GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

2002 annual report

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

LIANG Jiang *(Chairman)*
LI Xiangbin
HUI Wai Man, Lawrence

Non-executive Directors

LUO Fanyu
LIANG Jianqin

Independent Non-executive Directors

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

Company Secretary

CHEUNG Mo Ching

Registered Office

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

Solicitors

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

Financial Adviser

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 Registrar

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

Principal Bankers

Nanyang Commercial Bank, Limited
Standard Chartered Bank

Looking ahead in 2003, the Group's operation environment is still exceptionally challenging. The live and fresh foodstuffs distribution operation is gradually losing its policy advantages as China enters the World Trade Organization, and the livestock farming is dwindling due to changes in the market situation. However, opportunities exist where there is challenge. The Board and the management believes that if we can carry out the objective of "enhancing the quality of the management team and innovative operating systems, integrating business structures to create synergy, developing flagship businesses to increase our competitiveness", we shall nurture and develop our leading business, expedite the improvement of tinplating technology in order to boost productivity and market competitiveness, accelerate business structure reform at the same time we seek improvement in our present enterprises and businesses, and aggressively identify investment opportunities and acquire projects with potential at the proper time. The Board firmly believes that adhering to the above policies would offer a basis for increasing the Group's overall economic strength, profitability and competitiveness, and maximizing the return for our shareholders.

By Order of the Board
Liang Jiang
Chairman

Hong Kong, 11 April, 2003

In 2002, the Group adopted a new corporate core culture with emphasis on management efficiency and performance. Through intensive management efforts, the Group took a firm hold at building the management team of companies at all levels, strengthening corporate management from the foundation to the top, integration of business resources, exploration of new business opportunities, fully exploiting our business potential and added values, reinforcing investment project monitoring and financial management and control, the Group has achieved satisfactory economic results.

For the year ended 31 December 2002, the Group's consolidated turnover was HK$1,783,020,000, which was HK$36,330,000 less than the 2001 turnover of HK$1,819,350,000, representing a decrease of 2.0%. Main reasons for the reduction were that the Group completely closed its supermarket business as from June 2001, and that its live and fresh foodstuffs distribution operation was reduced as a result of the State's deregulation of pond-fish quota management and reduction of live poultry agency quota. For 2002, the Group's profit before tax was HK$126,939,000, which was HK$114,504,000 more than that of 2001, representing an increase of 920.8%. Profit attributable to shareholders was HK$115,509,000, which was HK$63,991,000 more than that of 2001, representing an increase of 124.2%. Basic earnings per share was HK1.28 cents for 2002 and HK0.61 cents for 2001.

In 2001, the Group had ceased the supermarket business, and eliminated the loss-making part of the Group's business, and achieved a successful reacquisition of the Zhongshan Zhongyue Tinplate Industrial Co., Ltd. and Zhongshan Shan Hai Industrial Co., Ltd.. Based on this foundation, we adjusted our business plan, business focus and operation strategy in 2002, and we concentrated our attention on developing industrial projects and businesses with better future profit prospect and competitiveness. Accordingly, the tinplating and property leasing business became the new profit growth area and the major contributor of the profit of the Group, and replaced the live and fresh foodstuffs operation as the Group's core business. As the above industrial operating profits more than compensated for the reduction in profit from the live and fresh foodstuffs operation, the Group made significant improvement in 2002 over 2001 in most economic indicators except a slight decrease in turnover compared to the same period last year. This is achieved because the Group restructured its operating businesses and development strategy at the proper time, and improved corporate competitiveness, profit-generating and risk management capabilities through business synergy, altering product mix, developing new products and new business, enhancing corporate quality and profit margin. As a result, the Group restored sound asset and financial position and saw a much improved operating performance with the best operating results since the Restructuring. The present asset position of the Group is healthy; financial resources are sufficient and cost effectiveness is in a comparatively satisfactory situation.

Employees and Remuneration Policies

As at 31 December 2002, the Group has a total of 808 employees, reduced by 71 as compared to the same period of 2001, of whom 49 were based in Hong Kong and 759 were based in the PRC. The staff remuneration is determined in accordance with the responsibility for the post, workload, individual performance and prevailing industry practice. In 2002, the Group implemented control on the total salary and effectively reduced the labour cost through re-determining the staffing, headcount and total salaries of each subsidiary. At the same time, the "performance bonus" incentive scheme assessed the performance of the subsidiaries based on the profit before taxation achieved and rewarded the management, key personnel and outstanding staff with bonus of a designated proportion. This incentive scheme activated and mobilized the work enthusiasm of the broad ranks of staff members.

Future Prospect

Looking ahead in 2003, the operation environment is still exceptionally challenging. The live and fresh foodstuffs distribution operation is gradually losing its policy advantages as China enters the World Trade Organisation, the recent relapse of the Avian influenza and the outbreak of Atypical Pneumonia will expect to dampen the business further. Livestock farming is dwindling due to changes in the market situation. However, opportunities exist where there is challenge. The management believes that if we can carry out the objective of "enhancing the quality of the management team and innovative operating systems, integrating business structures to create synergy, developing flagship businesses to increase our competitiveness", and if we can maintain our strength in existing enterprises and businesses while we continue to nurture and develop our leading business, expedite the improvement of tinplating technology in order to boost productivity and market competitiveness, accelerate business structure reform, aggressively identify investment opportunities and then to acquire projects with potential, we can definitely enhance the Group's overall economic strength, profitability and competitiveness, and eventually accelerate the growth of the Company.

One of the Group's subsidiaries in the PRC has secured an additional banking facility for letters of credit of US$4,000,000 in the second half of the year after securing credit of US$6,000,000 in the first half of the year, of which US$6,300,000 was utilized at the end of this year. With its cash holdings, recurring cashflow from its operations and available banking facilities, the Group believes that it will have sufficient funds to meet its present operation requirements and to further develop its business in the foreseeable future.

Charges on Group's Assets

As mentioned in the annual report of the Company for the year ended 31 December 2001, certain land & buildings of a 51%-owned subsidiary in the PRC, namely Dongguan Guangnan Stock Development Co. Ltd. (the "Subsidiary"), with gross carrying amount of HK$10,369,000, have been pledged to a bank for a loan of HK$8,476,000 granted to a minority shareholder of the Subsidiary. A provision of HK$10,369,000 was made in previous years' financial statements.

Convertible Notes

On 3 December 2001, the Company issued convertible notes of HK$185,000,000 to Richway Resources Limited, a fellow subsidiary of the Company, as part of the consideration for the acquisition of Zhongyue Industry Material Limited. The notes bear interest at a fixed rate of 4.5% per annum and are convertible into ordinary shares of the Company on any business day other than the period in which the register of members of the Company is closed or ten business days prior to the maturity date on 3 December 2006 at an initial conversion price of HK$0.155 per share. During the year, a total of HK$105,000,000 convertible notes were redeemed by the Group on 21 June, 14 August and 8 November 2002 respectively, in order to reduce interest expense thereof. As at the date of this report, the outstanding portion was of HK$80,000,000.

Exchange Rate Exposure

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

Livestock Farming

Performance of the Group's livestock farming operation in 2002 had been sluggish due to infectious diseases and reduced selling price of live pigs in the mainland. Turnover of the three pig farms was HK$50,177,000, a decrease of HK$12,384,000 or 19.8% as compared to that of the same period last year; operating loss was HK$5,463,000, an increase in the loss of HK$3,888,000 or 246.9% as compared to the same period last year.

The Group's livestock farming operates mainly in Dongguan City, Guangdong Province, where the pigs-farming environment deteriorates due to urban planning and development. High-infected rate of pigs associated with the present industry downturn constitutes high operating risks. As a result, the Group will, after examination and demonstration, scaled down this operation, or, even change the operation mechanism to transfer or lease out the pig farms when the time is right.

Financial Position

As at 31 December 2002, the Group's total assets amounted to HK$963,053,000 and total liabilities stood at HK$448,066,000, an increase of HK$4,729,000 and a decrease of HK$136,889,000 respectively when compared with the position as at the end of 2001. The net current assets of the Group increased from HK$33,848,000 as at the end of 2001 to HK$73,049,000 and the current ratio (current assets divided by current liabilities) increased by 10.9%. The Group's financial position has strengthened further since the end of last year, indicating a steady move towards improving results and paving the way for future business expansion.

Liquidity and Financing Resources

As at 31 December 2002, the Group maintained cash balances of HK$243,010,000, increased by 6.6% from the cash balances as at the end of 2001. The major cash outflow was for the early redemption of HK$105,000,000 interest-bearing convertible notes.

The Group's interest-bearing borrowings are repayable on demand and carry interest at annual rates ranging from 6.5% to 7.6%. At the end of the year under review, the Group's interest-bearing borrowings together with the convertible notes totalled HK$139,012,000. Accordingly, the Group's gearing ratio, which was measured on the basis of the Group's total interest bearing borrowings and convertible notes over the shareholders' fund, was 28.1%, representing a sharp decrease of 53.8% from 81.9% as at 31 December 2001.

Live and Fresh Foodstuffs Distribution

The live and fresh foodstuffs distribution operation is the Group's traditional business. Following the PRC's accession to the World Trade Organization, the State deregulated quota management in pond fish and reduced quota for livestock agencies in January 2002. Outbreak of Avian influenza in February and the opening up of the chilled chicken market in December exacerbate the business condition further. Faced with the rapid deterioration in the business operating environment, the Group strived to maintain its performance as a policy regulated agency and, simultaneously, increasing its non-policy regulated agency business by expanding direct sales in quality live-chicken. By way of reducing headcounts and effective cost control, we managed to enhance profits and minimize the drop in turnover. Consequently, the live and fresh foodstuffs operation recorded a turnover of HK$977,642,000 in 2002, a decrease of HK$283,030,000 or 22.5% over that of the same period of 2001; operating profit of HK$14,602,000, a decrease of HK$2,957,000 or 16.8% over that of the same period of 2001.

In order to safeguard the traditional live and fresh foodstuffs distribution operation to meet the ever changing market competition, the Group, by analysing the past, the present and the future trend of the business, formulated a series of measures such as building up an effective incentive mechanism, expanding non-policy regulated agency business, identifying strategic partners, establishing commodity production base, broadening marketing network, and exploring new frozen poultry business and etc. These measures are designed with an aim to lay a strong foundation for the ongoing development of this operation after the State fully deregulated live and fresh foodstuffs quota management.

Foodstuffs Trading

In addition to the original business of trading in foodstuffs like frozen food, rice, starch, egg powder and etc, the Group strived to develop new business such as chilled chicken, feed and the like. In 2002, the trading of foodstuffs recorded a turnover of HK$69,626,000, an increase of HK$24,281,000 or 53.5% over that of the same period of 2001.

The Group succeeded in supplying the first consignment of chilled chicken to Hong Kong as Hong Kong opened up its chilled chicken market in December 2002. The turnover of that month was HK$3,350,000. Currently, the Group has become Hong Kong's major supplier of chilled chickens which are being sold in all major supermarkets and chain stores. Trading of chilled chicken will become the major business of foodstuffs trading operation.

Tinplating and Property Leasing

In 2002, amidst dramatic changes in the raw materials market with fierce competition from imported steel plates, and while final arbitration over provisional protection measures is still pending, the Group had, in response to the situation, taken active measures to explore alternative material-importing channels, heightened production and sales of higher profit margin electroplated ferrochrome products. These measures proved effective and the production, sales and profit recorded significant increase. In 2002, the production and sales of tinplating electroplated ferrochrome totalled 111,157 tons, an increase of 18,052 tons or 19.4% over those of 2001. Average product sales gross profit margin improved from 16.7% in 2001 to 21.6% in 2002, an increase of 4.9%. The newly acquired business remained buoyant, and for the year ended 31 December 2002 contributed HK$565,906,000, or 31.7% of turnover and HK$85,708,000, or 67.5% of pre-tax profit, and became the Group's core business, a major growth driver and profit contributor.

Property leasing recorded a total revenue of HK$28,372,000 for 2002, an increase of 6.2% as compared to that of 2001. In order to leverage land resource to develop industrial property leasing, the Group invested HK$8,740,000 into the construction of the second phase plants of Rugu, Zhongshan with total gross floor area of 1,230 m^2. The project was completed in July 2002 and the properties were leased out during the year.

Feed Production

Guangnan (Zhan Jiang) Jiafeng Feed Co. Ltd., the Group's wholly owned subsidiary, possesses an annual production capacity of 200,000 tons of poultry feed. In 2002, the Group overhauled the management of the company, restructured its product mix, transformed the shrimp feed production line, discontinued certain loss-making poultry feed products and focused on high value-added types of fish and shrimp feed products, resulting in continued improvement of both the operation quality and economic benefits despite the decrease in production and turnover of 37.8% and 28.1% respectively as compared to those of 2001.

The Group's feed processing operation is situated at Zhanjiang, Guangdong Province. As the aquatic food industry in Zhanjiang and the coastal areas in Hainan and Beihai, Guangxi Province are prospering, growth potential and prospect is expected within the aquatic feed market.

Business Review

Introduction

2002 remained a year marked with operating difficulties. The tinplating operation was dampened by the trade-war in the international steel market and the State's implementation of provisional protection measures for certain category of imported steel plates. The raw steel market experienced dramatic changes and the market of the imported raw steel plates saw keener competition. Affected by the State's policies on deregulating pond fish quota management and reducing quota for livestock agencies; outbreak of Avian influenza in February and the opening up of the chilled chicken market in December, the turnover of the live and fresh foodstuffs operation dropped significantly. Infectious diseases affected livestock farming and live pigs exported and sold decreased notably. Under such a difficult business environment, the Group promptly adjusted its business strategy and decisively took the initiative to apply to the State for exemption from provisional protection measures and obtained it towards the end of 2002. The Group increased the purchases of imported raw steel plates from countries not involved in anti-dumping, scaled up production and sales of products with higher profit margin and sales of live and fresh foodstuffs under non-policy agency, implemented effective measures on prevention and cure of epidemics of livestock. Thanks to these measures, related operational risks were reduced and satisfactory results were achieved. Most of the economic indicators of the Group in 2002, except for the turnover which was slightly decreased, were remarkably improved as compared to those of the same period of 2001. Cost of sales decreased by HK$93,059,000 or 5.6%. Gross profit increased by HK$56,729,000 or 36.5%. Distribution costs decreased by HK$60,051,000 or 52.4%. Administrative expenses decreased by HK$10,956,000 or 14.9%. There is a big turnaround in operating profit and share of profits of associates. Operating profit increased by HK$117,294,000. Share of profits of associates increased by HK$22,796,000. Profit before tax increased by HK$114,504,000 or 920.8%. Profit attributable to shareholders increased by HK$63,991,000 or 124.2%. Basic earnings per share increased by HK0.67 cents or 109.8%. At present, the Group is in a good assets backing condition, with sufficient financial resources, and a healthy operation with comparatively improved profit yield.

Regular meetings have been held by the Committee and it met three times during the year under review.

Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice 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.

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.

Auditors

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

On behalf of the Board
Liang Jiang
Chairman

Hong Kong, 11 April 2003

Contracts of Significance with Controlling Shareholders or Its Subsidiaries

In addition to the disclosures contained in note 26 on the financial statements, in items 1(a), 1(b) and 2 of the Transactions Disclosed in Accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as set out on pages 93 to 97, the Company had the following contract of significance with a subsidiary of the controlling shareholder of the Company.

On 25 March 2002, Zhongyue Industry Material Limited, a wholly owned subsidiary of the Company, entered into a loan agreement with Richway Resources Limited ("Richway"), a wholly owned subsidiary of GDH which is the controlling shareholder of the Company, for the provision by Richway of a loan in the amount of HK$46,500,000. The loan is unsecured, interest free and without fixed term of repayment.

Purchase, Sale or Redemption of Listed Securities

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

Compensation Committee

The Company has established a Compensation Committee with the principal duties of receiving advice and making recommendations to the Directors concerning the remuneration policies of senior officers, the share option or incentive schemes. The Committee comprises the Chairman, the General Manager and three Independent Non-executive Directors.

Throughout the year under review, four meetings were held by the Committee to explore into relevant issues.

Audit Committee

In accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code of Best Practice") the Company has established an Audit Committee with all the three Independent Non-executive Directors as members. The principal duties of the Committee include the review of the adequacy and effectiveness of the internal control and compliance procedures of the Group and the review of the principles, policies and practices adopted in the preparation of the Group's accounts and the annual financial statements for compliance with all statutory requirements.

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).

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

Details of the transactions disclosed in accordance with the Listing Rules are set out on pages 93 to 97.

Substantial Shareholders

As at 31 December 2002, 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	**Number of ordinary shares beneficially held**	**Percentage holding**
Guangdong Yue Gang Investment Holdings Company Limited ("Yue Gang")	5,359,164,680	59.56%
GDH Limited ("GDH")	5,359,164,680	59.56%

Note: The attributable interest which Yue Gang has in the Company represents 5,359,164,680 ordinary shares deemed to be held by GDH. GDH is a wholly-owned subsidiary of Yue Gang.

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 31 December 2002.

Directors' Interests in Contracts of Significance

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

Directors' Interests in Competing Businesses

During the year, Mr. Liang Jiang, Director of the Company, is also a director of GDH Limited ("GDH"). GDH and its subsidiaries (the "GDH Group") have a wide range of business interests which include, inter alia, manufacturing, trading, wholesaling and retailing, etc. The aforementioned business interests of the GDH 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 GDH Group compete either directly or indirectly in any material respect with those of the Group.

During the year, Mr. Luo Fanyu, Director of the Company, is also a director of GDH. GDH Group have a wide range of business interests which include, inter alia, manufacturing, trading, wholesaling and retailing, etc. The aforementioned business interests of the GDH 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 GDH Group compete either directly or indirectly in any material respect with those of the Group.

During the year, Mr. Ye Xuquan, Director of the Company and resigned on 14 January 2002, is also a director of Guangdong Yue Gang Investment Holdings Company Limited and certain of its subsidiaries, namely GDH, 深圳東深投資控股有限公司 and GDI. 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.

During the year, Mr. Li Li, Director of the Company and resigned on 31 July 2002, is also a director and general manager of Macau Wholesale Market Nam Yue, Ltd. and 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

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

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

Note:

1. The underlying shares of the outstanding share options under the 2001 Share Option Scheme as at 31 December 2002 represent 1.96% of the issued share capital of the Company.

(ii) Guangdong Investment Limited

At 31 December 2002, a director of the Company had the following interests in rights to subscribe for ordinary shares of Guangdong Investment Limited ("GDI") granted under the share option schemes of GDI. Each option gives the holder the right to subscribe for one ordinary share of par value HK$0.5 each of GDI.

Category or Name	Date of share options granted#	Number of share options		Exercisable period of share options	Total consideration paid for share options granted	Price per share to be paid on exercise of share options	During the year number of share options			Number of share options held on 31 December 2002
		Held on 1 January 2002	Granted during the year				Exercised	Lapsed	Cancelled	
		'000	'000		HK$	HK$	'000	'000	'000	'000
Director										
Liang Jianqin (appointed on 31 July 2002)	16/03/98	450	–	17/09/98 to 16/09/03*	–	3.024	–	–	–	450
	10/08/01	400	–	11/02/02 to 10/02/07*	–	0.5312	–	–	–	400

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

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

Arrangements to Acquire Shares or Debentures

Except for the share options held by Directors as mentioned above in the sections "Directors' Interests in Shares and Rights to Subscribe for Shares" and "Share Option Schemes of the Company and Associated Corporation", 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.

During the year, no options have been granted by the Company. Details of the Company's share options exercised and lapsed during the year and outstanding share options as at the year end date are set out in note 27 on the financial statements.

During the year, the Directors of the Company did not have any interests in rights to subscribe for shares of the Company under the 1994 Share Option Scheme. Certain employees and other participants of the Company had the following interests in rights to subscribe for shares of the Company granted under the 1994 Share Option Scheme of the Company. Each option gives the holder the right to subscribe for one share of par value HK$0.1 each of the Company.

Category or Name	Date of share options granted#	Number of share options: Held on 1 January 2002 '000	Number of share options: Granted during the year '000	Exercisable period of share options	Total consideration paid for share options granted HK$	Price per share to be paid on exercise of share options HK$	During the year number of share options: Exercised '000	During the year number of share options: Lapsed '000	During the year number of share options: Cancelled '000	Number of share options held on 31 December 2002 '000
Employees and other participants	11/02/98	15,200	—	12/02/99 to 10/02/02	—	0.4295	—	15,200	—	—

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

At 31 December 2002, the Directors and certain employees of the Company had the following interests in rights to subscribe for shares of the Company granted under the 2001 Share Option Scheme. Each option gives the holder the right to subscribe for one share of par value HK$0.1 each of the Company.

Category or Name	Date of share options granted #	Number of share options: Held on 1 January 2002 '000	Number of share options: Granted during the year '000	Exercisable period of share options	Total consideration paid for share options granted HK$	Price per share to be paid on exercise of share options HK$	During the year number of share options: Exercised '000	During the year number of share options: Lapsed '000	During the year number of share options: Cancelled '000	Number of share options held on 31 December 2002 '000	During the year share price (**): At options grant date HK$	During the year share price (**): At options exercise date HK$
Directors												
Ye Xuquan (resigned on 14 January 2002)	24/08/01	55,000	–	26/11/01 to 25/11/06*	10	0.1495	55,000	–	–	–	–	0.235
Li Li (resigned on 31 July 2002)	24/08/01	45,000	–	26/11/01 to 25/11/06*	10	0.1495	–	–	–	45,000	–	–
Chen Lizhong (resigned on 10 June 2002)	24/08/01	35,000	–	26/11/01 to 25/11/06*	10	0.1495	–	–	–	35,000	–	–
Employees	24/08/01	152,000	–	26/11/01 to 25/11/06*	10	0.1495	–	56,000	–	96,000	–	–

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

On 24 August 2001, for the purpose of having a new share option scheme with terms compatible with modern practice and providing greater flexibility to the Directors, the Company adopted a new share option scheme (the "2001 Share Options Scheme"). Pursuant to the 2001 Share Option Scheme, the Directors are authorized, at their discretion, to invite full-time employees of the Company and its subsidiaries, including Executive Directors but excluding Non-executive Directors to take up options to subscribe for shares of the Company. A grant of options under the 2001 Share Option Scheme may be accepted in writing and upon payment of a consideration of HK$10 in total by the grantee to the Company within 21 days from the date of grant. Options granted under the 2001 Share Option Scheme is exercisable within a period of 5 years commencing on the business day immediately following the expiry of 3 months after the date of grant and expiring at the close of business on the last business day of such 5 year period. The 2001 Share Option Scheme shall expire on 23 August 2011.

The total number of shares in respect of which options may be granted (together with options exercised and options then outstanding) when aggregated with any shares subject to the 1994 Share Option Scheme and the 2001 Share Option Scheme (collectively the "Schemes") may not exceed 10% of the issued share capital of the Company at the time of grant of options (excluding any shares issued upon exercise of options granted under the Schemes). As at the date of this report, no options granted under the 1994 Share Option Scheme is outstanding and the number of shares issuable for options granted under the 2001 Share Option Scheme was 86,000,000 which represented approximately 0.96% of the Company's shares in issue.

The maximum entitlement of each participant under the Schemes will not exceed 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Schemes.

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

On 1 September 2001, the Hong Kong Stock Exchange amended the requirements for share option schemes under the Listing Rules. If the Company wishes to grant options under the 2001 Share Option Scheme, it will also comply with the requirements under the Listing Rules.

(II) Share Option

The interests of the Directors in the rights to subscribe for shares of the Company and associated corporation are separately disclosed in the section "Share Option Schemes of the Company and Associated Corporation" below.

Save as disclosed above, under the section "Share Option Schemes of the Company and Associated Corporation" below and other than certain nominee shares in subsidiaries of the Company held by the Directors in trust for the Company, as at 31 December 2002, 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 executive 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.

Share Option Schemes of the Company and Associated Corporation

(i) The Company

On 21 November 1994, in order to align the interests of Directors and employees with those of the shareholders, the Company adopted a share option scheme (the "1994 Share Option Scheme") pursuant to which the Directors are authorized, at their discretion, to invite Directors or employees of the Company and its subsidiaries to take up options to subscribe for shares of the Company. Offers of options under the 1994 Share Option Scheme may be accepted in writing within 21 days from the date of making such offer. Options granted under the 1994 Share Option Scheme is exercisable within a period commencing twelve months after the date of acceptance of options and expiring on the last day of a four year period from such acceptance date or 20 November 2004, whichever is earlier. The 1994 Share Option Scheme shall expire on 20 November 2004.

Directors' Interests in Shares and Rights to Subscribe for Shares

As at 31 December 2002, 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 Stock Exchange of Hong Kong Limited (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) The Company

Name	Number of Ordinary Shares held
Liang Jiang	1,300,000
Woo Ching Yee (Resigned on 6 January 2003)	2,000,000

(ii) Guangdong Investment Limited

Name	Number of Ordinary Shares held
Liang Jiang	310,000

(iii) Guangdong Brewery Holdings Limited

Name	Number of Ordinary Shares held
Luo Fanyu	70,000

(iv) Guangdong Tannery Limited

Name	Number of Ordinary Shares held
Luo Fanyu	70,000

Financial Summary

A summary of the results, assets and liabilities of the Group for the past five years ended 31 December 2002 is set out on pages 99 and 100.

Directors

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

Executive Directors

LIANG Jiang	(Appointed on 14 January 2002)
LI Xiangbin	(Appointed on 10 July 2002)
HUI Wai Man, Lawrence	(Appointed on 6 January 2003)
YE Xuquan	(Resigned on 14 January 2002)
LI Li	(Resigned on 31 July 2002)
CHEN Lizhong	(Resigned on 10 June 2002)
WOO Ching Yee	(Resigned on 6 January 2003)

Non-executive Directors

LUO Fanyu	
LIANG Jianqin	(Appointed on 31 July 2002)
HOU Zhuobing	(Resigned on 31 July 2002)
WU Wai Chung, Michael	(Resigned on 25 June 2002)

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, Mr. Li Xiangbin, Mr. Hui Wai Man, Lawrence and Miss Liang Jianqin 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, Miss Tam Wai Chu, Maria and Mr. Luo Fanyu shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Share Captial

Details of the share capital of the Company are set out in note 28 on the financial statements.

Convertible Notes

Details of the convertible notes are set out in note 26 on the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in notes 29(a) and 29(b) on the financial statements respectively.

Retirement Benefits Scheme

Details of the Group's retirement benefits scheme are set out in note 34 on the financial statements.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 30.4% of the Group's total sales for the year and sales to the Group's largest customer accounted for 14.5% of the Group's total sales for the year. Purchases from the Group's five largest suppliers accounted for 33.0% of the Group's total purchases for the year and purchases from the Group's largest supplier accounted for 10.0% of the Group's total purchases for the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers or suppliers.

Properties

Particulars of the major properties of the Group are set out on page 98.

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2002.

Principal Activities

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

The analysis of the Group's turnover by principal activities, the Group's operating result by business segments and by geographical segments during the financial year are respectively set out in notes 2 and 14 on the financial statements.

Results and Dividends

The Group's consolidated results for the year ended 31 December 2002 are set out in the consolidated profit and loss account on page 31.

The Directors resolved not to make the payment of an interim dividend (2001: HK$Nil) and do not recommend the payment of a final dividend (2001: HK$Nil) for the year.

Fixed Assets

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

Principal Subsidiaries and Associates

Details of the Company's principal subsidiaries and associates as at 31 December 2002 are set out in notes 36 and 38 on the financial statements respectively.

Borrowings and Interest Capitalised

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

Mr. LI Kar Keung, Caspar, aged 50, was appointed an Independent Non-executive Director of the Company in June 1999. He is an executive director of a consultancy company. In addition, he had worked as a deputy managing director of BNP Paribas Peregrine Capital Limited, an investment analyst and head of Citicorp's equity research in Hong Kong. Mr. Li had also held the positions of executive director and chief financial officer of certain companies listed in Hong Kong.

SENIOR MANAGEMENT

Mr. JIANG Lujun, aged 59, was appointed a deputy general manager of the Company in December 2001 and acted as a director of the Company from September 1997 to May 2000. Since 1990 Mr. Jiang has acted as deputy general manager, general manager and then vice chairman of Zhongshan Zhongyue Tinplate Industrial Co. Ltd. and Zhongshan Shan Hai Industrial Co. Ltd. Mr. Jiang has been acting as chairman of these two companies since September 2000. These two companies were re-acquired by the Company in December 2001 as subsidiaries. Mr. Jiang graduated from Chongqing University and worked as an engineer and a senior engineer since graduation. Mr. Jiang joined GDE in 1988.

Mr. XIN Jianshe, aged 49, was appointed a deputy general manager of the Company in April 2002 and is currently the chairman of Guangnan (Zhan Jiang) Jiafeng Feed Co., Ltd., a subsidiary of the Company. Mr. Xin acted as the deputy administrative head, the deputy mayor and executive deputy mayor of Gao Ming County and Gao Ming Municipality respectively. Mr. Xin had also acted as the chairman and general manager of 東莞華藝房地產發展有限公司, 中山粵海莊園房地產有限公司 and 深圳粵信發展有限公司 since 1999 and, until November 2000, he then became a director and general manager of Suzhou Yuehai Real Estate Development Co., Ltd., a subsidiary of GDI.

Mr. XIAO Zeguang, aged 33, was appointed a deputy general manager of the Company in December 2000 and is currently the chairman of Guangnan Trading Development Limited, a subsidiary of the Company. Mr. Xiao obtained a Bachelor's degree in Economics from Zhongshan University and a Master's degree in Business Administration from University of San Francisco. He joined the planning and development department and operation management department of GDE as a deputy manager in 1996. Between 1999 to 2000, Mr. Xiao worked in the restructuring office of GDE and was a deputy general manager of personnel department of GDH.

NON-EXECUTIVE DIRECTORS

Mr. LUO Fanyu, aged 47, was appointed a Non-executive Director of the Company in May 2000. Mr. Luo graduated from the economics department, Zhongshan University. He joined Guangdong Enterprises (Holdings) Limited ("GDE") in 1987 and was responsible for its legal affairs. Mr. Luo is currently a director of GDH. He is also the legal controller and general manager of the legal department of GDH. 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.

Miss LIANG Jianqin, aged 38, was appointed a Non-executive Director of the Company in July 2002. Miss Liang graduated from the department of accountancy of Jinan University and holds a Master's degree in Economics. She is a member of The Association of Chartered Certified Accountants and The Chinese Institute of Certified Public Accountants. She joined GDI in November 1997. She is currently the general manager of the finance department of GDH.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gerard Joseph McMAHON, aged 59, was appointed an Independent Non-executive Director of the Company in June 1999. He was, until end of 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.

Miss TAM Wai Chu, Maria, GBS, J.P., LL.D (Honorary), LL.B. (Hons.), Barrister-at Law, aged 58, was appointed an Independent Non-executive Director of the Company in June 1999. She is also non-executive director of four other Hong Kong listed companies, namely Wing On Company International 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 and Urban Renewal Authority. 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.

EXECUTIVE DIRECTORS

Mr. LIANG Jiang, aged 50, was appointed the Chairman of the Company in January 2002. Mr. Liang graduated from South China Normal University and holds a Master's degree in Business Management. He worked in the municipal government of Foshan and Zhan Jiang in Guangdong Province, the PRC. He acted as the administrative head of Gao Ming County, secretary of Gao Ming County Party Committee and secretary of Gao Ming Municipal Party Committee of Guangdong Province. During the period from October 1997 to March 2000, he acted as the chairman of Guangdong Real Estate (Holdings) Limited. Prior to joining the Company, he acted as the chairman of Guangdong Assets Management Limited ("GAM") and the chairman of Guangdong Alliance Limited ("GAL"). GAM and GAL are subsidiaries of GDH Limited ("GDH"). He is currently a director of GDH.

Mr. LI Xiangbin, aged 55, was appointed an Executive Director and the General Manager of the Company in July 2002. He graduated from Economic Management College of QingHua University and holds a Master's degree. He is a senior engineer and had worked in the automobile factory in Qi Qi Ha Er City, Hei Long Jiang Province, the PRC, the Planning Committee and the Economic Committee of Qi Qi Ha Er City, First Light Industry Bureau. In February 2001, Mr. Li joined GDH and acted as the head of strategic development department of Guangdong Investment Limited ("GDI"). In July of the same year until Mr. Li joins the Company, he acted as a director and the general manager of GAL. He is currently the chairman of Guangdong (Zhanjiang) Medium Density Fibre Board Co. Ltd., a subsidiary of GAL.

Mr. HUI Wai Man, **Lawrence**, aged 46, was appointed an Executive Director and the Chief Financial Officer of the Company in January 2003. Mr. Hui is a Fellow of the Hong Kong Society of Accountants and an Associate of The Association of Chartered Certified Accountants. He is also an executive director and the chief financial officer of Guangdong Tannery Limited ("GTL"), a subsidiary of GDH. Prior to joining GTL, Mr. Hui was a director and the chief financial officer of GAL, the finance manager of Beijing Oriental Plaza Company Limited, the general manager (Corporate Finance) of Sinoland Company Limited and the group financial controller of Lai Fung Company Limited. Prior to that, Mr. Hui worked for Deloitte Touche Tohmatsu in Hong Kong and Britain and was the manager in its Audit and Technical & Training Department before he left the firm.

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.

(iv) The register of members of the Company will be closed from Tuesday, 17 June 2003 to Wednesday, 18 June 2003, 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, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 16 June 2003.

(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.

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

(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, 11 April 2003

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

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

(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 defined above) 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,

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 Wednesday, 18 June 2003 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 31 December 2002.

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 Directors or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the capital of the Company, (iii) the exercise of the conversion rights attached to the outstanding convertible note, or (iv) any existing specific authority, shall not exceed 20 per

KPMG

Auditors' report to the shareholders of
Guangnan (Holdings) Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 31 to 92 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002, 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, 11 April 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Note	2002 $'000	2001 $'000 (Note 3)
Turnover	2	**1,783,020**	1,819,350
Cost of sales		**(1,571,001)**	(1,664,060)
Gross profit		**212,019**	155,290
Other revenue	4	**22,073**	34,367
Other net (expenses)/income	5	**(602)**	1,840
Distribution costs		**(54,486)**	(114,537)
Administrative expenses		**(62,733)**	(73,689)
Other operating expenses		**(5,040)**	(9,334)
Profit/(loss) from operations		**111,231**	(6,063)
Non-operating income	6	**35,989**	106,568
Non-operating expenses	7	**(18,812)**	(74,577)
Finance costs	8(a)	**(12,045)**	(1,273)
Share of profits less losses of associates		**10,576**	(12,220)
Profit from ordinary activities before taxation	8	**126,939**	12,435
Taxation	9	**(9,747)**	(2,819)
Profit from ordinary activities after taxation		**117,192**	9,616
Minority interests		**(1,683)**	41,902
Profit attributable to shareholders	12	**115,509**	51,518
Earnings per share	13		
Basic		**1.28 cents**	0.61 cents
Diluted		**1.23 cents**	N/A

The notes on pages 40 to 92 form part of these financial statements.

At 31 December 2002

(Expressed in Hong Kong dollars)

	Note	2002 $'000	2001 $'000
Non-current liabilities			
Convertible notes	26	**80,000**	185,000
Shareholder's loan to a subsidiary contributed by a minority shareholder		**12,186**	11,349
		92,186	196,349
Minority interests		**20,123**	18,395
		494,864	354,974
Capital and reserves			
Share capital	*28*	**899,833**	894,333
Reserves	*29(a)*	**(404,969)**	(539,359)
		494,864	354,974

Approved and authorised for issue by the board of directors on 11 April 2003.

Liang Jiang
Chairman

Li Xiangbin
Director

The notes on pages 40 to 92 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2002

(Expressed in Hong Kong dollars)

	Note	2002 $'000	2001 $'000
Non-current assets			
Fixed assets			
— Investment properties		**178,048**	104,044
— Other property, plant and equipment		**216,662**	293,802
	15(a)	**394,710**	397,846
Interest in associates	*17*	**151,264**	152,238
Investment securities	*18(a)*	**1,079**	1,079
Deferred tax assets	*19(a)*	**5,764**	4,957
Negative goodwill	*20*	**(18,693)**	(20,250)
		534,124	535,870
Current assets			
Other securities	*18(b)*	**2,813**	14,240
Inventories	*21*	**66,683**	77,337
Trade and other receivables	*22*	**116,423**	102,876
Cash and cash equivalents	*23*	**243,010**	228,001
		428,929	422,454
Current liabilities			
Interest-bearing borrowings	*24*	**59,012**	105,877
Trade and other payables	*25*	**288,724**	277,593
Taxation		**8,144**	5,136
		355,880	388,606
Net current assets		**73,049**	33,848
Total assets less current liabilities		**607,173**	569,718

At 31 December 2002

(Expressed in Hong Kong dollars)

	Note	2002 $'000	2001 $'000
Capital and reserves			
Share capital	28	**899,833**	894,333
Reserves	29(b)	**(475,688)**	(538,947)
		424,145	355,386

Approved and authorised for issue by the board of directors on 11 April 2003.

Liang Jiang
Chairman

Li Xiangbin
Director

The notes on pages 40 to 92 form part of these financial statements.

BALANCE SHEET

At 31 December 2002

(Expressed in Hong Kong dollars)

	Note	2002 $'000	2001 $'000
Non-current assets			
Fixed assets			
— Investment properties		**49,900**	13,200
— Other property, plant and equipment		**1,634**	42,035
	15(b)	**51,534**	55,235
Interest in subsidiaries	16	**314,104**	333,000
Interest in associates	17	**149,381**	151,303
Investment securities	18(a)	**1,000**	1,000
		516,019	540,538
Current assets			
Other securities	18(b)	**2,813**	14,240
Trade and other receivables	22	**2,798**	10,352
Cash and cash equivalents	23	**23,824**	50,807
		29,435	75,399
Current liabilities			
Trade and other payables	25	**38,722**	41,005
Amounts due to subsidiaries		**2,587**	34,546
		41,309	75,551
Net current liabilities		**(11,874)**	(152)
Total assets less current liabilities		**504,145**	540,386
Non-current liabilities			
Convertible notes	26	**80,000**	185,000
		424,145	355,386

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2002

(Expressed in Hong Kong dollars)

	2002 $'000	2001 $'000
Shareholders' equity at 1 January	**354,974**	(523,629)
Surplus on revaluation of investment properties	**16,339**	263
Exchange differences arising on translation of the PRC subsidiaries and associates	**(181)**	1,532
Net gains not recognised in the profit and loss account	**16,158**	1,795
Profit attributable to shareholders	**115,509**	51,518
Share of associates' capital reserve	**—**	424
Share of associates' other reserve	**—**	25
Reserve realised upon liquidation of subsidiaries	**—**	1,790
Movements in share capital		
— Shares issued under the Open Offer	**—**	773,082
— Shares issued under the Placement	**—**	30,000
— Shares issued under share option scheme	**5,500**	300
— Net share premium received	**2,723**	19,669
Net increase in shareholders' equity arising from capital transactions with shareholders	**8,223**	823,051
Shareholders' equity at 31 December	**494,864**	354,974

The notes on pages 40 to 92 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Note	**2002**	2001
			(restated)
		$'000	*$'000*
Investing activities			
Payment for purchase of fixed assets		**(12,309)**	(8,650)
Proceeds on sales of other securities		**11,939**	3,610
Proceeds on sales of associates		**541**	—
Dividends received from listed securities		**659**	2,760
Dividends received from unlisted securities		**178**	450
Dividends received from associates		**100**	3,121
Proceeds on disposal of fixed assets		**11**	578
Net cash outflow from liquidation of subsidiaries	*30(c)*	**—**	(14,132)
Net cash inflow from purchase of subsidiaries	*30(b)*	**—**	61,692
Net cash from investing activities		**1,119**	49,429
Financing activities			
Repayment of convertible notes		**(105,000)**	—
Issue of new shares		**8,223**	69,208
Repayment of bank borrowings		**(340)**	(471)
Repayment of shareholders' loans to immediate holding company		**—**	(19,157)
Repayment of other loans		**—**	(15,754)
Net cash (used in)/from financing activities		**(97,117)**	33,826
Increase in cash and cash equivalents		**15,009**	118,072
Cash and cash equivalents at 1 January		**228,001**	109,929
Cash and cash equivalents at 31 December	*23*	**243,010**	228,001

The notes on pages 40 to 92 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002

(Expressed in Hong Kong dollars)

	Note	2002 $'000	2001 (restated) $'000
Operating profit before changes in working capital brought forward		**134,144**	23,349
Decrease in inventories		**3,734**	22,596
Decrease/(increase) in trade debtors, bills and other receivables, deposits and prepayments		**1,022**	(12,163)
Increase in amounts due from fellow subsidiaries		**(207)**	(140)
Decrease/(increase) in amounts due from minority shareholders		**789**	(1,589)
Decrease/(increase) in amounts due from related companies		**909**	(353)
Decrease in amounts due from associates		**11,895**	20,777
Decrease in trade creditors, other payables and accrued charges		**(7,465)**	(36,735)
Increase/(decrease) in amounts due to related companies		**127**	(812)
(Decrease)/increase in amounts due to holding company and fellow subsidiaries		**(18,080)**	18,318
(Decrease)/increase in amounts due to associates		**(2,347)**	4,049
Increase in amounts due to minority shareholders		**519**	—
Cash generated from operations		**125,040**	37,297
Interest received		**3,531**	4,805
Interest paid		**(6,684)**	(339)
Hong Kong Profits Tax paid		**—**	(6,946)
PRC income tax paid		**(10,880)**	—
Net cash from operating activities		**111,007**	34,817

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002

(Expressed in Hong Kong dollars)

	Note	2002	2001 (restated)
		$'000	$'000
Operating activities			
Profit from ordinary activities before taxation		**126,939**	12,435
Adjustments for:			
— Finance costs		**12,045**	1,273
— Interest income		**(4,785)**	(6,217)
— Dividend from listed securities		**(659)**	(2,760)
— Dividend from unlisted securities		**(124)**	(450)
— Net realised and unrealised gain on other securities carried at fair value		**(150)**	(1,840)
— Net gain on disposal of associates		**(427)**	(14,699)
— Write-back of long outstanding payables		**(9,891)**	(15,124)
— Net loss on disposal of fixed assets		**1,378**	28,127
— Provision for impairment losses on fixed assets		**18,812**	12,183
— Write-back of provision for bad debts		**(16,143)**	—
— Provision for inventories		**6,920**	—
— Amortisation of negative goodwill		**(1,557)**	—
— Depreciation		**12,362**	17,198
— Share of profits less losses of associates		**(10,576)**	12,220
— Net gain on restructuring		**—**	(48,436)
— Net gain on liquidation of subsidiaries	*30(c)*	**—**	(4,828)
— Provision for the amounts due from minority shareholders		**—**	20,985
— Provision for impairment loss on cessation of operation of an associate		**—**	8,198
— Provision for certain payments to suppliers		**—**	5,084
Operating profit before changes in working capital carried forward		**134,144**	23,349

38. LIST OF ASSOCIATES

Particulars of the associates at 31 December 2002 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	Subsidiary	Principal activities
Fruit and Vegetable Wharf (H.K.) Limited	Hong Kong	Ordinary	20%	—	Fruit and vegetable wholesaling
Yellow Dragon Food Industry Company Limited*	The PRC	N/A	40%	—	Processing and sale of corn food and feed products
Zhongshan Baoli Food Co., Ltd.*	The PRC	N/A	30%	—	Processing of canned food

* *an equity joint venture established in the PRC*

37. LIST OF COMPANIES UNDER LIQUIDATION *(Continued)*

Name of company	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
Regal Prosper Limited***	Hong Kong	Ordinary	$100	—	100%
Guangdong Guangnan Tianmei Food Development Company Limited##	The PRC	N/A	RMB34,820,000	—	55%

* *company commenced liquidation in June 2001*

** *final meeting of members and creditors held in October 2002*

*** *final meeting of members and creditors held in January 2003*

\## *an equity joint venture established in the PRC and was petitioned to court for liquidation in July 2001*

(Expressed in Hong Kong dollars)

36. 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
Zhongshan Shan Hai Industrial Co., Ltd.*	The PRC	N/A	RMB45,600,000	—	95%	Property development and leasing
Zhongshan Zhongyue Tinplate Industrial Co., Ltd.*	The PRC	N/A	US$26,906,200	—	95%	Production and sales of tinplate products

* *an equity joint venture established in the PRC*

a wholly foreign-owned enterprise established in the PRC

37. LIST OF COMPANIES UNDER LIQUIDATION

Particulars of the companies under liquidation or petitioned to court for liquidation are as follows:

Name of company	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
Guangnan (KK) Supermarket Limited*	Hong Kong	Ordinary	$20,000,000	—	70%
Cheung Hong Supermarket Limited**	Hong Kong	Ordinary	$2,000,000	—	100%
Health and Beauty Trading Limited**	Hong Kong	Ordinary	$4,500,000	—	100%

(Expressed in Hong Kong dollars)

36. 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 Supermarket Development Limited	Hong Kong	Ordinary	$135,742,220	100%	—	Investment holding
Guangnan Trading Development Limited	Hong Kong	Ordinary	$73,916,728	100%	—	Trading of foodstuffs
Guangnan (Zhan Jiang) Jiafeng Feed Co., Ltd.#	The PRC	N/A	$5,000,000	100%	—	Manufacturing and trading of feed
Hinloon International Limited	Hong Kong	Ordinary	$100,000	100%	—	Trading of processed corn food and feed products
Jin Huang Food Industry Investment Limited (Incorporated in the British Virgin Islands)	Hong Kong	Ordinary	$1,000,000	100%	—	Investment holding
Jin Huang Food Industry Investment Ltd.	Hong Kong	Ordinary	$1,000,000	—	100%	Investment holding
Southern Chain (Hong Kong) Limited	Hong Kong	Ordinary	$7,000,000	100%	—	Dormant
Zhongyue Industry Material Limited	Hong Kong	Ordinary	$10	—	100%	Trading of raw materials for production of tinplate products
		Non-voting deferred	$230,000,000	—	—	

(Expressed in Hong Kong dollars)

35. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2002 to be Guangdong Yue Gang Investment Holdings Company Limited, which is established in the PRC.

36. LIST OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2002 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	Proportion of nominal value of issued capital/ registered capital held by Subsidiary	Principal activities
Dongguan Guangnan Stock Development Co., Ltd.*	The PRC	N/A	$24,720,000	51%	—	Pig rearing and distribution
東莞金皇食品有限公司#	The PRC	N/A	RMB40,000,000	—	100%	Pig rearing and distribution
高要廣南畜牧發展有限公司*	The PRC	N/A	US$3,759,000	51%	—	Pig rearing and distribution
廣州經濟技術開發區廣之杰倉儲有限公司*	The PRC	N/A	US$6,500,000	—	80%	Dormant
Gain First Investments Limited (Incorporated in the British Virgin Islands)	Hong Kong	Ordinary	US$1	100%	—	Investment holding
Guangnan Distribution Company Limited	Hong Kong	Ordinary	$10,000,000	—	100%	Investment holding
Guangnan Fresh and Live Foodstuffs Limited	Hong Kong	Ordinary	$1,000,000	100%	—	Distribution of live and fresh foodstuffs
Guangnan Supermarket (China) Limited	Hong Kong	Ordinary	$2	100%	—	Dormant

33. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Notes: (Continued)

(c) In 1999, the Company entered into an unsecured shareholders' loan agreement with an associate, Yellow Dragon Food Industry Company Limited. Pursuant to the agreement, the Company advanced US$6,700,000 to the associate at an interest rate of 7.8% per annum. The amount is repayable in full in 5 years commencing from 1 January 2000 and the principal and interest shall be payable twice annually. At the balance sheet date, the outstanding loan and interest receivable from the associate amounted to $25,507,000 (2001: $35,990,000) and $920,000 (2001: $1,400,000) respectively.

34. RETIREMENT BENEFITS SCHEME

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

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

The Group's pension cost charged to the profit and loss account for the year ended 31 December 2002 was $2,572,000 (2001: $2,251,000). The forfeited contribution refunded for the year amounted to $2,039,000 (2001: $2,934,000).

33. MATERIAL RELATED PARTY TRANSACTIONS

Related party transactions, which the Directors consider material to the Group during the year, are summarised as follows:

	Note	2002 *$'000*	2001 *$'000*
Sales of goods to related companies	*(b)*	**7,712**	44,207
Purchases of goods from related companies	*(b)*	**24,525**	24,952
Interest income from an associate	*(c)*	**2,340**	3,095
Net gain on disposal of associates		**427**	—
Convertible notes issued to a fellow subsidiary	*26*	**—**	185,000
Cash paid to a fellow subsidiary for early redemption of convertible notes	*26*	**105,000**	—
Cash paid to a fellow subsidiary for acquisition of subsidiaries		**—**	55,000
Management fee income from related companies		**1,010**	3,498
Reimbursement of expenses to the immediate holding company		**833**	1,786
Interest on convertible notes payable to a fellow subsidiary		**6,345**	639
Subsidy received from the immediate holding company		**5,712**	—
Provision of electricity/water and leasing services to a fellow subsidiary		**3,187**	266

Notes:

(a) 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 those disclosed in note (c) below.

(b) Related companies to/from which goods were sold and purchased included associates and minority shareholders of partly-owned subsidiaries.

32. COMMITMENTS *(Continued)*

(b) At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	The Group	
	2002	2001
	$'000	*$'000*
Within 1 year	**707**	442
After 1 year but within 5 years	**915**	65
	1,622	507

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

(c) At 31 December 2002, the Company had committed to provide finance of $6,489,000 (2001: $6,489,000) to an associate of the Group.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Major non-cash transaction

During the year, an interest-bearing borrowing was assigned to a fellow subsidiary, Richway Resources Limited, by the Group's lender, amounting to $46,500,000.

31. CONTINGENT LIABILITIES

At 31 December 2002, there were contingent liabilities in respect of the following:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Guarantees given to banks in respect of banking facilities granted to an associate	**—**	2,340	**—**	2,340

32. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2002 not provided for in the financial statements were as follows:

	The Group	
	2002	2001
	$'000	*$'000*
Contracted for	**1,348**	35,447
Authorised but not contracted for	**2,825**	10,474
	4,173	45,921

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of net inflow of cash and cash equivalents in respect of the purchase of subsidiaries

	2001
	$'000
Cash consideration	(55,000)
Cash at bank and in hand acquired	116,692
Net inflow of cash and cash equivalents in respect of the purchase of subsidiaries	61,692

(c) Subsidiaries liquidated

	2001
	$'000
Net liabilities liquidated:	
Fixed assets	61,698
Inventories	60,653
Debtors, bills receivables, deposits and prepayments	29,539
Amounts due from minority shareholders	18,348
Cash and cash equivalents	14,132
Creditors and accrued charges	(164,164)
Loans from minority shareholders	(8,700)
Amounts due to ultimate holding company and fellow subsidiaries	(62)
Minority interests	(18,062)
	(6,618)
Release of reserves	1,790
	(4,828)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Purchase of subsidiaries

	2001
	$'000
Net assets acquired:	
Fixed assets	282,731
Deferred tax assets	4,957
Inventories	58,323
Trade and other receivables	61,089
Cash at bank and in hand	116,692
Interest-bearing borrowings	(117,391)
Trade and other payables	(125,686)
Taxation	(3,219)
Minority interests	(14,942)
	262,554
Negative goodwill arising on consolidation	(20,250)
	242,304
Satisfied by:	
— Cash paid	55,000
— Acquisition costs payable	2,304
— Issue of convertible notes	185,000
	242,304

29. RESERVES *(Continued)*

(a) The Group *(Continued)*

Included in the accumulated losses as at 31 December 2002 is a loss of $48,431,000 attributable to associates (2001: $58,753,000).

The application of the share premium and capital redemption reserve 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 acquisition of subsidiaries and associates prior to 1 January 2001, foreign currency translation and the revaluation of properties (note 1). Other reserves represent statutory reserves of entities established in the PRC.

(b) The Company

	Share premium	Capital redemption reserve	Capital reserve	Investment properties revaluation reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2001	1,723,840	971	48,157	—	(2,230,377)	(457,409)
Shares issued under the Placement	19,520	—	—	—	—	19,520
Shares issued under share option scheme	149	—	—	—	—	149
Revaluation surplus (note 15(d))	—	—	—	263	—	263
Loss for the year	—	—	—	—	(101,470)	(101,470)
At 31 December 2001	1,743,509	971	48,157	263	(2,331,847)	(538,947)
At 1 January 2002	1,743,509	971	48,157	263	(2,331,847)	(538,947)
Shares issued under share option scheme	2,723	—	—	—	—	2,723
Revaluation deficit (note 15(d))	—	—	—	(263)	—	(263)
Profit for the year	—	—	—	—	60,799	60,799
At 31 December 2002	**1,746,232**	**971**	**48,157**	**—**	**(2,271,048)**	**(475,688)**

At 31 December 2001 and 2002, there was no reserve available for distribution to the shareholders of the Company.

(Expressed in Hong Kong dollars)

29. RESERVES

(a) The Group

	Share premium *$'000*	Capital redemption reserve *$'000*	Capital reserve *$'000*	Exchange fluctuation reserve *$'000*	Investment properties revaluation reserve *$'000*	Other reserves *$'000*	Accumulated losses *$'000*	Total *$'000*
At 1 January 2001	1,723,840	971	48,157	(2,458)	—	1,197	(2,386,287)	(614,580)
Exchange differences arising on consolidation	—	—	2	(328)	—	4	—	(322)
Profit for the year	—	—	—	—	—	—	51,518	51,518
Revaluation surplus (note 15(d))	—	—	—	—	263	—	—	263
Shares issued under the Placement	19,520	—	—	—	—	—	—	19,520
Shares issued under share option scheme	149	—	—	—	—	—	—	149
Share of associates' reserves	—	—	424	1,854	—	25	—	2,303
Reserve realised upon liquidation of subsidiaries	—	—	—	1,790	—	—	—	1,790
Reclassifications	—	—	230	—	—	(230)	—	—
Transfer to statutory reserve	—	—	237	—	—	323	(560)	—
At 31 December 2001	1,743,509	971	49,050	858	263	1,319	(2,335,329)	(539,359)
At 1 January 2002	1,743,509	971	49,050	858	263	1,319	(2,335,329)	(539,359)
Exchange differences arising on consolidation	—	—	—	(128)	—	—	—	(128)
Profit for the year	—	—	—	—	—	—	115,509	115,509
Revaluation surplus (note 15(d))	—	—	—	—	16,339	—	—	16,339
Shares issued under share option scheme	2,723	—	—	—	—	—	—	2,723
Share of associates' reserves	—	—	—	(53)	—	—	—	(53)
Transfer to statutory reserve	—	—	—	—	—	1,844	(1,844)	—
At 31 December 2002	**1,746,232**	**971**	**49,050**	**677**	**16,602**	**3,163**	**(2,221,664)**	**(404,969)**

28. SHARE CAPITAL

	2002 Number of shares (thousand)	**2002** $'000	2001 Number of shares (thousand)	2001 $'000
Authorised:				
Ordinary shares of $0.1 each	**15,000,000**	**1,500,000**	15,000,000	1,500,000
Issued and fully paid:				
At 1 January	**8,943,333**	**894,333**	909,509	90,951
Shares issued under share option scheme (note (a))	**55,000**	**5,500**	3,000	300
Shares issued under the Open Offer (note (b))	—	—	7,730,824	773,082
Shares issued under the Placement (note (c))	—	—	300,000	30,000
At 31 December	**8,998,333**	**899,833**	8,943,333	894,333

Notes:

(a) In January 2002, options were exercised to subscribe for 55,000,000 ordinary shares of $0.1 each in the Company at a consideration of $8,223,000; of which $5,500,000 was credited to share capital and the remaining balance of $2,723,000 was credited to the share premium account.

(b) As part of the Restructuring (note 6(v)), the Company conducted an open offer to its shareholders, excluding overseas shareholders, on the basis of 17 shares for every 2 existing shares held (the "Open Offer"). The number of shares issued at par under the Open Offer was 7,730,824,137. The proceeds of the Open Offer were used for repayment of the bridging loan of $773,000,000 provided by the immediate holding company, GDH Limited.

(c) On 8 August 2001, GDH Limited entered into a placing and subscription agreement, pursuant to which GDH Limited placed 300,000,000 existing shares in the capital of the Company to independent investors at the price of $0.17 per share and GDH Limited subscribed at the same price for 300,000,000 new shares of par value $0.1 each, which ranked pari passu in all material respects with the existing issued shares (the "Placement"). The Placement was complete in August 2001.

(Expressed in Hong Kong dollars)

27. EQUITY COMPENSATION BENEFITS *(Continued)*

(a) Movements in share options

	2002 **Number**	2001 Number
At 1 January	**302,200,000**	77,235,000
Granted	**—**	291,500,000
Exercised	**(55,000,000)**	(3,000,000)
Lapsed	**(71,200,000)**	(63,535,000)
At 31 December	**176,000,000**	302,200,000
Options vested at 31 December	**176,000,000**	302,200,000

(b) Terms of unexpired and unexercised share options at balance sheet date

Date of option granted	**Period during which options exercisable**	**Exercise price per share**	**2002 Number**	2001 Number
24/08/2001	26/11/2001 to 25/11/2006	$0.1495	**176,000,000**	287,000,000
11/02/1998	12/02/1999 to 10/02/2002	$0.4295	**—**	15,200,000
			176,000,000	302,200,000

26. CONVERTIBLE NOTES

On 3 December 2001, the Company issued convertible notes of $185,000,000 to Richway Resources Limited as part of the consideration for the acquisition of Zhongyue Industry Material Limited. The notes bear interest at a fixed rate of 4.5% per annum and are convertible into ordinary shares of the Company on any business day other than the period in which the register of members of the Company is closed or ten business days prior to the maturity date on 3 December 2006 at an initial conversion price of $0.155 per share, subject to adjustments in certain events.

During the year, convertible notes totalling $105,000,000 were redeemed for cash at their nominal value.

27. EQUITY COMPENSATION BENEFITS

On 21 November 1994, in order to align the interests of Directors and employees with those of the shareholders, the Company adopted a share option scheme (the "1994 Share Option Scheme") pursuant to which the Directors are authorised, at their discretion, to invite Directors or employees of the Company and its subsidiaries to take up options to subscribe for shares of the Company. Offers of options under the 1994 Share Option Scheme may be accepted in writing within 21 days from the date of making such offer. Options granted under the 1994 Share Option Scheme is exercisable within a period commencing twelve months after the date of acceptance of options and expiring on the last day of a four year period from such acceptance date or 20 November 2004, whichever is earlier. The 1994 Share Option Scheme shall expire on 20 November 2004.

On 24 August 2001, for the purpose of having a new share option scheme with terms compatible with modern practice and providing greater flexibility to the Directors, the Company adopted a new share option scheme (the "2001 Share Options Scheme"). Pursuant to the 2001 Share Option Scheme, the Directors are authorised, at their discretion, to invite full-time employees of the Company and its subsidiaries, including Executive Directors but excluding Non-executive Directors to take up options to subscribe for shares of the Company. A grant of options under the 2001 Share Option Scheme may be accepted in writing and upon payment of a consideration of $10 in total by the grantee to the Company within 21 days from the date of grant. The options vest after 3 months from the date of grant and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one share. The 2001 Share Option Scheme shall expire on 23 August 2011.

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Trade creditors	**61,172**	74,524	**3,359**	3,525
Other payables and accrued charges	**174,790**	177,026	**34,698**	37,018
Amounts due to associates	**1,702**	4,049	**—**	—
Amounts due to minority shareholders	**3,993**	3,474	**—**	—
Amounts due to holding company and fellow subsidiaries	**46,676**	18,256	**201**	202
Amounts due to related companies	**391**	264	**464**	260
	288,724	277,593	**38,722**	41,005

The amount of trade and other payables expected to be settled after more than one year is $2,149,000 (2001: $608,000).

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

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Due within 1 month or on demand	**61,092**	74,524	**3,359**	3,525
Due after 3 months but within 12 months	**10**	—	**—**	—
Over 2 years	**70**	—	**—**	—
	61,172	74,524	**3,359**	3,525

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks	**173,338**	46,093	**23,005**	31,435
Cash at bank and in hand	**69,672**	181,908	**819**	19,372
	243,010	228,001	**23,824**	50,807

24. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Unsecured bank loan	**3,898**	4,240	**—**	—
Unsecured other loans	**55,114**	101,637	**—**	—
	59,012	105,877	**—**	—

At 31 December 2002, the Group's borrowings included $3,898,000 (2001: $4,240,000) which were guaranteed by a minority shareholder of the Group. Other loans are unsecured, repayable on demand and bear interest at a range of 6.5% to 7.6% (2001: 1% to 7.5%).

At 31 December 2002, the interest-bearing borrowings were repayable as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year or on demand	**59,012**	105,877	**—**	—

22. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Trade debtors	**39,736**	43,834	**—**	—
Bills receivable	**61,610**	39,402	**—**	—
Other receivables, deposits and prepayments	**13,798**	16,870	**2,635**	10,351
Amounts due from minority shareholders less provision	**909**	1,698	**—**	—
Amounts due from fellow subsidiaries	**347**	140	**163**	1
Amounts due from related companies less provision	**23**	932	**—**	—
	116,423	102,876	**2,798**	10,352

Included in the trade and other receivables are balances of $639,000 (2001: $1,301,000) expected to be recovered after one year.

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	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Within 1 month	**40,931**	42,174	**—**	—
1 to 3 months	**37,712**	20,427	**—**	—
More than 3 months but less than 12 months	**22,599**	19,332	**—**	—
More than 1 year but less than 2 years	**104**	1,303	**—**	—
	101,346	83,236	**—**	—

The Group maintains a defined policy with credit periods ranging from advance payment to not more than 180 days (2001: 90 days).

20. NEGATIVE GOODWILL

	The Group
	$'000
Cost:	
At 1 January 2002	20,250
Amortisation for the year (note 8(c))	(1,557)
At 31 December 2002	**18,693**

Negative goodwill is recognised as income on a straight-line basis over 14 years. The amortisation of negative goodwill for the year is included in "Other operating expenses" in the consolidated profit and loss account.

21. INVENTORIES

	The Group	
	2002	2001
	$'000	*$'000*
Raw materials	**39,746**	47,146
Work-in-progress	**—**	24
Finished goods	**26,566**	29,898
Spare parts and consumables	**371**	269
	66,683	77,337

Included in finished goods are inventories of $6,235,000 (2001: $Nil), stated net of a provision, made in order to state these inventories at the lower of their cost and estimated net realisable value. The amount of reversal of a write-down of inventories to estimated net realisable value, amounted to $Nil (2001: $15,738,000). During the year ended 31 December 2001, the provision for inventories were written back to the consolidated profit and loss account as most of these inventories were disposed of above the carrying value.

19. DEFERRED TAX ASSETS *(Continued)*

(b) Major components of deferred tax assets of the Group are set out below:

	2002		2001	
		Potential assets		Potential assets
	Recognised	**unrecognised**	Recognised	unrecognised
	$'000	***$'000***	*$'000*	*$'000*
Provisions	**5,764**	**—**	4,957	—
Tax losses	**—**	**399,663**	—	398,000
	5,764	**399,663**	4,957	398,000

(c) Major components of deferred tax assets of the Company are set out below:

	2002		2001	
		Potential assets		Potential assets
	Recognised	**unrecognised**	Recognised	unrecognised
	$'000	***$'000***	*$'000*	*$'000*
Tax losses	**—**	**382,424**	—	389,398

(d) No provision for deferred taxation has been made in respect of the revaluation surpluses arising on investment properties as the disposal of these assets at their carrying value would result in capital gains which the Directors consider are not subject to any tax liability.

18. SECURITIES

(a) Investment securities

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Unlisted equity securities, at cost	**1,079**	1,079	**1,000**	1,000

(b) Other securities

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Equity securities listed in Hong Kong, at market value	**2,813**	14,240	**2,813**	14,240

19. DEFERRED TAX ASSETS

(a) Movements on deferred tax assets comprise:

	The Group	
	2002	2001
	$'000	*$'000*
At 1 January	**4,957**	—
Additions through acquisition of subsidiaries	**—**	4,957
Transfer from the profit and loss account (note 9)	**807**	—
At 31 December	**5,764**	4,957

16. INTEREST IN SUBSIDIARIES

	The Company	
	2002	2001
	$'000	*$'000*
Unlisted shares, at cost	**281,610**	281,610
Amounts due from subsidiaries	**649,541**	671,588
	931,151	953,198
Less: impairment loss	**(617,047)**	(620,198)
	314,104	333,000

Details of the subsidiaries, which are incorporated in Hong Kong unless otherwise stated, are set out in note 36. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements. Details of the companies under liquidation which have not been consolidated in the financial statements are set out in note 37.

17. INTEREST IN ASSOCIATES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Unlisted shares, at cost	**—**	—	**245,530**	245,785
Share of net assets	**124,837**	114,836	**—**	—
Amounts due from associates	**26,427**	37,402	**26,419**	37,394
	151,264	152,238	**271,949**	283,179
Less: impairment loss	**—**	—	**(122,568)**	(131,876)
	151,264	152,238	**149,381**	151,303

The amounts due from associates included a loan to Yellow Dragon Food Industry Company Limited of $25,507,000 (2001: $35,990,000), details of which are disclosed in note 33(c).

Details of the associates, which are incorporated in Hong Kong unless otherwise stated, are set out in note 38.

15. FIXED ASSETS *(Continued)*

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

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were $178,048,000 (2001: $104,044,000) and $49,900,000 (2001: $13,200,000) respectively. The gross carrying amounts of pig farms and machinery of the Group held for use in operating leases were $13,170,000 (2001: $13,175,000) and $26,481,000 (2001: $Nil) respectively. The related accumulated depreciation and impairment losses were $13,170,000 (2001: $10,443,000) and $21,607,000 (2001: $Nil) respectively.

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**21,732**	19,333	**1,969**	419
After 1 year but within 5 years	**61,171**	42,449	**3,051**	106
After 5 years	**37,716**	33,321	**—**	—
	120,619	95,103	**5,020**	525

(f) During the year, properties of the Group and the Company with carrying value less impairment losses amounted to $48,085,000 (2001: $12,937,000) and $36,963,000 (2001: $12,937,000) respectively were transferred to investment properties because the Group and the Company have changed their intention to lease out the properties to third parties.

(g) Certain land and buildings of $10,369,000 (2001: $10,373,000) of the Group have been pledged to a bank for a loan of $8,476,000 (2001: $8,480,000) granted to a minority shareholder. A provision of $10,369,000 (2001: $10,373,000) has been made in the previous years' financial statements.

15. FIXED ASSETS *(Continued)*

(c) An analysis of the net book value of properties is as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
In Hong Kong on long-term leases	**49,900**	53,176	**49,900**	53,176
Elsewhere in the PRC on medium-term leases	**275,582**	266,914	**—**	—
	325,482	320,090	**49,900**	53,176

(d) Investment properties of the Group and the Company situated in Hong Kong amounting to $49,900,000 (2001: $13,200,000) were revalued by RHL Appraisal Limited who have among their Members of Hong Kong Institute of Surveyors, on an open market value basis at 31 December 2002. Investment properties of the Group situated in the PRC amounting to $128,148,000 (2001: $90,844,000) were revalued by an independent firm of surveyors in the PRC, 廣州中天衡房地產評估有限公司 — 中國註冊房地產估價師, on an open market value basis at 31 December 2002.

On the Group level, the revaluation surplus after minority interests of $16,339,000 (2001: $263,000) has been transferred to the investment properties revaluation reserve (note 29(a)). On the Company level, the revaluation deficit of $263,000 (2001: revaluation surplus of $263,000 has been transferred to the investment properties revaluation reserve) has been set off against the investment properties revaluation reserve (note 29(b)).

15. FIXED ASSETS *(Continued)*

(b) The Company

	Land and buildings held for own use $'000	Leasehold improvements $'000	Plant and machinery, furniture, fixtures and equipment $'000	Motor vehicles $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:							
At 1 January 2002	104,129	5,127	2,468	1,869	113,593	13,200	126,793
Additions	—	209	57	—	266	—	266
Disposals	—	(2,039)	(83)	—	(2,122)	—	(2,122)
Transfer	(104,129)	—	—	—	(104,129)	36,963	(67,166)
Deficit on revaluation	—	—	—	—	—	(263)	(263)
At 31 December 2002	**—**	**3,297**	**2,442**	**1,869**	**7,608**	**49,900**	**57,508**
Representing:							
Cost	—	3,297	2,442	1,869	7,608	—	7,608
Valuation — 2002	—	—	—	—	—	49,900	49,900
	—	3,297	2,442	1,869	7,608	49,900	57,508
Accumulated depreciation:							
At 1 January 2002	64,153	4,587	960	1,858	71,558	—	71,558
Charge for the year	667	285	248	11	1,211	—	1,211
Impairment loss	2,346	—	—	—	2,346	—	2,346
Written back on disposal	—	(1,905)	(70)	—	(1,975)	—	(1,975)
Transfer	(67,166)	—	—	—	(67,166)	—	(67,166)
At 31 December 2002	**—**	**2,967**	**1,138**	**1,869**	**5,974**	**—**	**5,974**
Net book value:							
At 31 December 2002	**—**	**330**	**1,304**	**—**	**1,634**	**49,900**	**51,534**
At 31 December 2001	39,976	540	1,508	11	42,035	13,200	55,235

15. FIXED ASSETS

(a) The Group

	Land and buildings held for own use $'000	Leasehold improvements $'000	Plant and machinery, furniture, fixtures and equipment $'000	Motor vehicles $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:							
At 1 January 2002	335,799	5,140	144,839	5,055	490,833	104,044	594,877
Exchange adjustments	(69)	—	(67)	(62)	(198)	(43)	(241)
Additions	474	743	2,344	—	3,561	8,748	12,309
Disposals	(2,244)	(2,053)	(504)	—	(4,801)	—	(4,801)
Transfer	(125,154)	—	—	—	(125,154)	48,085	(77,069)
Surplus on revaluation	—	—	—	—	—	17,214	17,214
At 31 December 2002	**208,806**	**3,830**	**146,612**	**4,993**	**364,241**	**178,048**	**542,289**
Representing:							
Cost	208,806	3,830	146,612	4,993	364,241	—	364,241
Valuation — 2002	—	—	—	—	—	178,048	178,048
	208,806	3,830	146,612	4,993	364,241	178,048	542,289
Accumulated depreciation:							
At 1 January 2002	119,753	5,126	69,424	2,728	197,031	—	197,031
Exchange adjustments	(38)	—	(46)	(61)	(145)	—	(145)
Charge for the year	4,818	288	6,810	446	12,362	—	12,362
Impairment loss	14,955	—	3,468	389	18,812	—	18,812
Written back on disposal	(1,047)	(1,914)	(451)	—	(3,412)	—	(3,412)
Transfer	(77,069)	—	—	—	(77,069)	—	(77,069)
At 31 December 2002	**61,372**	**3,500**	**79,205**	**3,502**	**147,579**	**—**	**147,579**
Net book value:							
At 31 December 2002	**147,434**	**330**	**67,407**	**1,491**	**216,662**	**178,048**	**394,710**
At 31 December 2001	216,046	14	75,415	2,327	293,802	104,044	397,846

14. SEGMENT REPORTING *(Continued)*

Geographical segments

The Group's business participates in two principal economic environments. Hong Kong is the major market for live and fresh foodstuffs distribution, whereas the PRC (other than Hong Kong) is a major market for most of the Group's other businesses.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

		2002	
	The PRC	**Hong Kong**	**Others**
	$'000	***$'000***	***$'000***
Revenue from external customers	**734,553**	**1,027,324**	**21,143**
Segment assets	**703,395**	**106,853**	**—**
Capital expenditure	**11,886**	**157**	**—**

		2001	
	The PRC	Hong Kong	Others
	$'000	*$'000*	*$'000*
Revenue from external customers	249,814	1,554,762	14,774
Segment assets	632,179	85,265	—
Capital expenditure	6,168	1,922	—

14. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	2001							
	Tinplating	Live and fresh foodstuffs distribution	Feed production and livestock farming	Foodstuffs trading	Property leasing	Discontinued -supermarket operations	Inter-segment elimination	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000* (Note 3)	*$'000*	*$'000*
Segment assets	411,389	42,404	122,664	13,926	120,363	6,698	(49,785)	667,659
Interest in associates	—	652	—	275	—	—		927
Unallocated assets								289,738
Total assets								958,324
Segment liabilities	112,414	59,343	29,465	12,337	52,080	13,205	(49,785)	229,059
Interest-bearing borrowings								105,877
Convertible notes								185,000
Unallocated liabilities								65,019
Total liabilities								584,955
Capital expenditure incurred during the year	31	248	4,538	—	1,597	1,676		

14. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	2002						
	Tinplating	Live and fresh foodstuffs distribution	Feed production and livestock farming	Foodstuffs trading	Property leasing	Inter-segment elimination	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Segment assets	456,199	38,078	94,509	13,699	207,763	(43,883)	766,365
Interest in associates	—	516	—	—	—		516
Unallocated assets							196,172
Total assets							963,053
Segment liabilities	151,265	41,755	21,594	10,076	49,235	(43,883)	230,042
Interest-bearing borrowings							59,012
Convertible notes							80,000
Unallocated liabilities							79,012
Total liabilities							448,066
Capital expenditure incurred during the year	2,041	69	604	88	9,241		

14. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	2001								
	Tinplating	Live and fresh foodstuffs distribution	Feed production and livestock farming	Foodstuffs trading	Property leasing	Discontinued -supermarket operations	Inter-segment elimination	Unallocated	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000* (Note 3)	*$'000*	*$'000*	*$'000*
Revenue from external customers	44,825	1,260,672	189,556	45,345	2,045	276,907	—	—	1,819,350
Inter-segment revenue	—	10	—	4,899	—	—	(4,909)	—	—
Other revenue from external customers	—	—	—	—	—	12,561	—	4,376	16,937
Total	44,825	1,260,682	189,556	50,244	2,045	289,468	(4,909)	4,376	1,836,287
Segment result	4,932	17,633	(1,190)	2,070	1,480	(17,634)			7,291
Unallocated operating income and expenses									(13,354)
Loss from operations									(6,063)
Finance costs									(1,273)
Share of profits less losses of associates	—	142	—	364	—	—		(12,726)	(12,220)
Non-operating income									106,568
Non-operating expenses									(74,577)
Taxation									(2,819)
Minority interests									41,902
Profit attributable to shareholders									51,518
Depreciation for the year	506	215	7,990	—	94	6,086			
Impairment loss for the year	—	235	11,948	—	—	—			

14. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	2002							
	Tinplating	Live and fresh foodstuffs distribution	Feed production and livestock farming	Foodstuffs trading	Property leasing	Inter-segment elimination	Unallocated	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	565,906	977,642	141,474	69,626	28,372	—	—	1,783,020
Inter-segment revenue	910	—	—	—	—	(910)	—	—
Other revenue from external customers	—	—	—	—	—	—	16,505	16,505
Total	566,816	977,642	141,474	69,626	28,372	(910)	16,505	1,799,525
Segment result	90,537	14,433	(5,314)	1,190	19,202			120,048
Unallocated operating income and expenses								(8,817)
Profit from operations								111,231
Finance costs								(12,045)
Share of profits less losses of associates	—	(134)	—	107	—		10,603	10,576
Non-operating income								35,989
Non-operating expenses								(18,812)
Taxation								(9,747)
Minority interests								(1,683)
Profit attributable to shareholders								115,509
Depreciation for the year	5,897	158	4,513	4	577			
Impairment loss for the year	—	—	16,466	—	—			

13. EARNINGS PER SHARE *(Continued)*

(c) Reconciliations

	2002 Number of shares *(thousand)*
Weighted average number of ordinary shares used in calculating basic earnings per share	**8,996,826**
Deemed issue of ordinary shares for no consideration	**911,576**
Weighted average number of ordinary shares used in calculating diluted earnings per share	**9,908,402**

	2002 Earnings *$'000*
Profit attributable to shareholders	**115,509**
Interest saved as the convertible notes converted	**6,345**
Adjusted profit attributable to shareholders used in calculating diluted earnings per share	**121,854**

14. SEGMENT REPORTING

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

Business segments

The Group comprises the following main business segments:

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

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included three Directors of the Company (2001: four), details of whose remuneration are set out in note 10 above. The remuneration of the other two (2001: one) individuals are as follows:

	2002	2001
	$'000	*$'000*
Salaries and other emoluments	**1,015**	607
Discretionary bonuses	**316**	15
Retirement scheme contributions	**157**	31
	1,488	653

The remunerations of the two (2001: one) individuals are within the band of $Nil to $1,000,000.

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of $60,799,000 (2001: loss of $101,470,000) which has been dealt with in the financial statements of the Company.

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $115,509,000 (2001: $51,518,000) and the weighted average of 8,996,826,000 (2001: 8,426,517,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to ordinary shareholders of $121,854,000 and the weighted average number of 9,908,402,000 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares for the year ended 31 December 2002.

The exercise of the subscription rights conferred by the share options and convertible notes would not have any dilutive effect on the earnings per share for the year ended 31 December 2001 as certain non-operating income and non-operating expense items would not be taken into account in calculating the diluted earnings per share.

10. DIRECTORS' REMUNERATION

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

	2002	2001
	$'000	*$'000*
Fees	**24**	23
Salaries and other emoluments	**3,218**	2,663
Discretionary bonuses	**815**	240
Retirement scheme contributions	**455**	74
	4,512	3,000

Included in the Directors' remuneration were fees and other emoluments of $9,000 and $900,000 (2001: $7,500 and $900,000) respectively paid to the Independent Non-executive Directors during the year.

In addition to the above remuneration, Executive Directors were granted share options under the Company's 2001 Share Option Scheme. Details of these benefits in kind are disclosed in the section of "Share Option Schemes of the Company and Associated Corporation" in the Report of the Directors.

The remuneration of the Directors is within the following band:

	2002	2001
	Number of	Number of
$	**Directors**	Directors
Nil - 1,000,000	**12**	13
1,000,000 - 1,500,000	**1**	—
	13	13

9. TAXATION

Taxation in the consolidated profit and loss account represents:

	2002	2001
	$'000	*$'000*
Provision for Hong Kong Profits Tax at 16% (2001: 16%) on the estimated assessable profits for the year	**—**	2,378
Over-provision in respect of prior years	**(355)**	(420)
	(355)	1,958
PRC income tax	**10,755**	714
Deferred taxation (note 19(a))	**(807)**	—
	9,593	2,672
Share of associates' taxation	**154**	147
	9,747	2,819

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.

(Expressed in Hong Kong dollars)

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2002	2001
	$'000	*$'000*
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	**4,200**	634
Interest on convertible notes	**6,345**	639
Interest incurred in settling a claim	**1,500**	—
	12,045	1,273
(b) Staff costs:		
Net contributions paid to/(refunded from) defined contribution plan	**533**	(683)
Salaries, wages and other benefits	**51,766**	50,707
	52,299	50,024
(c) Other items:		
Cost of inventories	**1,571,001**	1,664,060
Impairment losses on fixed assets	**18,812**	12,183
Auditors' remuneration	**2,297**	2,166
Depreciation	**12,362**	17,198
Operating lease charges in respect of property rentals	**1,125**	34,093
Amortisation of negative goodwill	**(1,557)**	—
Rentals receivable from investment properties less direct outgoings of $3,591,000 (2001: $Nil)	**(21,488)**	(2,045)

Cost of inventories includes $21,470,000 (2001: $9,018,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses. The provision against inventories of $6,920,000 (2001: $Nil) has been included in cost of inventories.

6. NON-OPERATING INCOME *(Continued)*

Notes: (Continued)

(v) 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 Restructuring was approved by independent shareholders and bank creditors and was complete on 22 December 2000. The net gain on the Restructuring for the year ended 31 December 2001 mainly relate to adjustments on payables and the write-back of certain provisions following the completion of the Restructuring.

7. NON-OPERATING EXPENSES

	Notes	**2002** **$'000**	2001 $'000
Provisions for impairment losses on fixed assets	*(i)*	**18,812**	12,183
Losses on disposal of fixed assets	*(ii)*	**—**	28,127
Provisions for the amounts due from minority shareholders	*(iii)*	**—**	20,985
Provision for impairment loss on cessation of operation of an associate	*(iv)*	**—**	8,198
Provisions for certain payments to suppliers	*(v)*	**—**	5,084
		18,812	74,577

Notes:

(i) Provisions for the year ended 31 December 2002 mainly represent impairment losses on land and buildings as the recoverable amounts of these assets were lower than their respective net book values.

(ii) 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.

(iii) The Directors are of the opinion that the recoverability of the amounts due from minority shareholders was in doubt and thus full provisions were made in the financial statements.

(iv) Provision for the year ended 31 December 2001 represent impairment loss against the amount due from an associate as a result of the cessation of its operation in Guangzhou, the PRC.

(v) These relate to provisions for certain payments to suppliers following the Executive Directors' review of the business arrangements with the suppliers for the year ended 31 December 2001.

5. OTHER NET (EXPENSES)/INCOME

	2002	2001
	$'000	*$'000*
Net gain on disposal of associates	**427**	—
Net exchange gain	**199**	—
Net realised and unrealised gains on other securities carried at fair value	**150**	1,840
Net loss on sale of fixed assets	**(1,378)**	—
	(602)	1,840

6. NON-OPERATING INCOME

		2002	2001
	Notes	**$'000**	*$'000*
Write-back of long outstanding payables	*(i)*	**9,891**	15,124
Recovery of bad debts	*(ii)*	**26,098**	8,765
Net gain on disposal of associates	*(iii)*	**—**	14,699
Write-back of inventory provisions	*(iv)*	**—**	14,716
Net gain on the Restructuring	*(v)*	**—**	48,436
Net gain on liquidation of subsidiaries (note 3)		**—**	4,828
		35,989	106,568

Notes:

(i) The amounts mainly represent the write-back of long outstanding payables. The Directors are of the opinion that it is not likely that the creditors will lodge claims against the Group.

(ii) The amounts mainly represent the recovery of bad debts previously provided for or written off to the profit and loss account as the recoverability was in doubt. During the year, certain bad debts were recovered and the related provisions of $16,143,000 and the write-off amounts of $9,955,000 were written back to the profit and loss account accordingly.

(iii) The amounts mainly represent the write-back of the net deficit of associates previously shared by the Group as a result of the disposal of associates.

(iv) The amounts mainly represent the write-back of provisions for inventories previously made against certain merchandises held for resale as a result of the cessation of the supermarket operations in Guangzhou, the PRC. For the year ended 31 December 2001, most of these inventories were disposed above the carrying value and the redundant provisions for inventories were written back to the profit and loss account accordingly.

3. DISCONTINUING OPERATIONS *(Continued)*

The net liabilities of the supermarket operations as at the date of discontinuance were as follows:

	$'000
Total assets	184,370
Total liabilities	(190,988)
Net liabilities	(6,618)

The cash flows of the discontinuing operations for the year ended 31 December 2001 were as follows:

	$'000
Cash flows used in operating activities	(52,531)
Cash flows used in investing activities	(1,502)
Cash flows from financing activities	49,386

4. OTHER REVENUE

	2002	2001
	$'000	*$'000*
Subsidy received	**5,712**	—
Interest income	**4,785**	6,217
Write-back of provision for bad debts	**2,467**	—
Management income	**1,630**	3,831
Dividends from listed securities	**659**	2,760
Rental income	**521**	1,730
Dividends from unlisted securities	**124**	450
Advertising and promotion income	**—**	6,813
Concession sale income	**—**	4,563
Others	**6,175**	8,003
	22,073	34,367

3. DISCONTINUING OPERATIONS

In March 2001 and June 2001, the Group's supermarket operations were discontinued following the cessation of supermarket operations in Guangzhou, the People's Republic of China (the "PRC") and Hong Kong respectively. The net gain on liquidation of these companies amounted to $4,828,000.

The results of the Group's operations for the previous year were analysed as follows:

	Year ended 31 December 2001		
	Continuing operations	Discontinuing operations	Total
	$'000	*$'000*	*$'000*
Turnover	1,542,443	276,907	1,819,350
Cost of sales	(1,444,732)	(219,328)	(1,664,060)
	97,711	57,579	155,290
Other revenue	19,157	15,210	34,367
Other net income	1,840	—	1,840
Distribution costs	(49,233)	(65,304)	(114,537)
Administrative expenses	(52,124)	(21,565)	(73,689)
Other operating expenses	(6,784)	(2,550)	(9,334)
Profit/(loss) from operations	10,567	(16,630)	(6,063)
Non-operating income	92,811	13,757	106,568
Non-operating expenses	(61,501)	(13,076)	(74,577)
Finance costs	(1,283)	10	(1,273)
Share of profits less losses of associates	(12,220)	—	(12,220)
Profit/(loss) from ordinary activities before taxation	28,374	(15,939)	12,435
Taxation	(3,239)	420	(2,819)
Profit/(loss) from ordinary activities after taxation	25,135	(15,519)	9,616
Minority interests	41,944	(42)	41,902
Profit/(loss) attributable to shareholders	67,079	(15,561)	51,518

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting *(Continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, taxation, corporate and financing expenses and minority interests.

2. TURNOVER

The principal activities of the Group are distribution of live and fresh foodstuffs, feed production and livestock farming, foodstuffs trading, manufacturing and trading of tinplate and property leasing.

Turnover represents the sales value of goods and rental income from investment properties received under operating leases, after eliminating intra-group transactions. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002	2001
	$'000	*$'000*
Sales of goods		
— Live and fresh foodstuffs distribution	**977,642**	1,260,672
— Feed production and livestock farming	**141,474**	189,556
— Foodstuffs trading	**69,626**	45,345
— Tinplating	**565,906**	44,825
— Supermarket operations	**—**	276,907
	1,754,648	1,817,305
Property leasing	**28,372**	2,045
	1,783,020	1,819,350

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) 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 subsidiaries and associates 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 resulting exchange differences are dealt with as a movement in reserves.

On disposal of subsidiaries or associates outside Hong Kong, the cumulative amount of the exchange differences which relate to that subsidiary or associate is included in the calculation of the profit or loss on disposal.

(s) Related parties

For the purposes of these financial statements, 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.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) 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 tax 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.

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(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.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in 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 granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(n) Employee benefits *(Continued)*

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received on exercise of share options.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) 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.

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

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. 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.

(m) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(n) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts); and

— investments in subsidiaries and associates (except for those accounted for at fair value under notes 1(c) and (d)).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (ie a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(q).

(ii) 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.

(j) Depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is calculated to write-off the cost 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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Fixed assets

(i) Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheets at their open market value which is either assessed annually by external qualified valuers, or assessed by Directors taking into consideration of professional valuation.

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the profit and loss account.

(iii) Land and buildings held for own use are carried in the balance sheets at cost less accumulated depreciation and impairment losses (note 1(k)).

(iv) Other fixed assets are carried in the balance sheets at cost less accumulated depreciation and impairment losses (note 1(k)).

(v) 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.

(vi) 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. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Minority interests

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.

(g) 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.

(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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Negative goodwill

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

— for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill arising on or after 1 January 2001 and not yet recognised in the consolidated profit and loss account:

— for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

— for associates, such negative goodwill is included in the carrying amount of the interest in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and controlled enterprises *(Continued)*

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (note 1(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(d) 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.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

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.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (note 1(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements 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.

(b) Basis of preparation of the financial statements

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

(c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

6. At the balance sheet date, the Company also has a sum due from Guangnan KK totalling HK$108,800,000. Such amounts are unsecured, interest free, except certain loans amounting to HK$53,700,000, which are unsecured and interest-bearing at a range from Hong Kong dollar prime rate per annum to 11.5% per annum. Guangnan KK commenced liquidation in June 2001. As such, Guangnan KK has been de-consolidated from the consolidated financial statements of the Company as at the balance sheet date and the amounts due from Guangnan KK have been fully provided for.

7. At the balance sheet date, loans previously made by Guangnan Fresh and Live Foodstuffs Limited, a wholly-owned subsidiary, to Guangnan KK are outstanding in an aggregate amount of HK$23,500,000. These loans are unsecured, interest-bearing at a range from Hong Kong dollar prime rate plus 1% per annum to 8% per annum. Guangnan KK commenced liquidation in June 2001. As such, Guangnan KK has been de-consolidated from the consolidated financial statements of the Company as at the balance sheet date and the amounts due from Guangnan KK have been fully provided for.

8. At the balance sheet date, loans previously made by GSDL to Guangnan KK are outstanding in an aggregate amount of HK$29,300,000 of which HK$12,500,000 are unsecured and interest-bearing at 3.5% per annum. The remaining loans of HK$16,800,000 are unsecured and interest-free. Also, GSDL has sums of HK$2,600,000 due from Guangnan KK. Such an amount is unsecured and interest-free, except certain advances amounting to HK$2,000,000, which are unsecured and interest-bearing at a range of 7.75% per annum to 8.5% per annum. Guangnan KK commenced liquidation in June 2001. As such, Guangnan KK has been de-consolidated from the consolidated financial statements of the Company as at the balance sheet date and the amounts due from Guangnan KK have been fully provided for.

3. At the balance sheet date, 高要廣南畜牧發展有限公司 (Gaoyao Guangnan Stock Development Co., Ltd.) ("Gaoyao Guangnan"), a 51%-owned subsidiary of the Company, has a sum due from 廣東省高要食品進出口公司 (Gaoyao Foodstuffs Imp. & Exp. Co., of Guangdong) ("Gaoyao Foodstuffs") amounting to approximately RMB1,680,000 which has been brought forward since 1997 from the amount of approximately RMB153,000, as shown in the financial statements of Gaoyao Guangnan. Such amount is unsecured and interest free. The Group is in negotiation with Gaoyao Foodstuffs for the repayment of the outstanding amount. The amount due from Gaoyao Foodstuffs has been fully provided for as at the balance sheet date.

   Gaoyao Foodstuff is a substantial shareholder with a 49% interest in Gaoyao Guangnan and is therefore a connected person of the Company.

4. At the balance sheet date, loans previously made by Guangnan Supermarket Development Limited ("GSDL"), a wholly-owned subsidiary, to Guangdong Guangnan Tianmei Food Development Company Limited ("Tianmei"), a 55%-owned subsidiary, are outstanding in an aggregate amount of RMB8,000,000. These loans are unsecured, interest-bearing at a range from 11.5% per annum to 12% per annum. Moreover, GSDL has a sum due from Tianmei, amounting to HK$59,600,000 at the balance sheet date, which are unsecured and interest-free. In July 2001, application has been made by its major creditor to the court in the PRC for putting Tianmei into liquidation. As such, Tianmei has been de-consolidated from the consolidated financial statements of the Company as at the balance sheet date and the amounts due from Tianmei have been fully provided for.

5. At the balance sheet date, the loan in the sum of HK$25,000,000 was owed to the Company by Guangnan (KK) Supermarket Limited ("Guangnan KK"), a 70%-owned subsidiary. Such loan was made for its general working capital secured by a first floating charge over Guangnan KK's undertaking, property and assets and interest bearing at Hong Kong dollar prime rate. Guangnan KK commenced liquidation in June 2001. As such, Guangnan KK has been de-consolidated from the consolidated financial statements of the Company as at the balance sheet date and the amounts due from Guangnan KK have been fully provided for.

All the Independent Non-executive Directors have reviewed the Dongguan Guangnan Transactions described above for the year ended 31 December 2002 and confirmed that these transactions were:—

(i) carried out in the ordinary and usual course of Dongguan Guangnan's business;

(ii) conducted either on normal commercial terms or, if there are insufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Dongguan Guangnan than terms available to or from independent third parties; and

(iii) fair and reasonable and in the interests of the shareholders of the Company as a whole.

All the Independent Non-executive Directors also confirmed that the aggregate value of each of the Dongguan Guangnan Transactions for the year ended 31 December 2002 of the Company did not exceed the higher of HK$10,000,000 and 3% of the book value of the audited net tangible asset value of the Group at 31 December 2002.

The Company's auditors have also reviewed the Dongguan Guangnan Transactions and confirmed in its letter to the Board of Directors of the Company, a copy of which has been provided to the Stock Exchange, that:

(i) the Dongguan Guangnan Transactions have received the approval of the Company's Board of Directors;

(ii) the Dongguan Guangnan Transactions have been entered into such that the aggregate amount of each of the transactions as stated in the announcement dated 11 July 2002 has not been exceeded the Cap Amount of HK$10,000,000 or has been less than 3% of the book value of the audited net tangible assets of the Group at 31 December 2002;

(iii) the Dongguan Guangnan Transactions have been entered into in line with the Company's pricing policy, which is at prices determined based on the prevailing market prices of livestock, vaccines, feed and/or additives; and

(iv) the Dongguan Guangnan Transactions have been entered into in accordance with the terms of the agreement governing the transactions or on terms no less favourable than those available to or from independent third parties.

All the Independent Non-executive Directors also confirmed that the aggregate amount of the Leasing and Provision of Utilities for the year ended 31 December 2002 did not exceed the cap amounts of HK$2,000,000 for the Leasing and HK$2,700,000 for the Provision of Utilities or has been less than 3% of the book value of the audited net tangible assets of the Group at 31 December 2002.

The Company's auditors have also reviewed the Shan Hai and Tinplate Transactions and confirmed in its letter to the Board of Directors of the Company, a copy of which has been provided to the Stock Exchange, that:—

(i) the Shan Hai and Tinplate Transactions have received the approval of the Company's Board of Directors;

(ii) the Shan Hai and Tinplate Transactions have been entered into such that the aggregate amount has not exceeded the Cap Amounts of HK$2,000,000 for the Leasing and HK$2,700,000 for the Provision of Utilities or has been less than 3% of the book value of the audited net tangible assets of the Group at 31 December 2002; and

(iii) the Shan Hai and Tinplate Transactions have been entered into in accordance with the terms of agreement governing the transactions or on terms no less favourable than those available to or from independent third parties.

2. Dongguan Guangnan Stock Development Co., Ltd. ("Dongguan Guangnan"), 廣東省東莞食品進出口公司大岭山豬場(Dalingshan Pig Farm of Dongguan Foodstuffs Imp. & Exp. Co. of Guangdong) ("Dalingshan Pig Farm"), 東莞廣利飼料公司 (Dongguan Guangli Feed Co. Ltd.) ("Dongguan Guangli") and 廣東省東莞食品進出口公司 (Dongguan Foodstuffs Imp. & Exp. Co. of Guangdong) ("Dongguan Foodstuffs") entered into connected transactions including: (a) purchase of vaccines and livestock from Dalingshan Pig Farm; (b) sales of livestock to Dongguan Foodstuffs; and (c) purchase of feed and additives from Dongguan Guangli (collectively "Dongguan Guangnan Transactions"). Details of the Dongguan Guangnan Transactions were contained in the announcement of the Company dated 11 July 2002.

During the year, the Group has the following connected transactions which are required to be disclosed in the annual report in accordance with the disclosure requirements of the Listing Rules. The transactions described in 1(a), 1(b) and 2 below are ongoing connected transactions in respect of which The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has granted conditional waivers to the Company for strict compliance with the disclosure requirements under rule 14.25(1) of the Listing Rules.

Details of the connected transactions are as follows:

1(a). 中山市山海實業有限公司(Zhongshan Shan Hai Industrial Co., Ltd.) ("Shan Hai Industrial") has leased a parcel of land in Zhongshan to and has provided staff quarters and utilities to GD Decorative Material (Zhong Shan) Co., Ltd. ("GD Decorative") (the "Leasing") in its ordinary course of business and on normal commercial terms which constituted connected transactions of the Company. GD Decorative is a subsidiary of GDH Limited, the substantial shareholder of the Company. Details of the Leasing are contained in the circular of the Company dated 5 November 2001.

1(b). 中山中粵馬口鐵工業有限公司(Zhongshan Zhongyue Tinplate Industrial Co., Ltd.) ("Zhongyue Tinplate") has provided electricity/water to GD Decorative (the "Provision of Utilities") in its ordinary course of business and on normal commercial terms which constituted connected transactions of the Company. Details of the Provision of Utilities are contained in the circular of the Company dated 5 November 2001.

All the Independent Non-executive Directors have reviewed the transactions described in 1(a) and 1(b) above (collectively "Shan Hai and Tinplate Transactions") for the year ended 31 December 2002 and confirmed that these transactions were:—

(i) entered into by the Company, Shan Hai Industrial and Zhongyue Tinplate in their ordinary and usual course of businesses;

(ii) conducted on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

(iii) entered into in accordance with the terms of agreements governing the Leasing and Provision of Utilities or on terms no less favourable than those available to or from independent third parties.

INVESTMENT PROPERTIES

MAJOR PROPERTIES HELD FOR INVESTMENT

Location	Existing use	Group's interest	Category of the lease
29/F, Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong	Commercial	100%	Long
Land, buildings and structure of Zhongshan Shan Hai Industrial Co., Ltd., Zhongshan Port No. 2 Export Processing District, Zhongshan Guangdong Province, the PRC	Industrial/ Residential	95%	Medium

FINANCIAL SUMMARY

Assets and liabilities

	As at 31 December				
	2002	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	**394,710**	397,846	234,189	712,396	945,560
Pre-operating expenses and other intangible assets	**—**	—	—	16,502	15,470
Interest in associates	**151,264**	152,238	171,160	169,242	225,615
Negative goodwill	**(18,693)**	(20,250)	—	—	—
Other non-current assets	**6,843**	6,036	—	137,648	131,707
Net current assets/(liabilities)	**73,049**	33,848	(75,081)	(2,317,540)	(1,832,035)
Total assets less current liabilities	**607,173**	569,718	330,268	(1,281,752)	(513,683)
Non-current liabilities	**(92,186)**	(196,349)	(20,257)	(33,561)	(565,692)
Minority interests	**(20,123)**	(18,395)	(60,640)	(78,912)	(104,307)
	494,864	354,974	249,371	(1,394,225)	(1,183,682)
Share capital	**899,833**	894,333	90,951	90,951	90,951
Reserves	**(404,969)**	(539,359)	(614,580)	(1,485,176)	(1,274,633)
Loan from immediate holding company	**—**	—	773,000	—	—
	494,864	354,974	249,371	(1,394,225)	(1,183,682)

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 financial statements of the Company and the Group as at 31 December 1998. No reclassification nor restatement of comparative figures of the results for 1998 is made accordingly.

Results

	For the year ended 31 December				
	2002	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**1,783,020**	1,819,350	2,764,198	2,864,413	5,077,724
Profit/(loss) from operations	**111,231**	(6,063)	(77,608)	(119,528)	(2,915)
Net non-operating income/ (expenses)	**17,177**	31,991	1,110,287	109,168	(3,521,487)
Finance costs	**(12,045)**	(1,273)	(169,441)	(203,187)	(203,456)
Share of profits less losses of associates	**10,576**	(12,220)	7,952	2,137	(59,170)
Profit/(loss) from ordinary activities before taxation	**126,939**	12,435	871,190	(211,410)	(3,787,028)
Taxation	**(9,747)**	(2,819)	(6,018)	1,252	(5,767)
Minority interests	**(1,683)**	41,902	885	15,939	319,518
Profit/(loss) attributable to shareholders	**115,509**	51,518	866,057	(194,219)	(3,473,277)
Earnings/(loss) per share					
Basic	**1.28 cents**	0.61 cents	95 cents	(21 cents)	(431 cents)
Diluted	**1.23 cents**	N/A	N/A	N/A	N/A