GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

Annual Report 2004 年報

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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

CHAIRMAN'S STATEMENT

In addition to the growth in results, the Group has made further concrete progress in becoming professionalized. In 2004, the Group disposed of several non-core businesses, including Guangnan (Zhan Jiang) Jiafeng Feed Co. Ltd. ("Guangnan Jiafeng") and 高要廣南畜牧發展有限公司 (Gaoyao Guangnan Stock Development Co., Ltd.) ("Gaoyao"), which marked the complete withdrawal from non-core feed production and livestock farming businesses of the Group. The Group integrated the foodstuffs trading business into the live and fresh foodstuffs distribution business, which facilitated the management and resources realignment. The synergy from the integration of the foodstuffs distribution and trading businesses provided a stable source of profit for the Group. For the tinplating business, the construction of a tin-free steel production line with annual output of 80,000 tonnes was commenced and expected to commence production in June 2005. The production capability of tinplate and tin-free steel will be increased from currently 120,000 tonnes to 200,000 tonnes (please refer to the circular issued by the Company on 2 July 2004 for details).

Prospect

Being one of the major raw materials for metal packaging, the demand for tinplate has continued to rise and its prospects look promising. As the global demand for steel has driven up the price of the raw materials for tinplate to a high place, the gross profit margin of the tinplate business has come under considerable pressure. We believe, by widening the sourcing channels, the expanding production capability will gain a relatively reliable support in raw materials supply. In the current year, the production and sales volume of tinplate is expected to reach a new height. The black-plate manufacturing plant with an annual output of 150,000 tonnes is undergoing construction and is expected to commence operation by the end of 2006 (please refer to the circular issued by the Company on 23 February 2005 for details). By then, the shortage of black-plates that has been hindering the development of the tinplate business historically will basically be resolved. The tinplate business will be able to bring about an even stable profit to the Group.

Liang Jiang
Chairman
Hong Kong, 15 April 2005

CHAIRMAN'S STATEMENT

The Group's results recorded a growth during year 2004. The audited consolidated profit attributable to shareholders was HK$132,248,000, representing a growth of 28.7% as compared with HK$102,762,000 in 2003. The basic earnings per share was HK1.47 cents, representing a growth of 28.9% as compared with HK1.14 cents in 2003.

Business Review

In 2004, the operating environment remained undesirable, due to the impact of bird flu, which was more serious than in 2003, in live and fresh foodstuffs business, the shortage of raw materials of tinplates and the nearly historical high of the prices of various kinds of raw materials. During the year under review, by system adjustment and regulatory management, the Group enhanced its overall production, quality and facilities management; by strengthening the construction of the financial system and the management of fiscal budget appraisal, opening up new sources of revenue and reducing costs, as well as exploring various possibilities to increase efficiency, the Group successfully controlled the operating costs; by adjusting the product portfolios and increasing the production of tin-free steel advantageous products, the Group maximized the effectiveness of the limited resources; by adjusting the marketing strategies and dividing the market more specifically, the Group improved the marketing networks and marketing mechanism; by implementing an assessment and accountability system for operating objectives, as well as implementing the system to calculate the staff salary based on the applicable rate on different profit level of a unit, the Group increased the motivation of staff; by fully adopting the invitation to tender/tender exercise under the Sunshine Project (陽光工程), the Group achieved satisfactory results in reducing the operating costs. Although the live and fresh foodstuffs distribution business was affected by the bird flu at the beginning of the year, the Group improved the quality of the services and actively sought to increase the import of the live pigs from Guangdong Province. This not only compensated the loss caused by the fall of income from poultry agency business, but also brought about an increase of 25.0% in operating profit, as compared with 2003. As the tinplating business has not suffered from the negative impact of the macro-economic control measures adopted by the State, the production has been normal; the product quality was further improved and the products continued their brisk sales momentum. The turnover increased slightly as compared with 2003. Nevertheless, under the constraint caused by the shortages of black-plates and the substantial rise of the price of the principal raw materials, the gross profit margin fell by 4% as compared with 2003 and the operating profit was lower than that of 2003. Yellow Dragon Food Industry Co., Ltd., an associate of the Group, achieved remarkable results in production and sales volume. Its profit before tax increased by 49.3% as compared with 2003 while the profit attributable to the Group increased by HK$7,876,000.

During the year under review, the Group's profit before tax was HK$169,579,000, increased by HK$49,259,000 when compared with 2003. The consolidated profit attributable to shareholders was HK$132,248,000, representing an increase of 28.7% as compared with 2003. The growth was mainly resulted from a decrease of HK$30,862,000 of non-operating expenses and an increase of HK$9,785,000 of non-operating income in 2003 to HK$76,306,000. The non-operating income represented the write-back of liabilities which have been outstanding for a long time with no demand for settlement.

Employees and Remuneration Policies

As at 31 December 2004, the Group has a total of 448 full-time employees, decreased by 96 as compared with the end of 2003, of whom 23 were based in Hong Kong and 425 were based in 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 2004, 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 for the management. Through the assessment of the performance of each subsidiary and based on the net cash inflow from operation and profit before tax, performance bonus was calculated at applicable rate on different profit levels. 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. The Group has also adopted a share option scheme to reward, attract, retain and motivate excellent and brilliant participants to continue their contribution to the Group.

Charge on Group's Assets

As at 31 December 2004, certain bills receivable of the Group amounting to approximately HK$40,000,000 has been pledged with an authorized 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 an equivalent amount due to the Group.

Litigations

(i) The Group filed legal proceedings against a minority shareholder of a former subsidiary in respect of an amount of approximately HK$40,000,000 owed to the Group. Provision was fully made against such receivable as at 31 December 2000.

In March 2005, a judgement in favour of the Group had been obtained. The payment awarded under the judgement amounted to RMB27,000,000 together with interest thereon. The Group had lodged an appeal in respect of such difference on 12 April 2005, and the final verdict is still pending.

(ii) In May 2004, a PRC third party filed a claim against a subsidiary of the Group alleging that the subsidiary had not yet settled an outstanding amount due to it. The Intermediate People's Court of Yue Yang City ("岳陽市中級人民法院") has ordered to freeze a bank deposit of the subsidiary amounted to HK$4,700,000 in this regard.

According to the judgement of the Intermediate People's Court of Yue Yang City issued on 12 December 2004, the subsidiary was ordered to pay compensation and respective court charges amounted to RMB4,934,000 and RMB40,000, respectively. The subsidiary lodged an appeal to the High People's Court of Hunan Province ("湖南省高級人民法院") against the judgement and the judgement of the Intermediate People's Court of Yue Yang City was repudiated on 31 January 2005. Accordingly, the frozen bank deposit of HK$4,700,000 has been released.

Based on the available information to date, the Directors are of the opinion that as the final judgement was granted in favour of the subsidiary, no provision for legal claims is considered necessary.

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.

The management considered the feed production as a raw materials-processing-oriented industry and its gross profit is very low. The fluctuation of raw material prices is difficult to control. In addition, since the customers are stricken by bird flu from time to time, the account receivables were subject to substantial risk exposure. Therefore, the Group had sold Guangnan Jiafeng in its entirety. As such, the Group has withdrawn completely from the feed production business.

Livestock Farming

The Group's only livestock farming company — Gaoyao was closed during the year under review, and a contract was concluded in 2004, pursuant to which the 51% equity owned by the Group in the company was sold to a third party. As such, the Group has withdrawn completely from the livestock farming business.

Financial Position

As at 31 December 2004, the Group's total assets amounted to HK$996,768,000, and total liabilities stood at HK$204,651,000, representing an increase of HK$40,793,000 and a decrease of HK$128,691,000 respectively when compared with the position at the end of last year. The net current assets increased from HK$126,507,000 as at the end of 2003 to HK$254,835,000, and the current ratio (current assets divided by current liabilities) increased from 1.39 as at the end of 2003 to 2.32. The Group has a very sound financial position, paving the way for future business expansion.

Liquidity and Financing Resources

As at 31 December 2004, the Group maintained cash and cash equivalent balances of HK$293,383,000, an increase of 15.3% from the cash and cash equivalent balances at the end of last year. During the year under review, the major cash outflow was a repayment of HK$23,350,000 to a fellow subsidiary.

As at 31 December 2004, the Group's interest-bearing borrowings totalled HK$7,851,000, being repayable on demand and carrying interest at an annual rate of 7.5%. 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 significantly from 9.6% as at the end of 2003 to 1.0%.

As at 31 December 2004, the Group's total available banking facilities amounted to HK$214,048,000, of which HK$99,331,000 have been utilized. The unutilized banking facilities amounted to HK$114,717,000. With its cash and cash equivalent holdings and the recurring cash flow from its operations, the Group believes that it will have sufficient funds to meet its present operating requirements and the requirements for the construction of a new black-plate manufacturing factory for the present development of tinplating business, and to further develop its business in the foreseeable future.

MANAGEMENT DISCUSSION AND ANALYSIS

Live and Fresh Foodstuffs Distribution

In 2004, the turnover of live and fresh foodstuffs distribution business was recorded at HK$50,572,000, which decreased by HK$701,329,000 as compared with 2003, representing a decrease of 93.3%. This was principally attributable to a change of the operation mode in 2004 from the sale and purchase of commodities to pure agency services on commission basis. If comparison was made with last year using the same presentation, the Group would have recorded a fall of HK$5,078,000 in turnover, representing a decrease of 9.1%. Faced with the outbreak of the bird flu in the beginning of the year, the Group further downsized its personnel to lower its operating costs on one hand, while improving the service quality and seeking to increase its quota for import of live pigs from Guangdong to meet increasing demands for pork on the other hand, in order to increase the income from livestock business to offset the loss in poultry business caused by the bird flu. The turnover of the live and fresh foodstuffs distribution business recorded a fall, while the operating profit recorded an increase. In 2004, the operating profit was recorded at HK$13,872,000, which increased by HK$2,772,000 as compared with 2003, representing an increase of 25.0%.

Live and fresh foodstuffs distribution is the traditional business of the Group. By taking measures to open up new sources of revenue and reduce costs, to explore various possibilities to enhance benefits, as well as to establish an incentive mechanism, the Group continued to stabilize its live and fresh foodstuffs agency business so as to maintain its competitiveness and provide the Group with a stable source of profit.

Foodstuffs Trading

As affected by the outbreak of bird flu, the import of chilled chicken, one of the Group's principal foodstuffs trading businesses, was suspended for over two months, which has resulted in a turnover of HK$31,438,000, representing a decrease of 39.8% as compared with 2003. Profit from operations was HK$113,000, dropped by 82.5% as compared with 2003.

The management believes that the foodstuffs trading business is a non-core and non-advantageous business, contributing less profit to the Group. The management decided to conduct a resources alignment exercise for the foodstuffs trading business and integrated the foodstuffs trading business into Guangnan Fresh and Live Foodstuffs Limited for centralized management in October 2004, with an aim to make effective use of resources and improve efficiency.

Feed Production

In 2004, the turnover of the Group's subsidiary, Guangnan Jiafeng, amounted to HK$146,474,000, representing an increase of 26.9% as compared with 2003. Profit from operations was HK$2,287,000, which has turned from a deficit to a surplus.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Tinplating

The tinplate production of the Group's subsidiary, Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate"), amounted to 83,940 tonnes and its sales amounted to 84,786 tonnes, representing a decrease of 11.1% and 9.9% as compared with last year. The turnover of HK$574,443,000, increased by 6.6% as compared with last year. Operating profits decreased by HK$8,939,000 as compared with 2003, representing a decrease of 15.6%. The decrease was mainly due to the shortage of black-plates and the surge of the prices of raw materials, such as black-plates, crude oil and tin ingots. The increase of costs was comparatively larger than that of selling prices.

The tinplating business remained to be the core business which made the greatest contribution to the Group's profit with the most promising prospects and it, therefore, is our focus of development. In 2004, the tinplating business maintained its brisk momentum, which was unaffected by the State policy of macro-economic adjustment and control. However, owing to the hot sales of steel products worldwide, the supply of black-plates was tighter than last year. Faced with this problem, the management paid special attention to the globalization of the black-plate procurement on one hand, and to increase the use of black-plates produced in China on the other hand. In order to increase the supply of black-plates, we sent delegations to visit steel companies around the world to open up new sourcing channels. We also organized tests on PRC-produced black-plates. Our efforts produced preliminary results. The Company looks forward to procuring an adequate supply of black-plates by the middle of this year when our new production line (with annual output of 80,000 tonnes) commences operation, which would bring forth an increase of our tinplate output. In order to solve the problem of the shortage of black-plates, a "bottle neck" which restricts the development of the tinplating business, we are going to construct a black-plate manufacturing plant with annual output of 150,000 tonnes. To facilitate the implementation of the project, the total investment of Zhongyue Tinplate is ready to increase by US$40,000,000 and has obtained the approvals from relevant authorities of the State. The capital injection will be funded by internal resources. The black-plate manufacturing plant is expected to commence operation by the end of 2006 (please refer to the circular issued by the Company on 23 February 2005 for details).

Property Leasing

The Group's leasing properties included plant and staff quarters of Zhongshan Shan Hai Industrial Co., Ltd. ("Shan Hai"), and the office building in Hong Kong. In 2004, the total revenue of leasing properties owned by the Group was recorded at HK$25,422,000, which decreased by 31.4% as compared with 2003. The operating profit of leasing properties totalled HK$17,479,000, which decreased by 34.0% as compared with 2003. The decrease was mainly attributable to the fact that the leasing contracts of some of the leased plants of Shan Hai entered into 10 years ago were expired while the new leases reduced the unit area rent in accordance with market rate.

Code of Best Practice

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

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code through the year.

Purchase, Sale or Redemption of Listed Securities

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

Public Float

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

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, 15 April 2005

Save as disclosed above, as at 31 December 2004, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under Section 336 of the SFO.

Contracts of Significance with Controlling Shareholders or Its Subsidiaries

In addition to the disclosures contained in the Transactions Disclosed in Accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as set out on pages 92 to 93, the Company or its subsidiary had the following contracts of significance with GDH, the controlling shareholder of the Company, and its subsidiary.

On 25 March 2002, Zhongyue Industry Material Limited, a wholly owned subsidiary of the Company, entered into a loan agreement with Richway Resources Limited ("Richway"), a wholly owned subsidiary of GDH, for the provision by Richway of a loan in the amount of RMB50,000,000. The loan is unsecured, interest free and without fixed term of repayment. During the year, RMB25,000,000 was repaid to Richway leaving an outstanding balance of RMB25,000,000 as at 31 December 2004.

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

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 of the Board, 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

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 seven times during the year under review.

REPORT OF THE DIRECTORS

Directors' Interests in Competing Businesses

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

Directors' Service Contracts

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

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

Details of the transactions disclosed in accordance with the Listing Rules are set out on pages 92 to 95.

Substantial Shareholders

As at 31 December, 2004, 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.

Notes:

(1) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK$0.155.

(2) According to the Black-Scholes model#, the total theoretical value of the options was estimated at HK$7,750,250 as at 6 February 2004 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	2.831%*, being the approximate yield of 5-year Exchange Fund Note traded on 06/02/2004
Expected Volatility	:	49.96%, being the annualised volatility of the closing price of the ordinary shares of the Company from 06/02/2003 — 06/02/2004
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	5.24 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period of 06/02/2003 — 06/02/2004.

(3) No forfeiture clause was contained in the relevant share option scheme.

\# *The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. It should be noted that the Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the Model gives the theoretical value of the share options only and should not be interpreted as the market or actual value of the option.*

* *According to Rule 17.08 of the Listing Rules, the risk-free rate should be the rate prevailing on debt securities issued by the state, such as the Exchange Fund Notes in case of Hong Kong based entities.*

Arrangements to Acquire Shares or Debentures

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

Directors' Interests in Contracts of Significance

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

REPORT OF THE DIRECTORS

As at 31 December 2004, save as disclosed in the section of "Long positions in options relating to ordinary shares of the Company", certain employees of the Company had the following interests in rights to subscribe for shares of the Company granted under the 2001 Share Option Scheme. Each option gives the holder the right to subscribe for one share of par value HK$0.1 each of the Company. Further details are set out in note 27 on the financial statements.

Category	Date of share options granted#	Number of share options: Held on 1 January 2004 '000	Number of share options: Granted during the year '000	Exercisable period of share options	Total consideration paid for share options granted HK$	Price per share to be paid on exercise of share options HK$	During the year number of share options: Exercised '000	During the year number of share options: Lapsed '000	During the year number of share options: Cancelled '000	Number of share options held on 31 December 2004 '000	Share price: At options grant date (##) HK$	Share price: At options exercise date HK$
Employees and other participants	24/08/01	33,500	—	26/11/01 to 25/11/06*	10	0.1495	—	—	—	33,500	0.185	—
	06/02/04	—	71,900	06/05/04 to 05/05/09**	10	0.1582	—	20,000	—	51,900	0.155	—

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

\## *The share price disclosed as at the date of grant of share options is the closing price of the shares of the Company quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the share options.*

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

** *If 5 May 2009 is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.*

Note: *The underlying shares of the outstanding share options under the 2001 Share Option Scheme as at 31 December 2004 represent 1.34% of the issued share capital of the Company.*

In assessing the theoretical aggregate value of the share options granted during the year, the Black-Scholes option pricing model has been used.

Date of Grant	:	06/02/2004
Vesting Period	:	06/02/2004 — 06/05/2004
Exercise Period	:	06/05/2004 — 05/05/2009
Exercise Price	:	HK$0.1582 per share

	At 6 February 2004 *(Note (2))*
Number of share options	**106,900,000**
Theoretical value of share options	**HK$0.0725 per share**
Total theoretical value of share options	**HK$7,750,250**

advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The 2004 Share Option Scheme unless otherwise terminated or amended, will remain in force for 10 years from 25 June 2004.

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

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

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

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

During the year, no options were outstanding under the 1994 Share Option Scheme. Options entitling the holders to subscribe for 106,900,000 shares of the Company were granted and 20,000,000 options were lapsed under the 2001 Share Option Scheme. No options were granted under the 2004 Share Option Scheme.

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 2004, none of the Directors and chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Listing Rules.

Share Option Schemes of the Company

On 11 June 2004, the Company terminated its then share option schemes, which were adopted on 21 November 1994 ("1994 Share Option Scheme") and 24 August 2001 ("2001 Share Option Scheme"). The Company adopted a new share option scheme ("2004 Share Option Scheme") on the same day.

1994 and 2001 Share Option Schemes

Pursuant to the 1994 and 2001 Share Option 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.

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

2004 Share Option Scheme

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

(ii) *Guangdong Investment Limited*

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jianqin	200,000	0.004%

(iii) *Kingway Brewery Holdings Limited*

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Luo Fanyu	70,000	0.005%
Liang Jianqin	46,000	0.003%

(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 the Company

Name of Director	Date of share options granted#	Number of share options: Held on 1 January 2004 '000	Number of share options: Granted during the year '000	Exercisable period of share options	Total consideration paid for share options granted HK$	Price per share to be paid on exercise of share options HK$	During the year number of share options: Exercised '000	Lapsed '000	Cancelled '000	Number of share options held on 31 December 2004 '000	Share price: At options grant date (**) HK$	Share price: At options exercise date HK$
Liang Jiang	06/02/04	—	20,000	06/05/04 to 05/05/09*	10	0.1582	—	—	—	20,000	0.155	—
Tan Yunbiao	06/02/04	—	15,000	06/05/04 to 05/05/09*	10	0.1582	—	—	—	15,000	0.155	—

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

* *If 5 May 2009 is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.*

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

Independent Non-executive Directors

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

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

Retirement and Re-election of Directors

In accordance with Article 101 of the Company's Articles of Association, Messrs. Liang Jiang and Luo Fanyu and Miss Tam Wai Chu, Maria would retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

As at 31 December 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Rules Governing The Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

(I) Long positions in shares

(i) *The Company*

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jiang	800,000	0.009%

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

For the year ended 31 December 2004, the aggregate amount of turnover attributable to the Group's largest customers represented less than 30% of the Group's total turnover.

The largest supplier for the year ended 31 December 2004 represented 31.8% of the Group's total purchases (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 51.8% of the Group's total purchases for the year.

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

Properties

Particulars of the major properties of the Group are set out on page 96.

Financial Summary

A summary of the results, assets and liabilities of the Group for the past five years ended 31 December 2004 is set out on pages 97 and 98.

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 (Resigned on 26 February 2004)

Non-executive Directors

ZHAO Leili (Appointed on 26 February 2004)
LUO Fanyu
LIANG Jianqin

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited financial statements of Guangnan (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2004.

Principal Activities

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

During the year, the Group discontinued its operations in feed production and livestock farming.

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 15 on the financial statements.

Results and Dividends

The Group's consolidated results for the year ended 31 December 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 25 to 91.

The Directors resolved not to make the payment of an interim dividend (2003: HK$Nil) and do not recommend the payment of a final dividend (2003: HK$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 16(a) and 16(b) on the financial statements respectively.

Principal Subsidiaries and Associates

Details of the Company's principal subsidiaries and associates as at 31 December 2004 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 25 on the financial statements. No interest was capitalised by the Group during the year.

Share Captial

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

Reserves

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

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 35, 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 CFA Institute. 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 50, 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 manger. 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 48, 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 Industrial University.

Mr. Ge Hongguang, aged 33, 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.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Mr. LUO Fanyu, aged 49, was appointed a Non-executive Director of the Company in May 2000. He is a director of GDH and a non-executive director of Kingway Brewery. He was a non-executive director of a fellow subsidiary of the Company, 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 40, 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 61, 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 Securities and Futures Commission of Hong Kong ("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 60, was appointed an Independent Non-executive Director of the Company in June 1999. She is also non-executive director of seven other Hong Kong listed companies, namely Wing On Company International Limited, Onfem Holdings Limited, Sinopec Kantons Holdings Limited, Tong Ren Tang Technologies Company Limited, eSun Holdings, Sa Sa International Holdings Limited and Titan Petrochemicals Group 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 52, 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.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

EXECUTIVE DIRECTORS

Mr. LIANG Jiang, aged 52, 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"), a substantial shareholder of the Company. Mr. Liang graduated from South China Normal University. He holds a Master's degree in Business Management. He worked in the municipal governments 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 40, 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 position 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 35, 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 Institute of Certified Public 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 was 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 51, 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, the ultimate holding company of the Company and an executive director of GDH in December 2001. He is also a non-executive director of a fellow subsidiary of the Company, Kingway Brewery Holdings Limited ("Kingway 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

KPMG

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

We have audited the financial statements on pages 25 to 91 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 Institute of Certified Public 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 2004, 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, 15 April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	**2004** **$'000**	2003 $'000
Turnover	2	**828,349**	1,525,807
Cost of sales		**(701,093)**	(1,373,795)
Gross profit		**127,256**	152,012
Other revenue	3	**13,649**	11,702
Other net income/(expenses)	4	**219**	(214)
Distribution costs		**(13,302)**	(32,819)
Administrative expenses		**(43,444)**	(51,856)
Other operating expenses		**(5,867)**	(5,876)
Profit from operations		**78,511**	72,949
Net loss on disposal of discontinued operations	5	**(11,793)**	—
Non-operating income	6	**76,306**	66,521
Non-operating expenses	7	**—**	(30,862)
Finance costs	8(a)	**(697)**	(7,664)
Share of profits less losses of associates		**27,252**	19,376
Profit from ordinary activities before taxation	8	**169,579**	120,320
Income tax	9	**(31,251)**	(12,933)
Profit from ordinary activities after taxation		**138,328**	107,387
Minority interests		**(6,080)**	(4,625)
Profit attributable to shareholders	12	**132,248**	102,762
Earnings per share	13		
Basic		**1.47 cents**	1.14 cents
Diluted		**N/A**	1.12 cents

The notes on pages 34 to 91 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $'000	2003 $'000
Non-current liabilities			
Deferred tax liabilities	20(b)	**12,117**	9,335
Minority interests		**25,107**	20,384
Net assets		**767,010**	602,249
Capital and reserves			
Share capital	28	**901,583**	901,583
Reserves	29(a)	**(134,573)**	(299,334)
		767,010	602,249

Approved and authorised for issue by the board of directors on 15 April 2005.

Tan Yunbiao
Director

Tsang Hon Nam
Director

The notes on pages 34 to 91 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $'000	2003 $'000
Non-current assets			
Fixed assets			
— Investment properties		**200,960**	185,988
— Other property, plant and equipment		**178,548**	177,423
	16(a)	**379,508**	363,411
Interest in associates	*18*	**169,689**	154,978
Investment securities	*19(a)*	**202**	540
Deferred tax assets	*20(b)*	**—**	3,778
Negative goodwill	*21*	**—**	(17,246)
		549,399	505,461
Current assets			
Other securities	*19(b)*	**3,200**	3,247
Inventories	*22*	**30,707**	44,228
Trade and other receivables	*23*	**120,079**	148,582
Cash and cash equivalents	*24*	**293,383**	254,457
		447,369	450,514
Current liabilities			
Interest-bearing borrowings	*25*	**7,851**	57,700
Trade and other payables	*26*	**170,127**	262,436
Current taxation	*20(a)*	**14,556**	3,871
		192,534	324,007
Net current assets		**254,835**	126,507
Total assets less current liabilities		**804,234**	631,968

BALANCE SHEET

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $'000	2003 $'000
Capital and reserves			
Share capital	28	**901,583**	901,583
Reserves	29(b)	**(315,052)**	(389,317)
		586,531	512,266

Approved and authorised for issue by the board of directors on 15 April 2005.

Tan Yunbiao
Director

Tsang Hon Nam
Director

The notes on pages 34 to 91 form part of these financial statements.

BALANCE SHEET

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	**2004** **$'000**	2003 $'000
Non-current assets			
Fixed assets			
— Investment properties		**78,200**	62,000
— Other property, plant and equipment		**1,290**	1,318
	16(b)	**79,490**	63,318
Interest in subsidiaries	*17*	**326,658**	313,520
Interest in associates	*18*	**169,258**	132,744
Investment securities	*19(a)*	**202**	540
		575,608	510,122
Current assets			
Other securities	*19(b)*	**3,200**	3,247
Trade and other receivables	*23*	**24,810**	6,529
Cash and cash equivalents	*24*	**17,860**	19,593
		45,870	29,369
Current liabilities			
Trade and other payables	*26*	**21,778**	21,668
Amounts due to subsidiaries		**13,169**	5,557
		34,947	27,225
Net current assets		**10,923**	2,144
Net assets		**586,531**	512,266

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	2004 $'000	2003 $'000
Shareholders' equity at 1 January		
— As previously reported	**602,249**	494,864
— Adjustment to opening shareholders' equity on adoption of HKFRS 3 (note 14)	**17,246**	—
As restated	**619,495**	494,864
Surplus on revaluation of investment properties, net of minority interests and deferred tax	**16,300**	3,998
Exchange differences arising on translation of the PRC subsidiaries and associates	**181**	(1,807)
Net gains not recognised in the profit and loss account	**16,481**	2,191
Profit attributable to shareholders	**132,248**	102,762
Reserves realised upon disposal of a subsidiary	**—**	(184)
Reserves realised upon disposal of discontinued operations	**(978)**	—
Reserve realised upon disposal of an associate	**(236)**	—
Movements in share capital		
— Shares issued under share option scheme	**—**	1,750
— Net share premium received	**—**	866
Net increase in shareholders' equity arising from capital transactions with shareholders	**—**	2,616
Shareholders' equity at 31 December	**767,010**	602,249

The notes on pages 34 to 91 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $'000	2004 $'000	2003 $'000	2003 $'000
Investing activities					
Payment for purchase of fixed assets		**(13,742)**		(3,700)	
Proceeds on sales of investment securities		**—**		303	
Proceeds on sales of other securities		**—**		128	
Proceeds on sales of an associate		**400**		—	
Dividends received from listed securities		**235**		260	
Dividends received from associates		**565**		1,340	
Proceeds on disposal of fixed assets		**739**		125	
Net cash inflow from disposal of a subsidiary	*30(b)*	**—**		4,387	
Net cash inflow from disposal of discontinued operations	*30(b)*	**3,542**		—	
Net cash (used in)/from investing activities			**(8,261)**		2,843
Financing activities					
Dividends paid		**(466)**		—	
Repayment of convertible notes		**—**		(80,000)	
Issue of new shares		**—**		2,616	
Repayment of bank borrowings		**(2,817)**		(4,812)	
Proceeds from new bank loans		**2,817**		7,504	
Net cash used in financing activities			**(466)**		(74,692)
Increase in cash and cash equivalents			**34,292**		11,447
Cash and cash equivalents at 1 January			**254,457**		243,010
Cash and cash equivalents at 31 December	*24*		**288,749**		254,457

The notes on pages 34 to 91 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

		2004		2003	
	Note	$'000	$'000	$'000	$'000
Operating profit before changes in working capital brought forward		**78,137**		93,701	
Decrease in inventories		**628**		3,507	
Decrease/(increase) in trade debtors, bills and other receivables, deposits and prepayments		**25,593**		(25,620)	
Decrease/(increase) in amounts due from fellow subsidiaries		**5,049**		(4,986)	
Decrease in amounts due from minority shareholders		**—**		250	
Decrease/(increase) in amounts due from related companies		**33**		(10)	
Decrease in amounts due from associates		**10,483**		15,725	
(Decrease)/increase in trade creditors, other payables and accrued charges		**(35,681)**		14,920	
(Decrease)/increase in amounts due to related companies		**(1,820)**		1,523	
Decrease in amounts due to holding company and fellow subsidiaries		**(23,115)**		(68)	
(Decrease)/increase in amounts due to associates		**(2,387)**		703	
Decrease in amounts due to minority shareholders		**—**		(663)	
Restricted cash deposits against legal claims	32(b)	**(4,634)**		—	
Cash generated from operations		**52,286**		98,982	
Interest received		**3,106**		5,446	
Interest paid		**(113)**		(7,664)	
Hong Kong Profits Tax refunded		**3,021**		—	
Hong Kong Profits Tax paid		**(1,843)**		—	
PRC income tax paid		**(13,438)**		(13,468)	
Net cash from operating activities			**43,019**		83,296

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	**2004** $'000	**2004** $'000	2003 $'000	2003 $'000
Operating activities					
Profit from ordinary activities before taxation		**169,579**		120,320	
Adjustments for:					
— Finance costs		**697**		7,664	
— Interest income		**(3,726)**		(4,526)	
— Dividend from listed securities		**(235)**		(260)	
— Net realised and unrealised loss/(gain) on other securities carried at fair value		**47**		(562)	
— Provision for diminution in value of investment securities		**338**		—	
— Net loss on disposal of investment securities		**—**		236	
— Net gain on disposal of an associate		**(83)**		—	
— Net (gain)/loss on disposal of fixed assets		**(243)**		1,069	
— Write-back of liabilities		**(76,223)**		(33,185)	
— Net gain on disposal of a subsidiary		**—**		(9,097)	
— Net loss on disposal of discontinued operations		**11,793**		—	
— Write-back of provision for bad debts		**(2,251)**		(7,329)	
— Provision for impairment losses on fixed assets		**—**		30,862	
— Provision for inventories		**—**		282	
— Amortisation of negative goodwill		**—**		(1,447)	
— Depreciation		**5,696**		9,050	
— Share of profits less losses of associates		**(27,252)**		(19,376)	
Operating profit before changes in working capital carried forward		**78,137**		93,701	

38. LIST OF ASSOCIATES

Particulars of the associates at 31 December 2004 are as follows:

Name of associate	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of issued capital/ capital registered held by the Company	subsidiary	Principal activities
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

NOTES ON THE FINANCIAL STATEMENTS

(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	Place of incorporation/ operation	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Proportion of nominal value of issued capital/ registered capital held by subsidiary
Guangnan (KK) Supermarket Limited#	Hong Kong	Ordinary	$20,000,000	—	70%
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

(Expressed in Hong Kong dollars)

36. LIST OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of ownership interest: group's effective interest	held by the Company	held by subsidiary	Principal activities
Jin Huang Food Industry Investment Limited	Hong Kong	Ordinary	$1,000,000	100%	—	100%	Investment holding
Southern Chain (Hong Kong) Limited	Hong Kong	Ordinary	$7,000,000	100%	100%	—	Dormant
Zhongyue Industry Material Limited	Hong Kong	Ordinary	$10	100%	—	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%	—	95%	Property development and leasing
Zhongshan Zhongyue Tinplate Industrial Co., Ltd.*	The PRC	N/A	US$41,906,200	95%	—	95%	Production and sales of tinplate products

* an equity joint venture established in the PRC

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

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(Expressed in Hong Kong dollars)

36. LIST OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2004 are as follows:

				Proportion of ownership interest			
Name of subsidiary	Place of incorporation/ operation	Class of shares held	Issued and fully paid capital/ registered capital	group's effective interest	held by the Company	held by subsidiary	Principal activities
Best Keen Enterprises Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	100%	100%	—	Dormant
Dongguan Jinhuang Food Co., Ltd.#	The PRC	N/A	RMB40,000,000	100%	—	100%	Leasing
Gain First Investments Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	100%	100%	—	Investment holding
Guangnan Distribution Company Limited	Hong Kong	Ordinary	$10,000,000	100%	—	100%	Investment holding
Guangnan Fresh and Live Foodstuffs Limited	Hong Kong	Ordinary	$1,000,000	100%	100%	—	Distribution of live and fresh foodstuffs
Guangnan Supermarket (China) Limited	Hong Kong	Ordinary	$2	100%	100%	—	Dormant
Guangnan Supermarket Development Limited	Hong Kong	Ordinary	$135,742,220	100%	100%	—	Investment holding
Guangnan Trading Development Limited	Hong Kong	Ordinary	$73,916,728	100%	100%	—	Trading of foodstuffs
Hinloon International Limited	Hong Kong	Ordinary	$100,000	100%	100%	—	Dormant
Jin Huang Food Industry Investment Limited	British Virgin Islands/ Hong Kong	Ordinary	$1,000,000	100%	100%	—	Investment holding

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 a sum of US$6,700,000 (approximately $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. During the year, the remaining loan of $10,483,000 was repaid and there was no outstanding loan as at 31 December 2004.

(d) During 2003, the Company redeemed all remaining convertible notes issued to Richway Resources Limited in December 2001 totalling $80,000,000 for cash at their nominal value.

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 2004 was $1,467,000 (2003: $1,979,000). The forfeited contribution refunded for the year amounted to $2,210,000 (2003: $1,405,000).

35. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2004 to be Guangdong Yue Gang Investment Holdings Company Limited, which is established in the PRC.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33. MATERIAL RELATED PARTY TRANSACTIONS

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

	Note	2004 $'000	2003 $'000
Sales of goods to related companies	(b)	**2,154**	2,776
Purchases of goods from related companies	(b)	**4,689**	23,582
Interest income from an associate	(c)	**708**	1,462
Repayment of loan to an associate	(c)	**10,483**	15,725
Management, taxation services, and maintenance fee paid to the immediate holding company		**425**	428
Provision of electricity/water and leasing services to a fellow subsidiary		**3,483**	3,181
Cash paid to a fellow subsidiary for early redemption of convertible notes	(d)	**—**	80,000
Interest on convertible notes payable to a fellow subsidiary		**—**	3,443
Agency fee paid to a related company		**—**	582

32. LITIGATION (Continued)

(b) In May 2004, a PRC third party filed a claim against a subsidiary of the Group alleging that the subsidiary had not yet settled an outstanding amount due to it. The Intermediate People's Court of Yue Yang City ("岳陽市中級人民法院") has ordered to freeze a bank deposit of the subsidiary amounted to $4.7 million in this regard.

According to the judgement of the Intermediate People's Court of Yue Yang City issued on 12 December 2004, the subsidiary is ordered to pay compensation and respective court charges amounted to RMB4,934,000 and RMB40,000 respectively. The subsidiary lodged an appeal to the High People's Court of Hunan Province ("湖南省高級人民法院") against the judgement and the judgement of the Intermediate People's Court of Yue Yang City was repudiated on 31 January 2005. Accordingly, the frozen bank deposit of $4.7 million has been released.

Based on the available information to date, the Directors are of the opinion that as the final judgement was granted in favour of the subsidiary, no provision for legal claims is considered necessary.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31. COMMITMENTS (Continued)

(b) At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	The Group	
	2004	2003
	$'000	*$'000*
Within 1 year	**348**	625
After 1 year but within 5 years	**44**	939
After 5 years	**—**	4,342
	392	5,906

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

(c) At 31 December 2004, the Company had committed to provide finance of $6,489,000 (2003: $6,489,000) to an associate of the Group.

32. LITIGATION

(a) At 31 December 2004, 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 is required to maintain an equivalent amount of bills receivable with an authorised bank in the PRC as security 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.

A judgement in favour of the Group had been obtained subsequent to the balance sheet date. The payment awarded under the judgement amounted to RMB27 million, together with interest thereon. The Group had lodged an appeal in respect of such difference on 12 April 2005, and the final verdict is still pending.

Based on the available information to date, the Directors are of the opinion that the former minority shareholder is in financial difficulties and is uncertain that any payment of the awarded claim can be received from the former minority shareholder. Accordingly, the provision made against the receivable has been maintained.

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

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

	2004	2003
	$'000	*$'000*
Cash received	**12,497**	4,711
Cash and cash equivalents disposed	**(8,955)**	(324)
Net cash inflow	**3,542**	4,387

(c) Major non-cash transaction

During the year, long outstanding liabilities totalling $76,223,000 have been written back (see note 6).

31. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	$'000	*$'000*
Contracted for	**35,144**	971
Authorised but not contracted for	**6,281**	2,814
	41,425	3,785

(Expressed in Hong Kong dollars)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of discontinued operations/disposal of a subsidiary

	Disposal of discontinued operations 2004 *$'000*	Disposal of a subsidiary 2003 *$'000*
Net assets/(liabilities) disposed:		
Fixed assets	**2,817**	—
Inventories	**12,893**	18,666
Debtors, deposits and prepayments	**11,808**	5,536
Cash and cash equivalents	**8,955**	324
Creditors and accrued charges	**(3,730)**	(12,759)
Short-term loan	**(2,817)**	(3,777)
Income tax	**(215)**	—
Amount due to minority shareholders	**—**	(12,192)
	29,711	(4,202)
Release of reserves	**(978)**	(184)
	28,733	(4,386)
Satisfied by:		
Cash received	**12,497**	4,711
Consideration receivable	**5,011**	—
Legal expenses payable	**(568)**	—
	16,940	4,711

29. RESERVES (Continued)

(a) The Group (Continued)

Included in figure for the accumulated losses as at 31 December 2004 is an amount of $20,484,000 (2003: $27,497,000), being the accumulated losses 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 capital reserve arising on acquisition of subsidiaries and associates prior to 1 January 2001, foreign currency translation and the revaluation of properties (note 1).

Other reserves represent statutory reserves of entities established in the PRC.

(b) The Company

	Share premium	Capital redemption reserve	Capital reserve	Investment properties revaluation reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2003	1,746,232	971	48,157	—	(2,271,048)	(475,688)
Shares issued under share option scheme	866	—	—	—	—	866
Revaluation surplus (see note 16(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 1 January 2004	1,747,098	971	48,157	12,100	(2,197,643)	(389,317)
Revaluation surplus (see note 16(d))	—	—	—	16,200	—	16,200
Profit for the year	—	—	—	—	58,065	58,065
At 31 December 2004	**1,747,098**	**971**	**48,157**	**28,300**	**(2,139,578)**	**(315,052)**

At 31 December 2003 and 2004, there was no reserve available for distribution to shareholders of the Company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29. RESERVES

(a) The Group

	Share premium	Capital redemption reserve	Capital reserve	Exchange fluctuation reserve	Investment properties revaluation reserve	Other reserves	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
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 16(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 reserves	—	—	—	—	—	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)
At 1 January 2004								
— as previously reported	1,747,098	971	49,050	(1,098)	20,600	12,007	(2,127,962)	(299,334)
— change in accounting policy with respect to negative goodwill (note 14)	—	—	—	—	—	—	17,246	17,246
— as restated	1,747,098	971	49,050	(1,098)	20,600	12,007	(2,110,716)	(282,088)
Exchange differences arising on consolidation	—	—	—	48	—	—	—	48
Profit for the year	—	—	—	—	—	—	132,248	132,248
Revaluation surplus, net of minority interests and deferred tax (note 16(d))	—	—	—	—	16,300	—	—	16,300
Reserve realised upon disposal of an associate	—	—	(236)	—	—	—	—	(236)
Reserves realised upon disposal of discontinued operations	—	—	—	(68)	—	(910)	—	(978)
Share of associates' reserve	—	—	—	133	—	—	—	133
Transfer to statutory reserves	—	—	—	—	—	14,922	(14,922)	—
Transfer from other reserves	—	—	—	—	—	(24,569)	24,569	—
At 31 December 2004	**1,747,098**	**971**	**48,814**	**(985)**	**36,900**	**1,450**	**(1,968,821)**	**(134,573)**

28. SHARE CAPITAL

	2004 Number of shares (thousand)	**2004** $'000	2003 Number of shares (thousand)	2003 $'000
Authorised:				
Ordinary shares of $0.1 each	**15,000,000**	**1,500,000**	15,000,000	1,500,000
Issued and fully paid:				
At 1 January	**9,015,833**	**901,583**	8,998,333	899,833
Shares issued under share option scheme	**—**	**—**	17,500	1,750
At 31 December	**9,015,833**	**901,583**	9,015,833	901,583

During the year ended 31 December 2003, options were exercised to subscribe for 17,500,000 ordinary shares of $0.1 each in the Company at a consideration of $2,616,000; of which $1,750,000 was credited to share capital and the remaining balance of $866,000 was credited to the share premium account.

(Expressed in Hong Kong dollars)

27. EQUITY COMPENSATION BENEFITS (Continued)

(a) Movements in share options

	2004 Number	2003 Number
At 1 January	**33,500,000**	176,000,000
Granted	**106,900,000**	—
Exercised	**—**	(17,500,000)
Lapsed	**(20,000,000)**	(125,000,000)
At 31 December	**120,400,000**	33,500,000
Options vested at 31 December	**120,400,000**	33,500,000

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

Date of option granted	Period during which options exercisable	Exercise price per share	2004 Number	2003 Number
24/08/2001	26/11/2001 to 25/11/2006	$0.1495	**33,500,000**	33,500,000
06/02/2004	06/05/2004 to 05/05/2009	$0.1582	**86,900,000**	—

(c) Details of share options granted during the year, all of which were granted for $10 consideration paid by each grantee

Exercise period	Exercise price per share	2004 Number	2003 Number
06/05/2004 to 05/05/2009	$0.1582	**106,900,000**	—

27. EQUITY COMPENSATION BENEFITS

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

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.

On 11 June 2004, the shareholders of the Company passed a resolution to adopt a new share option scheme (the "2004 Share Option Scheme") with terms compatible with modern practice to recruit and retain quality employees to serve the Group on a long-term basis, to maintain good relationships with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the 2004 Share Option Scheme include the Company's Directors (including Non-executive and Independent Non-executive Directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group.

On the same day, the shareholders of the Company also passed a resolution to terminate the 1994 and 2001 Share Option Schemes. Options previously granted under the old schemes remain valid until lapsed.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25. INTEREST-BEARING BORROWINGS (Continued)

At 31 December 2004, the interest-bearing borrowings were repayable as follows:

	The Group	
	2004	2003
	$'000	*$'000*
Within 1 year or on demand	**7,851**	57,700

26. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Trade creditors	**35,520**	74,883	**3,359**	3,359
Other payables and accrued charges	**102,862**	129,422	**18,176**	17,904
Amounts due to associates	**18**	2,405	**—**	—
Amounts due to minority shareholders	**8,140**	7,204	**—**	—
Amounts due to holding companies and fellow subsidiaries	**23,493**	46,608	**243**	108
Amounts due to related companies	**94**	1,914	**—**	297
	170,127	262,436	**21,778**	21,668

The amount of trade and other payables expected to be settled after more than one year is $544,000 (2003: $1,022,000).

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

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Due within 1 month or on demand	**35,520**	74,443	**3,359**	3,359
Due after 1 month but within 3 months	**—**	334	**—**	—
Due after 3 months but within 12 months	**—**	13	**—**	—
Due after 1 year but within 2 years	**—**	23	**—**	—
Over 2 years	**—**	70	**—**	—
	35,520	74,883	**3,359**	3,359

24. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks	**157,597**	127,605	**—**	11,351
Cash at bank and in hand	**135,786**	126,852	**17,860**	8,242
Cash and cash equivalents in the balance sheet	**293,383**	254,457	**17,860**	19,593
Restricted cash deposits (note 32(b))	**(4,634)**	—		
Cash and cash equivalents in the cash flow statement	**288,749**	254,457		

Included in cash and cash equivalents is a balance of RMB243,704,000 (2003: RMB157,995,000) which is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

25. INTEREST-BEARING BORROWINGS

	The Group	
	2004	2003
	$'000	*$'000*
Secured bank loans	**—**	2,814
Unsecured other loans	**7,851**	54,886
	7,851	57,700

The loans are unsecured, repayable on demand and bear interest at 7.5% (2003: 6.5% to 7.5%) per annum.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23. 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**	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Within 1 month	**35,256**	116,852	**300**	—
1 to 3 months	**39,152**	6,294	**—**	—
More than 3 months but less than 12 months	**27,676**	947	**—**	—
More than 1 year but less than 2 years	**—**	328	**—**	—
More than 2 years	**—**	46	**—**	—
	102,084	124,467	**300**	—

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 (2003: $40,000,000) as at 31 December 2004 were pledged with a 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 amounts due to the Group of $40,000,000. Details of the litigation are disclosed in note 32(a).

22. INVENTORIES

	The Group	
	2004	2003
	$'000	*$'000*
Raw materials, spare parts and consumables	**23,670**	32,852
Finished goods	**7,037**	11,376
	30,707	44,228

23. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Trade debtors	**14,145**	41,058	**300**	—
Bills receivable	**87,939**	83,409	**—**	—
Other receivables, deposits and prepayments	**17,711**	18,749	**24,426**	1,859
Amounts due from fellow subsidiaries	**284**	5,333	**84**	4,670
Amounts due from related companies	**—**	33	**—**	—
	120,079	148,582	**24,810**	6,529

Included in trade and other receivables are balance of $2,830,000 (2003: $101,000) expected to be recovered after one year.

20. INCOME TAX IN THE BALANCE SHEET (Continued)

(c) Deferred tax assets unrecognised:

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Deductible temporary differences	**—**	100,712	**—**	—
Tax losses	**2,513,706**	2,512,713	**2,397,576**	2,407,328
	2,513,706	2,613,425	**2,397,576**	2,407,328

The deductible temporary differences and tax losses do not expire under the current tax legislation, except for an amount of $14,957,000 (2003: $12,428,000), being unrecognised tax losses, which will expire in the coming 5 years.

During the year, two subsidiaries with the related unrecognised temporary differences and tax losses amounted to $100,712,000 and $443,000 respectively have been disposed of.

21. NEGATIVE GOODWILL

	The Group
	$'000
Carrying value:	
At 1 January 2004	17,246
Derecognised during the year (note 14)	(17,246)
At 31 December 2004	—

20. 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 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
At 1 January 2004	7,492	3,538	(5,473)	5,557
Exchange differences	9	4	(19)	(6)
Charged to consolidated profit and loss account	824	—	5,492	6,316
Charged to reserve	—	250	—	250
At 31 December 2004	8,325	3,792	—	12,117

	2004 ***$'000***	2003 *$'000*
Net deferred tax asset recognised on the consolidated balance sheet	**—**	(3,778)
Net deferred tax liability recognised on the consolidated balance sheet	**12,117**	9,335
	12,117	5,557

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(Expressed in Hong Kong dollars)

20. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2004	2003
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**971**	258
Provisional Profits Tax paid	**(203)**	—
	768	258
Balance of Profits Tax provision relating to prior years	**—**	(1,584)
	768	(1,326)
Taxation outside Hong Kong	**13,788**	5,197
Amount of taxation payable expected to be settled within 1 year	**14,556**	3,871
Representing:		
Tax recoverable	**—**	(1,326)
Tax payable	**14,556**	5,197
	14,556	3,871

18. INTEREST IN ASSOCIATES

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Unlisted shares, at cost	**—**	—	**244,980**	245,530
Share of net assets	**151,790**	145,196	**—**	—
Amounts due from associates	**17,899**	9,782	**—**	9,782
	169,689	154,978	**244,980**	255,312
Less: impairment loss	**—**	—	**(75,722)**	(122,568)
	169,689	154,978	**169,258**	132,744

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

19. INVESTMENTS IN SECURITIES

(a) Investment securities

	The Group and the Company	
	2004	2003
	$'000	*$'000*
Unlisted equity securities, at cost	**202**	540

(b) Other securities

	The Group and the Company	
	2004	2003
	$'000	*$'000*
Equity securities listed in Hong Kong, at market value	**3,200**	3,247

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16. FIXED ASSETS (Continued)

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

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**22,166**	18,450	**1,555**	1,728
After 1 year but within 5 years	**60,338**	59,126	**—**	1,323
After 5 years	**64,803**	78,001	**—**	—
	147,307	155,577	**1,555**	3,051

(f) As at 31 December 2003, certain of the Group's fixed assets with net book value of $2,814,000 were pledged to secure bank loans of $9,004,000 of the Group. Upon the disposal of discontinued operations during the year ended 31 December 2004, the pledge was released accordingly.

(g) A property with a valuation of $2,062,000 held in the PRC under a medium-term lease was reclassified from investment properties to land and buildings because the Group has changed the usage of the property to process tinplates. The deemed cost of the relevant leasehold land and buildings was the fair value at the date of change in intended use.

17. INTEREST IN SUBSIDIARIES

	The Company	
	2004	2003
	$'000	*$'000*
Unlisted shares, at cost	**229,979**	249,878
Loans to subsidiaries	**63,065**	—
Amounts due from subsidiaries	**585,051**	656,105
	878,095	905,983
Less: impairment loss	**(551,437)**	(592,463)
	326,658	313,520

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.

16. FIXED ASSETS (Continued)

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

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
In Hong Kong on long-term leases	**78,200**	62,000	**78,200**	62,000
Elsewhere in the PRC on medium-term leases	**235,515**	240,101	**—**	—
	313,715	302,101	**78,200**	62,000

(d) Investment properties of the Group and the Company situated in Hong Kong totalling $78,200,000 (2003: $62,000,000) 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 2004. Investment properties of the Group situated in the PRC totalling $122,760,000 (2003: $123,988,000) 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 2004.

On the Group level, the net revaluation surplus after minority interests and deferred tax of $16,300,000 (2003: $3,998,000) has been transferred to the investment property revaluation reserve (note 29(a)). On the Company level, the revaluation surplus of $16,200,000 (2003: $12,100,000) has been transferred to the investment properties revaluation reserve (note 29(b)).

(e) The Group leases out investment properties, a pig farm and several 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 $200,960,000 (2003: $185,988,000) and $78,200,000 (2003: $62,000,000) respectively. The gross carrying amount of machinery of the Group held for use in operating leases was $720,000 (2003: $9,110,000) and the related accumulated depreciation was $648,000 (2003: $7,698,000).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16. FIXED ASSETS (Continued)

(b) The Company

	Leasehold improvements	Plant and machinery, furniture, fixtures and equipment	Motor vehicles	Sub-total	Investment properties	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:						
At 1 January 2004	1,381	2,612	1,869	5,862	62,000	67,862
Additions	—	—	268	268	—	268
Disposals	—	(3)	(649)	(652)	—	(652)
Surplus on revaluation	—	—	—	—	16,200	16,200
At 31 December 2004	**1,381**	**2,609**	**1,488**	**5,478**	**78,200**	**83,678**
Representing:						
Cost	1,381	2,609	1,488	5,478	—	5,478
Valuation — 2004	—	—	—	—	78,200	78,200
	1,381	2,609	1,488	5,478	78,200	83,678
Accumulated depreciation:						
At 1 January 2004	1,311	1,364	1,869	4,544	—	4,544
Charge for the year	18	244	31	293	—	293
Written back on disposal	—	(1)	(648)	(649)	—	(649)
At 31 December 2004	**1,329**	**1,607**	**1,252**	**4,188**	**—**	**4,188**
Net book value:						
At 31 December 2004	**52**	**1,002**	**236**	**1,290**	**78,200**	**79,490**
At 31 December 2003	70	1,248	—	1,318	62,000	63,318

16. FIXED ASSETS

(a) The Group

	Land and buildings held for own use $'000	Leasehold improvements $'000	Construction in progress $'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 2004	182,193	1,914	—	132,828	3,485	320,420	185,988	506,408
Exchange adjustments	145	—	—	364	8	517	168	685
Additions	—	—	5,204	2,627	437	8,268	—	8,268
Disposals								
— through disposal of discontinued operations	(55,381)	—	—	(8,211)	(487)	(64,079)	—	(64,079)
— others	—	—	—	(1,164)	(650)	(1,814)	(187)	(2,001)
Transfer in from construction in progress	—	—	(629)	159	—	(470)	470	—
Reclassification (note 16(g))	2,062	—	—	—	—	2,062	(2,062)	—
Surplus on revaluation	—	—	—	—	—	—	16,583	16,583
At 31 December 2004	**129,019**	**1,914**	**4,575**	**126,603**	**2,793**	**264,904**	**200,960**	**465,864**
Representing:								
Cost	129,019	1,914	4,575	126,603	2,793	264,904	—	264,904
Valuation — 2004	—	—	—	—	—	—	200,960	200,960
	129,019	1,914	4,575	126,603	2,793	264,904	200,960	465,864
Accumulated depreciation and impairment:								
At 1 January 2004	66,080	1,844	—	73,015	2,058	142,997	—	142,997
Exchange adjustments	104	—	—	319	7	430	—	430
Charge for the year	2,644	18	—	2,766	268	5,696	—	5,696
Written back on disposal	—	—	—	(855)	(650)	(1,505)	—	(1,505)
Written back on disposal of discontinued operations	(52,564)	—	—	(8,211)	(487)	(61,262)	—	(61,262)
At 31 December 2004	**16,264**	**1,862**	**—**	**67,034**	**1,196**	**86,356**	**—**	**86,356**
Net book value:								
At 31 December 2004	**112,755**	**52**	**4,575**	**59,569**	**1,597**	**178,548**	**200,960**	**379,508**
At 31 December 2003	116,113	70	—	59,813	1,427	177,423	185,988	363,411

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15. 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.

	2004		
	The PRC	**Hong Kong**	**Others**
	$'000	***$'000***	***$'000***
Revenue from external customers	**744,357**	**83,992**	**—**
Segment assets	**704,489**	**135,505**	**—**
Capital expenditure	**7,909**	**68**	**—**

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

15. 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

(Expressed in Hong Kong dollars)

15. SEGMENT REPORTING (Continued)

Business segments (Continued)

	2004						
	Tinplating	Live and fresh foodstuffs distribution	Feed production and livestock farming (discontinued)	Foodstuffs trading	Property leasing	Inter-segment elimination	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Segment assets	**552,825**	**45,910**	**—**	**8,270**	**232,989**	**(99,806)**	**740,188**
Unallocated assets							**256,580**
Total assets							**996,768**
Segment liabilities	**118,981**	**34,413**	**—**	**10,793**	**43,711**	**(99,806)**	**108,092**
Interest-bearing borrowings							**7,851**
Unallocated liabilities							**88,708**
Total liabilities							**204,651**
Capital expenditure incurred during the year	**4,670**	**68**	**—**	**—**	**3,239**		

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15. SEGMENT REPORTING (Continued)

Business segments (Continued)

	For the year ended 31 December 2003							
	Tinplating	Live and fresh foodstuffs distribution	Feed production and livestock farming	Foodstuffs trading	Property leasing	Inter-segment elimination	Unallocated	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	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	—	—			

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15. SEGMENT REPORTING (Continued)

Business segments (Continued)

	For the year ended 31 December 2004							
	Tinplating	Live and fresh foodstuffs distribution	Feed production and livestock farming (discontinued)	Foodstuffs trading	Property leasing	Inter-segment elimination	Unallocated	Consolidated
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	574,443	50,572	146,474	31,438	25,422	—	—	828,349
Inter-segment revenue	1,300	—	—	—	81	(1,381)	—	—
Other revenue from external customers	—	—	—	—	—	—	9,688	9,688
Total	575,743	50,572	146,474	31,438	25,503	(1,381)	9,688	838,037
Segment result	48,214	13,872	2,468	113	17,479			82,146
Unallocated operating income and expenses								(3,635)
Profit from operations								78,511
Share of profits less losses of associates	—	150	—	—	—		27,102	27,252
Net loss on disposal of discontinued operations								(11,793)
Non-operating income								76,306
Finance costs								(697)
Income tax								(31,251)
Minority interests								(6,080)
Profit attributable to shareholders								132,248
Depreciation for the year	4,603	84	22	27	667			

15. 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 tin-plate and related products which are used as packaging materials for the food processing manufacturers
Live and fresh foodstuffs distribution	:	Distribution of live and fresh foodstuffs
Foodstuffs trading	:	Purchase and sale of foodstuffs
Property leasing	:	Leasing of properties to generate rental income

The business segment, feed production and livestock farming, was disposed of in December 2004 (note 5) and is presented as discontinued operations.

13. EARNINGS PER SHARE (Continued)

(c) Reconciliation (Continued)

	2004	2003
	$'000	*$'000*
Profit attributable to shareholders	**132,248**	102,762
Interest savings following conversion of the convertible notes	**—**	3,443
Adjusted profit attributable to shareholders used in calculating diluted earnings per share	**132,248**	106,205

14. CHANGE IN ACCOUNTING POLICIES

In prior years, the negative goodwill arising from the acquisitions of controlled subsidiaries and associates were treated 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 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.

With effect from 1 January 2004, the Group had early adopted HKFRS 3, HKAS 36 and HKAS 38 issued by the HKICPA. In order to comply with HKFRS 3, the Group adopted a new policy for goodwill on acquisition as set out in note 1(e). However, there had been no significant impact on the early adoption of HKAS 36 and HKAS 38. As a result of the adoption of HKFRS 3, the Group's profit for the year has been decreased by $1,447,000 and the Group's net assets as at 31 December 2004 has been increased by $17,246,000. Negative goodwill existing at 1 January 2004 has been derecognised by way of an adjustment to the opening balance of accumulated losses. No restatement of comparative information has been made.

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $132,248,000 (2003: $102,762,000) and the weighted average of 9,015,833,000 (2003: 9,003,262,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share for the year ended 31 December 2004 is not presented as there is no dilutive potential ordinary share at the year end.

The calculation of diluted earnings per share for the year ended 31 December 2003 is based on the adjusted profit attributable to ordinary shareholders of $106,205,000 and the weighted average number of 9,496,412,000 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares for the year ended 31 December 2003.

(c) Reconciliation

	2004 Number of shares *(thousand)*	2003 Number of shares *(thousand)*
Weighted average number of ordinary shares used in calculating basic earnings per share	**9,015,833**	9,003,262
Deemed issue of ordinary shares for no consideration	**—**	493,150
Weighted average number of ordinary shares used in calculating diluted earnings per share	**9,015,833**	9,496,412

11. SENIOR MANAGEMENT REMUNERATION

The five highest paid individuals of the Group include two (2003: three) Directors of the Company during the year ended 31 December 2004 whose remuneration are reflected in the analysis presented above. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

	2004	2003
	$'000	*$'000*
Basic salaries, allowances and other benefits	**1,176**	1,126
Retirement benefit scheme contributions	**446**	328
Bonuses	**1,200**	1,507
	2,822	2,961
Number of senior management	**3**	2

The emoluments of the three (2003: two) individuals with the highest emoluments are within the following bands:

	2004 Number of individuals	2003 Number of individuals
$		
Nil–1,000,000	**2**	—
1,000,001–1,500,000	**1**	1
1,500,001–2,000,000	**—**	1

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of $58,065,000 (2003: $73,405,000) which has been dealt with in the financial statements of the Company.

10. DIRECTORS' REMUNERATION

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

	2004	2003
	$'000	*$'000*
Fees	**—**	24
Salaries and other emoluments	**2,944**	3,304
Discretionary bonuses	**1,418**	1,068
Retirement scheme contributions	**379**	536
	4,741	4,932

Included in the Directors' remuneration were fees and other emoluments of $Nil and $900,000 (2003: $9,000 and $900,000) respectively paid to the independent Non-executive Directors during the year.

An analysis of Directors' remuneration by the number of Directors and remuneration range is as follows:

	2004	2003
	Number of Directors	Number of Directors
$		
Nil–1,000,000	**9**	6
1,000,001–1,500,000	**2**	2
1,500,001–2,000,000	**—**	1

NOTES ON THE FINANCIAL STATEMENTS

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

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

	2004	2003
	$'000	*$'000*
Profit before tax	**169,579**	120,320
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**28,864**	15,396
Tax effect of non-deductible expenses	**2,912**	29,559
Tax effect of non-taxable revenue	**(1,389)**	(26,038)
Tax effect of unused tax losses not recognised	**174**	(1,706)
Effect on opening deferred tax balances resulting from an increase in tax rate	**—**	(4,147)
Under/(over)-provision in prior years	**690**	(131)
Actual tax expense	**31,251**	12,933

The tax rate for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%). The tax rates for PRC income tax is calculated ranging from 10% to 33% (2003: 10% to 33%) which depends on the locations where the PRC subsidiaries are situated.

9. INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	2004	2003
	$'000	*$'000*
Current tax — Provision for Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax at 17.5% (2003: 17.5%) on the estimated assessable profits for the year	**971**	258
Over-provision in respect of prior years	**(55)**	(2,613)
	916	(2,355)
Current tax — the PRC		
Tax for the year	**21,499**	7,947
Under-provision in respect of prior years	**745**	2,482
	22,244	10,429
Deferred tax		
Origination and reversal of temporary differences	**6,316**	6,997
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
	6,316	7,757
Share of associates' taxation	**1,775**	(2,898)
Total income tax expense	**31,251**	12,933

Income tax for subsidiaries or associates established and operating in the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC. 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2004 $'000	2003 $'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	**697**	4,221
Interest on convertible notes	**—**	3,443
	697	7,664
(b) Staff costs:		
Net contributions (received from)/paid to defined contribution plans	**(743)**	574
Salaries, wages and other benefits	**36,503**	42,402
	35,760	42,976
Average number of employees during the year	**558**	671
(c) Other items:		
Cost of inventories sold	**701,093**	1,373,795
Auditors' remuneration	**1,958**	1,940
Depreciation	**5,696**	9,050
Operating lease charges in respect of property rentals	**540**	1,026
Amortisation of negative goodwill (note 14)	**—**	(1,447)
Rentals receivable from investment properties less direct outgoings of $1,501,000 (2003: $3,551,000)	**(23,921)**	(32,626)

Cost of inventories includes $16,738,000 (2003: $18,544,000) 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.

6. NON-OPERATING INCOME

	Note	**2004** **$'000**	2003 $'000
Write-back of liabilities	*(i)*	**76,223**	33,185
Net gain on disposal of an associate		**83**	—
Recovery of bad debts	*(ii)*	**—**	24,239
Net gain on disposal of a subsidiary		**—**	9,097
		76,306	66,521

Notes:

(i) The amounts mainly represent the write-back of liabilities which have been outstanding for a long time with no demand for settlements. The Directors are of the opinion that it is not likely that the creditors will lodge claims against the Group.

(ii) During the year ended 31 December 2003, certain bad debts were recovered and the related provisions were written back to the profit and loss account accordingly.

7. NON-OPERATING EXPENSES

	2004 **$'000**	2003 $'000
Provision for impairment losses on fixed assets	**—**	30,862

In view of the poor trading conditions experienced by certain subsidiaries during the year ended 31 December 2003, the Directors reviewed the carrying value of the relevant subsidiaries' fixed assets and concluded that it was appropriate to recognise impairment losses of $30,862,000 against certain fixed assets as at 31 December 2003.

NOTES ON THE FINANCIAL STATEMENTS

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5. DISCONTINUED OPERATIONS (Continued)

The net assets of the discontinued operations as at the date of discontinuance and 31 December 2003 were as follows:

	Discontinued operations	
	Date of discontinuance	2003
	$'000	*$'000*
Total assets	**36,473**	36,888
Total liabilities	**(6,762)**	(14,283)
Net assets	**29,711**	22,605

The cash flows of the discontinued operations for the current and previous years were as follows:

	Discontinued operations	
	2004	2003
	$'000	*$'000*
Net cash used in operating activities	**(587)**	(1,319)
Net cash used in investing activities	**(77)**	(22)
Net cash from financing activities	**—**	2,692

5. DISCONTINUED OPERATIONS

In December 2004, the Group's feed production and livestock farming operations were discontinued following the disposal of two subsidiaries in the People's Republic of China other than Hong Kong (the "PRC"). The net loss on disposal of the discontinued operations amounted to $11,793,000.

The results of the discontinued operations for the current and previous years were as follows:

	Continuing operations		**Discontinued operations**		**Total**	
	2004	2003	**2004**	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Turnover	**681,875**	1,379,915	**146,474**	145,892	**828,349**	1,525,807
Cost of sales	**(564,875)**	(1,234,576)	**(136,218)**	(139,219)	**(701,093)**	(1,373,795)
Gross profit	**117,000**	145,339	**10,256**	6,673	**127,256**	152,012
Other revenue	**13,531**	11,645	**118**	57	**13,649**	11,702
Other net income/ (expenses)	**219**	(512)	**—**	298	**219**	(214)
Distribution costs	**(12,116)**	(30,728)	**(1,186)**	(2,091)	**(13,302)**	(32,819)
Administrative expenses	**(41,037)**	(40,337)	**(2,407)**	(11,519)	**(43,444)**	(51,856)
Other operating expenses	**(1,672)**	(393)	**(4,195)**	(5,483)	**(5,867)**	(5,876)
Profit/(loss) from operations	**75,925**	85,014	**2,586**	(12,065)	**78,511**	72,949
Net loss on disposal of discontinued operations	**—**	—	**(11,793)**	—	**(11,793)**	—
Non-operating income	**76,306**	53,412	**—**	13,109	**76,306**	66,521
Non-operating expenses	**—**	—	**—**	(30,862)	**—**	(30,862)
Finance costs	**(547)**	(7,274)	**(150)**	(390)	**(697)**	(7,664)
Share of profits less losses of associates	**27,252**	19,376	**—**	—	**27,252**	19,376
Profit/(loss) from ordinary activities before taxation	**178,936**	150,528	**(9,357)**	(30,208)	**169,579**	120,320
Income tax	**(30,934)**	(12,518)	**(317)**	(415)	**(31,251)**	(12,933)
Profit/(loss) from ordinary activities after taxation	**148,002**	138,010	**(9,674)**	(30,623)	**138,328**	107,387

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3. OTHER REVENUE

	2004	2003
	$'000	$'000
Sales of scrap materials	4,398	4,371
Interest income	3,726	4,526
Write-back of provision for bad debts	2,251	577
Management income	253	437
Dividends from listed securities	235	260
Subsidy received	119	—
Others	2,667	1,531
	13,649	11,702

4. OTHER NET INCOME/(EXPENSES)

	2004	2003
	$'000	$'000
Net gain/(loss) on disposal of fixed assets	243	(1,069)
Net loss on disposal of investment securities	—	(236)
Net realised and unrealised (loss)/gain on other securities carried at fair value	(47)	562
Provision for diminution in value of investment securities	(338)	—
Others	361	529
	219	(214)

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 during the year.

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:

	2004	2003
	$'000	*$'000*
Sales of goods		
— Tinplating	**574,443**	538,765
— Live and fresh foodstuffs distribution	**50,572**	751,901
— Feed production and livestock farming (discontinued)	**146,474**	145,892
— Foodstuffs trading	**31,438**	52,190
	802,927	1,488,748
Property leasing	**25,422**	37,059
	828,349	1,525,807

In prior years, turnover in respect of the Group's live and fresh foodstuffs distribution business represented the gross sales value of live and fresh foodstuffs. Effective 1 January 2004, turnover in respect of the Group's live and fresh foodstuffs distribution business includes commission income derived from its agency business in trading of live and fresh foodstuffs, following the execution of agency agreements with most of the suppliers concerned. The change in the mode of operation has resulted in a significant decrease in the Group's turnover during the year ended 31 December 2004. However, the change has no significant impact on the gross profit of the Group's live and fresh foodstuffs distribution business.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Segment reporting (Continued)

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

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

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

(u) Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

(v) *Commission income*

Commission income is recognised when the relevant services are provided.

(r) Translation of foreign currencies

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

The results of subsidiaries and associates outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are 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 exchange differences which relate to that subsidiary or associate is included in the calculation of the profit or loss on disposal.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and 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.

(t) Segment reporting

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

In accordance with the Group's internal financial reporting 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Provisions and contingent liabilities (Continued)

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.

(q) Revenue recognition

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

(i) *Sale of goods*

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

(ii) *Dividends*

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

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

(iii) *Interest income*

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

(iv) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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.

(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.

(p) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories (Continued)

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

(m) Cash equivalents

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

(n) Employee benefits

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

(ii) The Group's contributions to retirement benefit schemes 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. Further information is set out in note 34.

(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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets

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

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

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

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

(i) *Calculation of recoverable amount*

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

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Leased assets

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

(i) *Assets held for use in operating leases*

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

(ii) *Operating lease charges*

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

(j) Depreciation

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

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

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets (Continued)

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

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

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

(vi) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(h) Construction in progress

Construction in progress is stated at cost, which comprises construction expenditure, including interest costs and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest costs during the construction period, and the cost of related equipment. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate authorities.

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified in note 1(j).

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 the directors taking into consideration the professional valuations.

(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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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 consolidated profit and loss account.

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

(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 arising on an acquisition is recognised directly in the profit and loss account.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and controlled enterprises (Continued)

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.

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

NOTES ON THE FINANCIAL STATEMENTS

(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 Institute of Certified Public Accountants ("HKICPA"), 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS") ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

With effect from 1 January 2004, the Group has chosen to early adopt HKFRS 3 "Business combinations", HKAS 36 "Impairment of assets" and HKAS 38 "Intangible assets". The impact of the early adoption of these accounting standards is set out in note 14.

Apart from the above, the Group has not early adopted other new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether those other new HKFRSs would have a significant impact on its results of operations and financial position.

(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.

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

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.

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

On 22 July 2004, Gaoyao Foodstuffs, Gaoyao Guangnan and the Company entered into an assignment of debt pursuant to which Gaoyao Guangnan assigned the amount due from Gaoyao Foodstuffs to it amounting to approximately RMB1,680,000 to the Company for setting off the sum of RMB600,000 then owing by Gaoyao Guangnan to the Company. Please refer to the announcement issued by the Company on 29 December 2004 for details.

On 23 July 2004, the Company entered into a sale and purchase agreement to dispose of its 51% interest in Gaoyao Guangnan. At the balance sheet date, there is HK$282,000 due from Gaoyao Foodstuffs to 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.

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.

(iii) entered into in accordance with the terms of agreements governing the Transactions or on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

All the Independent Non-executive Directors also confirmed that:

(i) the aggregate amount for the year ended 31 December 2004 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 2004;

(ii) the aggregate value of the Guangnan Zhanjiang Transaction for the year ended 31 December 2004 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 2004.

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 2004;

(3) 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 2004;

(4) 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; and

(5) the Shan Hai and Tinplate Transactions have been entered into in accordance with the pricing policies of the Group.

2. As at 22 July 2004, 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, had 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 had been brought forward since 1997 as shown in the financial statements of Gaoyao Guangnan. Such amount was unsecured and interest free.

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

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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The transactions described in A, B and C below (collectively the "Transactions") are ongoing connected transactions in respect of which the Stock Exchange has granted conditional waivers to the Company in 2001 for Shan Hai Transaction and Tinplate Transaction, and in 2003 for Guangnan Zhanjiang Transaction from strict compliance with the disclosure requirements under the then Listing Rules.

   On 31 March 2004, the Listing Rules were revised and new requirements were imposed, inter alia, on continuing connected transactions. Please refer to the announcement made by the Company on 12 April 2005 for details of the continuing connected transactions.

   Details of the Transactions during the year 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$1,691,000. 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$1,793,000.

   C. 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") for approximately HK$2,180,000 ("Guangnan Zhanjiang Transaction"). Guangzhou Malting is an indirect subsidiary of GDH.

      On 1 December 2004, the Company entered into a transfer of interest agreement to dispose of all its interest in Guangnan Zhanjiang. The disposal was complete on 28 December 2004 and since then the Guangnan Zhanjiang Transaction is no longer connected transaction of the Company.

   All the Independent Non-executive Directors have reviewed the Transactions described in A, B and C above and confirmed that the Transactions are:

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

   (ii) conducted on normal commercial terms or on terms no less favourable than those available to or from independent third parties; and

INVESTMENT PROPERTIES

Major properties held for investment

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

FINANCIAL SUMMARY

Assets and liabilities

	As at 31 December				
	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	**379,508**	363,411	394,710	397,846	234,189
Interest in associates	**169,689**	154,978	151,264	152,238	171,160
Negative goodwill	**—**	(17,246)	(18,693)	(20,250)	—
Other non-current assets	**202**	4,318	6,843	6,036	—
Net current assets/(liabilities)	**254,835**	126,507	73,049	33,848	(75,081)
Total assets less current liabilities	**804,234**	631,968	607,173	569,718	330,268
Non-current liabilities	**(12,117)**	(9,335)	(92,186)	(196,349)	(20,257)
Minority interests	**(25,107)**	(20,384)	(20,123)	(18,395)	(60,640)
	767,010	602,249	494,864	354,974	249,371
Share capital	**901,583**	901,583	899,833	894,333	90,951
Reserves	**(134,573)**	(299,334)	(404,969)	(539,359)	(614,580)
Loan from immediate holding company	**—**	—	—	—	773,000
	767,010	602,249	494,864	354,974	249,371

FINANCIAL SUMMARY

Results

	For the year ended 31 December				
	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**828,349**	1,525,807	1,783,020	1,819,350	2,764,198
Profit/(loss) from operations	**78,511**	72,949	111,231	(6,063)	(77,608)
Net loss on disposal of discontinued operations	**(11,793)**	—	—	—	—
Net non-operating income	**76,306**	35,659	17,177	31,991	1,110,287
Finance costs	**(697)**	(7,664)	(12,045)	(1,273)	(169,441)
Share of profits less losses of associates	**27,252**	19,376	10,576	(12,220)	7,952
Profit from ordinary activities before taxation	**169,579**	120,320	126,939	12,435	871,190
Income tax	**(31,251)**	(12,933)	(9,747)	(2,819)	(6,018)
Minority interests	**(6,080)**	(4,625)	(1,683)	41,902	885
Profit attributable to shareholders	**132,248**	102,762	115,509	51,518	866,057
Earnings per share					
Basic	**1.47 cents**	1.14 cents	1.28 cents	0.61 cents	95 cents
Diluted	**N/A**	1.12 cents	1.23 cents	N/A	N/A