
Investing activities					
Payment for purchases of fixed assets		**(37,207)**		(43,210)	
Proceeds from sales of fixed assets		–		6,789	
Net cash outflow from exclusion of companies from consolidation		–		(12,190)	
Net cash outflow from disposal of subsidiaries		**(123,201)**		–	
Net cash outflow from liquidation of subsidiary		**(1,519)**		(179)	
Advances to associates		**(1,170)**		(22,107)	
Payment for pre-operating expenses		**(8,000)**		(10,264)	
Net cash outflow from investing activities			**(171,097)**		(81,161)
Net cash (outflow)/inflow before financing carried forward			**(67,458)**		54,979

Notes on the Accounts

(Expressed in Hong Kong dollars)

35. LIST OF ASSOCIATES *(continued)*

Name of associate	Principal country /place of operations	Class of shares held	Proportion of nominal value of issued capital/ capital registered held by the Company	Proportion of nominal value of issued capital/ capital registered held by subsidiary	Principal activities
Tung Hing Poultry Wholesaler Limited (formerly "Hidee Trading Limited")	Hong Kong	Ordinary	40%	–	Poultry wholesaling
Hong Kong Fresh Water Fish & Aquatic Products Company Limited	Hong Kong	Ordinary	20%	–	Trading of fresh water fish and aquatic products
Kowloon Fresh Water Fish & Aquatic Products Company Limited	Hong Kong	Ordinary	16.67%	–	Trading of fresh water fish and aquatic products
*廣州市廣南 - 南大超級市場有限公司 (Established in The PRC)	The PRC	N/A	–	50%	Supermarket operations
*Yellow Dragon Food Industry Company Limited (Established in The PRC)	The PRC	N/A	40%	–	Processing and sale of corn food and feed products
*Zhongshan Baoli Food Co., Ltd. (Established in The PRC)	The PRC	N/A	30%	–	Processing of canned food

* an equity joint venture established in the PRC

(Expressed in Hong Kong dollars)

34. LIST OF SUBSIDIARIES *(continued)*

Name of subsidiary	Principal country /place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Proportion of nominal value of issued capital/ registered capital held by subsidiary	Principal activities
Jin Huang Food Industry Investment Limited (Incorporated in BVI)	Hong Kong	Ordinary	HK$1,000,000	75%	–	Investment holding
Jin Huang Food Industry Investment Ltd.	Hong Kong	Ordinary	HK$1,000,000	–	75%	Investment holding
Regal Prosper Limited	Hong Kong	Ordinary	HK$100	–	100%	Dormant
Southern Chain (Hong Kong) Limited	Hong Kong	Ordinary	HK$7,000,000	51%	–	Processing and wholesaling of poultry

* an equity joint venture established in the PRC

\# a wholly foreign-owned enterprise established in the PRC

35. LIST OF ASSOCIATES

Particulars of the associates at 31 December 2000 are as follows:

Name of associate	Principal country /place of operations	Class of shares held	Proportion of nominal value of issued capital/ capital registered held by the Company	Proportion of nominal value of issued capital/ capital registered held by subsidiary	Principal activities
Fordex International Limited	Hong Kong	Ordinary	25%	–	Rice wholesaling
Fruit and Vegetable Wharf (H.K.) Limited	Hong Kong	Ordinary	20%	–	Fruit and vegetable wholesaling

Notes on the Accounts

(Expressed in Hong Kong dollars)

34. LIST OF SUBSIDIARIES *(continued)*

Name of subsidiary	Principal country /place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Proportion of nominal value of issued capital/ registered capital held by subsidiary	Principal activities
Guangnan Fresh and Live Foodstuffs Limited	Hong Kong	Ordinary	HK$1,000,000	100%	–	Distribution of live and fresh foodstuffs
Guangnan (KK) Supermarket Limited	Hong Kong	Ordinary	HK$20,000,000	–	70%	Supermarket operations and trading
Guangnan Supermarket (China) Limited	Hong Kong	Ordinary	HK$2	100%	–	Dormant
Guangnan Supermarket Development Limited	Hong Kong	Ordinary	HK$2	100%	–	Investment holding
Guangnan Trading Development Limited	Hong Kong	Ordinary	HK$1,000,000	100%	–	Trading
#Guangnan (Zhan Jiang) Jiafeng Feed Co., Ltd. (Established in The PRC)	The PRC	N/A	US$5,500,000	100%	–	Manufacturing and trading of feeds
Health and Beauty Trading Limited	Hong Kong	Ordinary	HK$4,500,000	–	100%	Dormant
Hinloon International Limited	Hong Kong	Ordinary	HK$100,000	100%	–	Trading of processed corn food and feed products

(Expressed in Hong Kong dollars)

34. LIST OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2000 are as follows:

Name of subsidiary	Principal country /place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	subsidiary	Principal activities
Cheung Hong Supermarket Limited	Hong Kong	Ordinary	HK$2,000,000	–	100%	Dormant
*Dongguan Guangnan Stock Development Co., Ltd.	The PRC	N/A	HK$49,430,000	51%	–	Pig rearing and distribution of livestock
*Dongguan Jinhuang Food Co., Ltd.	The PRC	N/A	HK$72,800,720	–	70%	Pig rearing and distribution of livestock
*高要廣南畜牧發展有限公司	The PRC	N/A	RMB31,200,000	51%	–	Pig rearing and distribution of
*GETDD Inchcape Guangnan Distribution Co., Ltd.	The PRC	N/A	US$6,500,000	–	80%	Dormant
*Guangdong Guangnan Tianmei Food Development Company Limited	The PRC	N/A	RMB34,820,000	–	55%	Supermarket operations
Guangnan Distribution Company Limited	Hong Kong	Ordinary	HK$10,000,000	–	100%	Investment holding

31. POST BALANCE SHEET EVENTS

(a) The Open Offer as detailed in note 1 was complete on 16 January 2001. Upon completion of the Open Offer, the capital base of the Company was increased by an amount of $773,082,414, representing 7,730,824,137 shares of $0.1 each.

(b) Subsequent to the balance sheet date, the Company acquired all the remaining 49% interest in its subsidiary, Southern Chain (Hong Kong) Limited, at a total consideration of $7. After the acquisition, Southern Chain (Hong Kong) Limited became a wholly-owned subsidiary of the Company.

(c) Subsequent to the balance sheet date, Guangdong Guangnan Tianmei Food Development Company Limited, a subsidiary of the Company, and Guangnan Nandai Supermarket Company Limited, an associate of the Company, have ceased their supermarket operations in Guangzhou, the PRC.

32. COMPARATIVE FIGURES

At 31 December 1999, as the Group was in technical default under many of its loan covenants, the principal amounts of the loans had become repayable immediately. No attempt was therefore made to classify such liabilities at 31 December 1999 into long-term or short-term liabilities according to their original maturity dates as the repayment of these loans was subject to the Group's restructuring proposal.

As disclosed in note 1, the Group Restructuring was complete on 22 December 2000. The interest-bearing borrowings, including bank loans and notes payable, were extinguished thereupon. Comparative figures of shareholders' loans to subsidiaries contributed by minority shareholders have been classified as long term liabilities as the loans have not been repaid within one year from 31 December 1999. Comparative figures of the liabilities other than the above have been reclassified as current liabilities as these liabilities should have been repayable within one year from 31 December 1999.

Net gain arising on exclusion of certain subsidiaries from consolidation amounting to $274,994,000 included in the non-operating expenses in 1999 was reclassified to non-operating income in 2000 to confirm with the current year's presentation.

33. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2000 to be Guangdong Yue Gang Investment Holdings Company Limited, which is established in the PRC.

29. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Subsidy of $8,109,000 was received pursuant to instructions given by an intermediate holding company, Guangnan Hong (Group) Limited, in respect of the reimbursement of legal and professional expenses incurred by the Company during the year.

(b) Balances with related parties at 31 December are included in amounts due from/to the respective parties in the balance sheets.

These balances are interest free and have no fixed terms of repayment, except for the following:

In 1999, the Company entered into an unsecured shareholders' loan agreement with an associate, Yellow Dragon Food Industry Company Limited. According to the agreement the Company agreed to advance US$6.7 million 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. Interest received and receivable from the associate for the year amounted to $9.5 million (1999: $Nil). At the balance sheet date, the outstanding loan and interest receivable from the associate amounted to $52.4 million (1999: $44.8 million) and $3.0 million (1999: $Nil) respectively.

30. RETIREMENT BENEFITS SCHEME

The Group's staff provident fund scheme (the "Scheme") is a defined contribution scheme. The objective of the Scheme is to provide the employees of the Group with a sum of money which is payable by the Scheme on their retirement from, or death during service with, the Group. Each participating employee is required to contribute an amount equal to 5% of his/her salary each month and the amount shall be deducted from the employee's monthly salary. In respect of each participating employee, the Group contributes an amount calculated at the applicable percentage of the employee's monthly salary according to the number of completed years of service with the Group. The contributions made by the Group to the Scheme for the year ended 31 December 2000 amounted to $2,390,000 (1999: $1,263,000).

Where participating employees leave the service of the Group prior to the normal retirement age of 60 for reasons other than illness, health and death, the benefits payable to the employees will be the account accumulated from the employees' contribution plus a certain percentage of the Group's contributions, ranging from 0% to 100% determined according to the employees' period of service with the Group, in the employees' account with interest thereon. Any amount not paid to the employees upon cessation of services with the Group shall be forfeited and refunded to the Group. During the year, forfeited contributions utilised amounted to $3,677,000 (1999: $802,000). As at 31 December 2000, there were no forfeited contributions available to offset future contributions to the Scheme by the Group.

28. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2000 not provided for in the accounts were as follows:

	The Group	
	2000	1999
	$'000	*$'000*
Contracted for	**34,777**	35,709
Authorised but not contracted for	**7,631**	8,693
	42,408	44,402

(b) At 31 December 2000, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**64,163**	76,930	**–**	148
After 1 year but within 5 years	**54,991**	83,286	**–**	–
After 5 years	**3,007**	6,821	**–**	–
	122,161	167,037	**–**	148

29. Material related party transactions

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

		2000	1999
	Note	***$'000***	*$'000*
Sales of goods to associates		**259,712**	272,366
Purchases of goods from associates		**26,894**	14,433
Loan from an intermediate holding company *(note 25)*		**773,000**	–
Subsidy received from a related company	*(a)*	**8,109**	–
Interest received from an associate	*(b)*	**9,499**	–

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(f) Cash and cash equivalents

	2000	1999
	$'000	*$'000*
Cash and bank balances	**113,720**	190,161
Bank overdrafts	**(3,791)**	–
	109,929	190,161

27. CONTINGENT LIABILITIES

At 31 December 2000, there were material contingent liabilities in respect of the following:

	The Group		**The Company**	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Guarantee given to a shareholder of an associate in respect of a loan granted to the associate by a third party	**–**	2,347	**–**	–
Guarantees given to banks in respect of banking facilities granted to the following parties				
– subsidiaries	**–**	–	**–**	1,449,385
– an associate	**21,840**	21,840	**21,840**	21,840
	21,840	24,187	**21,840**	1,471,225

At 31 December 2000, banking facilities guaranteed by the Company were utilised by subsidiaries and an associate to the extent of $Nil (1999: $900,054,000) and $18,720,000 (1999: $21,840,000) respectively.

Notes on the Accounts

(Expressed in Hong Kong dollars)

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

(d) Non-cash transactions

	2000	1999
	$'000	*$'000*
Assets and liabilities transferred pursuant to the Restructuring		
Fixed assets	**28,891**	–
Properties held for sale	**6,291**	–
Investment securities	**91,726**	–
Inter-company payables and receivables	**2,571,631**	–
Loan from intermediate holding company	**773,000**	–
Bank loans and other borrowings	**(2,920,625)**	–
Creditors and accrued charges	**(221,188)**	–
Advances due to related companies	**(40,356)**	–
	289,370	–

(e) Companies excluded from consolidation:

	2000	1999
	$'000	*$'000*
Net (liabilities)/assets excluded:		
Fixed assets	**–**	221,183
Inventories	**–**	110,642
Debtors, bills receivables, deposits and prepayments	**–**	121,955
Advances to minority shareholders of partly owned subsidiaries	**–**	5
Amounts due from related companies less provision	**–**	3,709
Amounts due from holding companies and fellow subsidiaries	**–**	145
Cash and bank balances	**–**	12,190
Creditors and accrued charges	**–**	(333,052)
Interest-bearing borrowings	**–**	(105,948)
Amounts due to related companies	**–**	(86,891)
Shareholders' loans to subsidiaries contributed by minority shareholders	**–**	(190,295)
Taxation payable	**–**	(1,443)
Minority interests	**–**	(26,961)
Amounts due to ultimate holding company and fellow subsidiaries	**–**	(233)
	–	(274,994)

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Subsidiaries disposed/liquidated

	Subsidiaries disposed		Subsidiary liquidated	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Net (liabilities)/assets disposed:				
Fixed assets	**299,196**	–	**15,964**	1,623
Pre-operating expenses	**–**	–	**8,850**	–
Inventories	**88,804**	–	**6,422**	12,076
Properties held for sale	**45,609**	–	**–**	–
Debtors, bills receivables, deposits and prepayments	**167,455**	–	**15,899**	3,838
Other securities	**5,967**	–	**–**	–
Amounts due from related companies less provision	–	–	**–**	12,187
Amounts due from holding companies and fellow subsidiaries	**124,114**	–	**–**	24,338
Cash and bank balances	**123,201**	–	**1,519**	179
Interest-bearing borrowings	**(118,600)**	–	**–**	(21,745)
Creditors and accrued charges	**(171,837)**	–	**(31,104)**	–
Tax payable	**(348)**	–	**(322)**	–
Amounts due to ultimate holding company and fellow subsidiaries	**(2,276,041)**	–	**–**	–
Minority interests	**(17,045)**	–	**(701)**	–
	(1,729,525)	–	**16,527**	32,496
Release of reserves	**6,890**	–	**–**	–
	(1,722,635)	–	**16,527**	32,496

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Shareholders' loans to subsidiaries contributed by minority shareholders	Bank borrowings	Other loans	Convertible bonds	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 1999	224,568	2,147,143	138,725	821,422	3,331,858
New bank loans	–	77,542	–	–	77,542
Repayment of loans	(712)	(53,053)	(21,901)	–	(75,666)
Amortisation of bond premium	–	–	–	40,765	40,765
Exclusion of loans of a subsidiary upon liquidation	–	(21,745)	–	–	(21,745)
Exclusion of loans of companies excluded from consolidation	(190,295)	(64,335)	(41,613)	–	(296,243)
At 31 December 1999	33,561	2,085,552	75,211	862,187	3,056,511
At 1 January 2000	33,561	2,085,552	75,211	862,187	3,056,511
New bank loans	–	4,638	–	–	4,638
Repayment of loans	–	(17,412)	–	–	(17,412)
Amortisation of bond premium	–	–	–	20,383	20,383
Exclusion of loans pursuant to the Restructuring	(13,304)	(1,949,540)	(75,211)	(882,570)	(2,920,625)
Exclusion of loans of a subsidiary upon disposal	–	(118,600)	–	–	(118,600)
At 31 December 2000	20,257	4,638	–	–	24,895

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from ordinary activities before taxation to net cash inflow from operating activities

	2000	1999
	$'000	*$'000*
Profit/(loss) from ordinary activities before taxation	**871,190**	(211,410)
Finance costs	**169,441**	203,187
Interest income	**(16,409)**	(2,306)
Dividend income from listed investments	**(22,020)**	(4,303)
Losses on disposal of fixed assets	**32,296**	3,627
Net gain arising on exclusion of certain companies from consolidation	**–**	(274,994)
Provisions for diminution in value of investments	**49,241**	59,855
Loss on dilution of investment in an associate	**–**	33,086
Net loss on liquidation of subsidiaries	**16,527**	32,496
Depreciation	**50,075**	68,590
Amortisation of pre-operating expenses	**2,403**	9,232
Share of profits less losses of associates	**(7,952)**	(2,137)
Net gain on the Restructuring	**(1,433,265)**	–
Write-off of pre-operating expenses and prepayments	**24,240**	–
Provision for diminution in value of investment securities	**21,744**	–
Provision for diminution in value of fixed assets	**88,314**	–
Provision for compensation arising from a claim received	**35,060**	–
Reduction in share of deficit of an associate	**(13,805)**	–
Loss on disposal of an associate	**2,215**	–
Unrealised gain on other securities	**795**	–
Provision for impairment losses on cessation of operation of a subsidiary and an associate	**18,533**	–
Decrease in inventories	**4,523**	53,945
Increase in properties held for sale	**–**	(17,750)
Decrease in debtors, bills receivable, deposits and prepayments	**68,957**	258,465
Decrease/(increase) in amounts due from minority shareholders	**4,797**	(4,769)
(Increase)/decrease in amounts due from related companies	**(859)**	63,764
Increase in amounts due from holding companies and fellow subsidiaries	**–**	(144,260)
Increase in advances from related companies	**–**	40,356
Increase in amounts due to related companies	**–**	5,397
Increase in creditors and accrued expenses	**136,364**	71,325
Increase in amounts due to ultimate holding company and fellow subsidiaries	**–**	81,248
(Decrease)/increase in amounts due to associates	**(4,376)**	4,367
Net cash inflow from operating activities	**98,029**	327,011

24. RESERVES *(continued)*

The application of the share premium account and capital redemption reserve account is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

The capital reserve, exchange fluctuation reserve and revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill/capital reserve arising on subsidiaries and associates, foreign currency translation and the revaluation of land and buildings held for own use (note 2). Other reserves represent statutory reserves of entities established in the PRC.

(b) The Company

	Share premium	Capital redemption reserve	Capital reserve	Revaluation Reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 1999	1,723,840	971	48,157	5,592	(2,352,445)	(573,885)
Loss for the year	–	–	–	–	(706,604)	(706,604)
Provision for diminution in value of land and buildings	–	–	–	(5,080)	–	(5,080)
At 31 December 1999	1,723,840	971	48,157	512	(3,059,049)	(1,285,569)
At 1 January 2000	1,723,840	971	48,157	512	(3,059,049)	(1,285,569)
Profit for the year	–	–	–	–	828,160	828,160
Realised upon disposal of property	–	–	–	(512)	512	–
At 31 December 2000	1,723,840	971	48,157	–	(2,230,377)	(457,409)

25. LOAN FROM INTERMEDIATE HOLDING COMPANY

The loan from intermediate holding company, GDH Limited, was interest free, secured by the proceeds from the Open Offer fully underwritten by GDH Limited, and repayable upon the completion of the Open Offer.

24. RESERVES

(a) The Group

	Share premium	Capital redemption reserve	Capital reserve	Exchange fluctuation reserve	Revaluation reserve	Other reserves	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 1999	1,723,840	971	34,686	18,516	6,614	4,790	(3,064,050)	(1,274,633)
Exchange differences arising on consolidation	–	–	–	2,215	–	–	–	2,215
Loss for the year	–	–	–	–	–	–	(194,219)	(194,219)
Provision for diminution in value of land and buildings	–	–	–	–	(5,080)	–	–	(5,080)
Dilution of investment in an associate	–	–	12,478	(241)	–	–	–	12,237
Liquidation or exclusion of subsidiaries from consolidation	–	–	(5,099)	(20,597)	–	–	–	(25,696)
Reclassification	–	–	(798)	–	–	798	–	–
Transfer to statutory reserve	–	–	–	–	–	8,577	(8,577)	–
At 31 December 1999	1,723,840	971	41,267	(107)	1,534	14,165	(3,266,846)	(1,485,176)
At 1 January 2000	1,723,840	971	41,267	(107)	1,534	14,165	(3,266,846)	(1,485,176)
Exchange differences arising on consolidation	–	–	–	(4,328)	–	–	–	(4,328)
Profit for the year	–	–	–	–	–	–	866,057	866,057
Reserves realised upon disposal of subsidiaries	–	–	6,890	1,977	–	–	–	8,867
Release of revaluation and other reserves	–	–	–	–	(1,534)	(18,947)	20,481	–
Transfer to statutory reserve	–	–	–	–	–	5,979	(5,979)	–
At 31 December 2000	1,723,840	971	48,157	(2,458)	–	1,197	(2,386,287)	(614,580)

Included in the accumulated losses as at 31 December 2000 is a loss of $43,265,000 attributable to associates (1999: $50,699,000).

(Expressed in Hong Kong dollars)

23. SHARE CAPITAL *(continued)*

(b) Share option scheme

The total number of unexercised share options previously granted to the directors and employees of the Company and its subsidiaries at 31 December 2000 was 8,130,000 (1999: 10,240,000). No option was granted during the year ended 31 December 2000 (1999: Nil). No option was exercised during the year ended 31 December 2000 (1999: Nil).

At 31 December 2000, the outstanding options were as follows:

Date of options granted	Period during which options exercisable	Exercise price per share	Number of options outstanding at the year end
20 February 1997	21/02/1998 to 19/02/2001	$7.064	4,610,000
27 May 1997	28/05/1998 to 26/05/2001	$9.600	1,600,000
3 July 1997	04/07/1998 to 02/07/2001	$9.336	320,000
11 February 1998	12/02/1999 to 10/02/2002	$4.080	1,600,000
			8,130,000

(c) Subsequent to the balance sheet date, 7,730,824,137 shares of $0.1 each were issued by way of the Open Offer as detailed in note 1.

22. TRADE AND OTHER PAYABLES *(Continued)*

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

	The Group		The Company	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Due within 1 month or on demand	**198,453**	189,404	**12,925**	12,360
Due after 1 month but within 3 months	**39,849**	16,459	**–**	–
Due after 3 months but within 12 months	**5,325**	4,602	**–**	–
	243,627	210,465	**12,925**	12,360

23. SHARE CAPITAL

	2000		1999	
	Number of shares *(thousand)*	***$'000***	Number of shares *(thousand)*	*$'000*
Authorised:				
Ordinary shares of $0.1 each	**15,000,000**	**1,500,000**	1,500,000	150,000
Issued and fully paid:				
At 1 January and at 31 December	**909,509**	**90,951**	909,509	90,951

(a) By an ordinary resolution passed at the Company' extraordinary general meeting held on 4 December 2000, the Company's authorised share capital was increased to $1,500 million by the creation of an additional 13,500 million ordinary shares of $0.1 each, ranking pari passu in all respects with the existing shares of the Company.

21. INTEREST-BEARING BORROWINGS *(continued)*

At 31 December 2000, the bank loans and overdrafts were repayable as follows:

	The Group		The Company	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year or on demand	**8,429**	2,085,552	**616**	1,929,041

Most of the Group's interest-bearing borrowings were discharged pursuant to the Restructuring.

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Creditors and accrued charges	**383,880**	521,075	**52,628**	112,443
Advances from related companies	**–**	40,356	**–**	34,476
Amounts due to ultimate holding company and fellow subsidiaries	**–**	81,026	**–**	51,471
Amounts due to associates	**–**	4,376	**–**	–
Amounts due to other related companies	**816**	421	**–**	19
	384,696	647,254	**52,628**	198,409

All of the trade and other payables are expected to be settled within one year.

20. TRADE AND OTHER RECEIVABLES *(continued)*

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

	The Group		The Company	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Within 1 month	**6,881**	47,905	**–**	68
1 to 3 months	**4,014**	2,942	**–**	–
More than 3 months but less than 12 months	**–**	36,333	**2**	45
More than 1 year but less than 2 years	**–**	100,773	**–**	34,880
	10,895	187,953	**2**	34,993

The Group maintains a defined policy with credit period ranging from advance payment to not more than 60 days.

21. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Bank loans and overdrafts				
– secured	**–**	147,069	**–**	86,019
– unsecured	**8,429**	1,938,483	**616**	1,843,022
	8,429	2,085,552	**616**	1,929,041
Convertible bonds	**–**	862,187	**–**	–
Other loans	**–**	75,211	**–**	–
	8,429	3,022,950	**616**	1,929,041

Notes on the Accounts

(Expressed in Hong Kong dollars)

19. PROPERTIES HELD FOR SALE

	The Group		The Company	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Cost	**–**	84,548	**–**	6,291
Less: Provision	**–**	(32,515)	**–**	–
	–	52,033	**–**	6,291

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Trade debtors	**10,895**	175,559	**2**	34,993
Bills receivable	**–**	12,394	**–**	–
Other debtors, deposits and prepayments	**46,582**	122,448	**15,798**	12,046
Advances to minority shareholders of partly owned subsidiaries less provision	**25,625**	30,422	**–**	–
Amounts due from holding companies and fellow subsidiaries	**–**	513,487	**–**	430,473
Amounts due from other related companies less provision	**8,777**	7,918	**–**	1,726
	91,879	862,228	**15,800**	479,238

Included in the trade and other receivables are balances of $13,354,507 (1999: $28,084,872) expected to be recovered after one year.

17. INVESTMENT SECURITIES

(a) Investment securities

	The Group 2000 $'000	The Group 1999 $'000	The Company 2000 $'000	The Company 1999 $'000
Unlisted equity securities, at cost	**51,487**	67,788	**–**	15,751
Less: Provision	**(51,487)**	(45,751)	**–**	(15,751)
	–	22,037	**–**	–
Shares listed in Hong Kong, at cost	**–**	271,534	**–**	271,534
Less: Provision	**–**	(155,923)	**–**	(155,923)
	–	115,611	**–**	115,611
	–	137,648	**–**	115,611
Market value of listed investment securities	**–**	115,611	**–**	115,611

(b) Other securities

	The Group 2000 $'000	The Group 1999 $'000	The Company 2000 $'000	The Company 1999 $'000
Shares listed in Hong Kong, at market value	**16,373**	31,029	**16,373**	–

18. INVENTORIES

	The Group 2000 $'000	The Group 1999 $'000
Raw materials	**14,616**	57,117
Finished goods	**25,553**	43,398
Merchandise held for resale	**65,845**	123,471
Spare parts and consumables	**198**	1,227
	106,212	225,213
Less: Provision	**(3,949)**	(6,985)
	102,263	218,228

The amount of inventories included above carried at net realisable value is approximately $17,924,000 (1999: $18,039,000).

15. INTEREST IN SUBSIDIARIES

	2000	1999
	$'000	*$'000*
Unlisted shares, at cost	**112,413**	237,039
Amounts due from subsidiaries	**590,754**	2,527,707
	703,167	2,764,746
Less: Provisions	**(511,670)**	(1,959,429)
	191,497	805,317

Details of the subsidiaries, which are incorporated in Hong Kong unless otherwise stated, are set out in note 34.

16. INTEREST IN ASSOCIATES

	The Group		The Company	
	2000	1999	2000	1999
	$'000	*$'000*	*$'000*	*$'000*
Unlisted shares, at cost	**–**	–	**246,784**	258,519
Share of net assets	**114,393**	121,992	**–**	-
Amounts due from associates	**56,767**	47,250	**55,989**	45,681
	171,160	169,242	**302,773**	304,200
Less: Provision for diminution in value	**–**	–	**(121,408)**	(121,408)
	171,160	169,242	**181,365**	182,792

Apart from a loan of $52,416,000 (1999: $44,771,000) due from an associate, Yellow Dragon Food Industry Company Limited, details of which are disclosed in note 29(b), the amounts due from other associates are unsecured and non-interest bearing.

Details of the associates, which are incorporated in Hong Kong unless otherwise stated, are set out in note 35.

14. FIXED ASSETS *(continued)*

(c) An analysis of the net book value of land and buildings is as follows:

	The Group		The Company	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
In Hong Kong on long-term leases	**54,116**	129,153	**54,116**	129,153
Elsewhere in the PRC on medium-term leases	**87,073**	353,803	**–**	26,327
	141,189	482,956	**54,116**	155,480

(d) Provisions for diminution in value included a provision on leasehold land and buildings situated in Hong Kong and the PRC amounting to $69,375,000 and $13,992,000 respectively, and a provision of $4,947,000 on furniture and fixtures of a subsidiary in the PRC. For the leasehold land and buildings situated in Hong Kong, a provision for diminution in value has been made by the Directors taking into consideration a professional valuation, on an open market value basis, as at 26 September 2000 carried out by Vigers Hong Kong Limited, a firm of professional valuers. For the leasehold land and buildings situated in the PRC and the furniture and fixtures held by the PRC subsidiary, provisions have been made to reduce the carrying value to the recoverable amounts estimated by the Directors. Provisions for diminution in value of fixed assets have been charged to the profit and loss account.

(e) Fixed assets of the Group and of the Company at 1 January 2000 included a property held for own use and carried at valuation, which was transferred out of the Group on 22 December 2000 as part of the Restructuring. As at 31 December 2000, all of the fixed assets held by the Group and the Company were carried at cost.

Notes on the Accounts

(Expressed in Hong Kong dollars)

14. FIXED ASSETS *(continued)*

(b) The Company

	Land and buildings *$'000*	Leasehold improvements *$'000*	Plant and machinery, furniture, fixtures and equipment *$'000*	Motor Vehicles *$'000*	Total *$'000*
Cost or valuation *(note 14 (e))*:					
At 1 January 2000	169,879	9,041	4,195	3,646	186,761
Additions	–	–	278	–	278
Disposals	(32,051)	–	–	–	(32,051)
At 31 December 2000	137,828	9,041	4,473	3,646	154,988
Accumulated depreciation:					
At 1 January 2000	14,399	6,572	1,671	3,187	25,829
Charge for the year	3,097	780	455	256	4,588
Written back on disposal	(3,159)	–	–	–	(3,159)
Provision for diminution in value *(note 14 (d))*	69,375	–	–	–	69,375
At 31 December 2000	83,712	7,352	2,126	3,443	96,633
Net book value:					
At 31 December 2000	54,116	1,689	2,347	203	58,355
At 31 December 1999	155,480	2,469	2,524	459	160,932

14. FIXED ASSETS

(a) The Group

	Land and buildings $'000	Leasehold improvements $'000	Plant and machinery, furniture, fixtures and equipment $'000	Motor Vehicles $'000	Total $'000
Cost or valuation *(note 14 (e))*:					
At 1 January 2000	515,097	50,628	308,842	16,065	890,632
Additions	19,584	7,383	12,334	1,243	40,544
Disposals	(287,049)	(3,537)	(191,570)	(5,376)	(487,532)
Exchange adjustments	(3,166)	(117)	(3,694)	(334)	(7,311)
Reclassification	–	(5,946)	5,946	–	–
At 31 December 2000	244,466	48,411	131,858	11,598	436,333
Accumulated depreciation:					
At 1 January 2000	32,141	25,700	111,239	9,156	178,236
Charge for the year	11,187	9,136	28,292	1,460	50,075
Written back on disposal	(22,972)	(3,436)	(81,754)	(3,023)	(111,185)
Provision for diminution in value *(note 14(d))*	83,367	–	4,947	–	88,314
Exchange adjustments	(446)	(46)	(2,688)	(116)	(3,296)
Reclassification	–	(983)	983	–	–
At 31 December 2000	103,277	30,371	61,019	7,477	202,144
Net book value:					
At 31 December 2000	141,189	18,040	70,839	4,121	234,189
At 31 December 1999	482,956	24,928	197,603	6,909	712,396

12. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders includes a profit of $828,160,000 (1999: loss of $706,604,000) which has been dealt with in the accounts of the Company.

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of $866,057,000 (1999: loss of $194,219,000) and the weighted average of 909,509,000 (1999: 909,509,000) ordinary shares in issue during the year.

The exercise of the subscriptions rights conferred by the share options and the Offer Shares would not have any dilutive effect on the earnings/(loss) per share for the years 2000 and 1999 as the net gain on the Restructuring and the profit from discontinued operations are not taken into account in calculating the diluted earnings/(loss) per share.

10. DIRECTORS' REMUNERATION *(continued)*

Included in the Directors' remuneration were fees and other emoluments of $6,000 and $900,000 (1999: $6,000 and $450,000) respectively paid to the independent non-executive directors during the year.

In addition to the above emoluments, a Director had share options granted under the Company's share option scheme. Details of these benefits in kind are disclosed under the paragraph "Directors' Interests in Shares and Rights to Subscribe for Shares" in the Report of the Directors.

In the absence of a ready market for the share options granted on the shares of the Company, the Directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.

The remuneration of the Directors is within the following band:

$	**2000 Number of directors**	1999 Number of directors
Nil – 1,000,000	**18**	23
1,000,000 – 1,500,000	**1**	–
	19	23

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included 2 directors of the Company (1999: 3), details of whose remuneration are set out in note 10 above. The remuneration of the other 3 individuals (1999: 2) is as follows:

	2000 ***$'000***	1999 *$'000*
Salaries, allowances and benefits in kind	**1,638**	1,343
Bonuses paid and payable	**–**	60
Pension scheme contributions	**42**	13
	1,680	1,416

The remuneration of the 3 individuals (1999: 2) is within the band of $Nil to $1,000,000.

Notes on the Accounts

(Expressed in Hong Kong dollars)

9. TAXATION

Taxation in the consolidated profit and loss account represents:

	2000	1999
	$'000	$'000
Provision for Hong Kong Profits Tax at 16% on the estimated assessable profits for the year	**2,879**	185
Under/(over) provision in respect of prior years	**1,297**	(3,136)
Tax refund relating to prior years	**–**	(3,279)
	4,176	(6,230)
PRC income tax	**1,324**	4,373
Share of associates' taxation	**518**	605
	6,018	(1,252)

The Directors have been advised that the gains arising from the Restructuring would not be subject to Hong Kong Profits Tax pursuant to an advance ruling received from the Inland Revenue Department of the Hong Kong Special Administrative Region.

Income tax for subsidiaries 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.

No provision for deferred tax is made in the accounts as both the Group and the Company have net deferred tax assets whose future realisation is not assured beyond reasonable doubt.

10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2000	1999
	$'000	$'000
Fees	**22**	22
Salaries and other emoluments	**4,924**	5,306
Retirement scheme contributions	**114**	214
	5,060	5,542

8. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2000	1999
	$'000	*$'000*
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	**100,569**	148,771
Interest on convertible bonds	**48,489**	13,651
Amortisation of premium on redemption of bonds	**20,383**	40,765
	169,441	203,187
(b) Other items:		
Cost of inventories	**2,503,555**	2,560,181
Staff costs (including retirement cost (refund)/ charge of $(904,670) (1999: $1,962,000))	**140,054**	128,289
Auditors' remuneration	**3,221**	2,846
Depreciation	**50,075**	68,590
Amortisation of deferred expenses	**2,403**	9,232
Operating lease charges in respect of property rentals	**70,845**	85,182

Cost of inventories includes $19,922,000 (1999: $20,339,000) relating to staff costs and depreciation expenses, which is also included in the respective total amounts disclosed separately above for each of these types of expenses. Cost of inventories also includes provisions against inventories and properties held for sale totalling $1,022,154 (1999: $15,295,000).

7. NON-OPERATING EXPENSES *(continued)*

(vi) This relates to the write off of certain pre-operating expenses and prepayments, which were considered as irrecoverable by the directors.

(vii) This represents the loss arising from the disposal of a 20% equity interest in an associate of the Company during the year.

(viii) These comprise provisions for diminution in value of listed securities which were made by reference to the market value of the relevant listed shares at the year end.

(ix) Provisions were made against trade and other debtors balances brought forward from previous years which remained outstanding at the balance sheet date as a result of:

- a review of the underlying security documentation by the Company's lawyers and it is evident that certain security documentation may not be legally enforceable; and
- diminution in value of the underlying security pledged to the Group.

(x) The amounts in 1999 and 2000 represented net loss on the liquidation of an overseas subsidiary and a subsidiary in the PRC respectively.

(xi) As the Company did not take up the rights issue of a listed associate which became unconditional on 24 May 1999 and the new shares allotment on 30 June 1999, the Company's interest in the listed associate was reduced from 20% to 12%. In the circumstances, the investment in the listed associate was reclassified as investment securities. The difference between the carrying value of the listed investment stated under the equity method and the market value on 24 May 1999 was reflected as a loss on dilution of investment in the associate for the year ended 31 December 1999.

7. NON-OPERATING EXPENSES

	Note	2000 $'000	1999 $'000
Losses on disposal of fixed assets	(i)	**29,231**	–
Provisions for impairment losses on cessation of operation of a subsidiary and an associate	(ii)	**18,533**	–
Provisions for diminution in value of fixed assets	(iii)	**88,314**	–
Provision for compensation arising from a claim received	(iv)	**35,060**	–
Provision for diminution in value of investment securities	(v)	**21,744**	–
Write off of pre-operating expenses and prepayments	(vi)	**24,240**	–
Loss on disposal of an associate	(vii)	**2,215**	–
Provision for diminution in value of listed securities	(viii)	**49,241**	59,855
Provision for bad and doubtful debts	(ix)		
– trade debtors		**22,875**	141,623
– other debtors		**28,803**	40,344
Net loss on liquidation of subsidiaries	(x)	**16,527**	32,496
Loss on dilution of investment in an associate	(xi)	**–**	33,086
		336,783	307,404

Notes:

(i) The losses on disposal of fixed assets relate to net carrying value of certain fixed assets which have not been in use following a realignment of the Group's business operation.

(ii) These represent the provision for impairment losses to the carrying value of the Group's investment in a subsidiary and the provision for the back to back guarantee given to another shareholder of an associate in respect of a loan obtained from a third party as a result of the cessation of the supermarket operations in Guangzhou, the PRC.

(iii) These represent the provision for diminution in value of the land and buildings together with the furniture and fixtures, of the Group and of the Company as considered necessary by the directors taking into consideration a professional valuation at 26 September 2000.

(iv) A claim of approximately $35 million in connection with certain payments received by the Company was submitted to the Company in 1999 and disclosed as a contingent liability. After exchange of documents and taking into account the latest legal advice received, the directors consider that full provision should be made for the claim.

(v) These represent provision for diminution in value of investment securities which were principally engaged in pig farming activities. The directors consider that provision is necessary to reflect the decrease in recoverable amount as a result of repositioning of such activities.

Notes on the Accounts

(Expressed in Hong Kong dollars)

6. NON-OPERATING INCOME

	Note	2000 $'000	1999 $'000
Net gain on the Restructuring	(i)	**1,433,265**	–
Reduction in share of deficit of an associate	(ii)	**13,805**	–
Gain on warranty from a fellow subsidiary	(iii)	**–**	141,578
Net gain arising on exclusion of certain subsidiaries from consolidation	(iv)	**–**	274,994
		1,447,070	416,572

Notes:

(i) The analysis of the net gain on the Restructuring is as follows:

	$'000
Discharge of indebtedness to bank and other creditors and convertible bondholders	3,141,813
Share of net liabilities of subsidiaries transferred	1,722,635
Waiver of a loan payable to a related company	40,356
Waiver or assignment of inter-company payables and receivables between the Group and Guangdong Enterprises (Holdings) Limited and its subsidiaries	(2,571,631)
Group Restructuring consideration paid by the Group	(773,000)
Net carrying value of non-core assets disposed of at nil consideration	(126,908)
	1,433,265

(ii) This represents a write back of the net deficit of an associate previously shared by the Group as a result of cessation of its operations.

(iii) This represented a claim receivable from a fellow subsidiary under a warranty in respect of the purchases of a subsidiary and certain associates in prior years.

(iv) Certain companies, which were consolidated in the Group's balance sheet as at 31 December 1998, were de-consolidated from the Group's consolidated results for the year ended 31 December 1999 as the directors considered that the Group accounts, if these companies had been consolidated, would not present a true and fair view of the financial position of the Group as a whole.

The results of these companies for the year ended 31 December 1999 were excluded from the Group's profit and loss account for the year ended 31 December 1999. As a result of the exclusion of these companies, a gain of $275 million arose, which comprised the reversal of the share of net liabilities of these companies up to 31 December 1998 set-off by the full provision made against the cost of investments in, and amounts due from, these companies. As at 31 December 1999, the Company did not have any outstanding commitments in respect of these companies, nor guarantees granted in respect of any obligations of these companies in favour of third parties.

4. SEGMENTAL INFORMATION *(continued)*

	Group turnover	
	2000	1999
	$'000	*$'000*
By geographical locations		
Hong Kong	**2,081,233**	2,229,561
Elsewhere in the People's Republic of China (the "PRC")	**633,213**	632,476
Others	**49,752**	2,376
	2,764,198	2,864,413

Note: On 22 December 2000, the Group disposed of its tinplating operations in the PRC pursuant to the Restructuring. Profit from ordinary activities after taxation of the discontinued operations for the year amounted to $26,602,000 (1999: $41,206,000). As the discontinued operations were transferred pursuant to the Restructuring, the resultant gain or loss on discontinuance of these operations cannot be quantified. The resultant gain on the Restructuring is disclosed in note 6(i) below.

5. OTHER REVENUE

	2000	1999
	$'000	*$'000*
Dividends from listed investments	**22,020**	4,303
Interest income	**16,409**	2,306
Concession sale income	**10,693**	7,598
Advertising and promotion income	**9,347**	7,640
Rental income	**1,602**	1,573
Subsidy received (note 29(a))	**8,109**	–
Others	**11,816**	9,031
	79,996	32,451

Notes on the Accounts

(Expressed in Hong Kong dollars)

3. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 34 on the accounts.

Turnover represents the sales value of goods supplied to customers, after eliminating inter-company transactions. The amount of each significant category of revenue recognised in turnover is disclosed in note 4.

4. SEGMENTAL INFORMATION

The analysis of the Group's turnover by principal activities and geographical locations and loss from operations by principal activities during the financial year are as follows:

	Group turnover		Contribution to loss from operations	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
By principal activities				
Continuing operations				
Live and fresh foodstuffs distribution	**1,444,350**	1,537,578	**12,828**	25,569
Supermarket operations	**708,787**	756,154	**(124,038)**	(118,126)
Farming and feed production	**167,095**	162,016	**4,096**	3,529
Trading of foodstuffs	**46,910**	73,202	**(2,296)**	(23,047)
Unallocated corporate expenses	**–**	–	**(43,567)**	(55,184)
Other corporate revenue	**–**	–	**39,737**	3,852
	2,367,142	2,528,950	**(113,240)**	(163,407)
Discontinued operations (note)				
Tinplating	**397,056**	335,463	**35,632**	43,879
	2,764,198	2,864,413	**(77,608)**	(119,528)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Retirement costs

The Group operates a defined contribution retirement benefits scheme for those employees who are eligible to participate in the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the employer's contributions becoming fully vested, the amount is forfeited and recognised to the profit and loss account when refunded.

(o) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(p) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purpose of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of branches and subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The exchange differences arising from such retranslation are dealt with as a movement in reserves.

On disposal of branches and subsidiaries outside Hong Kong, the accumulated exchange differences in reserves attributable to the disposal are taken to the profit and loss account.

(m) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Dividends

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iii) Interest Income

Interest income from bank deposits and advances to associates is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Properties held for sale

Properties held for sale are stated at the lower of cost and open market value as at the balance sheet date as assessed by external qualified valuers.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. For merchandise held by supermarket warehouses, cost is calculated using the first-in-first-out method; for merchandise held by outlets, cost is calculated using the retail inventory method; and cost is calculated using the weighted average cost method for other inventories. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Fixed assets *(continued)*

(ii) Other fixed assets are carried in the balance sheets at cost less accumulated depreciation.

(iii) Provisions for land and buildings are made if and when the directors consider necessary. Any such provision is charged directly against the revaluation reserve to the extent that the provision does not exceed the amount held in the revaluation reserve in respect of the same property and the excess thereafter is recognised as an expense in the profit and loss account. When the circumstances and events that led to the provisions cease to exist, any subsequent increase in the recoverable amount of the land and buildings is written back to the profit and loss account, to the extent of any provisions previously charged to the profit and loss account.

(iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(h) Depreciation

Depreciation is provided to write-off the cost or revalued amount of fixed assets over their estimated useful lives from the date on which they are put into use and after taking into account their estimated residual value, using the straight line method, as follows:

Leasehold land	Over the unexpired term of the lease
Buildings	Over the shorter of the unexpired term of the lease and 20 to 50 years
Leasehold improvements	20% to 50% per annum
Plant and machinery, furniture, fixtures and equipment	10% to 20% per annum
Motor vehicles	20% per annum

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as "investment securities". Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(g) Fixed assets

(i) Land and buildings are carried in the balance sheets at cost or revalued amount less accumulated depreciation and such provisions for diminution in value as considered necessary by the directors.

Advantage is taken of the transitional relief by paragraph 72 of Statement of Standard Accounting Practice No. 2117 "Property, plant and equipment" issued by the HKSA from the requirement to make regular revaluations of the Group's land and buildings, certain of which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings has been carried out.

Notes on the Accounts

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Investments in subsidiaries *(continued)*

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Associates

An associate is a company in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the elimination of goodwill and the post-acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

The results of the associates are included in the Company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the directors. In the Company's balance sheet, its investments in associates are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate individually. Any such provisions are recognised as an expense in the profit and loss account.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by revaluation of certain land and buildings and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

(i) The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(ii) Goodwill arising on consolidation of subsidiaries and on acquisition of associates which represents the excess of the purchase consideration paid for acquisition of subsidiaries and associates over the fair value of the Group's share of the separable net assets acquired at the date of acquisition is charged to reserves in the year in which it arises. The excess of the Group's share of the fair value of the separable net assets of subsidiaries and associates acquired over the cost is credited to capital reserve.

Upon disposal of a subsidiary, any attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(iii) Losses attributable to minority shareholders of partly owned subsidiaries are accounted for based on the respective equity owned by the minority shareholders up to the amount of the capital contributed by and other reserves attributable to the minority shareholders. Thereafter, all further losses are assumed by the Group.

(d) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Group controls the composition of the board of directors. Details of the subsidiaries are set out in note 34 on the accounts.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. RESTRUCTURING

Pursuant to the summary indicative heads of terms dated 16 December 1999 and, inter alia, a restructuring agreement dated 22 December 2000, the Group underwent a corporate reorganisation and indebtedness restructuring (the "Restructuring"). The terms of the Restructuring, which included, inter alia, transfer of certain non-core businesses and assets out from the Group, extinguishment of the amounts due to bank creditors, convertible bondholders and certain non-financial creditors by offering Restructuring consideration of $773 million, waiver of amounts due to certain related companies and assignment of a loan from a related company, were set out in a circular to the shareholders of the Company dated 17 November 2000 (the "Circular"). The Restructuring, which has been approved by independent shareholders and bank creditors, was complete on 22 December 2000. The gain arising on the Restructuring is set out in note 6 on the accounts.

In accordance with the terms of the Restructuring, the Company has contributed $773 million in cash to the pool of the Restructuring consideration. Such amount was funded by way of a bridging loan provided by the intermediate holding company, GDH Limited, to the Company pursuant to the Bridging Loan Agreement dated 22 December 2000. As stated in the Circular, the Company would, subject to the satisfaction of certain conditions, conduct an open offer to existing shareholders, excluding overseas shareholders, on the basis of 17 shares for every 2 existing shares held (the "Open Offer"). The number of shares to be issued at par under the Open Offer (the "Offer Shares") would be 7,730,824,137. The proceeds of the Open Offer would be used for the sole purpose of repaying the bridging loan provided by GDH Limited. The Open Offer would be fully underwritten by GDH Limited. In the event that any of the shareholders did not subscribe for their pro-rata entitlement to the Offer Shares in full, GDH Limited was required to take up all the unsubscribed Offer Shares in its capacity as the underwriter. Subsequent to the balance sheet date, the Open Offer was complete and GDH Limited has taken up all the unsubscribed Offer Shares.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

Transactions Disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

局 for a term of 1 year from October 1996 to October 1997 at the interest rate of 0.756% per month. At the balance sheet date, the loan was still outstanding. As the associate ceased operation, the Group has made a provision of RMB2.5 million for the guarantee accordingly.

(vi) At the balance sheet date, the Company gave to banks in its ordinary and usual course of business a guarantee for banking facilities to the extent of US$2.8 million granted to Yellow Dragon Food Industry Company Limited, an associate of the Company, for its operations and expansion projects.

2. The Company entered into an agreement with a wholly-owned subsidiary (the "Landlord") of Guangdong Investment Limited ("GDI") on 21st August, 2000 for leasing of offices A and B, 16/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong. Details of the agreement are set out in the Company's announcement dated 21st August, 2000. Subsequent to the balance sheet date, the aforesaid agreement was terminated by the Company and the Landlord by another agreement. GDI is a connected person of the Company as defined in the Listing Rules.

3. The Company entered into an agreement with Guangdong Brewery Holdings Limited ("GDB") on 21st August, 2000 for the transfer of certain chattels and equipment to the Company. Upon completion of the Restructuring on 22nd December, 2000, GDB became a connected person of the Company as defined in the Listing Rules. Subsequent to the balance sheet date, the aforesaid agreement was terminated by the Company and GDB by another agreement.

4. In accordance with the disclosure requirements of the Listing Rules, a proforma combined balance sheet as at the date of this report of two associates, which the Group provided financial assistance as stated in 1(v) and 1(vi) above and note 27 on the accounts, and the Group's attributable interest at 31 December 2000 in these associates are presented below.

	Proforma combined balance sheet	**Group's attributable interest**
	HK$'000	HK$'000
Long term assets	360,326	144,226
Current assets	306,899	122,938
Current liabilities	(320,300)	(131,150)
Long term liabilities	(75,163)	(30,070)
Net Asset	271,762	105,944

Transactions Disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

1. In addition to the transactions set out elsewhere in the accounts, there are certain financial assistance granted by the Company and certain of its wholly-owned subsidiaries to certain of its non wholly-owned subsidiaries and associates which are required to be disclosed in the annual report in accordance with the disclosure requirement of the Listing Rules. Details are as follows:

   (i) At the balance sheet date, certain advances made by Guangnan Supermarket Development Limited ("GSDL"), a wholly-owned subsidiary, to Guangdong Guangnan Tianmei Food Development Company Limited, a 55% owned subsidiary, are outstanding in an aggregate amount of Renminbi ("RMB") 49 million. The advances are unsecured, interest-bearing at a range from 11.5% per annum to 12% per annum and are repayable within 2 years from the balance sheet date.

   (ii) On 29th December, 2000, the Company entered into a loan agreement with Guangnan (KK) Supermarket Limited (the "Borrower"), a 70% owned subsidiary in which no connected persons are shareholders (excluding persons who are connected persons by virtue only of their substantial shareholdings in the Borrower). The loan in the sum of $41 million was made by the Company to the Borrower for its general working capital after the balance sheet date, secured by a first floating charge over the Borrower's undertaking, property and assets, repayable within 3 years and interest bearing at Hong Kong dollar prime rate.

   (iii) At the balance sheet date, certain advances made by Guangnan Fresh and Live Foodstuffs Limited, a wholly-owned subsidiary, to Guangnan (KK) Supermarket Limited, a 70% owned subsidiary, are outstanding in an aggregate amount of HK$23.5 million. The advances are unsecured, interest-bearing at a range from Hong Kong dollar prime rate plus 1% per annum to 8% per annum and are repayable within 1 year from the balance sheet date.

   (iv) At the balance sheet date, certain advances made by the Company to Guangnan (KK) Supermarket Limited, a 70% owned subsidiary, are outstanding in an aggregate amount of HK$104.6 million. The advances are unsecured, interest free, except certain loans amounting to HK$49.1 million, which are unsecured and interest-bearing at a range from Hong Kong dollar prime rate per annum to 11.5 per annum and are repayable within 1 year from the balance sheet date.

   (v) GSDL, a wholly-owned subsidiary, provided a 50% back to back guarantee to 廣州市南方大廈有限公司, the other shareholder of 廣州市廣南一南大超級市場有限公司, an associate held by GSDL, in respect of a loan in the sum of RMB5 million obtained by the associate from the 廣州市財政局技改資金管理

Financial Summary

Assets and liabilities

	As at 31st December,				
			Note		
	2000	1999	1998	1997	1996
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	**234,189**	712,396	945,560	944,149	398,375
Pre-operating expenses and other intangible assets	**–**	16,502	15,470	389,615	173,515
Interest in associates	**171,160**	169,242	225,615	501,565	116,174
Other non-current financial assets	**–**	137,648	131,707	203,661	558
Net current (liabilities)/assets	**(75,081)**	(2,317,540)	(1,832,035)	1,663,268	1,143,716
Total assets less current liabilities	**330,268**	(1,281,752)	(513,683)	3,702,258	1,832,338
Non-current liabilities	**(20,257)**	(33,561)	(565,692)	(1,239,420)	(380,999)
Minority interests	**(60,640)**	(78,912)	(104,307)	(444,319)	(283,217)
	249,371	(1,394,225)	(1,183,682)	2,018,519	1,168,122
Share capital	**90,951**	90,951	90,951	78,811	72,015
Reserves	**(614,580)**	(1,485,176)	(1,274,633)	1,939,708	1,096,107
Loan from intermediate holding company	**773,000**	–	–	–	–
	249,371	(1,394,225)	(1,183,682)	2,018,519	1,168,122

Note: On 5 May 1999, the firm of auditors who reported on the accounts of the Group for the year ended 31st December, 1997 notified the Company of the withdrawal of their audit report. Accordingly, persons are advised that they should no longer rely on the audit report in respect of 1997 accounts of the Group.

Financial Summary

RESULTS

Due to state of the books and records maintained by the Company and certain of its subsidiaries, significant difficulties have been encountered in preparing the accounts of the Company and the Group as at 31 December 1998. No reclassification nor restatement of comparative figures of the results for 1998 and prior years is made accordingly.

	For the year ended 31st December,				
			Note		
Results	**2000**	1999	1998	1997	1996
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**2,764,198**	2,864,413	5,077,724	8,155,592	5,705,454
(Loss)/profit from operations	**(77,608)**	(119,528)	(2,915)	481,786	494,086
Finance cost	**(169,441)**	(203,187)	(203,456)	(113,700)	(202,833)
Net non-operating income/(expenses)	**1,110,287**	109,168	(3,521,487)	17,359	–
Share of profits less losses of associates	**7,952**	2,137	(59,170)	9,111	16,964
Profit/(loss) from ordinary activities before taxation	**871,190**	(211,410)	(3,787,028)	394,556	308,217
Taxation	**(6,018)**	1,252	(5,767)	(46,074)	(31,792)
Minority interests	**885**	15,939	319,518	(46,644)	(59,225)
Profit/(loss) attributable to shareholders	**866,057**	(194,219)	(3,473,277)	301,838	217,200
Earnings/(loss) per share					
Basic	**0.95**	(0.21)	(4.31)	0.41	0.38