



GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司



Annual Report 2003

2003 Annual Report

GUANGNAN (HOLDINGS) LIMITED

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2 CORPORATE INFORMATION

Board of Directors

Executive Directors

LIANG Jiang (*Chairman*)
TAN Yunbiao
TSANG Hon Nam

Non-executive Directors

ZHAO Leili
LUO Fanyu
LIANG Jianqin

Independent Non-executive Directors

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

Company Secretary

CHEUNG Mo Ching

Registered Office

15th Floor, Tianjin Building
167 Connaught Road West
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 to 2004, hope and difficulties co-exist, there will be challenges and opportunities. Benefited from the continuous growth of tinplating market, the Group is given a good opportunity for development. However, the shortage of imported raw plate of tinplate and the increase of price bring about the difficulties in production. In 2004, with every endeavour put in the operation and development, the Group will be able to optimize its comparative advantage in the production of tin-free steel in China. To make use of our superior position in having abundant cash of exceeding HK\$200,000,000, the Group will apply a portion of it to set up a production line for tin-free steel. It is expected that the annual production capacity of Zhongyue Tinplate will be ranked the third in this industry in China after the launch of the production in the first half year of 2005. Through the new production line, speeding up technology renovation and maximizing our comparative advantage in tin-free steel products, the productivity, integrated capability and competitiveness of the Group will be enhanced paving our way towards the aim of establishing a professional corporate.

Liang Jiang

Chairman

Hong Kong, 8 April, 2004

In 2003, the Group adopted guidelines with emphasis on our team quality, innovative business mechanism, realignment of business integration and fostering profitable business so as to enhance our competitiveness. The Group focused on the development of tinplating as our core business by implementing our business plan to establish it as a professional and high quality operation and speeding up the clearance of non-core business. Not only did the Group dedicate its effort to search every market potential, add value on existing business, but also actively recovered the historical receivables. To upgrade our staff quality, rewarding and supervision mechanisms were established. All of the above measures had made a substantial progress. Despite the difficult market condition, the Group has achieved a comparatively good economic performance.

For the year ended 31 December 2003, the Group's consolidated turnover was HK\$1,525,807,000, which decreased by HK\$257,213,000 as compared with HK\$1,783,020,000 in 2002, representing a decrease of 14.4%. The decrease was principally due to the decision made by Guangnan Fresh and Live Foodstuffs Limited since January 2003 on the withdrawal from the pond-fish market which had been opened for one year leading to a decrease by HK\$185,427,000 in turnover. With the effects of bird flu and SARS epidemic, the turnover from live poultry business decreased by HK\$77,532,000. Facing the market changes, our management team adopted various measures in order to alleviate the adverse effects on our overall profit in 2003. During 2003, the Group's profit before tax was HK\$120,320,000, which slightly decreased by HK\$6,619,000 as compared with HK\$126,939,000 in 2002, representing a decrease of 5.2%. During 2003, profit attributable to shareholders was HK\$102,762,000, which decreased by HK\$12,747,000 as compared with 2002, representing a decrease of 11.0%. Basic earnings per share was HK1.14 cents. The Board of the Company resolved that no interim dividend would be distributed and no final dividend will be recommended for distribution.

2003 is our crucial year in refining our business strategies and re-establishing our core business. The Group succeeded in repurchasing the tinplating and property leasing businesses of Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate") and Zhongshan Shan Hai Industrial Co., Ltd. ("Shan Hai"). Through the detailed analysis conducted by the Group on the operating conditions, profitability, competitiveness, prospects and development of various business segments during 2003, the Group decided to make a strategic adjustment on our business structure and established our business plan on the development of tinplating and related business as our core business. Apart from that, the Group will gradually withdraw from less profitable non-core livestock farming, production of feed and trading of foodstuffs businesses. The Group also accelerated the disposal of unhealthy assets and non-core business. Through public tender, 51% of equity interest in Dongguan Guangnan Stock Development Co. Ltd. ("Dongguan Guangnan") and current assets of pig farm owned by Dongguan Jinhuang Food Co., Ltd. ("Dongguan Jinhuang") were disposed. The profit of tinplating business represented approximately 80% of the Group's operating profit. The Group considered it as a potential business with promising market prospect. By the disposal of non-core and less profitable business, it is beneficial in building up the new business structure focusing on tinplating business.

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our future development, the Group decided to adopt the following measures: (1) Reform on current management from investment control to direct management. Reform and adjustment on internal management structure will also be implemented by reducing the number of management levels and realizing direct management. (2) Reform on remuneration policy. To activate the working enthusiasm of our staff, a new assessment of the remuneration will be introduced in our principle corporate, Zhongyue Tinplate. The performance appraisal is mainly based on productivity (tons), sales (tons), electricity generation (ten thousand watt) and revenue from property (ten thousand RMB). (3) Problems on the shortage of raw materials of tinplate will be actively solved, such as exploring various sources to import raw materials and alternate materials. Besides, the management will review the possibility of using local raw plate and search of market and production potential to realize our current target. (4) To construct exclusive tin-free steel production line without affecting day-to-day production, aiming at commencing production at the earliest opportunity to achieve our targets on effectiveness. (5) Five-year plan on corporate development will be implemented, organized and carried out. The Group dedicates to develop new products and varieties of tinplate and its related business with promising market prospects. The Group firmly believes, by virtue of the advantage that our tinplate products were granted as brand name products in Guangdong Province in 2003, comparative advantage in producing tin-free steel in China and the sound financial position and strong management team, the Group will realize our aims to establish a professional corporate in the foreseeable years.

In addition, certain bills receivable of the Group amounting to approximately HK\$40,000,000 as at 31 December 2003 has been pledged with an authorised bank in the PRC in order to obtain a guarantee issued in favour of the Group to the Dongguan Intermediate People's Court in a litigation against a former minority shareholder of a subsidiary for recovering amounts due to the Group of an equivalent amount.

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 at an initial conversion price of HK\$0.155 per share. During the year, a total of HK\$80,000,000 convertible notes were redeemed by the Group on 6 December and 19 December 2003 respectively, in order to reduce interest expense thereof. There was no convertible note outstanding at 31 December 2003.

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.

Employees and Remuneration Policies

As at 31 December 2003, the Group has a total of 544 employees, reduced by 264 as compared to the corresponding date of 2002, of whom 29 were based in Hong Kong and 515 were based in the mainland China. The staff remuneration is determined in accordance with the responsibility for the post, workload, skills, hardship, working conditions, individual performance and prevailing industry practice. In 2003, the Group continued to implement control on the staffing, headcount and total salaries of each subsidiary. The performance bonus incentive scheme continued to be carried out. Through the assessment of the performance of each subsidiary and based on the net cash flow from operation and profit after tax, performance bonus was calculated at applicable rate on different profit level. In addition, bonus will be rewarded to the management, key personnel and outstanding staff through assessment of individual performance. All of the above rewards will raise the morale of our staff members.

Future Prospect

Looking ahead to 2004, the operation environment is still challenging. Due to the shortage of raw materials of tinplate and increase of price, its production and sale for the year will experience a "bottle neck". The outbreak of bird flu epidemic after Chinese New Year will severely affect the live and fresh foodstuffs business in the year. Following the realignment of our business structure, the gradual withdraw of livestock farming, feed production and foodstuffs trading will face more pressure on the turnover of the year. Aiming at alleviating unfavorable factors of production and business in 2004 by taking an active role and advocating

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Livestock Farming

In 2003, the Group also commenced the plan on gradual withdraw from livestock farming business. After the disposal of the current assets and a portion of fixed assets of the pig farm owned by Dongguan Jinhuang in May 2003, the pig farm and equipment were leased out. In August 2003, 51% equity interest of Dongguan Guangnan held by the Group was disposed of at RMB5,000,000, bringing about HK\$9,097,000 profit to the Group. The management will sell Gaoyao Guangnan.

Financial Position

As at 31 December 2003, the Group's total assets amounted to HK\$955,975,000 and total liabilities stood at HK\$333,342,000, a decrease of HK\$7,078,000 and HK\$114,724,000 respectively when compared with the position as at the end of 2002. The net current assets of the Group increased from HK\$73,049,000 as at the end of 2002 to HK\$126,507,000 and the current ratio (current assets divided by current liabilities) increased from 1.21 as at the end of 2002 to 1.39. 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 2003, the Group maintained cash balances of HK\$254,457,000, increased by 4.7% from the cash balances as at the end of 2002. The major cash outflow in 2003 was the early redemption of HK\$80,000,000 interest-bearing convertible notes.

The Group's interest-bearing borrowings are repayable on demand and carry interest at annual rates ranging from 5.3% to 7.5%. At 31 December 2003, the Group's interest-bearing borrowings totalled HK\$57,700,000. Accordingly, the Group's gearing ratio, which was measured on the basis of the Group's total interest-bearing borrowings over the shareholders' fund, decreased rapidly from 28.1% as at 31 December 2002 to 9.6%.

As at 31 December 2003, the Group's total available credit facilities amounted to HK\$269,459,000, of which HK\$104,829,000 have been utilized. The unutilized banking facilities amounted to HK\$164,630,000. With its cash holdings and recurring cashflow from its operations, 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

At 31 December 2003, certain of the Group's fixed assets with net book value of HK\$2,814,000 were pledged to secure general banking facilities amounting to HK\$9,004,000 of the Group.

In order to ensure consistency in the agreements as a whole while acting as the agency in the live and fresh foodstuffs, the Group signed new agreements with all the suppliers of live and fresh foodstuffs in 2004. Under the new agreements, the role of agency remains unchanged but no longer responsible for the risks associated with the trading of goods. Accordingly, the presentation of the profit and loss account will be changed following the accounting policies to better reflect the legal implication of the transactions, starting from January 2004. The turnover, which was previously recorded as the sales of live and fresh foodstuffs, is now replaced by the commission income, i.e. approximately the net difference between the sales and the corresponding costs and expenses.

Feed Production

In 2003, the turnover of feed production business amounted to HK\$115,403,000 which increased by 26.4% in 2002. However, due to a significant increase in price of all raw materials of feed brought from the increase of price of food, provision for bad debt and impairment of fixed assets totalling HK\$35,991,000, the loss before tax of HK\$36,388,000 was recorded and accordingly the Group experienced from profit to loss.

The management considered feed production industry relies heavily on raw materials and its gross profit is very low. The cost of raw materials represents more than 90% of that of products. The sales market is targeted at farm households. Feed industry does not require high technology, hence, over production and keen market competition occur. The industry generally markets its products on credit terms to increase sales, the advance of working capital in sale is therefore rather substantial. Since there are thousands of farm households, the risk of bad debt becomes very high. Having established the development plans on tinplating business by the Group and for the sake of avoiding operating risks, the management will withdraw gradually from feed production. While maintaining the investment in the business, we actively searched for potential buyer of the entire equity interest of Guangnan (Zhan Jiang) Jiafeng Feed Co. Ltd..

Foodstuffs Trading

In 2003, the turnover of the Group's foodstuffs trading business was at HK\$52,190,000, which decreased by 25.0% as compared with 2002. The operating profit amounted to HK\$646,000 which decreased by 45.7% as compared with 2002.

The management considered that foodstuffs trading is a less profitable non-core business, contributing less profit to the Group. Subject to the limited marketing resources after the withdrawal of supermarket business, there is insufficient room for the development of foodstuffs trading business, the management will withdraw gradually from such business.

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Operating profits decreased by HK\$33,384,000 as compared with 2002, representing a decrease of 36.9%. The decrease was principally due to the shortage of raw materials of tinplate and the significant increase of the price of crude oil. The increase of cost was comparatively more than that of selling price.

In 2003, new tin-free steel product produced by Zhongyue Tinplate was granted as “the brand name products in Guangdong Province” and our production technique was granted a patent by the approval of the State of Intellectual Property Office of the People’s Republic of China. The management considered that the tinplating business made the greatest contributions to our Group’s profit and became the core business with the most promising prospects and it therefore will be our focus of development in the future. Supported by market researches and feasibility studies, our management decided to set up a new production line for tin-free steel in 2004. The project duly commenced and was expected that annual production capacity will rise from current 120,000 tons to 200,000 tons after the launch of the production line in the first half year of 2005. It is expected that the production capacity will be ranked the third in the tinplating industry in China. The Group anticipated that the tinplating business, through the cultivation and development of the profitable business, would have a continuous growth so as to develop the Group into a professional corporate specializing in production and sales of tinplating products. Meanwhile, the Group will dedicate its efforts to the development of its related business by actively reviewing the feasibility of establishing a “base for metal container, packaging and printing in China” in Zhongshan Hi-tech Development Zone.

Property Leasing

The Group’s leasing properties included plant and staff dormitory of Shan Hai, iron printing plant and equipment of Zhongyue Tinplate and office building in Hong Kong. The total revenue of leasing properties owned by the Group was recorded at HK\$37,059,000 in 2003, which increased by 30.6% as compared with 2002. The operating profit of leasing properties totalled HK\$26,491,000, which increased by 38.0% as compared with 2002.

Live and Fresh Foodstuffs Distribution

The turnover of live and fresh foodstuffs business was recorded at HK\$751,901,000 in 2003, which decreased by HK\$225,741,000 as compared with 2002, representing a decrease of 23.1%. The operating profit amounted to HK\$11,100,000, which decreased by HK\$3,333,000 as compared with 2002, representing a decrease of 23.1%.

The management considered that business in live and fresh foodstuffs which was our traditional and core business in the past had made a great contribution on the development of our Group. Following China’s accession to the World Trade Organization, gradual deregulation of the quota management of live and fresh foodstuffs by the State resulted in more intensive market competition. The Group’s agency business in live and fresh foodstuffs was mainly derived from the distribution of live and fresh foodstuffs specified by the State’s policy, the management therefore decided to actively maintain the business as it was, instead of investing more capital.

Business Review

Introduction

2003 was a year with difficulties in operation. With the deregulation of quota management in pond fish, opening up of the chilled chicken market by the State and the effect of bird flu and SARS epidemic, the turnover of live and fresh foodstuffs agency business continued to decrease. Affected by the increase of price of raw materials, feed production and livestock farming were difficult in operation. The sales and gross profit of tinplating business dropped as compared with 2002 due to the shortage of imported raw plate and the increase of price. Facing such a difficult business environment, the Group adopted a series of measures. For example, the production of the more profit making tin-free steel with higher profit margin was emphasized since there was a shortage of raw materials of tinplate and supply was less than demand. In connection with sales, "Five Priorities" sales strategies, representing priority to be given to customers request processing and printing in our plant, customers in Guangdong Province, purchase orders of tin-free steel, cash payment, purchase orders pricing at a level higher than company's standard price, was put into practice. The optimization of the limited resources has been fulfilled by way of the above measures. In addition to such measures, incentive scheme targeted at trading business in live and fresh foodstuffs was introduced and expansion of trading business in famous domestic live chicken were also carried out. Furthermore, the Group decreased the scale in feed production with low profit margin and strictly controlled the credit sales. Apart from gradually withdrawing from feed production, the Group also speeded up the disposal of three pig farms respectively in Dongguan Guangnan, Dongguan Jinhuan and Gaoyao Guangnan Stock Development Co., Ltd. ("Gaoyao Guangnan"). Besides, the Group dedicated its efforts to recover the receivables and strengthen the management and supervision on joint-venture business. Through the adjustment of business plans and strategies and adoption of various effective operational measures, the business risks were effectively under control, resulting in a similar level of profit before tax in 2003 without significant decrease as compared with 2002.

The management considered that the operation was comparatively stable although the production and business in 2003 were under the constraints of outside environment which brought about profit before tax slightly lower than that of 2002. Our main products, including tinplating and tin-free steel, kept an upward trend in sales. Their profit margin maintained at a higher level of 15%. The turnover of live and fresh foodstuffs business decreased by 23.1%, while its operating profit decreased by HK\$3,333,000, a decrease of 23.1% as compared with 2002. The associated companies have obtained better operating performance and the share of associated companies' profit before tax increased by HK\$8,800,000 as compared with 2002, representing an increase of 83.2%. In conclusion, the Group enjoyed a good assets condition, sound financial status, stable operation and fair economic benefits.

Tinplating

The production of tinplate by the Group's subsidiary, Zhongyue Tinplate in 2003 amounted to 94,392 tons and its sales amounted to 94,073 tons, representing a decrease of 14.8% and 15.4% respectively as compared with 2002. The turnover of HK\$538,765,000 decreased by 4.8% as compared with 2002.

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.

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.

Publication of Further Information on the 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 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, 8 April 2004

Save as disclosed above, as at 31 December 2003, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under section 336 of the SFO.

Contracts of Significance with Controlling Shareholders or its Subsidiaries

In addition to the disclosures contained in note 26 on the financial statements, in items 1 A, B and D 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 86 to 88, 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 (“Zhongyue Industry”), 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 RMB\$50,000,000. The loan is unsecured, interest free and without fixed term of repayment. Subsequent to 31 December 2003, a partial repayment in the amount of RMB25,000,000 was made by Zhongyue Industry to Richway.

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, two 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.

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

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Directors' Interests in Competing Businesses

During the year, Mr. Liang Jiang and Mr. Luo Fanyu, Directors of the Company, are also directors of GDH Limited ("GDH"). GDH and its subsidiaries (the "GDH Group") have a wide range of business interests which include, inter alia, manufacturing, trading 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.

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 that is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

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

Details of the transactions disclosed in accordance with the Listing Rules are set out on pages 86 to 89.

Substantial Shareholders

As at 31 December 2003, so far as is known to any Directors or chief executives of the Company, the following persons (other than Directors and chief executives of the Company) had interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under section 336 of the SFO:

Name	Number of ordinary shares beneficially held	Approximate % of issued share capital	Long/short positions
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang") (Note)	5,364,948,680	59.51%	Long position
GDH Limited ("GDH")	5,364,948,680	59.51%	Long position

Note: The attributable interest which Yue Gang has in the Company is held through its 100 per cent direct interest in GDH.

At 31 December 2003, the Directors of the Company did not have any interests in rights to subscribe for shares of the Company under the 2001 Share Option Scheme. 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	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 2003	During the year share price (**)	
		Held on 1 January 2003 <i>'000</i>	Granted during the year <i>'000</i>				Exercised	Lapsed	Cancelled		At options grant date <i>HK\$</i>	At options exercise date <i>HK\$</i>
Employees and other participants	24/08/01	176,000	—	26/11/01 to 25/11/06*	10	0.1495	17,500	125,000	—	33,500	—	0.1715

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.

* 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 weighted average closing price of the shares of the Company quoted on the Stock Exchange on the trading day immediately prior to the date of exercise of the share options.

Note: The underlying shares of the outstanding share options under the 2001 Share Option Scheme as at 31 December 2003 represent approximately 0.37% of the issued share capital of the Company.

Arrangements to Acquire Shares or Debentures

Except for the share options held by Directors as mentioned above in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the year was the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Contracts of Significance

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

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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 Option 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 140,400,000, which represented approximately 1.56% 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 Stock Exchange's quotation sheets for the five trading days immediately preceding the date of grant of an option.

On 1 September 2001, the 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.

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.

At 31 December 2003, no options were outstanding under the 1994 Share Option Scheme.

(iv) *Guangdong Tannery Limited*

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

(II) Long positions in options relating to ordinary shares of Guangdong Investment Limited

Name of Director	Date of share options granted*	Number of share options		Exercisable period of share options	Total consideration paid for share options granted <i>HK\$</i>	Price per share to be paid on exercise of share options <i>HK\$</i>	During the year number of share options			Number of share options held on 31 December 2003 <i>'000</i>
		Held on 1 January 2003 <i>'000</i>	Granted during the year <i>'000</i>							
							Exercised <i>'000</i>	Lapsed <i>'000</i>	Cancelled <i>'000</i>	
Liang Jianqin	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	—	—	—

* 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.

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company held by the Directors in trust for the Company, as at 31 December 2003, none of the Directors and chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Listing Rules.

Share Option Schemes of the Company

On 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

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(I) Long positions in ordinary shares

(i) *The Company*

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jiang	300,000	0.003%

(ii) *Guangdong Investment Limited*

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jianqin	150,000	0.003%

(iii) *Guangdong Brewery Holdings Limited*

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Luo Fanyu	70,000	0.006%
Liang Jianqin	46,000	0.004%

Directors

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

Executive Directors

LIANG Jiang

TAN Yunbiao (Appointed on 26 February 2004)

TSANG Hon Nam (Appointed on 26 February 2004)

LI Xiangbin (Resigned on 26 February 2004)

HUI Wai Man, Lawrence (Appointed on 6 January 2003 and resigned on 26 February 2004)

WOO Ching Yee (Resigned on 6 January 2003)

Non-executive Directors

ZHAO Leili (Appointed on 26 February 2004)

LUO Fanyu

LIANG Jianqin

Independent Non-executive Directors

Gerard Joseph McMAHON

TAM Wai Chu, Maria

LI Kar Keung, Caspar

In accordance with Article 92 of the Company's Articles of Association, Messrs. Zhao Leili, Tan Yunbiao and Tsang Hon Nam 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, Mr. Gerard J. McMahon and Mr. Li Kar Keung, Caspar retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

12 REPORT OF THE DIRECTORS

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 30.9% of the Group's total sales for the year and sales to the Group's largest customer accounted for 20.0% of the Group's total sales for the year. Purchases from the Group's five largest suppliers accounted for 35.1% of the Group's total purchases for the year and purchases from the Group's largest supplier accounted for 14.0% 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 and suppliers.

Properties

Particulars of the major properties of the Group are set out on page 90.

Financial Summary

A summary of the results, assets and liabilities of the Group for the past five years ended 31 December 2003 is set out on pages 91 and 92.

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2003.

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 properties, distribution of live and fresh foodstuffs, feed production, 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 2003 are set out in the consolidated profit and loss account on page 25.

The Directors resolved not to make the payment of an interim dividend (2002: HK\$Nil) and do not recommend the payment of a final dividend (2002: 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 2003 are set out in notes 36 and 38 on the financial statements respectively.

Borrowings and Interest Capitalised

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

Share Capital

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

Convertible Notes

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

Messrs. Liang Jiang, Tan Yunbiao, Tsang Hon Nam, Xiao Zeguang, Luo Jianhua, Jiang Xinguo and Ge Hongguang are members of the senior management of the Company.

SENIOR MANAGEMENT

Mr. XIAO Zeguang, aged 34, was appointed a deputy general manager of the Company in December 2000 and is the chairman of certain subsidiaries of the Company, including Guangnan Fresh & Live Foodstuffs Limited and Guangnan Trading Development Limited etc.. Mr. Xiao holds a Bachelor's degree in Economics from Zhongshan University and a Master's degree in Business Administration from University of San Francisco. He is also a CFA charterholder. He is a member of The Hong Kong Society of Financial Analysts and a member of The Association for Investment Management and Research. Mr. Xiao 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.

Mr. LUO Jianhua, aged 49, was appointed a deputy general manager of the Company in December 2003. He is also a deputy general manager of Shan Hai and Zhongyue Tinplate. Since Mr. Luo joined the Company in 2001, he has been acting as the general manager of our administrative and personnel department and acted as the assistant general manager. Prior to joining the Company, he held various positions as secretary in the engineering administrative bureau of Dongjiang to Shenzhen water supply (the "Bureau") and deputy director and director of the administrative office of the Bureau. He graduated from the department of Chinese literature of Zhongshan University.

Mr. JIANG Xinguo, aged 47, was appointed a deputy general manager of the Company in March 2004. Mr. Jiang joined Shan Hai and Zhongyue Tinplate in 1989 and became a deputy general manager of both companies in 1998. Between 1976 to 1978, he worked in a geological exploring team in a tin mine in Hu Nan, the PRC. He also worked in Wu Yang Iron and Steel Company in He Nan, the PRC from 1982 to 1989. Mr. Jiang graduated from Central South University of China.

Mr. GE Hongguang, aged 32, was appointed a deputy general manager of the Company in March 2004. Mr. Ge joined Shan Hai and Zhongyue Tinplate as a deputy general manager in 2002. Before that, he was a deputy manager of strategic development department of GDH. He had also worked in the Hai Nan Province branch of The Industrial and Commercial Bank of China. Mr. Ge graduated from the department of precision machineries and precision instruments of University of Science and Technology of China. He also holds a Master's degree in Finance from the Graduate School of The People's Bank of China.

22 DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Mr. LUO Fanyu, aged 48, was appointed a Non-executive Director of the Company in May 2000. He is a director of GDH and a non-executive director of Guangdong Brewery. He was a non-executive director of Guangdong Tannery Limited. He joined GDE in 1987 and was responsible for its legal affairs. Prior to joining GDE, he was a judge and a deputy chief judge of the Economic Court of People's High Court of Guangdong Province. Mr. Luo graduated from the economics department of Zhongshan University.

Miss LIANG Jianqin, aged 39, 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 had worked for Guangdong Investment Limited in 1997. She is currently the general manager of the finance department of GDH.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gerard Joseph McMAHON, aged 60, 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. He is a director of Asian Capital (Corporate Finance) Limited.

Miss TAM Wai Chu, Maria, *GBS, J.P., LL.D (Honorary), LL.B. (Hons.), Barrister-at Law*, aged 59, was appointed an Independent Non-executive Director of the Company in June 1999. She is also non-executive director of five other Hong Kong listed companies, namely Wing On Company International Limited, Onfem Holdings Limited, Sinopec Kantons Holdings Limited, Tong Ren Tang Technologies Company Limited and eSun Holdings 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.

Mr. LI Kar Keung, Caspar, aged 51, was appointed an Independent Non-executive Director of the Company in June 1999. He is the president of a management consultancy company. 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.

EXECUTIVE DIRECTORS

Mr. LIANG Jiang, aged 51, was appointed the Chairman of the Company in January 2002. He is also the chairman of two subsidiaries, Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate") and Zhongshan Shan Hai Industrial Co., Ltd. ("Shan Hai"). He is also a director of GDH Limited ("GDH"). Mr. Liang graduated from South China Normal University. He holds a Master's degree in Business Management. He worked in the municipal government of Foshan and Zhanjiang in Guangdong Province, the PRC and acted as the administrative head of Gaoming County, secretary of Gaoming County Party Committee and secretary of Gaoming Municipal Party Committee in Guangdong Province. During the period from October 1997 to March 2000, Mr. Liang acted as the chairman of Guangdong Real Estate (Holdings) Limited. Prior to joining the Company, he was the chairman of Guangdong Assets Management Limited ("GAM") and the chairman of Guangdong Alliance Limited ("GAL"). GAM and GAL are subsidiaries of GDH.

Mr. TAN Yunbiao, aged 39, was appointed an Executive Director and the General Manager of the Company in February 2004. Mr. Tan graduated from South China Agricultural University and worked in the municipal government of Zhongshan, the PRC between 1984 to 1988. Mr. Tan joined Shan Hai and Zhongyue Tinplate in 1988 and was promoted to the positions of director and deputy general manager in 1997. He then became director and general manager of both companies in 2001. Mr. Tan has extensive experience in corporate development, corporate management as well as sales and marketing management.

Mr. TSANG Hon Nam, aged 34, was appointed an Executive Director and the Financial Controller of the Company in February 2004. He is also a director and financial controller of Shan Hai and Zhongyue Tinplate. Mr. Tsang graduated from The Chinese University of Hong Kong and holds a Bachelor's degree in Science. He is an Associate of the Hong Kong Society of Accountants and a Fellow of the Association of Chartered Certified Accountants. Mr. Tsang joined Guangdong Enterprises (Holdings) Limited ("GDE") in 1998. Before joining the Company, he has been a deputy general manager of the finance department of GDH. Mr. Tsang possesses experience in financial management, audit, corporate finance and corporate governance matters of both listed and unlisted companies.

NON-EXECUTIVE DIRECTORS

Mr. ZHAO Leili, aged 50, was appointed a Non-executive Director of the Company in February 2004. Mr. Zhao became a director of Guangdong Yue Gang Investment Holdings Company Limited and an executive director of GDH in December 2001. He is also a non-executive director of Guangdong Brewery Holdings Limited ("Guangdong Brewery"). Mr. Zhao graduated from Air Force Aviation College of People's Liberation Army. From 1969 to 2001, he worked in a number of positions in the Air Force Aviation of People's Liberation Army and was a commander in the Air Force. Mr. Zhao has extensive experience in personnel management, audit control and construction management.



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

We have audited the financial statements on pages 25 to 85 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 solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003, 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, 8 April 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

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For the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003 \$'000	2002 \$'000
Turnover	2	1,525,807	1,783,020
Cost of sales		(1,373,795)	(1,571,001)
Gross profit		152,012	212,019
Other revenue	3	11,702	22,073
Other net expenses	4	(214)	(602)
Distribution costs		(32,819)	(54,486)
Administrative expenses		(51,856)	(62,733)
Other operating expenses		(5,876)	(5,040)
Profit from operations		72,949	111,231
Non-operating income	5	66,521	35,989
Non-operating expenses	6	(30,862)	(18,812)
Finance costs	7(a)	(7,664)	(12,045)
Share of profits less losses of associates		19,376	10,576
Profit from ordinary activities before taxation	7	120,320	126,939
Income tax	8	(12,933)	(9,747)
Profit from ordinary activities after taxation		107,387	117,192
Minority interests		(4,625)	(1,683)
Profit attributable to shareholders	11	102,762	115,509
Earnings per share	12		
Basic		1.14 cents	1.28 cents
Diluted		1.12 cents	1.23 cents

The notes on pages 34 to 85 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

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At 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003 \$'000	2002 \$'000
Non-current liabilities			
Deferred tax liabilities	19(b)	9,335	—
Convertible notes	26	—	80,000
Shareholders' loans to subsidiaries contributed by minority shareholders		—	12,186
		<u>9,335</u>	<u>92,186</u>
Minority interests			
		<u>20,384</u>	<u>20,123</u>
Net assets			
		<u>602,249</u>	<u>494,864</u>
Capital and reserves			
Share capital	28	901,583	899,833
Reserves	29(a)	(299,334)	(404,969)
		<u>602,249</u>	<u>494,864</u>

Approved and authorised for issue by the board of directors on 8 April 2004.

Liang Jiang
Chairman

Tsang Hon Nam
Director

The notes on pages 34 to 85 form part of these financial statements.

At 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003 \$'000	2002 \$'000
Non-current assets			
Fixed assets			
— Investment properties		185,988	178,048
— Other property, plant and equipment		177,423	216,662
	15(a)	363,411	394,710
Interest in associates	17	154,978	151,264
Investment securities	18(a)	540	1,079
Deferred tax assets	19(b)	3,778	5,764
Negative goodwill	20	(17,246)	(18,693)
		505,461	534,124
Current assets			
Other securities	18(b)	3,247	2,813
Inventories	21	44,228	66,683
Trade and other receivables	22	148,582	116,423
Cash and cash equivalents	23	254,457	243,010
		450,514	428,929
Current liabilities			
Interest-bearing borrowings	24	57,700	59,012
Trade and other payables	25	262,436	288,724
Current taxation	19(a)	3,871	8,144
		324,007	355,880
Net current assets		126,507	73,049
Total assets less current liabilities		631,968	607,173

BALANCE SHEET 29

At 31 December 2003
(Expressed in Hong Kong dollars)

		2003	2002
	Note	\$'000	\$'000
Capital and reserves			
Share capital	28	901,583	899,833
Reserves	29(b)	(389,317)	(475,688)
		<u>512,266</u>	<u>424,145</u>

Approved and authorised for issue by the board of directors on 8 April 2004.

Liang Jiang
Chairman

Tsang Hon Nam
Director

The notes on pages 34 to 85 form part of these financial statements.

28 BALANCE SHEET

At 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003 \$'000	2002 \$'000
Non-current assets			
Fixed assets			
— Investment properties		62,000	49,900
— Other property, plant and equipment		1,318	1,634
	15(b)	63,318	51,534
Interest in subsidiaries	16	313,520	314,104
Interest in associates	17	132,744	149,381
Investment securities	18(a)	540	1,000
		510,122	516,019
Current assets			
Other securities	18(b)	3,247	2,813
Trade and other receivables	22	6,529	2,798
Cash and cash equivalents	23	19,593	23,824
		29,369	29,435
Current liabilities			
Trade and other payables	25	21,668	38,722
Amounts due to subsidiaries		5,557	2,587
		27,225	41,309
Net current assets/(liabilities)		2,144	(11,874)
Total assets less current liabilities		512,266	504,145
Non-current liabilities			
Convertible notes	26	—	80,000
Net assets		512,266	424,145

30 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	2003 \$'000	2002 \$'000
Shareholders' equity at 1 January	494,864	354,974
Surplus on revaluation of investment properties, net of minority interests and deferred tax	3,998	16,339
Exchange differences arising on translation of the PRC subsidiaries and associates	(1,807)	(181)
Net gains not recognised in the profit and loss account	2,191	16,158
Profit attributable to shareholders	102,762	115,509
Reserve realised upon disposal of a subsidiary	(184)	—
Movements in share capital		
— Shares issued under share option scheme	1,750	5,500
— Net share premium received	866	2,723
Net increase in shareholders' equity arising from capital transactions with shareholders	2,616	8,223
Shareholders' equity at 31 December	602,249	494,864

The notes on pages 34 to 85 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

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For the year ended 31 December 2003
(Expressed in Hong Kong dollars)

		2003		2002	
	Note	\$'000	\$'000	\$'000	\$'000
Investing activities					
Payment for purchase of fixed assets		(3,700)		(12,309)	
Proceeds on sales of investment securities		303		—	
Proceeds on sales of other securities		128		11,939	
Proceeds on sales of associates		—		541	
Dividends received from listed securities		260		659	
Dividends received from unlisted securities		—		178	
Dividends received from associates		1,340		100	
Proceeds on disposal of fixed assets		125		11	
Net cash inflow from disposal of a subsidiary	30(b)	<u>4,387</u>		<u>—</u>	
Net cash from investing activities			2,843		1,119
Financing activities					
Repayment of convertible notes		(80,000)		(105,000)	
Issue of new shares		2,616		8,223	
Repayment of bank borrowings		(4,812)		(340)	
Proceeds from new bank loans		<u>7,504</u>		<u>—</u>	
Net cash used in financing activities			(74,692)		(97,117)
Increase in cash and cash equivalents			11,447		15,009
Cash and cash equivalents at 1 January			243,010		228,001
Cash and cash equivalents at 31 December	23		254,457		243,010

The notes on pages 34 to 85 form part of these financial statements.

For the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003 \$'000	2002 \$'000
Operating profit before changes in working capital brought forward		93,701	134,144
Decrease in inventories		3,507	3,734
(Increase)/decrease in trade debtors, bills and other receivables, deposits and prepayments		(25,620)	1,022
Increase in amounts due from fellow subsidiaries		(4,986)	(207)
Decrease in amounts due from minority shareholders		250	789
(Increase)/decrease in amounts due from related companies		(10)	909
Decrease in amounts due from associates		15,725	11,895
Increase/(decrease) in trade creditors, other payables and accrued charges		14,920	(7,465)
Increase in amounts due to related companies		1,523	127
Decrease in amounts due to holding company and fellow subsidiaries		(68)	(18,080)
Increase/(decrease) in amounts due to associates		703	(2,347)
(Decrease)/increase in amounts due to minority shareholders		(663)	519
Cash generated from operations		98,982	125,040
Interest received		5,446	3,531
Interest paid		(7,664)	(6,684)
PRC income tax paid		(13,468)	(10,880)
Net cash from operating activities		83,296	111,007

CONSOLIDATED CASH FLOW STATEMENT

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For the year ended 31 December 2003
(Expressed in Hong Kong dollars)

		2003		2002	
	Note	\$'000	\$'000	\$'000	\$'000
Operating activities					
Profit from ordinary activities before taxation		120,320		126,939	
Adjustments for:					
— Finance costs		7,664		12,045	
— Interest income		(4,526)		(4,785)	
— Dividend from listed securities		(260)		(659)	
— Dividend from unlisted securities		—		(124)	
— Net realised and unrealised gains on other securities carried at fair value		(562)		(150)	
— Net loss on disposal of investment securities		236		—	
— Net gain on disposal of associates		—		(427)	
— Net loss on disposal of fixed assets		1,069		1,378	
— Write-back of long outstanding payables		(33,185)		(9,891)	
— Net gain on disposal of a subsidiary		(9,097)		—	
— Write-back of provision for bad debts		(7,329)		(16,143)	
— Provision for impairment losses on fixed assets		30,862		18,812	
— Provision for inventories		282		6,920	
— Amortisation of negative goodwill		(1,447)		(1,557)	
— Depreciation		9,050		12,362	
— Share of profits less losses of associates		(19,376)		(10,576)	
Operating profit before changes in working capital carried forward		93,701		134,144	

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

38. LIST OF ASSOCIATES

Particulars of the associates at 31 December 2003 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		Principal activities
			the Company	Subsidiary	
Fruit and Vegetable Wharf (H.K.) Limited	Hong Kong	Ordinary	20%	—	Fruit and vegetable wholesaling
Yellow Dragon Food Industry Co., Ltd.*	The PRC	N/A	40%	—	Processing and sale of corn food and feed products
Zhongshan Baoli Food Ltd.*	The PRC	N/A	30%	—	Processing of canned food

* an equity joint venture established in the PRC

(Expressed in Hong Kong dollars)

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	Subsidiary
Guangnan (KK) Supermarket Limited [#]	Hong Kong	Ordinary	\$20,000,000	—	70%
Guangdong Guangnan Tianmei Food Development Company Limited ^{##}	The PRC	N/A	RMB34,820,000	—	55%
廣州經濟技術開發區 廣之傑倉儲有限公司 ^{###}	The PRC	N/A	US\$6,500,000	—	80%

[#] company commenced liquidation in June 2001

^{##} an equity joint venture established in the PRC and was petitioned to court for liquidation in July 2001

^{###} an equity joint venture established in the PRC and commenced liquidation in May 2003

NOTES ON THE FINANCIAL STATEMENTS

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(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		Principal activities
				the Company	Subsidiary	
Hinloon International Limited	Hong Kong	Ordinary	\$100,000	100%	—	Dormant
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 Limited	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	—	—	
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

(Expressed in Hong Kong dollars)

36. LIST OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2003 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		Principal activities
				the Company	Subsidiary	
Best Keen Enterprises Limited (Incorporated in the British Virgin Islands)	Hong Kong	Ordinary	US\$1	100%	—	Dormant
Dongguan Jinhuan Food Co., Ltd.#	The PRC	N/A	RMB40,000,000	—	100%	Leasing
Gain First Investments Limited (Incorporated in the British Virgin Islands)	Hong Kong	Ordinary	US\$1	100%	—	Investment holding
高要廣南畜牧發展有限公司*	The PRC	N/A	US\$3,759,000	51%	—	Leasing
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
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

(Expressed in Hong Kong dollars)

33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)*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.
- (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 (approximately HK\$52,000,000) 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 \$9,782,000 (2002: \$25,507,000) and \$Nil (2002: \$920,000) 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' 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 the appropriate local defined contribution schemes 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 2003 was \$1,979,000 (2002: \$2,572,000). The forfeited contribution refunded for the year amounted to \$1,405,000 (2002: \$2,039,000).

35. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2003 to be Guangdong Yue Gang Investment Holdings Company Limited, which is established in the PRC.

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(Expressed in Hong Kong dollars)

32. LITIGATION (Continued)

Management recognises that the debt collection to be important to the Group and will continue to commit reasonably sufficient resources in this regard. At this stage, the debt recovery work is still in progress, including appointing debt collection agents and making legal claims against certain debtors, in order to recover as much debt as possible.

33. MATERIAL RELATED PARTY TRANSACTIONS

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

	Note	2003 \$'000	2002 \$'000
Sales of goods to related companies	(b)	2,776	7,712
Purchases of goods from related companies	(b)	23,582	24,525
Interest income from an associate	(c)	1,462	2,340
Net gain on disposal of associates		—	427
Cash paid to a fellow subsidiary for early redemption of convertible notes	26	80,000	105,000
Management fee income from related companies		—	1,010
Reimbursement of expenses to the immediate holding company		428	833
Interest on convertible notes payable to a fellow subsidiary		3,443	6,345
Subsidy received from the immediate holding company		—	5,712
Provision of electricity/water and leasing services to a fellow subsidiary		3,181	3,187
Agency fee paid to a related company		582	41

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(Expressed in Hong Kong dollars)

31. COMMITMENTS

- (a) Capital commitments outstanding as at 31 December 2003 not provided for in the financial statements were as follows:

	The Group	
	2003	2002
	\$'000	\$'000
Contracted for	971	1,348
Authorised but not contracted for	2,814	2,825
	<u>3,785</u>	<u>4,173</u>

- (b) At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	The Group	
	2003	2002
	\$'000	\$'000
Within 1 year	625	707
After 1 year but within 5 years	939	915
After 5 years	4,342	—
	<u>5,906</u>	<u>1,622</u>

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

- (c) At 31 December 2003, the Company had committed to provide finance of \$6,489,000 (2002: \$6,489,000) to an associate of the Group.

32. LITIGATION

At 31 December 2003, the Group had an outstanding litigation against a former minority shareholder of a subsidiary in respect of amounts due to the Group totalling approximately \$40,000,000. The Group has pledged an equivalent amount of bills receivable with an authorised bank in the PRC in order to obtain a guarantee issued in favour of the Group to the Dongguan Intermediate People's Court. Full provision has previously been made against this receivable.

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(Expressed in Hong Kong dollars)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary

	2003 \$'000
Net assets/(liabilities) disposed:	
Inventories	18,666
Debtors, deposits and prepayments	5,536
Cash and cash equivalents	324
Creditors and accrued charges	(12,759)
Short-term loan	(3,777)
Amount due to minority shareholders	(12,192)
	<u>(4,202)</u>
Release of reserves	(184)
	<u>(4,386)</u>
Satisfied by cash received	<u>4,711</u>

(b) Analysis of net cash inflow in respect of the disposal of a subsidiary

	2003 \$'000
Cash consideration	4,711
Cash and cash equivalents disposed	(324)
	<u>4,387</u>
Net cash inflow in respect of the disposal of a subsidiary	<u>4,387</u>

NOTES ON THE FINANCIAL STATEMENTS 77

(Expressed in Hong Kong dollars)

29. RESERVES (Continued)**(a) The Group (Continued)**

Included in the accumulated losses as at 31 December 2003 is a loss of \$27,497,000 (2002: loss of \$48,431,000) attributable to associates.

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 \$'000	Capital redemption reserve \$'000	Capital reserve \$'000	Investment properties revaluation reserve \$'000	Accumulated losses \$'000	Total \$'000
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 (see 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 1 January 2003	1,746,232	971	48,157	—	(2,271,048)	(475,688)
Shares issued under share option scheme	866	—	—	—	—	866
Revaluation surplus (see note 15(d))	—	—	—	12,100	—	12,100
Profit for the year	—	—	—	—	73,405	73,405
At 31 December 2003	1,747,098	971	48,157	12,100	(2,197,643)	(389,317)

At 31 December 2002 and 2003, there was no reserve available for distribution to shareholders of the Company.

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(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 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, net of minority interests (see 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)
At 1 January 2003	1,746,232	971	49,050	677	16,602	3,163	(2,221,664)	(404,969)
Exchange differences arising on consolidation	—	—	—	(1,232)	—	—	—	(1,232)
Profit for the year	—	—	—	—	—	—	102,762	102,762
Revaluation surplus, net of minority interests and deferred tax (note 15(d))	—	—	—	—	3,998	—	—	3,998
Reserves realised upon disposal of a subsidiary	—	—	—	32	—	(216)	—	(184)
Shares issued under share option scheme	866	—	—	—	—	—	—	866
Share of associates' reserves	—	—	—	(575)	—	—	—	(575)
Transfer to statutory reserve	—	—	—	—	—	9,060	(9,060)	—
At 31 December 2003	1,747,098	971	49,050	(1,098)	20,600	12,007	(2,127,962)	(299,334)

(Expressed in Hong Kong dollars)

28. SHARE CAPITAL (Continued)

On 16 September 2003, options were exercised to subscribe for 16,500,000 ordinary shares of \$0.1 each in the Company at a consideration of \$2,467,000, of which \$1,650,000 was credited to share capital and the remaining balance of \$817,000 was credited to the share premium account.

On 11 November 2003, options were exercised to subscribe for 1,000,000 ordinary shares of \$0.1 each in the Company at a consideration of \$149,000, of which \$100,000 was credited to share capital and the remaining balance of \$49,000 was credited to the share premium account.

During 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.

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(Expressed in Hong Kong dollars)

27. EQUITY COMPENSATION BENEFITS (Continued)

(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	2003 Number	2002 Number
24/08/2001	26/11/2001 to 25/11/2006	\$0.1495	33,500,000	176,000,000

(c) Details of share options exercised during the year

Exercise date	Exercise price	Market value per share at exercise date	Proceeds received	Number
16/09/2003	\$0.1495	\$0.165	\$2,466,750	16,500,000
11/11/2003	\$0.1495	\$0.169	\$149,500	1,000,000
				17,500,000

28. SHARE CAPITAL

	2003		2002	
	Number of shares (thousand)	\$'000	Number of shares (thousand)	\$'000
<i>Authorised:</i>				
Ordinary shares of \$0.1 each	15,000,000	1,500,000	15,000,000	1,500,000
<i>Issued and fully paid:</i>				
At 1 January	8,998,333	899,833	8,943,333	894,333
Shares issued under share option scheme	17,500	1,750	55,000	5,500
At 31 December	9,015,833	901,583	8,998,333	899,833

(Expressed in Hong Kong dollars)

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 ("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 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.

(a) Movements in share options

	2003 Number	2002 Number
At 1 January	176,000,000	302,200,000
Exercised	(17,500,000)	(55,000,000)
Lapsed	(125,000,000)	(71,200,000)
	33,500,000	176,000,000
At 31 December	33,500,000	176,000,000
Options vested at 31 December	33,500,000	176,000,000

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(Expressed in Hong Kong dollars)

25. TRADE AND OTHER PAYABLES (Continued)

The amount of trade and other payables expected to be settled after more than one year is \$1,022,000 (2002: \$2,149,000).

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

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Due within 1 month or on demand	74,443	61,092	3,359	3,359
Due after 1 month but within 3 months	334	—	—	—
Due after 3 months but within 12 months	13	10	—	—
Due after 1 year but within 2 years	23	—	—	—
Over 2 years	70	70	—	—
	74,883	61,172	3,359	3,359

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.

In 2002, convertible notes totalling \$105,000,000 were redeemed for cash at their nominal value. During the year, the Company redeemed the remaining convertible notes totalling \$80,000,000 for cash at their nominal value.

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(Expressed in Hong Kong dollars)

24. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Secured bank loans	2,814	—	—	—
Unsecured bank loans	—	3,898	—	—
Unsecured other loans	54,886	55,114	—	—
	57,700	59,012	—	—

At 31 December 2003, the Group's bank loans of \$2,814,000 (2002: \$3,898,000) were secured by certain of the Group's fixed assets with net book value of \$2,814,000. Other loans are unsecured, repayable on demand and bear interest at a range of 6.5% to 7.5% (2002: 6.5% to 7.67%) per annum.

At 31 December 2003, the interest-bearing borrowings were repayable as follows:

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Within 1 year or on demand	57,700	59,012	—	—

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Trade creditors	74,883	61,172	3,359	3,359
Other payables and accrued charges	129,422	174,790	17,904	34,698
Amounts due to associates	2,405	1,702	—	—
Amounts due to minority shareholders	7,204	3,993	—	—
Amounts due to holding companies and fellow subsidiaries	46,608	46,676	108	201
Amounts due to related companies	1,914	391	297	464
	262,436	288,724	21,668	38,722

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(Expressed in Hong Kong dollars)

22. TRADE AND OTHER RECEIVABLES (Continued)

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

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Within 1 month	116,852	40,931	—	—
1 to 3 months	6,294	37,712	—	—
More than 3 months but less than 12 months	947	22,599	—	—
More than 1 year but less than 2 years	328	104	—	—
More than 2 years	46	—	—	—
	124,467	101,346	—	—

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

Certain bills receivable of the Group totalling \$40,000,000 as at 31 December 2003 were pledged with a bank in order to obtain a guarantee issued in favour of the Group to the Dongguan Intermediate People's Court in a litigation against a former minority shareholder of a subsidiary for amounts due to the Group for \$40,000,000. Details are disclosed in note 32.

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Deposits with banks	127,605	173,338	11,351	23,005
Cash at bank and in hand	126,852	69,672	8,242	819
	254,457	243,010	19,593	23,824

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(Expressed in Hong Kong dollars)

21. INVENTORIES

	The Group	
	2003 \$'000	2002 \$'000
Raw materials	32,752	39,746
Finished goods	11,376	26,566
Spare parts and consumables	100	371
	44,228	66,683

No inventories included in finished goods are stated net of a provision (2002: \$6,235,000) made in order to state these inventories at the lower of their cost and estimated net realisable value.

22. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Trade debtors	41,058	39,736	—	—
Bills receivable	83,409	61,610	—	—
Other receivables, deposits and prepayments	18,749	13,798	1,859	2,635
Amounts due from minority shareholders less provision	—	909	—	—
Amounts due from fellow subsidiaries	5,333	347	4,670	163
Amounts due from related companies less provision	33	23	—	—
	148,582	116,423	6,529	2,798

Included in the trade and other receivables are balances of \$101,000 (2002: \$639,000) expected to be recovered after one year.

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(Expressed in Hong Kong dollars)

19. INCOME TAX IN THE BALANCE SHEET (Continued)

(c) Deferred tax assets unrecognised:

Deferred tax assets have not been recognised in respect of the following items:

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Deductible temporary differences	100,712	—	—	—
Tax losses	2,512,713	2,497,894	2,407,328	2,390,150
	<u>2,613,425</u>	<u>2,497,894</u>	<u>2,407,328</u>	<u>2,390,150</u>

The deductible temporary differences and tax losses do not expire under current tax legislation, except for an amount of \$12,428,000, being an amount of unrecognised tax loss, which will expire in the coming 5 years.

20. NEGATIVE GOODWILL

The Group
\$'000

Carrying value:

At 1 January 2003	18,693
Amortisation for the year (note 7(c))	<u>(1,447)</u>
At 31 December 2003	<u>17,246</u>

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.

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

19. INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised:

The Group

	Depreciation allowances in excess of related depreciation \$'000	Revaluation of investment properties \$'000	Provisions \$'000	Total \$'000
Deferred tax arising from:				
At 1 January 2002	—	—	(4,957)	(4,957)
Credited to consolidated profit and loss account	—	—	(807)	(807)
At 31 December 2002	—	—	(5,764)	(5,764)
At 1 January 2003	—	—	(5,764)	(5,764)
Exchange differences	—	—	26	26
Charged to consolidated profit and loss account	7,492	—	265	7,757
Charged to reserve	—	3,538	—	3,538
At 31 December 2003	7,492	3,538	(5,473)	5,557
			2003	2002
			\$'000	\$'000
Net deferred tax asset recognised on the consolidated balance sheet			(3,778)	(5,764)
Net deferred tax liability recognised on the consolidated balance sheet			9,335	—
			5,557	(5,764)

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(Expressed in Hong Kong dollars)

19. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2003 \$'000	2002 \$'000
Provision for Hong Kong Profits Tax for the year	258	—
Balance of Profits Tax provision relating to prior years	(1,584)	1,029
	(1,326)	1,029
Taxation outside Hong Kong	5,197	7,115
Amount of taxation payable expected to be settled within 1 year	3,871	8,144
Representing:		
Tax recoverable	(1,326)	—
Tax payable	5,197	8,144
	3,871	8,144

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

17. INTEREST IN ASSOCIATES

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Unlisted shares, at cost	—	—	245,530	245,530
Share of net assets	145,196	124,837	—	—
Amounts due from associates	9,782	26,427	9,782	26,419
	154,978	151,264	255,312	271,949
Less: impairment loss	—	—	(122,568)	(122,568)
	154,978	151,264	132,744	149,381

The amounts due from associates included a loan to Yellow Dragon Food Industry Company Limited of \$9,782,000 (2002: \$25,507,000), 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.

18. INVESTMENTS IN SECURITIES

(a) Investment securities

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Unlisted equity securities, at cost	540	1,079	540	1,000

(b) Other securities

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Equity securities listed in Hong Kong, at market value	3,247	2,813	3,247	2,813

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(Expressed in Hong Kong dollars)

15. FIXED ASSETS (Continued)

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

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Within 1 year	18,450	21,732	1,728	1,969
After 1 year but within 5 years	59,126	61,171	1,323	3,051
After 5 years	78,001	37,716	—	—
	155,577	120,619	3,051	5,020

- (f) Certain of the Group's fixed assets with net book value of \$2,814,000 (2002: \$Nil) were pledged to secure general banking facilities totalling \$9,004,000 (2002: \$Nil) of the Group as at 31 December 2003.

16. INTEREST IN SUBSIDIARIES

	The Company	
	2003	2002
	\$'000	\$'000
Unlisted shares, at cost	249,878	281,610
Amounts due from subsidiaries	656,105	649,541
	905,983	931,151
Less: impairment loss	(592,463)	(617,047)
	313,520	314,104

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 companies under liquidation which have not been consolidated in the financial statements are set out in note 37.

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

15. FIXED ASSETS (Continued)

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

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
In Hong Kong on long-term leases	62,000	49,900	62,000	49,900
Elsewhere in the PRC on medium-term leases	240,101	275,582	—	—
	302,101	325,482	62,000	49,900

- (d) Investment properties of the Group and the Company situated in Hong Kong totalling \$62,000,000 (2002: \$49,900,000) were revalued by Centaline Surveyors Limited, who have among their Members of Hong Kong Institute of Surveyors, on an open market value basis at 31 December 2003. Investment properties of the Group situated in the PRC totalling \$123,988,000 (2002: \$128,148,000) 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 2003.

On the Group level, the net revaluation surplus after minority interest and deferred tax of \$3,998,000 (2002: \$16,339,000) has been transferred to the investment property revaluation reserve (see note 29(a)). On the Company level, the revaluation surplus of \$12,100,000 (2002: revaluation deficit of \$263,000 was set off against the investment properties revaluation reserve) has been transferred to the investment properties revaluation reserve (see note 29(b)).

- (e) The Group leases out investment properties, a pig farm 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 \$185,988,000 (2002: \$178,048,000) and \$62,000,000 (2002: \$49,900,000) respectively. The gross carrying amount of machinery of the Group held for use in operating leases was \$9,110,000 (2002: \$26,481,000) and the related accumulated depreciation was \$7,698,000 (2002: \$21,607,000).

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(Expressed in Hong Kong dollars)

15. FIXED ASSETS (Continued)

(b) The Company

	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 2003	3,297	2,442	1,869	7,608	49,900	57,508
Additions	—	214	—	214	—	214
Disposals	(1,916)	(44)	—	(1,960)	—	(1,960)
Surplus on revaluation	—	—	—	—	12,100	12,100
At 31 December 2003	1,381	2,612	1,869	5,862	62,000	67,862
Representing:						
Cost	1,381	2,612	1,869	5,862	—	5,862
Valuation — 2003	—	—	—	—	62,000	62,000
	1,381	2,612	1,869	5,862	62,000	67,862
Accumulated depreciation:						
At 1 January 2003	2,967	1,138	1,869	5,974	—	5,974
Charge for the year	156	247	—	403	—	403
Written back on disposal	(1,812)	(21)	—	(1,833)	—	(1,833)
At 31 December 2003	1,311	1,364	1,869	4,544	—	4,544
Net book value:						
At 31 December 2003	70	1,248	—	1,318	62,000	63,318
At 31 December 2002	330	1,304	—	1,634	49,900	51,534

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

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 2003	208,806	3,830	146,612	4,993	364,241	178,048	542,289
Exchange adjustments	(580)	—	(1,239)	(26)	(1,845)	(560)	(2,405)
Additions	—	—	1,848	462	2,310	1,390	3,700
Disposals							
— through disposal of a subsidiary	(25,967)	—	(9,090)	(547)	(35,604)	—	(35,604)
— others	(66)	(1,916)	(5,303)	(1,397)	(8,682)	—	(8,682)
Surplus on revaluation	—	—	—	—	—	7,110	7,110
At 31 December 2003	182,193	1,914	132,828	3,485	320,420	185,988	506,408
Representing:							
Cost	182,193	1,914	132,828	3,485	320,420	—	320,420
Valuation — 2003	—	—	—	—	—	185,988	185,988
	182,193	1,914	132,828	3,485	320,420	185,988	506,408
Accumulated depreciation and impairment:							
At 1 January 2003	61,372	3,500	79,205	3,502	147,579	—	147,579
Exchange adjustments	(319)	—	(1,059)	(24)	(1,402)	—	(1,402)
Charge for the year	3,141	156	5,554	199	9,050	—	9,050
Impairment loss	27,892	—	2,970	—	30,862	—	30,862
Written back on disposal	(39)	(1,812)	(4,565)	(1,072)	(7,488)	—	(7,488)
Through disposal of a subsidiary	(25,967)	—	(9,090)	(547)	(35,604)	—	(35,604)
At 31 December 2003	66,080	1,844	73,015	2,058	142,997	—	142,997
Net book value:							
At 31 December 2003	116,113	70	59,813	1,427	177,423	185,988	363,411
At 31 December 2002	147,434	330	67,407	1,491	216,662	178,048	394,710

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(Expressed in Hong Kong dollars)

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 is a major market for most of the Group's other business.

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.

	2003		
	The PRC \$'000	Hong Kong \$'000	Others \$'000
Revenue from external customers	719,699	798,781	7,327
Segment assets	666,585	148,107	—
Capital expenditure	3,418	66	—

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

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

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		

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(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

	2003						
	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	482,358	56,271	36,888	13,190	225,985	(55,443)	759,249
Interest in associates	—	403	—	—	—	—	403
Unallocated assets							196,323
Total assets							955,975
Segment liabilities	137,144	50,793	14,283	11,023	61,392	(55,443)	219,192
Interest-bearing borrowings							57,700
Unallocated liabilities							56,450
Total liabilities							333,342
Capital expenditure incurred during the year	2,819	—	77	66	522		

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

	For the year ended 31 December 2002							Consolidated \$'000
	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Foodstuffs trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'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
Share of profits less losses of associates	—	(134)	—	107	—		10,603	10,576
Non-operating income								35,989
Non-operating expenses								(18,812)
Finance costs								(12,045)
Income tax								(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	—	—			

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(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

	For the year ended 31 December 2003							Consolidated \$'000
	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Foodstuffs trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'000	
Revenue from external customers	538,765	751,901	145,892	52,190	37,059	—	—	1,525,807
Inter-segment revenue	1,098	—	—	—	—	(1,098)	—	—
Other revenue from external customers	—	—	—	—	—	—	6,916	6,916
Total	539,863	751,901	145,892	52,190	37,059	(1,098)	6,916	1,532,723
Segment result	57,153	11,100	(12,122)	646	26,491			83,268
Unallocated operating income and expenses								(10,319)
Profit from operations								72,949
Share of profits less losses of associates	—	(113)	—	—	—		19,489	19,376
Non-operating income								66,521
Non-operating expenses								(30,862)
Finance costs								(7,664)
Income tax								(12,933)
Minority interests								(4,625)
Profit attributable to shareholders								102,762
Depreciation for the year	5,130	73	2,787	56	601			
Impairment loss for the year	—	—	30,862	—	—			

(Expressed in Hong Kong dollars)

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	:	Production and sales of tinplate 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

54 NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12. EARNINGS PER SHARE (Continued)

(c) Reconciliation

	2003 Number of shares (thousand)	2002 Number of shares (thousand)
Weighted average number of ordinary shares used in calculating basic earnings per share	9,003,262	8,996,826
Deemed issue of ordinary shares for no consideration	493,150	911,576
	<u>9,496,412</u>	<u>9,908,402</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	9,496,412	9,908,402
	<u>9,496,412</u>	<u>9,908,402</u>
	2003 Earnings \$'000	2002 Earnings \$'000
Profit attributable to shareholders	102,762	115,509
Interest saving following conversion of the convertible notes converted	3,443	6,345
	<u>106,205</u>	<u>121,854</u>
Adjusted profit attributable to shareholders used in calculating diluted earnings per share	106,205	121,854

13. CHANGES IN ACCOUNTING POLICIES

In prior years, deferred tax liabilities were 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 were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax as set out in note 1(n). As a result of the adoption of this accounting policy, the Group's profit for the year has been decreased by \$7,492,000 and the net assets as at the year end have been decreased by \$11,030,000.

The new accounting policy has been adopted prospectively as the effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

(Expressed in Hong Kong dollars)

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included three Directors of the Company (2002: three), details of whose remuneration are set out in note 9 above. The remuneration of the other two (2002: two) individuals are as follows:

	2003	2002
	\$'000	\$'000
Salaries and other emoluments	1,126	1,015
Discretionary bonuses	1,507	316
Retirement scheme contributions	328	157
	2,961	1,488

The remuneration of the two (2002: two) individuals are within the band of \$1,000,001 to \$1,500,000 and \$1,500,001 to \$2,000,000 respectively.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of \$73,405,000 (2002: \$60,799,000) which has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$102,762,000 (2002: \$115,509,000) and the weighted average of 9,003,262,000 (2002: 8,996,826,000) 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 \$106,205,000 (2002: \$121,854,000) and the weighted average number of 9,496,412,000 (2002: 9,908,402,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares for the year ended 31 December 2003.

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(Expressed in Hong Kong dollars)

9. DIRECTORS' REMUNERATION

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

	2003 \$'000	2002 \$'000
Fees	24	24
Salaries and other emoluments	3,304	3,218
Discretionary bonuses	1,068	815
Retirement scheme contributions	536	455
	4,932	4,512

Included in the Directors' remuneration were fees and other emoluments of \$9,000 and \$900,000 (2002: \$9,000 and \$900,000) respectively paid to the Independent Non-executive Directors during the year.

The remuneration of the Directors is within the following band:

	2003 Number of Directors	2002 Number of Directors
\$		
Nil-1,000,000	6	12
1,000,001-1,500,000	2	1
1,500,001-2,000,000	1	—
	9	13

(Expressed in Hong Kong dollars)

8. INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT (Continued)

(a) Taxation in the consolidated profit and loss account represents: (Continued)

Income tax for subsidiaries or associates established and operating in the People's Republic of China other than Hong Kong (the "PRC") is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC. The effect of increase in tax rate on the deferred tax balance relates to the anticipated change in the tax rate applicable to certain PRC subsidiaries of the Group according to the expected manner of realisation of the respective temporary differences.

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003 \$'000	2002 \$'000
Profit before tax	<u>120,320</u>	<u>126,939</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	15,396	14,054
Tax effect of non-deductible expenses	29,559	28,574
Tax effect of non-taxable revenue	(26,038)	(29,516)
Tax effect of unused tax losses not recognised	(1,706)	(3,010)
Effect on opening deferred tax balances resulting from an increase in tax rate in the PRC during the year	(4,147)	—
Over-provision in prior years	<u>(131)</u>	<u>(355)</u>
Actual tax expense	<u>12,933</u>	<u>9,747</u>

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(Expressed in Hong Kong dollars)

8. INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(a) Taxation in the consolidated profit and loss account represents:

	2003 \$'000	2002 \$'000
Current tax — Provision for Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax at 17.5% (2002: 16%) on the estimated assessable profits for the year	258	—
Over-provision in respect of prior years	(2,613)	(355)
	<u>(2,355)</u>	<u>(355)</u>
Current tax — the PRC		
Tax for the year	7,947	10,755
Under-provision in respect of prior years	2,482	—
	<u>10,429</u>	<u>10,755</u>
Deferred tax		
Origination and reversal of temporary differences	6,997	(807)
Effect of increase in tax rate in the PRC on deferred tax balances at 1 January	(4,147)	—
Benefit of previously unrecognised tax losses now recognised	4,907	—
	<u>7,757</u>	<u>(807)</u>
Share of associates' taxation	<u>(2,898)</u>	<u>154</u>
Total income tax expense	<u>12,933</u>	<u>9,747</u>

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

7. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003	2002
	\$'000	\$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	4,221	4,200
Interest on convertible notes	3,443	6,345
Interest incurred in settling a claim	—	1,500
	7,664	12,045
(b) Staff costs:		
Net contributions paid to defined contribution plans	574	533
Salaries, wages and other benefits	42,402	51,766
	42,976	52,299
(c) Other items:		
Cost of inventories sold	1,373,795	1,571,001
Auditors' remuneration	1,940	2,297
Depreciation	9,050	12,362
Operating lease charges in respect of property rentals	1,026	1,125
Amortisation of negative goodwill (note 20)	(1,447)	(1,557)
Rentals receivable from investment properties less direct outgoings of \$3,551,000 (2002: \$3,591,000)	(32,626)	(21,488)

Cost of inventories includes \$18,544,000 (2002: \$21,470,000) 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 \$282,000 (2002: \$6,920,000) has been included in cost of inventories.

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(Expressed in Hong Kong dollars)

4. OTHER NET EXPENSES

	2003 \$'000	2002 \$'000
Net loss on disposal of fixed assets	(1,069)	(1,378)
Net loss on disposal of investment securities	(236)	—
Net realised and unrealised gains on other securities carried at fair value	562	150
Net exchange gain	269	199
Others	260	427
	<u>(214)</u>	<u>(602)</u>

5. NON-OPERATING INCOME

	Note	2003 \$'000	2002 \$'000
Write-back of long outstanding payables	(i)	33,185	9,891
Recovery of bad debts	(ii)	24,239	26,098
Net gain on disposal of a subsidiary		9,097	—
		<u>66,521</u>	<u>35,989</u>

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 were written back to the profit and loss account accordingly.

6. NON-OPERATING EXPENSES

	2003 \$'000	2002 \$'000
Provision for impairment losses on fixed assets	<u>30,862</u>	<u>18,812</u>

In view of the poor trading conditions experienced by certain subsidiaries, the Directors have reviewed the carrying value of the relevant subsidiaries' fixed assets and concluded that it is appropriate to recognise impairment losses of \$30,862,000 (2002: \$18,812,000) against certain fixed assets as at 31 December 2003.

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

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:

	2003 \$'000	2002 \$'000
Sales of goods		
— Tinplating	538,765	565,906
— Live and fresh foodstuffs distribution	751,901	977,642
— Feed production and livestock farming	145,892	141,474
— Foodstuffs trading	52,190	69,626
	1,488,748	1,754,648
Property leasing	37,059	28,372
	1,525,807	1,783,020

3. OTHER REVENUE

	2003 \$'000	2002 \$'000
Interest income	4,526	4,785
Write-back of provision for bad debts	577	2,467
Management income	437	1,630
Dividends from listed securities	260	659
Rental income	225	521
Subsidy received	—	5,712
Dividends from unlisted securities	—	124
Others	5,677	6,175
	11,702	22,073

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(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(s) 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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(p) Revenue recognition (Continued)***(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.

(q) 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 translated into Hong Kong dollars 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 a subsidiary or an associate 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.

(r) 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 operating 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.

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(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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.

(p) 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.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(n) Income tax (Continued)**

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

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(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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.
- (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.

(n) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

(Expressed in Hong Kong dollars)

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

(l) 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.

(m) 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, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

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(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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 (i.e. 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.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(h) Leased assets (Continued)****(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(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(p).

(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.

(i) 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

38 NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets (Continued)

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

(h) Leased assets

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

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(e) Negative goodwill (Continued)**

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.

(f) 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.

(g) 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.

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(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates (Continued)

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 (see note 1(j)), 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.

(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.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(c) Subsidiaries and controlled enterprises (Continued)**

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the profit and loss account.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)), 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).

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(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These 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.

5. 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.
6. 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.
7. 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.

- (4) the Dougguan 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;
 - (5) the Guangnan Zhanjiang Transaction has been entered into such that the aggregate amount of the transaction as stated in the announcement dated 15 May 2003 has not exceeded the Cap Amount of HK\$10,000,000 and has been less than 3% of the book value of the audited net tangible assets of the Group at 31 December 2003; and
 - (6) the 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.
2. 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 Foodstuffs is a substantial shareholder with a 49% interest in Gaoyao Guangnan and is therefore a connected person of the Company.
3. 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.
4. 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 Transactions described in A, B, C and D above and confirmed that Transactions are:

- (i) entered into by Shan Hai Industrial, Zhongyue Tinplate, Dongguan Guangnan and Guangnan Zhanjiang in their ordinary and usual course of businesses;
- (ii) conducted on normal commercial terms or on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iii) entered into in accordance with the terms of agreements 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:

- (i) the aggregate amount for the year ended 31 December 2003 did not exceed the cap amounts of HK\$2,000,000 for the Shan Hai Transaction and HK\$2,700,000 for the Tinplate Transaction and has been less than 3% of the book value of the audited net tangible assets of the Group at 31 December 2003;
- (ii) the aggregate value of the Dongguan Guangnan Transactions for the year ended 31 December 2003 did not exceed the higher of HK\$10,000,000 and 3% of the book value of the audited net tangible assets of the Group at 31 December 2003; and
- (iii) the aggregate value of the Guangnan Zhanjiang Transaction for the year ended 31 December 2003 did not exceed the higher of HK\$10,000,000 and 3% of the book value of the audited net tangible assets of the Group at 31 December 2003.

The Company's auditors have also reviewed the 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:

- (1) the Transactions have received the approval of the Board of Directors of the Company;
- (2) the Shan Hai and Tinplate Transactions have been entered into such that the aggregate amount has not exceeded the Cap Amount of HK\$2,000,000 for the leasing of land and the provisions of staff quarters and utilities and HK\$2,700,000 for the provisions of electricity and water and has been less than 3% of the book value of the audited net tangible assets of the Group at 31 December 2003;
- (3) 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 exceeded the Cap Amount of HK\$10,000,000 and has been less than 3% of the book value of the audited net tangible assets of the Group at 31 December 2003;

1. 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 A, B, C and D below (collectively the “Transactions”) 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 Transactions are as follows:

- 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”) (“Shan Hai Transaction”) in its ordinary course of business and on normal commercial terms for approximately HK\$1,553,000. GD Decorative is a subsidiary of GDH Limited (“GDH”), substantial shareholder of the Company.
- 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 (“Tinplate Transaction”) in its ordinary course of business and on normal commercial terms for approximately HK\$1,628,000.
- C. Dongguan Guangnan Stock Development Co., Ltd. (“Dongguan Guangnan”), 廣東省東莞食品進出口公司大嶺山豬場 (Dalingshan Pig Farm of Dongguan Foodstuffs Imp. & Exp. Co. of Guangdong) (“Dalingshan Pig Farm”) and 東莞廣利飼料公司 (Dongguan Guangli Feed Co. Ltd.) (“Dongguan Guangli”) entered into transactions in the ordinary course of business and on normal commercial terms of Dongguan Guangnan, including: (a) purchase of feed by Dongguan Guangnan from Dalingshan Pig Farm for approximately HK\$205,000; (b) sales of livestock by Dongguan Guangnan to Dalingshan Pig Farm for approximately HK\$974,000; and (c) purchase of feed and additives by Dongguan Guangnan from Dongguan Guangli for approximately HK\$4,019,000 (collectively “Dongguan Guangnan Transactions”). Dalingshan Pig Farm is a subsidiary and Dongguan Guangli is an associated company of 廣東省東莞食品進出口公司 (Dongguan Foodstuffs Imp. & Exp. Co. of Guangdong) which was a then connected person of the Company at the time when Dongguan Guangnan Transactions were entered into.
- D. Guangnan (Zhan Jiang) Jiafeng Feed Co. Ltd. (“Guangnan Zhanjiang”) has in its ordinary course of business and on normal commercial terms purchased barley malt sprouts from Guangzhou Malting Co., Limited (“Guangzhou Malting”) with for approximately HK\$1,001,000 (“Guangnan Zhanjiang Transaction”). Guangzhou Malting is an indirect subsidiary of GDH.

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

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Assets and liabilities

	As at 31 December				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fixed assets	363,411	394,710	397,846	234,189	712,396
Pre-operating expenses and other intangible assets	—	—	—	—	16,502
Interest in associates	154,978	151,264	152,238	171,160	169,242
Negative goodwill	(17,246)	(18,693)	(20,250)	—	—
Other non-current assets	4,318	6,843	6,036	—	137,648
Net current assets/(liabilities)	126,507	73,049	33,848	(75,081)	(2,317,540)
Total assets less current liabilities	631,968	607,173	569,718	330,268	(1,281,752)
Non-current liabilities	(9,335)	(92,186)	(196,349)	(20,257)	(33,561)
Minority interests	(20,384)	(20,123)	(18,395)	(60,640)	(78,912)
	602,249	494,864	354,974	249,371	(1,394,225)
Share capital	901,583	899,833	894,333	90,951	90,951
Reserves	(299,334)	(404,969)	(539,359)	(614,580)	(1,485,176)
Loan from immediate holding company	—	—	—	773,000	—
	602,249	494,864	354,974	249,371	(1,394,225)

Results

	For the year ended 31 December				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1,525,807	1,783,020	1,819,350	2,764,198	2,864,413
Profit/(loss) from operations	72,949	111,231	(6,063)	(77,608)	(119,528)
Net non-operating income	35,659	17,177	31,991	1,110,287	109,168
Finance costs	(7,664)	(12,045)	(1,273)	(169,441)	(203,187)
Share of profits less losses of associates	19,376	10,576	(12,220)	7,952	2,137
Profit/(loss) from ordinary activities					
before taxation	120,320	126,939	12,435	871,190	(211,410)
Income tax	(12,933)	(9,747)	(2,819)	(6,018)	1,252
Minority interests	(4,625)	(1,683)	41,902	885	15,939
Profit/(loss) attributable to shareholders	102,762	115,509	51,518	866,057	(194,219)
Earnings/(loss) per share					
Basic	1.14 cents	1.28 cents	0.61 cents	95 cents	(21 cents)
Diluted	1.12 cents	1.23 cents	N/A	N/A	N/A