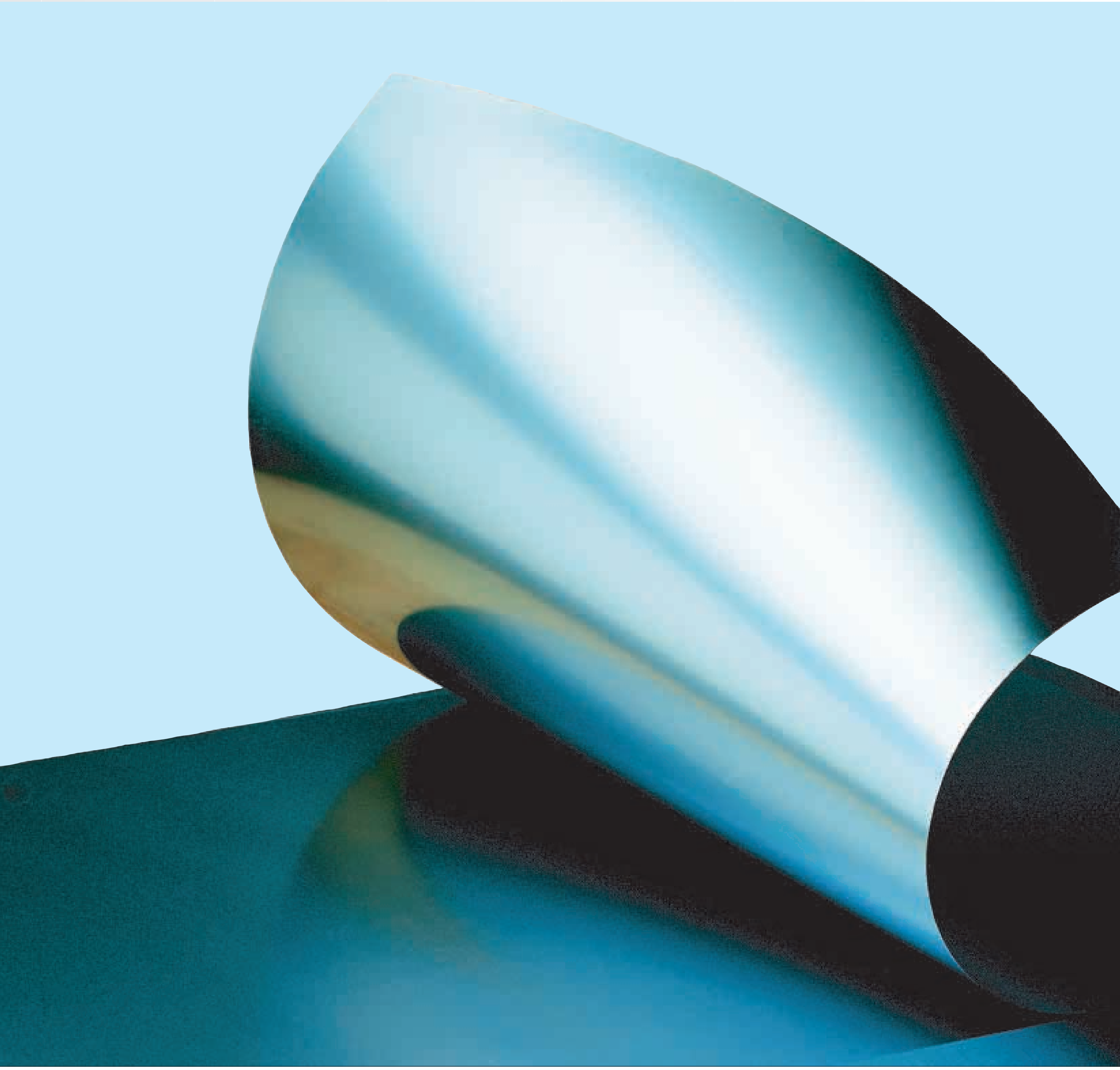
GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

股份代號 Stock Code : 1203

2005年報

ANNUAL REPORT 2005



GDH

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

ZHAO Leili
LUO Fanyu
LIANG Jianqin

Independent Non-executive Directors

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

COMPANY SECRETARY

CHEUNG Mo Ching

REGISTERED OFFICE

22/F., Tesbury Centre
No. 24–32 Queen's Road East
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

SHAREHOLDERS' CALENDAR

Closure of Register of Members	7 June 2006 to 9 June 2006 (both dates inclusive)
Annual General Meeting	9 June 2006 2:30 p.m.
Final Dividend Payable	1.5 HK cents per share 30 June 2006

Chairman's Statement

PROSPECT

With the steady growth in the PRC economy and gradual recovery of consumer's purchasing power, the demand for tinplates, being one of the major materials for metal packaging, will continue to be strong. Moreover, the drop in the price of steel and tinplates from its peak will further stimulate the demand. These favourable market factors attract industry players to go for business expansion and it is anticipated that the competition in the tinplating market will become fiercer this year. The Group will continue to devote resources on expanding the tinplating business chain into upstream cold-roll products and optimising the mix of high-, medium- and low-end tinplate products. With Zhongyue Tinplate's comparative advantages in its brand, technology and cost, new markets can be explored significantly thereby increasing its market share and achieving more promising results.

Liang Jiang
Chairman

Hong Kong, 19 April 2006

Chairman's Statement

The Group's results recorded a satisfactory growth in 2005. The audited consolidated profit attributable to equity shareholders of the Company was HK$175,759,000, representing an increase of 19.9% compared with HK$146,616,000 (restated) in 2004. The basic earnings per share was 19.5 HK cents, representing an increase of 19.6% from 16.3 HK cents (restated) in 2004.

DIVIDEND

The Directors recommend the payment of a final dividend of 1.5 HK cents per share for the year ended 31 December 2005. The proposed final dividend, subject to the approval by the shareholders of the Company at the annual general meeting, is expected to be paid on 30 June 2006.

REVIEW

In 2005, consolidated turnover was HK$921,217,000, a substantial increase of HK$239,342,000 or 35.1% from HK$681,875,000 in 2004. Such increase was attributable to the growth of the Group's businesses. The tinplating business recorded an increase in production and sales volume due to the commencement of the operation of the new production line and the ease of the shortage in supply of black-plates since May 2005, leading to the surge in turnover of HK$223,355,000 or 38.9%. Turnover of the live and fresh foodstuffs distribution business, foodstuffs trading business and property leasing business increased by HK$10,493,000, HK$5,387,000 and HK$107,000 respectively, which resulted in the growth in profit from operations. Together with the revaluation gains of the Group's properties in 2005, profit from operations increased by HK$11,300,000 to HK$100,866,000. Despite the decrease in non-operating income and share of profit of associates as compared with 2004, the overall profit attributable to equity shareholders of the Company still recorded a promising increase.

In 2005, the Group recorded outstanding results as well as successfully commenced the "five-year development plan" of the tinplating business. With the commencement of the operation of third production line, annual production capacity of Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate") increased from 120,000 tonnes to 200,000 tonnes and realized the economies of scale. The black-plate manufacturing factory which is under construction is expected to commence operation by the end of this year. The Group will then have a more steady supply of black-plates and better control over production cost. As such, the adjustment in product mix and expansion into new markets for medium- to low-end products will gain a strong momentum.

Following the completion of debt restructuring and the turnaround in 2000, the Group has managed to generate a promising profit with sufficient funding. However, the substantial loss arising from the restructuring hampered our declaration of dividend. In 2005, the completion of capital reorganization removed the legal barrier for dividend payment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group had a total of 525 full-time employees, increased by 77 compared with that as at the end of 2004. 24 of the employees were based in Hong Kong and 501 were in mainland China. The staff remuneration is determined in accordance with the duties, workload, skill requirements, hardship, working conditions, individual performance with reference to the prevailing industry practices. In 2005, the Group continued to implement control on the headcount, organization structure and total salaries of each subsidiary. The performance bonus incentive scheme for the management remained effective. Through performance assessment of each subsidiary, performance bonus for various profit rankings was paid on basis of net cash inflow from operation and profit after taxation. In addition, bonus will be rewarded to the management, key personnel and outstanding staff through assessment of individual performance. These incentive schemes have effectively improved the morale of our staff members. The Group has also adopted a share option scheme to encourage excellent participants for their contribution to the Group.

PROSPECTS

The Group's core business has been shifted from the traditional live and fresh foodstuffs distribution business to the tinplating business (food packaging materials) and the management mainly devoted its effort and the Company's resources to the tinplating business, which makes greatest contributions to the Group's profits and offers plenty of room for profit growth. We will continue our direction of professional development and focus on the expansion and strengthening of the tinplating business. With the increase of tinplate annual production capacity from the original 120,000 tonnes to 200,000 tonnes and the fact that the abundant supply of black-plates this year, in contrast to the shortage at the beginning of last year, the production and sales volume of tinplates in 2006 are expected to record a promising growth and continue to generate satisfactory profit contribution for the Group.

Management Discussion & Analysis

Capital Restructuring

On 23 June 2005, the Group proposed to effect the capital reorganization to fully write off the entire amount of accumulated losses at 31 December 2004 so as to prepare for future dividend distribution. Such proposal was passed at the extraordinary general meeting on 12 August 2005 and was confirmed by the High Court on 7 December 2005. The completed capital reorganization involved reduction of share capital, elimination of share premium account and capital redemption reserve, as well as the application of capital reserve and the consolidation of shares. Of the credit amount resulted from capital reduction (the "Credit Amount"), approximately HK$343,352,000, together with the credit in share premium account, capital redemption reserve and capital reserve, were used to eliminate accumulated losses, while the remaining HK$107,440,000 Credit Amount was transferred to a special capital reserve. The nominal value of issued shares was reduced from HK$0.1 to HK$0.05. Every 10 shares of nominal value of HK$0.05 each was consolidated into a new share of nominal value of HK$0.50 each. The Company's assets, business, operations, management and financial position were not affected by the capital reorganization and the respective proportional shareholder interests remained unchanged following the capital reorganization.

Litigation

The Group commenced a legal action against a former minority shareholder of a subsidiary for approximately HK$40,000,000 due to the Group. Provision was fully made against such receivable as at 31 December 2000.

In March 2005, a judgment of Dongguan Intermediate People's Court in favour of the Group had been obtained. The payment awarded under the judgment for the misappropriation of the Group's property by the former minority shareholder amounted to approximately RMB27,000,000 together with interest thereon. The Group and the former minority shareholder respectively had lodged an appeal. Having considered the legal opinion and the Group's overall interest, the Group and the former minority shareholder as fostered and confirmed by the Court made a settlement of the case at RMB11,000,000 on 23 August 2005 and the settlement consideration was received by the Group on the same day.

Exchange Rate Exposure

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

Associates

In 2005, Yellow Dragon Food Industry Co., Limited ("Yellow Dragon"), a principal associate of the Group, recorded a sales volume of 385,850 tonnes of corn starch, its major products, representing a decrease of 0.6% as compared with 2004. Turnover of Yellow Dragon and our share of its profit amounted to HK$974,760,000 and HK$20,279,000, dropped by 1.6% and 21.2% respectively. This was mainly due to the expiry of preferential tax treatment enjoyed by Yellow Dragon, resulting in an increase of income tax.

The Group has 40% interest in Yellow Dragon and received a total dividend payment of HK$17,962,000 in 2005. It is expected that the Group will receive a total dividend payment of HK$18,748,000 this year.

FINANCIAL POSITION

As at 31 December 2005, the Group's total assets amounted to HK$1,238,630,000, and total liabilities stood at HK$259,414,000, representing an increase of HK$250,562,000 and HK$57,047,000 respectively compared with the positions at the end of 2004. The net current assets increased from HK$254,835,000 at the end of 2004 to HK$380,978,000, and the current ratio (current assets divided by current liabilities) increased from 2.32 as at the end of 2004 to 2.54. The Group has a very sound financial position, laying a solid foundation for future business expansion.

Liquidity and Financial Resources

As at 31 December 2005, the Group maintained cash and cash equivalent balances of HK$96,871,000. Part of the currency was denominated in Renminbi with the amount equivalent to HK$28,408,000 while the remaining was denominated in Hong Kong dollars and US dollars. Cash balances decreased by 67.0% from the end of the last year. During the year under review, the major cash outflow was contributed to the construction of a new production line and the black-plate manufacturing factory with the amount of HK$89,026,000, as well as the increase in the reserve of raw materials for the increased production capacity of tinplates.

As at 31 December 2005, the Group has no interest-bearing borrowings. 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 from 1% at the end of the 2004 to zero.

As at 31 December 2005, the Group's total available banking facilities amounted to HK$352,266,000, of which HK$131,910,000 have been utilized. The unutilized banking facilities amounted to HK$220,356,000. With its cash and cash equivalents holdings and the recurring cash flow from its operations, the Group believes that it will have sufficient funds to meet its present operation requirements and the requirements to further develop its businesses in the foreseeable future.

Management Discussion & Analysis

Property Leasing

The Group's leasing properties included the plant and staff dormitory of Zhongyue Shan Hai Industrial Co., Ltd., and the office building in Hong Kong. In 2005, the total revenue of leasing properties owned by the Group was recorded at HK$25,529,000, an increase of 0.4% compared with 2004. The profit from operations of leasing properties amounted to HK$38,019,000, among which HK$20,497,000 was attributable to valuation gains on investment properties, grew by 21.4% as compared with 2004.

Live and Fresh Foodstuffs Distribution

In 2005, turnover of live and fresh foodstuffs distribution business was recorded at HK$61,065,000, representing an increase of HK$10,493,000 or 20.7% as compared with 2004. This was mainly attributable to the improvement of poultry agency business and live and fresh foodstuffs trading business when the impact of bird flu subsided. On the other hand, income from livestock agency business decreased as a result of the reduction in temporary livestock quotas as compared with 2004. In 2005, the profit from operations was recorded at HK$14,638,000, which increased by HK$766,000 or 5.5% as compared with 2004.

Live and fresh foodstuffs distribution is the traditional business of the Group. By taking measures such as opening up new sources of revenue, reducing costs and improving services, the Group will continue to maintain its agency business and actively expand its trading business of live and fresh foodstuffs, so as to maintain its competitiveness and provide the Group with a stable income stream.

Foodstuffs Trading

In 2005, turnover of the Group's foodstuffs trading business amounted to HK$36,825,000, representing an increase of HK$5,387,000 or 17.1% as compared with 2004, while profit from operations was HK$1,700,000, surged by HK$1,587,000 or 1,404.4% as compared with 2004. This was mainly attributable to the absence of the impact of bird flu which significantly hampered the chilled foodstuffs trading business last year.

In spite of the fact that the foodstuffs trading business is a non-core and non-advantageous business, the resources alignment exercise for the live and fresh foodstuffs distribution business and the foodstuffs trading business for centralized management, effective use of resources, complementation of businesses and increased marketing could contribute to the Group's profits.

Management Discussion & Analysis

BUSINESS REVIEW

Tinplating

In 2005, the production and sales volume of tinplate of Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate"), a subsidiary of the Group, amounted to 114,755 tonnes and 102,174 tonnes, an increase of 36.7% and 20.5% respectively when compared with 2004. The contribution from the tinplating business to the Group's profit was the most significant, with a turnover of HK$797,798,000, representing an increase of 38.9% when compared with the corresponding period last year and 86.6% of the Group's turnover. Profit from operations was HK$51,991,000, grew by HK$3,974,000 or 8.3% when compared with the corresponding period last year and accounted for 51.5% of the Group's profit from operations.

Zhongyue Tinplate's third production line, which completed construction and commenced production on 30 July 2005, is the first tin-free steel production line that is self-developed and constructed in mainland China with annual production capacity of 80,000 tonnes. The processing technique used by such production line has already obtained its own intellectual property rights and its process plan and parameters, which are protected by the Patent Law of the PRC, was granted with invention patent in March 2004.

In order to solve the long-term problem of the shortage of black-plates which hinders the development of the tinplating business, the Group focused its development on the construction project of a factory for production of black-plates which has already commenced last year. The project had an investment budget of US$40 million and is expected to be completed by the end of this year. The planned annual capacity of the factory is 150,000 tonnes, and on the basis of the current annual capacity of 200,000 tonnes of black-plates, 75% of the raw materials can be supplied internally when the planned capacity is reached. With such self-supply capacity, a wider diversity of raw materials can be supplied for the production of tinplates, facilitating the production of high-, medium- and low-end tinplate products. This enables us to expand into the unexplored niche market for tinplates, with an ultimate aim to lower the cost of tinplate products and enhance our product competitiveness, as well as providing ample room for further expansion of tinplate capacity. The major raw material for the production of black-plates is hot rolled plates, which is in adequate supply within and outside the PRC. The Group is in the process of selecting the most ideal channel for hot rolled plates supply.

Prior to utilizing the self-supply capacity of black-plates, we will continue to build our black-plates reserve with the current ample supply of black-plates and the Group's funding advantages, in order to fully utilize the current capacity of 200,000 tonnes of tinplates. It can be expected that the production and sales volume of tinplates will record a record high this year.

Directors' Profile

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 41, 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 Fellow of The Association of Chartered Certified Accountants and a member of The Chinese Institute of Certified Public Accountants. Miss Liang previously worked in one of the big four certified public accountancy firms. She worked for Guangdong Investment Limited in 1997 and was the general manager of the finance department of GDH. Ms. Liang is an Executive Director and the Chief Financial Officer of Kingway Brewery.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gerard Joseph McMAHON, aged 62, 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 was 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 eight 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, Titan Petrochemicals Group Limited and Nine Dragons Paper (Holdings) Limited. She is also a member of the board of the Commission for Strategic Development 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 53, 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.

SENIOR MANAGEMENT

Messrs. Liang Jiang, Tan Yunbiao and Tsang Hon Nam are members of the senior management of the Company.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. LIANG Jiang, aged 53, 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 an executive 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 41, 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 in Zhongshan City, 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. Tsang Hon Nam, aged 36, was appointed an Executive Director and the Chief Financial Officer 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.

NON-EXECUTIVE DIRECTORS

Mr. Zhao Leili, aged 52, 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. Between 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. LUO Fanyu, aged 50, 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

Report of the Directors

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.

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.

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2005 have been reviewed by the Audit Committee of the Company.

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, 19 April 2006

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2005, 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)	536,380,868	59.49%	Long position
GDH Limited ("GDH")	536,380,868	59.49%	Long position

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

Save as disclosed above, as at 31 December 2005, 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 122 to 124, 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. As at 31 December 2005, the loan has an outstanding balance of RMB25,000,000.

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.

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 122 to 124.

Report of the Directors

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, 250,000 options were lapsed under the 2001 Share Option Scheme and no options were granted under the 2004 Share Option Scheme. As at 31 December 2005, options were outstanding under the 2001 Share Option Scheme entitling the holders to subscribe for 11,790,000 shares of the Company.

As at 31 December 2005, 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(c) on the financial statements.

Category	Date of share options granted#	Number of share options: Held on 1 January 2005 '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 2005 '000
Employees and other participants	24/08/01	3,350	—	26/11/01 to 25/11/06*	10	1.495	—	—	—	3,350
	06/02/04	5,190	—	06/05/04 to 05/05/09**	10	1.582	—	250	—	4,940

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 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 2005 represent 1.31% of the issued share capital of the Company.

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 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.

(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 2005 '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 2005 '000
Liang Jiang	06/02/04	2,000	—	06/05/04 to 05/05/09*	10	1.582	—	—	—	2,000
Tan Yunbiao	06/02/04	1,500	—	06/05/04 to 05/05/09*	10	1.582	—	—	—	1,500

\# 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.

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 2005, 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 adopted a new share option scheme ("2004 Share Option Scheme") and terminated its share option scheme that was adopted on 24 August 2001 ("2001 Share Option Scheme"). Options granted prior to the termination of the 2001 Share Option Scheme remain valid until lapsed.

2001 Share Option Scheme

Pursuant to the 2001 Share Option Scheme, the exercise price of the options under the Scheme 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 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	230,000	0.026%
Zhao Leili	700,000	0.078%

(ii) *Guangdong Investment Limited*

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jianqin	200,000	0.003%

(iii) *Kingway Brewery Holdings Limited*

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Zhao Leili	300,000	0.021%
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%

Report of the Directors

DIRECTORS

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

Executive Directors

LIANG Jiang
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

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 and its Nomination Committee consider 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. Tan Yunbiao and Tsang Hon Nam and Miss Liang Jianqin 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 2005, 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

Report of the Directors

BORROWINGS AND INTEREST CAPITALISED

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

SHARE CAPITAL

Details of the share capital of the Company are set out in note 27(c) on the financial statements.

RESERVES

Consolidated profits attributable to equity shareholders of the Company, before dividend, of HK$175,759,000 (2004 (restated): HK$146,616,000) have been transferred to reserves. Other movements in the reserves of the Group and the Company during the year are set out in notes 27(a) and 27(b) on the financial statements respectively.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in note 32 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

The largest supplier for the year ended 31 December 2005 represented 63.9% of the Group's total purchases (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 74.8% 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 customers and suppliers.

PROPERTIES

Particulars of the major properties of the Group are set out on page 125.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years ended 31 December 2005 is set out on pages 126 and 128.

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 2005.

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.

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 3 and 14 on the financial statements.

RESULTS AND DIVIDENDS

The Group's consolidated results for the year ended 31 December 2005 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 33 to 121.

The Directors resolved not to make the payment of an interim dividend (2004: Nil) and recommend the payment of a final dividend of 1.5 HK cents per share (2004: Nil) for the year ended 31 December 2005.

The proposed final dividend, if approved at the 2006 Annual General Meeting of the Company, is expected to be paid on 30 June 2006 to shareholders whose names appear on the register of members of the Company on 9 June 2006.

FIXED ASSETS

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

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates as at 31 December 2005 are set out in notes 36 and 38 on the financial statements respectively.

The Audit Committee shall meet at least four times a year. During the financial year ended 31 December 2005, the Audit Committee held eight meetings, inter alia, to review the 2004 annual results and the 2005 interim results of the Group. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's financial results. It also focuses on the Group's systems of internal control. The Audit Committee met the external auditors three times (out of which one time without the presence of the management) during the financial year ended 31 December 2005 to discuss any areas of concerns. The attendance of each member of the Audit Committee of the meetings is as follows:

Directors	**Number of Attendance**
Gerard Joseph McMahon	8/8
Tam Wai Chu, Maria	7/8
Li Kar Keung, Caspar	8/8

OTHER DISCLOSURES

The Directors have acknowledged their responsibility for preparing all information and representations contained in the financial statements of the Company for the year ended 31 December 2005. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis. The Directors have reviewed and are satisfied with the effectiveness of the Group's systems of internal control.

Corporate Governance Report

6. To review the Group's financial controls, internal control and risk management systems.

7. To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system.

8. To consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.

9. Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.

10. To review the Group's financial and accounting policies and practices.

11. To review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response.

12. To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.

13. To report to the Board on the matters set out in the provision herein.

14. To consider other topics as defined by the Board.

The Audit Committee comprises the three Independent Non-Executive Directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. Mr. Gerard Joseph McMahon is the chairman of the Audit Committee.

3. To develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

4. To monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:

   (a) Any changes in accounting policies and practices;

   (b) Major judgmental areas;

   (c) Significant adjustments resulting from audit;

   (d) The going concern assumptions and any qualifications;

   (e) Compliance with accounting standards; and

   (f) Compliance with the Listing Rules and other legal requirements in relation to financial reporting.

5. In regard to 4 above:

   (a) Members of the Audit Committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and

   (b) The Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the issuer's qualified accountant, compliance officer or auditors.

Corporate Governance Report

AUDITORS' REMUNERATION

The remuneration of the Company's auditors, Messrs. KPMG, in respect of services rendered during the financial year ended 31 December 2005 is set out as follows:

Services rendered	Fee HK$'000
Audit of final results	1,480
Review of interim results	480
Review of capital reorganisation	420
Review of continuing connected transactions	42
	2,422

AUDIT COMMITTEE

The Audit Committee (the "Audit Committee") of the Company was established in 1999 and its terms of reference were amended in June 2005 to bring it in line with the New CG Code. The authority and duties of the Audit Committee are as follows:

Authority

1. The Audit Committee is authorized by the Board to seek any information it requires from any officer or employee of the Company and all officers and employees are directed to co-operate with any request made by the Audit Committee.

2. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice if it considers it necessary and to secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this to be necessary.

Duties

1. To be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor.

2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.

Duties

1. To review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

2. To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships.

3. To assess the independence of Independent Non-executive Directors, having regard to the requirements under the Listing Rules.

4. To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the general manager.

The Nomination Committee comprises the Chairman of the Board, Mr. Liang Jiang, and the three Independent Non-executive Directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. Mr. Liang Jiang is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once a year. During the financial year ended 31 December 2005, the Nomination Committee met once to review the structure, size and composition of the Board. The attendance of each member of the Nomination Committee at the meeting is as follows:

Directors	**Number of Attendance**
Liang Jiang	1/1
Gerard Joseph McMahon	1/1
Tam Wai Chu, Maria	1/1
Li Kar Keung, Caspar	1/1

Corporate Governance Report

The Compensation Committee shall meet at least twice a year. During the year ended 31 December 2005, the Compensation Committee held two meetings to review the annual remuneration package and performance bonuses for the Executive Directors and the management of the Company. The attendance of each member of the Compensation Committee at the meetings is as follows:

Directors	Number of Attendance
Liang Jiang	2/2
Tan Yunbiao	2/2
Gerard Joseph McMahon	2/2
Tam Wai Chu, Maria	1/2
Li Kar Keung, Caspar	2/2

Details of the Directors' remuneration are set out in note 9 to the financial statements.

NOMINATION OF DIRECTORS

The Nomination Committee is responsible for identifying suitable and qualified individuals to become board member and make recommendation on appointment and reappointment of directors. The Board is responsible for considering and approving the appointment of directors with a view to appoint to the Board suitable individuals with the relevant expertise and experience to enhance the constitution of a strong and diverse Board and to contribute to the functioning of the Board through their continuous participation.

The Company established a nomination committee (the "Nomination Committee") in 2005. The authority and duties of the Nomination Committee are as follows:

Authority

1. The Nomination Committee is authorized by the Board to seek any information it requires from any officer or employee of the Company and all officers and employees are directed to co-operate with any request made by the Nomination Committee.

2. The Nomination Committee is authorized by the Board to obtain outside legal or other independent professional advice if it considers it necessary and to secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this to be necessary.

3. To have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

4. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

5. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

6. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

7. To make recommendations to the Board concerning officer and/or employee share option or incentive schemes or the like, or other forms of profit-sharing arrangements of the Group which might be devised to reward management or other employees over and above normal salary and bonuses.

8. Supervising the policy relating to, and the management and care of the Company's retirement, provident or superannuating funds.

9. To ensure that no director or any of his associates is involved in deciding his own remuneration.

The Compensation Committee comprises the Chairman of the Board, Mr. Liang Jiang, Executive Director and General Manager, Mr. Tan Yunbiao, and the three Independent Non-executive Directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. Mr. Li Kar Keung, Caspar is the chairman of the Compensation Committee.

Corporate Governance Report

NON-EXECUTIVE DIRECTORS

Prior to enforcement of the New CG Code on 1 January 2005, the Non-executive Directors were not appointed for specific terms but they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. The Non-executive Directors who were re-elected in the 2005 annual general meeting hold office for a term of approximately three years until they become due to retire by rotation in accordance with the Articles. The Company has taken steps to amend the Articles to ensure that the Non-executive Directors will be subject to retirement by rotation at least once in every three years.

REMUNERATION OF DIRECTORS

The Company established a compensation committee (the "Compensation Committee") in 1999 and its terms of reference were amended in June 2005 to bring it in line with the New CG Code. The authority and duties of the Remuneration Committee are as follows:

Authority

1. The Compensation Committee is authorized by the Board to seek any information it requires from any officer or employee of the Company and all officers and employees are directed to co-operate with any request made by the Compensation Committee.

2. The Compensation Committee is authorized by the Board to obtain outside legal or other independent professional advice if it considers it necessary and to secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this to be necessary.

Duties

1. The Compensation Committee should consult the chairman and/or general manager about their proposals relating to the remuneration of other executive directors and have access to professional advice if it considers this to be necessary.

2. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

Corporate Governance Report

The Board meets regularly at an approximate quarterly interval and on other occasions when a Board decision is required on major issues. During the financial year ended 31 December 2005, the Board held eight meetings. The attendance of each Director at the meetings is as follows:

Directors	**Number of Attendance**
Liang Jiang	8/8
Tan Yunbiao	8/8
Tsang Hon Nam	8/8
Zhao Leili	4/8
Luo Fanyu	5/8
Liang Jianqin	3/8
Gerard Joseph McMahon	5/8
Tam Wai Chu, Maria	5/8
Li Kar Keung, Caspar	6/8

The Company has received confirmation of independence from each of the three Independent Non-Executive Directors, namely Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar in accordance with Rule 3.13 of the Listing Rules. The Board and the Nomination Committee have assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. The balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 10 and 11 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

CHAIRMAN AND GENERAL MANAGER

The Chairman is Mr. Liang Jiang and the General Manager is Mr. Tan Yunbiao. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Liang Jiang as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Tan Yunbiao as the General Manager is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

Corporate Governance Report

The Company and its subsidiaries (the "Group") recognizes the importance of achieving and monitoring the high standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its shareholders and is fully committed to doing so. It is also with the objectives in mind that the Group has applied the principles on the Code of Corporate Governance Practices (the "New CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company (the "Directors"), the Company has met the code provisions set out in the New CG Code in the financial year ended 31 December 2005, with the exception that certain Non-executive Directors are not appointed for specific terms but they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association (the "Articles").

To ensure continuing compliance with the New CG Code, the Company has undertaken a review of the Articles. At the forthcoming 2006 annual general meeting of the Company, a special resolution will be proposed to make the necessary amendments to the Articles to bring them even more in lines with the requirements under the New CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

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, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the year 2005.

BOARD OF DIRECTORS

The board of Directors of the Company ("Board") comprises three Executive Directors, being Messrs. Liang Jiang, Tan Yunbiao and Tsang Hon Nam, three Non-Executive Directors, being Messrs. Zhao Leili and Luo Fanyu and Miss Liang Jianqin, and three Independent Non-Executive Directors, being Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

Auditors' Report

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

We have audited the financial statements on pages 33 to 121 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 Hong Kong Standards on Auditing 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 2005, 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, 19 April 2006

Consolidated Profit and Loss Account

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 (restated) $'000
Continuing operations			
Turnover	3,14	**921,217**	681,875
Cost of sales		**(798,270)**	(565,521)
Gross profit		**122,947**	116,354
Net valuation gains on investment properties		**20,497**	14,287
Other revenue	4	**11,939**	13,531
Other net income	4	**3,316**	219
Distribution costs		**(15,010)**	(12,116)
Administrative expenses		**(42,367)**	(41,037)
Other operating expenses		**(456)**	(1,672)
Profit from operations		**100,866**	89,566
Non-operating income	6	**59,746**	76,306
Finance costs	7(a)	**(396)**	(547)
Share of profits less losses of associates		**20,315**	25,477
Profit before taxation	7	**180,531**	190,802
Income tax	8(a)	**(736)**	(28,536)
Profit for the year from continuing operations		**179,795**	162,266
Discontinued operations			
Loss for the year from discontinued operations	5	**—**	(9,674)
Profit for the year		**179,795**	152,592
Attributable to:			
Equity shareholders of the Company	27(a)	**175,759**	146,616
Minority interests	27(a)	**4,036**	5,976
Profit for the year		**179,795**	152,592
Dividend payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	12	**13,524**	—
Earnings per share	13		
Basic		**19.5 cents**	16.3 cents
Diluted		**N/A**	N/A

The notes on pages 42 to 121 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2005 (Expressed in Hong Kong dollars)

	Note	**2005** **$'000**	2004 (restated) $'000
Non-current liabilities			
Deferred tax liabilities	20(b)	**12,217**	9,833
Net assets		**979,216**	785,701
Capital and reserves			
Share capital	27(c)	**450,792**	901,583
Reserves		**499,090**	(140,668)
Total equity attributable to equity shareholders of the Company	27(a)	**949,882**	760,915
Minority interests	27(a)	**29,334**	24,786
Total equity		**979,216**	785,701

Approved and authorised for issue by the board of directors on 19 April 2006.

Tan Yunbiao
Director

Tsang Hon Nam
Director

The notes on pages 42 to 121 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 (restated) $'000
Non-current assets			
Fixed assets			
— Investment properties		**207,496**	184,298
— Other property, plant and equipment		**167,580**	125,616
— Interest in leasehold land held for own use under operating leases		**59,330**	60,894
	15(a)	**434,406**	370,808
Interest in associates	17	**176,003**	169,689
Other non-current financial assets	18	**46**	202
		610,455	540,699
Current assets			
Trading securities	19	**3,059**	3,200
Inventories	21	**236,259**	30,707
Trade and other receivables	22	**291,986**	120,079
Cash and cash equivalents	23	**96,871**	293,383
		628,175	447,369
Current liabilities			
Interest-bearing borrowings	24	**—**	7,851
Proceeds from banks on discounted bills	24	**26,991**	—
Trade and other payables	25	**200,604**	170,127
Current taxation	20(a)	**19,602**	14,556
		247,197	192,534
Net current assets		**380,978**	254,835
Total assets less current liabilities		**991,433**	795,534

Balance Sheet

At 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 $'000
Non-current assets			
Fixed assets			
— Investment properties		**97,000**	78,200
— Other property, plant and equipment		**1,039**	1,290
	15(b)	**98,039**	79,490
Interest in subsidiaries	16	**373,617**	326,658
Interest in associates	17	**169,258**	169,258
Other non-current financial assets	18	**46**	202
		640,960	575,608
Current assets			
Trading securities	19	**3,059**	3,200
Trade and other receivables	22	**20,015**	24,810
Cash and cash equivalents	23	**12,294**	17,860
		35,368	45,870
Current liabilities			
Trade and other payables	25	**10,915**	21,778
Amounts due to subsidiaries		**7,878**	13,169
		18,793	34,947
Net current assets		**16,575**	10,923
Net assets		**657,535**	586,531
Capital and reserves			
Share capital	27(c)	**450,792**	901,583
Reserves		**206,743**	(315,052)
Total equity	27(b)	**657,535**	586,531

Approved and authorised for issue by the board of directors on 19 April 2006.

Tan Yunbiao
Director

Tsang Hon Nam
Director

The notes on pages 42 to 121 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2005 $'000	2004 (restated) $'000	2004 (restated) $'000
Net profit for the year:					
As previously reported:	2(a)(i)				
— attributable to equity shareholders of the Company				132,248	
— minority interests				6,080	
				138,328	
Prior year adjustments arising from changes in accounting policies	2(a)(i)			14,264	
Net profit for the year (2004: as restated)	27(a), 2(a)(i)		**179,795**		152,592
Total recognised income and expenses for the year (2004: as restated)			**193,540**		151,513
Attributable to:					
Equity shareholders of the Company		**175,759**		145,573	
Minority interests		**4,036**		5,940	
		179,795		151,513	
Dividends declared to minority shareholders	27(a)		**(2,232)**		(5,944)
Transfer from other reserves shared by minority shareholders	27(a)		**—**		(1,223)
Contribution by minority shareholders	27(a)		**2,207**		5,848
Total equity at 31 December			**979,216**		785,701
Restatements of total recognised income and expense for the year are attributable to:					
Equity shareholders of the Company					(1,932)
Minority interests					(137)
					(2,069)
Arising from restatements of:					
Net income recognised directly in equity					(16,333)
Net profit for the year					14,264
					(2,069)

The notes on pages 42 to 121 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2005 $'000	2004 (restated) $'000	2004 (restated) $'000
Total equity at 1 January					
As previously reported:					
— attributable to equity shareholders of the Company	27(a)	**767,010**		619,495	
— minority interests	27(a)	**25,107**		20,384	
		792,117		639,879	
Prior year adjustments arising from changes in accounting policies	27(a)	**(6,416)**		(4,372)	
At 1 January, after prior year adjustments	27(a)		**785,701**		635,507
Net income recognised directly in equity:					
Exchange differences on translation of:					
— financial statements of subsidiaries outside Hong Kong	27(a)		**10,174**		2
Surplus on revaluation of investment properties, net of deferred tax:					
As previously reported:					
— attributable to equity shareholders of the Company				16,300	
— minority interests				33	
				16,333	
Prior year adjustments arising from changes in accounting policies under HKAS 40				(16,333)	
Surplus on revaluation of investment properties, net of deferred tax (2004: as restated)			**—**		—
Reserves realised upon liquidation of a subsidiary	27(a)		**(38)**		—
Reserves realised upon disposal of discontinued operations	27(a)		**—**		(978)
Reserve realised upon disposal of an associate	27(a)		**—**		(236)
Share of associates' reserves	27(a)		**3,609**		133
Net income for the year recognised directly in equity (2004: as restated)			**13,745**		(1,079)

Consolidated Cash Flow Statement

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

		2005		2004 (restated)	
	Note	$'000	$'000	$'000	$'000
Investing activities					
Payment for purchase of fixed assets		**(89,166)**		(13,742)	
Proceeds on sales of an associate		**—**		400	
Dividends received from listed securities		**235**		235	
Dividends received from associates		**17,962**		565	
Proceeds on disposal of fixed assets		**423**		739	
Net cash inflow from disposal of discontinued operations	28(b)	**—**		3,542	
Net cash used in investing activities			**(70,546)**		(8,261)
Financing activities					
Dividend paid		**(475)**		(466)	
Repayment of proceeds from banks on discounted bills		**(43,991)**		—	
Proceeds from banks on discounted bills		**70,982**		—	
Repayment of bank borrowings		**—**		(2,817)	
Proceeds from new bank borrowings		**—**		2,817	
Net cash generated from/(used in) financing activities			**26,516**		(466)
(Decrease)/increase in cash and cash equivalents			**(197,288)**		34,292
Cash and cash equivalents at 1 January			**288,749**		254,457
Effect of foreign exchange rate changes			**5,410**		—
Cash and cash equivalents at 31 December	23		**96,871**		288,749

The notes on pages 42 to 121 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

		2005		2004 (restated)	
	Note	$'000	$'000	$'000	$'000
Operating profit before changes in working capital brought forward		**84,450**		78,107	
(Increase)/decrease in inventories		**(205,552)**		628	
(Increase)/decrease in trade debtors, bills and other receivables, deposits and prepayments		**(108,539)**		25,623	
Decrease in amounts due from fellow subsidiaries		**122**		5,049	
Decrease in amounts due from related companies		**—**		33	
(Increase)/decrease in amounts due from associates		**(63)**		10,483	
Increase/(decrease) in trade creditors, other payables and accrued charges		**61,375**		(35,681)	
Decrease in amounts due to related companies		**—**		(1,820)	
Decrease in amounts due to holding companies and fellow subsidiaries		**(243)**		(23,115)	
Decrease in amounts due to associates		**—**		(2,387)	
Decrease/(increase) in restricted cash deposits against legal claims	23	**4,634**		(4,634)	
Cash (used in)/generated from operations		**(163,816)**		52,286	
Interest received		**4,515**		3,106	
Interest paid		**(396)**		(113)	
Hong Kong Profits Tax refunded		**—**		3,021	
Hong Kong Profits Tax paid		**(1,763)**		(1,843)	
PRC income tax refunded		**19,874**		—	
PRC income tax paid		**(11,672)**		(13,438)	
Net cash (used in)/generated from operating activities			**(153,258)**		43,019

Consolidated Cash Flow Statement

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2005 $'000	2004 (restated) $'000	2004 (restated) $'000
Operating activities					
Profit for the year		**179,795**		152,592	
Adjustments for:					
— Finance costs		**396**		697	
— Interest income		**(3,912)**		(3,726)	
— Dividends from listed securities		**(235)**		(235)	
— Net realised and unrealised loss on trading securities		**141**		47	
— Net valuation gains on investment properties		**(20,497)**		(14,287)	
— Provision for diminution in value of other non-current financial assets		**156**		338	
— Net gain on disposal of an associate		**—**		(83)	
— Net loss/(gain) on disposal of fixed assets		**242**		(243)	
— Write-back of liabilities		**(42,740)**		(76,223)	
— Net gain on liquidation of subsidiaries		**(45)**		—	
— Net loss on disposal of discontinued operations	5	**—**		11,793	
— Write-back of provision for bad debts		**(355)**		(2,251)	
— Recovery of bad debts		**(17,006)**		—	
— Depreciation		**8,077**		4,558	
— Amortisation of land lease premium		**1,774**		1,754	
— Share of profits less losses of associates		**(20,315)**		(25,477)	
— Income tax	8(a)	**736**		28,853	
— Foreign exchange gain		**(1,762)**		—	
Operating profit before changes in working capital carried forward		**84,450**		78,107	

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

37. LIST OF COMPANIES UNDER LIQUIDATION

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

Name of company	Principal country/place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Subsidiary
Guangnan (KK) Supermarket Limited*	Hong Kong	Ordinary	$20,000,000	—	70%
Guangdong Guangnan Tianmei Food Development Company Limited##	The PRC	N/A	RMB34,820,000	—	55%

* company commenced liquidation in June 2001

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

38. LIST OF ASSOCIATES

Particulars of the associates at 31 December 2005 are as follows:

Name of associate	Principal country/place of operations	Class of shares held	Proportion of nominal value of issued capital/capital registered held by the Company	Subsidiary	Principal activities
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)

36. LIST OF SUBSIDIARIES

Particulars of the subsidiaries which principally affected the results, assets or liabilities of the Group at 31 December 2005 are as follows:

Name of subsidiary	Principal country/ place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company	Subsidiary	Principal activities
Dongguan Jinhuang Food Co., Ltd.#	The PRC	N/A	RMB40,000,000	—	100%	Leasing
Gain First Investments Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	100%	—	Investment holding
Guangnan Fresh and Live Foodstuffs Limited	Hong Kong	Ordinary	$1,000,000	100%	—	Distribution of live and fresh foodstuffs
Guangnan Supermarket Development Limited	Hong Kong	Ordinary	$135,742,220	100%	—	Investment holding
Guangnan Trading Development Limited	Hong Kong	Ordinary	$73,916,728	100%	—	Trading of foodstuffs
Jin Huang Food Industry Investment Limited	British Virgin Islands/ Hong Kong	Ordinary	$1,000,000	100%	—	Investment holding
Jin Huang Food Industry Investment Limited	Hong Kong	Ordinary	$1,000,000	—	100%	Investment holding
Zhongyue Industry Material Limited	Hong Kong	Ordinary Non-voting deferred	$10 $230,000,000	— —	100% —	Trading of raw materials for production of tinplate products
Zhongshan Shan Hai Industrial Co., Ltd.*	The PRC	N/A	RMB45,600,000	—	95%	Property development and leasing
Zhongshan Zhongyue Tinplate Industrial Co., Ltd.*	The PRC	N/A	US$41,906,200	—	95%	Production and sales of tinplate products

* an equity joint venture established in the PRC

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

(Expressed in Hong Kong dollars)

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 6	Exploration for evaluation of mineral resources	1 January 2006
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6	Liabilities arising from participating in a specific market — Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19	Employee benefits — Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments:	
	Recognition and measurement	1 January 2006
	— Cash flow hedge accounting of forecast intragroup transactions	
	— The fair value option	
	— Financial guarantee contracts	
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 6 and HK(IFRIC) 5, HK(IFRIC) 6 and Amendments to HKAS 19 are not applicable to any of the Group's operations and the adoption of the rest of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

32. RETIREMENT BENEFITS SCHEME

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

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

The Group's pension cost charged to the profit and loss account for the year ended 31 December 2005 was $1,464,000 (2004: $1,467,000). The forfeited contribution refunded for the year amounted to $126,000 (2004: $2,210,000).

33. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2.

34. IMMEDIATE PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the immediate parent and ultimate holding company at 31 December 2005 to be GDH Limited and Guangdong Yue Gang Investment Holdings Company Limited respectively. GDH Limited is incorporated in Hong Kong and Guangdong Yue Gang Investment Holdings Company Limited is established in the PRC. Both entities do not produce financial statements available for public use.

31. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

The Group is a stated-owned entity and operates in an economic regime currently predominated by state-owned entities. Apart from transactions with Yue Gang Group and the associates of the Company, the Group also conducts business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-owned entities") in the ordinary course of business. These transactions, which include sales and purchase of goods and ancillary materials, rendering and receiving services, lease of assets, purchase of property, plant and equipment and obtaining finance, are carried out at terms similar to those that would be entered into with non-state-owned entities and have been reflected in the financial statements. The Group believes that it has provided meaningful disclosure of related party transactions as summarised above.

(c) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 9 is as follows:

	2005	2004
	$'000	$'000
Short-term employee benefits	**2,653**	2,704
Post-employment benefits	**428**	366
	3,081	3,070

Total remuneration is included in "staff costs" (see note 7(b)).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

31. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Transactions with Guangdong Yue Gang Investment Holdings Company Limited and its affiliates ("Yue Gang Group") and the associates of the Company.

The Group had the following transactions with Yue Gang Group and the associates of the Company during the year which the directors consider material:

	Note	**2005** **$'000**	2004 $'000
Sales of goods to related companies	(ii)	**2,749**	2,154
Purchases of goods from related companies	(ii)	**955**	4,689
Interest income from an associate	(iii)	**—**	708
Repayment of loan to an associate	(iii)	**—**	10,483
Management, taxation services, and maintenance fee paid to the immediate holding company		**411**	425
Provision of electricity/water and leasing services to a fellow subsidiary		**3,606**	3,483
Agency fee paid to a related company		**314**	—

Notes:

(i) 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 (iii) below.

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

(iii) In 1999, the Company entered into an unsecured shareholders' loan agreement with an associate, Yellow Dragon Food Industry Co., Ltd. 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 loan was fully repaid in 2004.

30. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2005 not provided for in the financial statements were as follows:

	The Group	
	2005	2004
	$'000	$'000
Contracted for	**131,433**	35,144
Authorised but not contracted for	**168,005**	6,281
	299,438	41,425

(b) At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	The Group	
	2005	2004
	$'000	$'000
Within 1 year	**697**	348
After 1 year but within 5 years	**385**	44
	1,082	392

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 2005, the Company had committed to provide finance of $6,489,000 (2004: $6,489,000) to an associate of the Group.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

29. FINANCIAL INSTRUMENTS (Continued)

(b) Interest rate risk (Continued)

Effective interest rates and repricing analysis (Continued)

The Company

	2005		2004	
	Effective interest rate	**One year or less $'000**	Effective interest rate	One year or less $'000
Repricing dates for assets which reprice before maturity				
Cash and cash equivalents	**2.57%**	**12,294**	0.24%	17,860

(c) Foreign currency risk

The Group's assets, liabilities and transactions were primarily denominated either in Hong Kong Dollars, United States Dollars or Renminbi. As the exchange rates of these currencies were relatively stable during the year, the management considered that the Group was not exposed to significant foreign currency risk.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2004 and 2005.

29. FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any other guarantee which would expose the Group to credit risk.

(b) Interest rate risk

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2005		2004	
	Effective interest rate	**One year or less $'000**	Effective interest rate	One year or less $'000
Repricing dates for assets which reprice before maturity				
Cash and cash equivalents	**1.83%**	**96,871**	1.29%	293,383
Maturity dates for liabilities which do not reprice before maturity				
Interest-bearing borrowings	**—**	**—**	7.5%	(7,851)
Proceeds from banks on discounted bills	**3.24%**	**(26,991)**	—	—

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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

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

	2004 $'000
Cash received	12,497
Cash and cash equivalents disposed	(8,955)
Net cash inflow	3,542

(c) Major non-cash transaction

During the year, long outstanding liabilities totalling $42,740,000 (2004:$76,223,000) have been written back (see note 6).

29. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and bills receivables mainly relating to the tinplating operation, credit evaluations are performed on all customers requiring credit over a certain amount. The trade receivables are due within 30 days from the date of billing and the maturity dates for bills receivables issued by banks from customers usually ranged from 3 to 6 months. Debtors with balances that are more than one month overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain level of concentrations of credit risk as 8.3% (2004: 12.8%) and 26.0% (2004: 35.6%) of the total trade and bills receivables was due from the Group's largest debtors and the five largest debtors respectively within the tinplating business segment.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

27. CAPITAL AND RESERVES (Continued)

(d) Nature and purpose of reserves (Continued)

(iv) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(s).

(v) Other reserves represent statutory reserves of entities established in the PRC.

(e) Distributability of reserves

At 31 December 2005, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $52,204,000 (2004: Nil).

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of discontinued operations

	2004 $'000
Net assets/(liabilities) disposed:	
Fixed assets	2,817
Inventories	12,893
Debtors, deposits and prepayments	11,808
Cash and cash equivalents	8,955
Creditors and accrued charges	(3,730)
Short-term loan	(2,817)
Income tax	(215)
	29,711
Release of reserves	(978)
	28,733
Satisfied by:	
Cash received	12,497
Consideration receivable	5,011
Legal expenses payable	(568)
	16,940

27. CAPITAL AND RESERVES (Continued)

(c) Share capital (Continued)

In addition, on 8 December 2005, the authorised share capital of the Company was reduced from $1,500,000,000 divided into 15,000,000,000 ordinary shares of nominal value of $0.10 each to $750,000,000 divided into 15,000,000,000 ordinary shares of nominal value of $0.05 each ("Reduced Shares"). Such reduction was effective by cancelling paid up capital to the extent of $0.05 upon each of the 9,015,832,859 ordinary shares in issue. Out of such credits arising from the share cancellation, an aggregate amount of approximately $343,352,000 were set off against the remaining amount of accumulated losses, and the remaining credits of approximately $107,440,000 were transferred to a special capital reserve account .

As part of the Capital Reorganization, every ten issued and unissued Reduced Shares were consolidated into one new share of nominal value of $0.50 each. The consolidation of shares was effective on 19 December 2005.

(d) Nature and purpose of reserves

(i) *Share premium and capital redemption reserve*

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 entire amounts were eliminated under the Capital Reorganization.

(ii) *Capital reserve*

The capital reserve was created following an issue of warrants by the Company in 1997. The net proceeds from the issue of such warrants have been recorded in such capital reserve. All such warrants were either exercised during the exercise period or lapsed in 1998. The application of such capital reserve is not subject to any condition or restriction.

As part of the Capital Reorganization, such amount has been eliminated to set off against an equal amount of accumulated losses.

(iii) *Special capital reserve*

The special capital reserve was created under the Capital Reorganization as mentioned in note 27(c). The Company has given an undertaking to the Court in relation to the amount credited to such reserve on the conditions that such reserve will not treated as realized profits and will not be distributable unless and until certain conditions have been fulfilled.

27. CAPITAL AND RESERVES (Continued)

(c) Share capital

	2005		2004	
	Number of shares (thousand)	**$'000**	Number of shares (thousand)	$'000
Authorised:				
Ordinary shares of nominal value of $0.1 each at 1 January	**15,000,000**	**1,500,000**	15,000,000	1,500,000
Reduction of nominal value of share from $0.1 each to $0.05 each	**—**	**(750,000)**	—	—
Increase in ordinary shares of nominal value of $0.05 each	**15,000,000**	**750,000**	—	—
Consolidation of every ten shares of nominal value of $0.05 each into one share of nominal value of $0.50 each	**(27,000,000)**	**—**	—	—
At 31 December	**3,000,000**	**1,500,000**	15,000,000	1,500,000
Issued and fully paid:				
At 1 January	**9,015,833**	**901,583**	9,015,833	901,583
Reduction of nominal value of share from $0.1 each to $0.05 each	**—**	**(450,791)**	—	—
Consolidation of every ten shares of nominal value of $0.05 each into one share of nominal value of $0.50 each	**(8,114,250)**	**—**	—	—
At 31 December	**901,583**	**450,792**	9,015,833	901,583

The capital reorganization of the Company ("the Capital Reorganization") was complete on 19 December 2005. Pursuant to a special resolution passed at the Extraordinary General Meeting of the Company dated 12 August 2005 and with the sanction of the High Court of Hong Kong dated 7 December 2005, the entire amount of share premium account of approximately $1,747,098,000 and capital redemption reserve of approximately $971,000, together with an aggregate amount of capital reserve of approximately $48,157,000, were eliminated against an equal amount of accumulated losses effective on 8 December 2005.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

27. CAPITAL AND RESERVES (Continued)

(b) The Company

	Note	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Capital reserve $'000	Investment properties revaluation reserve $'000	Special capital reserve $'000	(Accumulated losses)/ Retained profits $'000	Total equity $'000
At 1 January 2004									
— as previously reported		901,583	1,747,098	971	48,157	12,100	—	(2,197,643)	512,266
— prior year adjustments in respect of:									
— investment properties		—	—	—	—	(12,100)	—	12,100	—
— as restated		901,583	1,747,098	971	48,157	—	—	(2,185,543)	512,266
Profit for the year (restated)		—	—	—	—	—	—	74,265	74,265
At 31 December 2004 (restated)		901,583	1,747,098	971	48,157	—	—	(2,111,278)	586,531
At 1 January 2005									
— as previously reported		**901,583**	**1,747,098**	**971**	**48,157**	**28,300**	**—**	**(2,139,578)**	**586,531**
— prior year adjustments in respect of:									
— investment properties	2(a)(ii)	**—**	**—**	**—**	**—**	**(28,300)**	**—**	**28,300**	**—**
— as restated		**901,583**	**1,747,098**	**971**	**48,157**	**—**	**—**	**(2,111,278)**	**586,531**
Elimination upon Capital Reorganization	27(c)	**(450,791)**	**(1,747,098)**	**(971)**	**(48,157)**	**—**	**107,440**	**2,139,577**	**—**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**71,004**	**71,004**
At 31 December 2005		**450,792**	**—**	**—**	**—**	**—**	**107,440**	**99,303**	**657,535**

27. CAPITAL AND RESERVES (Continued)

(a) The Group (Continued)

	Note	Attributable to equity shareholders of the Company											
		Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Capital reserve $'000	Exchange reserve $'000	Investment properties revaluation reserve $'000	Special capital reserve $'000	Other reserves $'000	(Accumulated losses)/ Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2005													
— as previously reported		901,583	1,747,098	971	48,814	(985)	36,900	—	1,450	(1,968,821)	767,010	25,107	792,117
— prior year adjustments in respect of:													
— investment properties	2(a)(i)	—	—	—	—	37	(36,900)	—	—	30,768	(6,095)	(321)	(6,416)
— as restated		901,583	1,747,098	971	48,814	(948)	—	—	1,450	(1,938,053)	760,915	24,786	785,701
Exchange difference on translation of:													
— financial statements of subsidiaries outside Hong Kong		—	—	—	—	9,637	—	—	—	—	9,637	537	10,174
Transfer to statutory reserves		—	—	—	—	—	—	—	1,333	(1,333)	—	—	—
Share of associates' reserves		—	—	—	—	3,609	—	—	—	—	3,609	—	3,609
Dividends declared to minority shareholders		—	—	—	—	—	—	—	—	—	—	(2,232)	(2,232)
Contribution by minority shareholders		—	—	—	—	—	—	—	—	—	—	2,207	2,207
Reserve realised upon liquidation of a subsidiary		—	—	—	—	(38)	—	—	—	—	(38)	—	(38)
Elimination upon Capital Reorganization	27(c)	(450,791)	(1,747,098)	(971)	(48,157)	—	—	107,440	—	2,139,577	—	—	—
Profit for the year		—	—	—	—	—	—	—	—	175,759	175,759	4,036	179,795
At 31 December 2005		450,792	—	—	657	12,260	—	107,440	2,783	375,950	949,882	29,334	979,216

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(Expressed in Hong Kong dollars)

27. CAPITAL AND RESERVES

(a) The Group

		Attributable to equity shareholders of the Company										
	Note	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Capital reserve $'000	Exchange reserve $'000	Investment properties revaluation reserve $'000	Other reserves $'000	Accumulated losses $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2004												
— as previously reported		901,583	1,747,098	971	49,050	(1,098)	20,600	12,007	(2,110,716)	619,495	20,384	639,879
— prior year adjustments in respect of:												
— investment properties		—	—	—	—	47	(20,600)	—	16,400	(4,153)	(219)	(4,372)
— as restated		901,583	1,747,098	971	49,050	(1,051)	—	12,007	(2,094,316)	615,342	20,165	635,507
Exchange difference on translation of:												
— financial statements of subsidiaries outside Hong Kong (restated)		—	—	—	—	38	—	—	—	38	(36)	2
Reserve realised upon disposal of an associate		—	—	—	(236)	—	—	—	—	(236)	—	(236)
Reserves realised upon disposal of discontinued operations		—	—	—	—	(68)	—	(910)	—	(978)	—	(978)
Share of associates' reserves		—	—	—	—	133	—	—	—	133	—	133
Transfer to statutory reserves		—	—	—	—	—	—	14,922	(14,922)	—	—	—
Transfer from other reserves		—	—	—	—	—	—	(24,569)	24,569	—	(1,223)	(1,223)
Contribution by minority shareholders		—	—	—	—	—	—	—	—	—	5,848	5,848
Dividends declared to minority shareholders		—	—	—	—	—	—	—	—	—	(5,944)	(5,944)
Profit for the year (restated)	2(a)(i)	—	—	—	—	—	—	—	146,616	146,616	5,976	152,592
At 31 December 2004 (restated)		901,583	1,747,098	971	48,814	(948)	—	1,450	(1,938,053)	760,915	24,786	785,701

26. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of options
Options held by directors:			
— granted on 6 February 2004	3,500,000	Three months from the date of grant	5 years
Options held by employees:			
— granted on 24 August 2001	3,350,000	Three months from the date of grant	5 years
— granted on 6 February 2004	5,190,000	Three months from the date of grant	5 years
Total share options	12,040,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2005		2004	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000 (restated)
Outstanding at the beginning of the year	**$1.558**	**12,040**	$1.495	3,350
Granted during the year		**—**	$1.582	10,690
Lapsed during the year	**$1.582**	**(250)**	$1.582	(2,000)
Exercised during the year		**—**	—	—
		11,790		12,040
Exercisable at the end of the year	**$1.557**	**11,790**	$1.558	12,040

The options outstanding at 31 December 2005 had a weighted average exercise price of $1.557 (2004 (restated): $1.558) and a weighted average remaining contractual life of 2.65 years (2004: 3.66 years).

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(Expressed in Hong Kong dollars)

26. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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 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 2001 Share Option Scheme. Options previously granted under the old scheme remain valid until lapsed.

Pursuant to the share consolidation of the Company for every ten ordinary shares of nominal value of $0.05 each into one ordinary share of nominal value of $0.50 each in December 2005, the share options outstanding have been adjusted accordingly.

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Trade creditors	**95,447**	35,520	**29**	3,359
Other payables and accrued charges	**74,037**	102,862	**10,886**	18,176
Amounts due to associates	**18**	18	**—**	—
Amounts due to minority shareholders	**7,852**	8,140	**—**	—
Amounts due to holding companies and fellow subsidiaries	**23,250**	23,493	**—**	243
Amounts due to related companies	**—**	94	**—**	—
	200,604	170,127	**10,915**	21,778

The amount of trade and other payables expected to be settled after more than one year is $557,000 (2004: $544,000).

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

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Due within 1 month or on demand	**95,447**	35,520	**29**	3,359

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2005	2004
	'000	'000
Renminbi	**RMB25,000**	RMB25,000
United States Dollars	**USD6,187**	—

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

24. INTEREST-BEARING BORROWINGS AND PROCEEDS FROM BANKS ON DISCOUNTED BILLS

	The Group	
	2005	2004
	$'000	$'000
Proceeds from banks on discounted bills	**26,991**	—
Unsecured other loans	**—**	7,851
	26,991	7,851

Proceeds from banks on discounted bills at 31 December 2005 was secured by the related bills receivable and carried interest at a fixed rate of 3.24% per annum.

The other loans as at 31 December 2004 were unsecured and carried interest at a fixed rate of 7.5% per annum.

At 31 December 2005, the interest-bearing borrowings and proceeds from banks on discounted bills were repayable as follows:

	The Group	
	2005	2004
	$'000	$'000
Within 1 year or on demand	**26,991**	7,851

Include in the interest-bearing borrowings and proceeds from banks on discounted bills are the following amounts denominated in a currency other than the functional currency the entity to which they relate:

	The Group	
	2005	2004
	'000	'000
United States Dollars	**—**	USD1,000

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Deposits with banks	**47,815**	157,597	**11,456**	—
Cash at bank and in hand	**49,056**	135,786	**838**	17,860
Cash and cash equivalents in the balance sheet	**96,871**	293,383	**12,294**	17,860
Restricted cash deposits	**—**	(4,634)		
Cash and cash equivalents in the cash flow statement	**96,871**	288,749		

In May 2004, a PRC third party filed a claim against a subsidiary of the Group alleging that the subsidiary had not settled an outstanding amount due to it. In this connection, 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 $4,634,000.

A judgement was made on 12 December 2004 by the Intermediate People's Court of Yue Yang City against the subsidiary ordering the payment of the outstanding amount and related court charges. 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 $4,634,000 has been released.

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2005	2004	**2005**	2004
	'000	'000	**'000**	'000
Hong Kong Dollars	**HKD23**	HKD1,853	**—**	—
Renminbi	**—**	RMB357	**—**	RMB15
United States Dollars	**USD1,922**	USD2,055	**USD1,139**	USD1,642

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

22. TRADE AND OTHER RECEIVABLES (Continued)

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

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Within 1 month	**76,003**	35,256	**125**	300
1 to 3 months	**74,666**	39,152	**65**	—
More than 3 months but less than 12 months	**63,210**	27,676	**—**	—
	213,879	102,084	**190**	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 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. Subsequent to the final verdict of the court during the year, the pledge of bills receivable has been released.

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2005	2004	**2005**	2004
	'000	'000	**'000**	'000
Renminbi	**RMB45**	RMB5,790	**RMB6**	RMB5,750
United States Dollars	**USD198**	USD194	**—**	—

21. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2005	2004
	$'000	$'000
Raw materials, spare parts and consumables	**148,076**	23,670
Finished goods	**88,183**	7,037
	236,259	30,707

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2005	2004
	$'000	$'000
Carrying amount of inventories sold	**780,571**	701,093

22. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Trade debtors	**16,570**	14,145	**190**	300
Bills receivable	**197,309**	87,939	**—**	—
Other receivables, deposits and prepayments	**77,945**	17,711	**1,072**	24,426
Amounts due from an associate	**—**	—	**18,748**	—
Amounts due from fellow subsidiaries	**162**	284	**5**	84
	291,986	120,079	**20,015**	24,810

Included in the trade and other receivables are balances totalling $302,000 (2004: $2,830,000) expected to be recovered after one year.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

20. INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

The Company

	Depreciation allowances in excess of related depreciation	**Revaluation of investment properties**	**Tax losses**	**Total**
	$'000	$'000	$'000	$'000
Deferred tax arising from:				
At 1 January 2004 and 2005 and 31 December 2004	—	—	—	—
Charged/(credited) to profit and loss account	(50)	920	(870)	—
At 31 December 2005	(50)	920	(870)	—

	The Group	
	2005	2004 (restated)
	$'000	$'000
Net deferred tax liability recognised on the consolidated balance sheet	**12,217**	9,833

(c) Deferred tax assets unrecognised:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Tax losses	**2,478,863**	2,513,706	**2,370,516**	2,397,576

The tax losses do not expire under the current tax legislation, except for an amount of $15,489,000 (2004: $14,957,000), being unrecognised tax losses, which will expire in the coming 5 years.

During the year, two subsidiaries with the related tax losses amounted to $2,729,000 have been liquidated.

20. INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised:

The Group

	Depreciation allowances in excess of related depreciation	Revaluation of investment properties	Provisions	Tax losses	Total
	$'000	$'000	$'000	$'000	$'000
Deferred tax arising from:					
At 1 January 2004 (restated)	7,067	2,553	(5,473)	—	4,147
Exchange differences (restated)	8	4	(19)	—	(7)
Charged/(credited) to consolidated profit and loss account (restated)	650	(449)	5,492	—	5,693
At 31 December 2004 (restated)	7,725	2,108	—	—	9,833
At 1 January 2005 (restated)	7,725	2,108	—	—	9,833
Exchange differences	202	53	—	—	255
Charged/(credited) to consolidated profit and loss account	1,519	1,480	—	(870)	2,129
At 31 December 2005	9,446	3,641	—	(870)	12,217

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

19. TRADING SECURITIES

	The Group and the Company	
	2005	2004
	$'000	$'000
Trading securities (at market value)		
Equity securities listed in Hong Kong	**3,059**	3,200

20. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2005	2004
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**1,286**	971
Provisional Profits Tax paid	**(984)**	(203)
	302	768
Taxation outside Hong Kong	**19,300**	13,788
	19,602	14,556

17. INTEREST IN ASSOCIATES (Continued)

Include in the amounts due from associates are the following amounts denominated in a currency other than the functional currency the entity to which they relate:

	The Group and the Company	
	2005	2004
	'000	'000
Renminbi	**RMB19,503**	RMB19,059

Summary of financial information on associates

	Assets	**Liabilities**	**Equity**	**Revenues**	**Profit**
	$'000	$'000	$'000	$'000	$'000
2005					
100 per cent	610,629	(213,003)	397,626	1,007,886	50,817
Group's effective interest	241,700	(84,508)	157,192	399,842	20,315
2004					
100 per cent	642,320	(258,334)	383,986	1,027,967	63,718
Group's effective interest	253,606	(101,816)	151,790	406,899	25,477

18. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group and the Company	
	2005	2004
	$'000	$'000
Available-for-sale equity securities		
Unlisted equity securities, at cost (2004: investment securities)	**540**	540
Less: impairment loss	**(494)**	(338)
	46	202

Notes on the Financial Statements

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16. INTEREST IN SUBSIDIARIES

	The Company	
	2005	2004
	$'000	$'000
Unlisted shares, at cost	**211,409**	229,979
Loans to subsidiaries	**119,024**	63,065
Amounts due from subsidiaries	**553,801**	585,051
	884,234	878,095
Less: impairment loss	**(510,617)**	(551,437)
	373,617	326,658

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.

17. INTEREST IN ASSOCIATES

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Unlisted shares, at cost	**—**	—	**244,980**	244,980
Share of net assets	**157,192**	151,790	**—**	—
Amounts due from associates	**18,811**	17,899	**—**	—
	176,003	169,689	**244,980**	244,980
Less: impairment loss	**—**	—	**(75,722)**	(75,722)
	176,003	169,689	**169,258**	169,258

Details of the associates, which are incorporated in the PRC, are set out in note 38.

15. FIXED ASSETS (Continued)

(c) The analysis of net book value of properties is as follows: (Continued)

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Representing:				
Land and buildings carried at fair value	**207,496**	184,298	**97,000**	78,200
Buildings carried at cost	**67,437**	59,823	**—**	—
	274,933	244,121	**97,000**	78,200
Interest in leasehold land held for own use under operating leases	**59,330**	60,894	**—**	—
	334,263	305,015	**97,000**	78,200

(d) Investment properties of the Group and the Company situated in Hong Kong totalling $97,000,000 (2004: $78,200,000) were revalued at 31 December 2005 by Centaline Surveyors Limited, who have among their staff Members of Hong Kong Institute of Surveyors, on an open market value basis. Investment properties of the Group situated in the PRC totalling $110,496,000 (2004 (restated): $106,097,000) were revalued at 31 December 2005 by an independent firm of surveyors registered in the PRC, 深圳中勝會計師事務所 — 中國註冊資產評估師, on an open market value basis.

(e) The Group leases out investment properties 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 Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Within 1 year	**19,310**	22,166	**599**	1,555
After 1 year but within 5 years	**51,334**	60,338	**485**	—
After 5 years	**46,990**	64,803	**—**	—
	117,634	147,307	**1,084**	1,555

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15. FIXED ASSETS (Continued)

(b) The Company (Continued)

	Leasehold improvements $'000	Plant and machinery, furniture, fixtures and equipment $'000	Motor vehicles $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:						
At 1 January 2005	1,381	2,609	1,488	5,478	78,200	83,678
Additions	64	28	—	92	—	92
Disposals	(60)	—	—	(60)	—	(60)
Surplus on revaluation	—	—	—	—	18,800	18,800
At 31 December 2005	1,385	2,637	1,488	5,510	97,000	102,510
Representing:						
Cost	1,385	2,637	1,488	5,510	—	5,510
Valuation — 2005	—	—	—	—	97,000	97,000
	1,385	2,637	1,488	5,510	97,000	102,510
Accumulated depreciation:						
At 1 January 2005	1,329	1,607	1,252	4,188	—	4,188
Charge for the year	19	245	54	318	—	318
Written back on disposal	(35)	—	—	(35)	—	(35)
At 31 December 2005	1,313	1,852	1,306	4,471	—	4,471
Net book value:						
At 31 December 2005	72	785	182	1,039	97,000	98,039

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

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
In Hong Kong on long-term leases	**97,000**	78,200	**97,000**	78,200
Elsewhere in the PRC on medium-term leases	**237,263**	226,815	**—**	—
	334,263	305,015	**97,000**	78,200

15. FIXED ASSETS (Continued)

(b) The Company

	Leasehold improvements $'000	Plant and machinery, furniture, fixtures and equipment $'000	Motor vehicles $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:						
At 1 January 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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

15. FIXED ASSETS (Continued)

(a) The Group (Continued)

	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	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost or valuation:									
At 1 January 2005	81,803	1,914	4,575	126,603	2,793	217,688	184,298	67,328	469,314
Exchange adjustments	1,531	—	108	6,494	104	8,237	2,701	361	11,299
Additions	—	64	46,776	2,267	—	49,107	—	—	49,107
Disposals	(577)	(60)	—	(1,368)	(195)	(2,200)	—	—	(2,200)
Transfer in from construction in progress	9,184	—	(47,282)	38,098	—	—	—	—	—
Surplus on revaluation	—	—	—	—	—	—	20,497	—	20,497
At 31 December 2005	91,941	1,918	4,177	172,094	2,702	272,832	207,496	67,689	548,017
Representing:									
Cost	91,941	1,918	4,177	172,094	2,702	272,832	—	67,689	340,521
Valuation — 2005	—	—	—	—	—	—	207,496	—	207,496
	91,941	1,918	4,177	172,094	2,702	272,832	207,496	67,689	548,017
Accumulated depreciation:									
At 1 January 2005	21,980	1,862	—	67,034	1,196	92,072	—	6,434	98,506
Exchange adjustments	884	—	—	5,674	80	6,638	—	151	6,789
Charge for the year	1,809	19	—	5,970	279	8,077	—	1,774	9,851
Written back on disposal	(169)	(35)	—	(1,155)	(176)	(1,535)	—	—	(1,535)
At 31 December 2005	24,504	1,846	—	77,523	1,379	105,252	—	8,359	113,611
Net book value:									
At 31 December 2005	67,437	72	4,177	94,571	1,323	167,580	207,496	59,330	434,406

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(Expressed in Hong Kong dollars)

15. FIXED ASSETS

(a) The Group

	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	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost or valuation:									
At 1 January 2004 (restated)	136,795	1,914	—	132,828	3,485	275,022	169,816	67,308	512,146
Exchange adjustments (restated)	153	—	—	364	8	525	148	20	693
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 (restated)	(187)	—	—	(1,164)	(650)	(2,001)	—	—	(2,001)
Transfer in from construction in progress (restated)	423	—	(629)	159	—	(47)	47	—	—
Surplus on revaluation (restated)	—	—	—	—	—	—	14,287	—	14,287
At 31 December 2004 (restated)	81,803	1,914	4,575	126,603	2,793	217,688	184,298	67,328	469,314
Representing:									
Cost (restated)	81,803	1,914	4,575	126,603	2,793	217,688	—	67,328	285,016
Valuation — 2004 (restated)	—	—	—	—	—	—	184,298	—	184,298
	81,803	1,914	4,575	126,603	2,793	217,688	184,298	67,328	469,314
Accumulated depreciation:									
At 1 January 2004 (restated)	72,933	1,844	—	73,015	2,058	149,850	—	4,672	154,522
Exchange adjustments (restated)	111	—	—	319	7	437	—	8	445
Charge for the year (restated)	1,506	18	—	2,766	268	4,558	—	1,754	6,312
Written back on disposal	(6)	—	—	(855)	(650)	(1,511)	—	—	(1,511)
Written back on disposal of discontinued operations	(52,564)	—	—	(8,211)	(487)	(61,262)	—	—	(61,262)
At 31 December 2004 (restated)	21,980	1,862	—	67,034	1,196	92,072	—	6,434	98,506
Net book value:									
At 31 December 2004 (restated)	59,823	52	4,575	59,569	1,597	125,616	184,298	60,894	370,808

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)

Geographical segments

The Group's business participates in two principal economic environments. The PRC (other than Hong Kong) is the major market for tinplating and property leasing, whereas Hong Kong 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.

	2005		
	The PRC	**Hong Kong**	**Others**
	$'000	**$'000**	**$'000**
Revenue from external customers	**821,644**	**99,573**	**—**
Segment assets	**893,146**	**163,572**	**—**
Capital expenditure incurred during the year	**48,966**	**48**	**—**

	2004		
	The PRC (restated)	Hong Kong	Others
	$'000	$'000	$'000
Revenue from external customers (discontinued operations excluded)	597,883	83,992	—
Segment assets	695,789	135,505	—
Capital expenditure incurred during the year	7,909	68	—

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

	2005					
	Tinplating $'000	Live and fresh foodstuffs distribution $'000	Foodstuffs trading $'000	Property leasing $'000	Inter-segment elimination $'000	Consolidated $'000
Segment assets	**765,553**	**51,054**	**9,311**	**230,800**	**(15,157)**	**1,041,561**
Unallocated assets						**197,069**
Total assets						**1,238,630**
Segment liabilities	**151,780**	**33,863**	**8,555**	**8,524**	**(15,157)**	**187,565**
Unallocated liabilities						**71,849**
Total liabilities						**259,414**
Capital expenditure incurred during the year	**45,709**	**48**	**—**	**3,257**		

	2004					
	Tinplating (restated) $'000	Live and fresh foodstuffs distribution $'000	Foodstuffs trading $'000	Property leasing (restated) $'000	Inter-segment elimination $'000	Consolidated (restated) $'000
Segment assets	548,904	45,910	8,270	228,210	(99,806)	731,488
Unallocated assets						256,580
Total assets						988,068
Segment liabilities	118,981	34,413	10,793	43,711	(99,806)	108,092
Interest-bearing borrowings						7,851
Unallocated liabilities						86,424
Total liabilities						202,367
Capital expenditure incurred during the year	4,670	68	—	3,239		

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

	For the year ended 31 December 2004							
	Tinplating (restated) $'000	Live and fresh foodstuffs distribution $'000	Feed production and livestock farming (discontinued) $'000	Foodstuffs trading $'000	Property leasing (restated) $'000	Inter-segment elimination $'000	Unallocated $'000	Consolidated (restated) $'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
Net valuation gains on investment properties	—	—	—	—	14,287	—	—	14,287
Total	575,743	50,572	146,474	31,438	39,790	(1,381)	9,688	852,324
Segment result	48,017	13,872	2,468	113	31,317			95,787
Unallocated operating income and expenses								(3,635)
Profit from operations								92,152
Share of profits less losses of associates	—	150	—	—	—		25,327	25,477
Net loss on disposal of discontinued operations								(11,793)
Non-operating income								76,306
Finance costs								(697)
Income tax								(28,853)
Profit for the year								152,592
Depreciation and amortisation for the year	4,800	84	22	27	1,086			

(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

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

	For the year ended 31 December 2005						
	Tinplating $'000	Live and fresh foodstuffs distribution $'000	Foodstuffs trading $'000	Property leasing $'000	Inter-segment elimination $'000	Unallocated $'000	Consolidated $'000
Revenue from external customers	797,798	61,065	36,825	25,529	—	—	921,217
Inter-segment revenue	2,157	—	—	109	(2,266)	—	—
Other revenue from external customers	—	—	—	—	—	11,107	11,107
Net valuation gains on investment properties	—	—	—	20,497	—	—	20,497
Total	799,955	61,065	36,825	46,135	(2,266)	11,107	952,821
Segment result	51,991	14,638	1,700	38,019			106,348
Unallocated operating income and expenses							(5,482)
Profit from operations							100,866
Share of profits less losses of associates	—	—	—	—		20,315	20,315
Non-operating income							59,746
Finance costs							(396)
Income tax							(736)
Profit for the year							179,795
Depreciation and amortisation for the year	7,867	87	13	1,566			

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

12. DIVIDEND

Dividend payable to equity shareholders of the Company attributable to the year:

	2005 **$'000**	2004 $'000
Final dividend proposed after the balance sheet date of 1.5 cents per ordinary share (2004:Nil)	**13,524**	—

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $175,759,000 (2004 (restated): $146,616,000) and the weighted average of 901,583,285 (2004 (restated): 901,583,285) ordinary shares in issue during the year.

Pursuant to the share consolidation of the Company from ten ordinary shares of nominal value of $0.05 each into one ordinary share of nominal value of $0.5 each in December 2005, the basic earnings per share for the year ended 31 December 2004 has been adjusted accordingly.

(b) Diluted earnings per share

The diluted earnings per share for the years ended 31 December 2004 and 2005 are not presented as there is no dilutive potential ordinary shares at the year end.

14. SEGMENT REPORTING

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

Business segments

The Group comprises the following main business segments:

Tinplating	:	Production and sales of 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

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, three (2004: two) directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two (2004: three) individuals are as follows:

	2005 **$'000**	2004 $'000
Basic salaries, allowances and other benefits	**779**	1,176
Retirement benefit scheme contributions	**305**	446
Bonuses	**495**	1,200
	1,579	2,822

The emoluments of the two (2004: three) individuals with the highest emoluments are within the following bands:

	2005 **Number of individuals**	2004 Number of individuals
$		
Nil–1,000,000	**2**	2
1,000,001–1,500,000	**—**	1

11. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $71,004,000 (2004 (restated): $74,265,000) which has been dealt with in the financial statements of the Company.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

9. DIRECTORS' REMUNERATION (Continued)

	Directors' fees $'000	Basic salaries, allowances and other benefits $'000	Retirement schemes contributions $'000	Bonus $'000	2004 Total $'000
Executive directors					
Liang Jiang	—	511	267	420	1,198
Tan Yunbiao	—	581	74	468	1,123
Tsang Hon Nam	—	689	25	35	749
Li Xiangbin	—	79	8	355	442
Hui Wai Man, Lawrence	—	184	5	140	329
Non-executive directors					
Zhao Leili	—	—	—	—	—
Luo Fanyu	—	—	—	—	—
Liang Jianqin	—	—	—	—	—
Independent non-executive directors					
Gerard Joseph McMahon	—	300	—	—	300
Tam Wai Chu, Maria	—	300	—	—	300
Li Kar Keung, Caspar	—	300	—	—	300
Total	—	2,944	379	1,418	4,741

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

9. DIRECTORS' REMUNERATION

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

	Directors' fees $'000	Basic salaries, allowances and other benefits $'000	Retirement schemes contributions $'000	Bonus $'000	2005 Total $'000
Executive directors					
Liang Jiang	—	409	255	480	1,144
Tan Yunbiao	—	344	143	360	847
Tsang Hon Nam	—	894	30	166	1,090
Non-executive directors					
Zhao Leili	—	—	—	—	—
Luo Fanyu	—	—	—	—	—
Liang Jianqin	—	—	—	—	—
Independent non-executive directors					
Gerard Joseph McMahon	—	300	—	—	300
Tam Wai Chu, Maria	—	300	—	—	300
Li Kar Keung, Caspar	—	300	—	—	300
Total	—	2,547	428	1,006	3,981

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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

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

	2005	2004 (restated)
	$'000	$'000
Profit before tax	**180,531**	181,445
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**35,899**	31,068
Tax effect of non-deductible expenses	**3,034**	4,304
Tax effect of non-taxable revenue	**(16,004)**	(5,968)
Tax effect of utilization of unrecognised tax losses	**(2,947)**	(1,241)
Tax refund for re-investment	**(19,874)**	—
Under-provision in prior years	**628**	690
Actual tax expense	**736**	28,853

The tax rate for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%). The applicable tax rates for PRC income tax range from 15% to 33% (2004 (restated): 15% to 33%) depending on the locations where the PRC subsidiaries are situated.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

8. INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	Note	2005 $'000	2004 (restated) $'000
Current tax — Provision for Hong Kong Profits Tax			
Provision for Hong Kong Profits Tax at 17.5% (2004: 17.5%) on the estimated assessable profits for the year		**1,286**	971
Under/(over)-provision in respect of prior years		**11**	(55)
		1,297	916
Current tax — the PRC			
Tax for the year		**16,567**	21,182
Under-provision in respect of prior years		**617**	745
Tax refund for re-investment	(i)	**(19,874)**	—
	(ii)	**(2,690)**	21,927
Deferred tax			
Origination and reversal of temporary differences		**2,129**	5,693
Total income tax expenses from continuing operations		**736**	28,536
Income tax expenses from discontinued operations	5	**—**	317
		736	28,853

Notes:

(i) The Group has successfully obtained tax refunds of PRC Enterprise Income Tax from the Tax Bureau of Zhongshan following the capitalisation of retained earnings of Zhongshan Zhongyue Tinplate Industrial Co., Ltd during the years ended 31 December 2004 and 2005.

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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

7. PROFIT BEFORE TAXATION

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

		Note	**2005** $'000	2004 (restated) $'000
(a)	Finance costs:			
	Interest on bank advances and other borrowings repayable within 5 years			
	— continuing operations		**396**	547
	— discontinued operations	5	**—**	150
			396	697
(b)	Staff costs:			
	Net contributions paid to/(received from) defined contribution plans		**1,338**	(743)
	Salaries, wages and other benefits		**31,077**	36,503
			32,415	35,760
	Average number of employees during the year		**486**	558
(c)	Other items:			
	Cost of inventories sold	(i)	**780,571**	701,093
	Auditors' remuneration		**2,121**	1,958
	Depreciation		**8,077**	4,558
	Amortisation of land lease premium		**1,774**	1,754
	Operating lease charges in respect of property rentals		**372**	540
	Share of associates' taxation	(ii)	**7,102**	1,775
	Rentals receivable from land and buildings less direct outgoings of $2,261,000 (2004 (restated): $2,147,000)		**(23,268)**	(23,275)

Notes:

(i) Cost of inventories includes $16,311,000 (2004 : $16,738,000) 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.

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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

6 NON-OPERATING INCOME

	Note	**2005** **$'000**	2004 $'000
Write-back of liabilities	(i)	**42,740**	76,223
Net gain on disposal of an associate		**—**	83
Recovery of bad debts	(ii)	**17,006**	—
		59,746	76,306

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) The amounts mainly represent the recovery of bad debts previously provided for or written off to the profit and loss account as the recoverability was in doubt. During the year ended 31 December 2005, certain bad debts were recovered and the related provisions were written back to the profit and loss account accordingly.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

5 DISCONTINUED OPERATIONS (Continued)

The results of the discontinued operations for the year ended 31 December 2004 were as follows:

	Note	$'000
Turnover	3	146,474
Cost of sales		(136,218)
Gross profit		10,256
Other revenue	4	118
Distribution costs		(1,186)
Administrative expenses		(2,407)
Other operating expenses		(4,195)
Profit from operations		2,586
Net loss on disposal of discontinued operations		(11,793)
Finance costs	7(a)	(150)
Loss before taxation		(9,357)
Income tax	8(a)	(317)
Loss after taxation		(9,674)

The net assets of the discontinued operations as at the date of discontinuance were as follows:

	$'000
Total assets	36,473
Total liabilities	(6,762)
Net assets	29,711

The cash flows of the discontinued operations for the year ended 31 December 2004 were as follows:

	$'000
Net cash used in operating activities	(587)
Net cash used in investing activities	(77)

Notes on the Financial Statements

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4. OTHER REVENUE AND NET INCOME

	2005	2004 (restated)
	$'000	$'000
Other revenue		
Sales of scrap materials	**3,814**	4,398
Interest income	**3,912**	3,726
Write-back of provision for bad debts	**355**	2,251
Management income	**88**	253
Dividends from listed securities	**235**	235
Subsidy received	**294**	119
Others	**3,241**	2,549
	11,939	13,531
Other revenue from discontinued operations (note 5)	**—**	118
	11,939	13,649
Other net income		
Net (loss)/gain on disposal of fixed assets	**(242)**	243
Net realised and unrealised loss on trading securities	**(141)**	(47)
Provision for diminution in value of other non-current financial assets	**(156)**	(338)
Net realised and unrealised exchange gain	**3,855**	355
Others	**—**	6
	3,316	219

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 (the "PRC"). The net loss on disposal of the discontinued operations amounted to $11,793,000.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

3. TURNOVER

The principal activities of the Group are manufacturing and trading of tinplate, property leasing, distribution of live and fresh foodstuffs and foodstuffs trading 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:

	2005	2004 (restated)
	$'000	$'000
Sales of goods		
— Tinplating	**797,798**	574,443
— Live and fresh foodstuffs distribution	**61,065**	50,572
— Foodstuffs trading	**36,825**	31,438
	895,688	656,453
Property leasing	**25,529**	25,422
	921,217	681,875
Sales of goods from discontinued operations (note 5)	**—**	146,474
	921,217	828,349

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(h) Investment property (HKAS 40, Investment property, and HK(SIC) Interpretation 21, Income taxes — Recovery of revalued non-depreciable assets) (Continued)

(iii) *Description of transitional provisions and effect of adjustments*

All the above changes in accounting policies relating to investment property have been adopted retrospectively. The adjustments for each financial statement line affected for the years ended 31 December 2004 and 2005 are set out in notes 2(a) and (b).

(i) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(v) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current year, as compared to those that would have been reported had Hong Kong Statement of Standard Accounting Practice No. 20 "Related party disclosures", still been in effect.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(h) Investment property (HKAS 40, Investment property, and HK(SIC) Interpretation 21, Income taxes — Recovery of revalued non-depreciable assets)

Changes in accounting policies relating to investment properties are as follows:

(i) *Timing of recognition of movements in fair value in the profit and loss account*

In prior years, movements in the fair value of the Group's investment property were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the profit and loss account had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the profit and loss account.

Upon adoption of HKAS 40 as from 1 January 2005, the Group has adopted a new policy for investment property. Under this new policy:

— all changes in the fair value of investment property are recognised directly in the profit and loss account in accordance with the fair value model in HKAS 40; and

— dual use properties are treated as own use properties, unless the portions could be separately sold (or leased out under a finance lease), or the own use portion is insignificant.

Further details of the new policy for investment property are set out in note 1(f).

(ii) *Measurement of deferred tax on movements in fair value*

In prior years, the Group was required to apply the tax rate that would be applicable to the rental income of investment property to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties.

As from 1 January 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model. Further details of the policy for deferred tax are set out in note 1(p).

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(g) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in notes 1(e), (i) and (k) to (m). Further details of the changes are as follows:

(i) *Investments in equity securities*

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were stated at fair value with changes in fair value recognised in profit or loss, with the exception of dated debt securities being held to maturity.

With effect from 1 January 2005, and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value. Changes in the fair value of available-for-sale securities are recognised in equity, unless there is objective evidence that an individual investment has been impaired. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment losses. There are no material adjustments arising from the adoption of the new policies for securities held for trading purposes and unquoted equity investments not carried at fair value. Further details of the new policies are set out in note 1(e).

(ii) *Derecognition of financial assets*

In prior years, discounted bills receivable were derecognised from the balance sheet from the date of being discounted.

With effect from 1 January 2005, and in accordance with HKAS 39, financial assets should be derecognised only when the control and risks and rewards of ownership of the assets have been transferred. Accordingly, the discounted bills receivable with recourse are only derecognised when the bills have been settled by the ultimate customers.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(e) Changes in presentation (HKAS 1, Presentation of financial statements) (Continued)

(iii) *Presentation of discontinued operations (HKAS 1, Presentation of financial statements and HKFRS 5, Non-current assets held for sale and discontinued operations)*

In prior years, the profit or loss of discontinued operations was included as part of the Group's consolidated profit and loss account. Any pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to the discontinued operations and the related income tax were presented in the consolidated profit and loss separately.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKFRS 5, the Group has changed its accounting policy relating to presentation of discontinued operations. Under the new policy, a single amount is presented on the face of the profit and loss account as profit or loss for the year from discontinued operations with an analysis disclosed in the notes on the financial statements. Further details of the new policy are set out in note 1(u). These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

(f) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 1(g) and (h). Any buildings held for own use which are situated on such land leases continue to be presented as part of other property, plant and equipment.

The above new accounting policy has been adopted retrospectively. The adjustments for each financial statement line item affected for the years ended 31 December 2004 and 2005 are set out in note 2(a) and 2(b).

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(d) Discontinued operations (HKFRS 5, Non-current assets held for sale and discontinued operations)

With effect from 1 January 2005, in order to comply with HKFRS 5, the Group is required to classify operations as discontinued when the classification criteria as held for sale have been met or the Group has disposed of the operation. Held for sale is when the carrying amount of an operation will be recovered principally through a sale transaction and not through continuing use.

The new accounting policy has no impact on the financial statements for the years ended 31 December 2004 and 2005. However, the presentation of the comparative information has been reclassified as set out in note 2(e)(iii).

(e) Changes in presentation (HKAS 1, Presentation of financial statements)

(i) *Presentation of shares of associates' taxation (HKAS 1, Presentation of financial statements)*

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated profit and loss account. With effect from 1 January 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated profit and loss account before arriving at the Group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

(ii) *Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the profit and loss account as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Estimated effect of changes in accounting policies on the current year (Continued)

(ii) *Estimated effect on the Company's balance sheet (Continued)*

Estimated effect on net income recognised directly in the Company's equity for the year ended 31 December 2005:

	Estimated effect of new policy (increase/ (decrease) in equity) HKAS 40 (note 2(h)) $'000
For the year ended 31 December 2005	**(18,800)**

(c) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares of the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 1(o)(iii).

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

All the options granted by the Company fall within the above two categories. This change in accounting policy has no impact on the results of the Group for the years ended 31 December 2004 and 2005.

Details of the employee share option scheme are set out in note 26.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Estimated effect of changes in accounting policies on the current year (Continued)

(i) *Estimated effect on the consolidated financial statements (Continued)*

Estimated effect on net income recognised directly in consolidated equity for the year ended 31 December 2005:

	Estimated effect of new policy (increase/ (decrease) in equity)	
	HKAS 40 (note 2(h)) $'000	Total $'000
For the year ended 31 December 2005		
Attributable to equity shareholders of the Company	19,393	19,393
Minority interests	31	31
Total equity	19,424	19,424

(ii) *Estimated effect on the Company's balance sheet*

Estimated effect on the balance sheet at 31 December 2005:

	Estimated effect of new policy (increase/ (decrease) in net assets)	
	HKAS 40 (note 2(h)) $'000	Total $'000
NET ASSETS	—	—
CAPITAL AND RESERVES		
Effect attributable to equity shareholders of the Company		
Share capital	—	—
Share premium	—	—
Capital redemption reserve	—	—
Capital reserve	—	—
Investment properties revaluation reserve	(47,100)	(47,100)
Retained profits	47,100	47,100
	—	—

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Estimated effect of changes in accounting policies on the current year (Continued)

(i) *Estimated effect on the consolidated financial statements (Continued)*

Estimated effect on the consolidated balance sheet at 31 December 2005: (Continued)

	Estimated effect of new policy (increase/(decrease) in net assets)			
	HKAS 17 (note 2(f)) $'000	HKAS 32 & 39 (note 2(g)) $'000	HKAS 40 (note 2(h)) $'000	Total $'000
CAPITAL AND RESERVES				
Effect attributable to equity shareholders of the Company				
Share capital	—	—	—	—
Share premium	—	—	—	—
Capital redemption reserve	—	—	—	—
Capital reserve	—	—	—	—
Exchange reserve	—	—	(145)	(145)
Investment properties revaluation reserve	—	—	(56,305)	(56,305)
Other reserves	—	—	—	—
Retained profits	—	—	50,101	50,101
	—	—	(6,349)	(6,349)
Effect attributable to minority interests	—	—	(334)	(334)
	—	—	(6,683)	(6,683)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Estimated effect of changes in accounting policies on the current year (Continued)

(i) *Estimated effect on the consolidated financial statements (Continued)*

Estimated effect on the consolidated balance sheet at 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in net assets)			
	HKAS 17 (note 2(f)) $'000	HKAS 32 & 39 (note 2(g)) $'000	HKAS 40 (note 2(h)) $'000	Total $'000
Non-current assets				
Investment properties	—	—	(15,882)	(15,882)
Other property, plant and equipment	(59,330)	—	7,281	(52,049)
Interest in leasehold land held for own use under operating leases	59,330	—	—	59,330
Interest in associates	—	—	—	—
Other non-current financial assets	—	—	—	—
	—	—	(8,601)	(8,601)
Current assets				
Inventories	—	—	—	—
Trade and other receivables	—	26,991	—	26,991
	—	26,991	—	26,991
Current liabilities				
Proceeds from banks on discounted bills	—	(26,991)	—	(26,991)
Trade and other payables	—	—	—	—
Net current assets	—	—	—	—
Total assets less current liabilities	—	—	(8,601)	(8,601)
Non-current liabilities				
Deferred tax liabilities	—	—	1,918	1,918
	—	—	1,918	1,918
NET ASSETS	—	—	(6,683)	(6,683)

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Estimated effect of changes in accounting policies on the current year (Continued)

(i) *Estimated effect on the consolidated financial statements*

Estimated effect on the consolidated profit and loss account for the year ended 31 December 2005:

	Estimated effect of new policy (increase/ (decrease) in profit for the year)			
	HKAS 1 (note 2(e)) $'000	**HKAS 17 (note 2(f)) $'000**	**HKAS 40 (note 2(h)) $'000**	**Total $'000**
Continuing operations				
Turnover	—	—	—	—
Cost of sales	—	—	(852)	(852)
Gross profit	—	—	(852)	(852)
Net valuation gains on investment properties	—	—	20,497	20,497
Other revenue	—	—	—	—
Other net income	—	—	—	—
Distribution costs	—	—	—	—
Administrative expenses	—	—	—	—
Other operating expenses	—	—	—	—
Profit from operations	—	—	19,645	19,645
Non-operating income	—	—	—	—
Finance costs	—	—	—	—
Share of profits less losses of associates	(7,102)	—	—	(7,102)
Profit before taxation	(7,102)	—	19,645	12,543
Income tax	7,102	—	(343)	6,759
Profit for the year from continuing operations	—	—	19,302	19,302
Minority interests	4,036	—	(25)	4,011
Profit for the year	4,036	—	19,277	23,313
Attributable to:				
Equity shareholders of the Company	—	—	19,277	19,277
Minority interests	4,036	—	—	4,036
Profit for the year	4,036	—	19,277	23,313
Earnings per share				
Basic	—	—	2.1 cents	2.1 cents
Diluted	N/A	N/A	N/A	N/A
Other significant disclosure items:				
Depreciation	—	(1,774)	852	(922)
Amortisation of land lease premium	—	1,774	—	1,774

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Restatement of prior year and opening balances (Continued)

(ii) *Effect on the Company's balance sheet*

Balance sheet at 31 December 2004

	2004 (as previously reported) $'000	Effect of new policy (increase/(decrease) in net assets) HKAS 40 (note 2(h)) $'000	2004 (as restated) $'000
NET ASSETS	586,531	—	586,531
CAPITAL AND RESERVES			
Share capital	901,583	—	901,583
Share premium	1,747,098	—	1,747,098
Capital redemption reserve	971	—	971
Capital reserve	48,157	—	48,157
Investment properties revaluation reserve	28,300	(28,300)	—
Accumulated losses	(2,139,578)	28,300	(2,111,278)
	586,531	—	586,531

(b) Estimated effect of changes in accounting policies on the current year

The following tables provide estimates of the extent to which each of the line items in the consolidated profit and loss account and balance sheet and the Company's balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Restatement of prior year and opening balances (Continued)

(i) *Effect on the consolidated financial statements (Continued)*

Consolidated balance sheet at 31 December 2004

	2004 (as previously reported) $'000	Effect of new policy (increase/(decrease) in net assets) HKAS 1 (note 2(e)) $'000	HKAS 17 (note 2(f)) $'000	HKAS 40 (note 2(h)) $'000	Sub-total $'000	2004 (as restated) $'000
Non-current assets						
Investment properties	200,960	—	—	(16,662)	(16,662)	184,298
Other property, plant and equipment	178,548	—	(60,894)	7,962	(52,932)	125,616
Interest in leasehold land held for own use under operating leases	—	—	60,894	—	60,894	60,894
Interest in associates	169,689	—	—	—	—	169,689
Other non-current financial assets	202	—	—	—	—	202
	549,399	—	—	(8,700)	(8,700)	540,699
Current assets	447,369	—	—	—	—	447,369
Current liabilities	(192,534)	—	—	—	—	(192,534)
Net current assets	254,835	—	—	—	—	254,835
Total assets less current liabilities	804,234	—	—	(8,700)	(8,700)	795,534
Non-current liabilities						
Deferred tax liabilities	(12,117)	—	—	2,284	2,284	(9,833)
Minority interests	(25,107)	25,107	—	—	25,107	—
NET ASSETS	767,010	25,107	—	(6,416)	18,691	785,701
CAPITAL AND RESERVES						
Attributable to equity shareholders of the Company						
Share capital	901,583	—	—	—	—	901,583
Share premium	1,747,098	—	—	—	—	1,747,098
Capital redemption reserve	971	—	—	—	—	971
Capital reserve	48,814	—	—	—	—	48,814
Exchange reserve	(985)	—	—	37	37	(948)
Investment properties revaluation reserve	36,900	—	—	(36,900)	(36,900)	—
Other reserves	1,450	—	—	—	—	1,450
Accumulated losses	(1,968,821)	—	—	30,768	30,768	(1,938,053)
	767,010	—	—	(6,095)	(6,095)	760,915
Attributable to minority interests	—	25,107	—	(321)	24,786	24,786
	767,010	25,107	—	(6,416)	18,691	785,701

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Restatement of prior year and opening balances (Continued)

(i) *Effect on the consolidated financial statements (Continued)*

Consolidated profit and loss account for the year ended 31 December 2004 (Continued)

	2004 (as previously reported) $'000	Effect of new policy (increase/(decrease) in profit for the year) HKAS 1 (note 2(e)) $'000	HKAS 17 (note 2(f)) $'000	HKAS 40 (note 2(h)) $'000	Sub-total $'000	2004 (as restated) $'000
Attributable to:						
Equity shareholders of the Company	132,248	—	—	14,368	14,368	146,616
Minority interests	—	5,976	—	—	5,976	5,976
Profit for the year	132,248	5,976	—	14,368	20,344	152,592
Earnings per share						
Basic (note a)	14.7 cents	—	—	1.6 cents	1.6 cents	16.3 cents
Diluted	N/A	N/A	N/A	N/A	N/A	N/A
Other significant disclosure items:						
Depreciation	5,696	—	(1,754)	616	(1,138)	4,558
Amortisation of land lease premium	—	—	1,754	—	1,754	1,754

(note a): Pursuant to the share consolidation of the Company from ten ordinary shares of nominal value of $0.05 each into one ordinary share of nominal value of $0.50 each in December 2005, the basic earnings per share has been adjusted accordingly.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Restatement of prior year and opening balances (Continued)

(i) *Effect on the consolidated financial statements*

Consolidated profit and loss account for the year ended 31 December 2004

	2004 (as previously reported)	Effect of new policy (increase/(decrease) in profit for the year)				2004 (as restated)
		HKAS 1 (note 2(e))	HKAS 17 (note 2(f))	HKAS 40 (note 2(h))	Sub-total	
	$'000	$'000	$'000	$'000	$'000	$'000
Continuing operations						
Turnover	828,349	(146,474)	—	—	(146,474)	681,875
Cost of sales	(701,093)	136,218	—	(646)	135,572	(565,521)
Gross profit	127,256	(10,256)	—	(646)	(10,902)	116,354
Net valuation gains on investment properties	—	—	—	14,287	14,287	14,287
Other revenue	13,649	(118)	—	—	(118)	13,531
Other net income	219	—	—	—	—	219
Distribution costs	(13,302)	1,186	—	—	1,186	(12,116)
Administrative expenses	(43,444)	2,407	—	—	2,407	(41,037)
Other operating expenses	(5,867)	4,195	—	—	4,195	(1,672)
Profit from operations	78,511	(2,586)	—	13,641	11,055	89,566
Net loss on disposal of discontinued operations	(11,793)	11,793	—	—	11,793	—
Non-operating income	76,306	—	—	—	—	76,306
Finance costs	(697)	150	—	—	150	(547)
Share of profits less losses of associates	27,252	(1,775)	—	—	(1,775)	25,477
Profit before taxation	169,579	7,582	—	13,641	21,223	190,802
Income tax	(31,251)	2,092	—	623	2,715	(28,536)
Profit for the year from continuing operations	138,328	9,674	—	14,264	23,938	162,266
Discontinued operations						
Loss for the year from discontinued operations	—	(9,674)	—	—	(9,674)	(9,674)
Minority interests	(6,080)	5,976	—	104	6,080	—
Profit for the year	132,248	5,976	—	14,368	20,344	152,592

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Segment reporting (Continued)

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, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

(a) Restatement of prior year and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated profit and loss account and balance sheet and the Company's balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2004. The effects of the changes in accounting policies on the balances at 1 January 2004 and 2005 are disclosed in note 27.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Discontinued operations (Continued)

Where an operation is classified as discontinued, a single amount is presented on the face of the profit and loss account, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(v) 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(w) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars at the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(u) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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 profit or loss 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) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss 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.

(iii) *Dividends*

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

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

(iv) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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 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.

(q) 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 expenditure expected to settle the obligation.

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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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 the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employee benefits (Continued)

(ii) *Share based payments (Continued)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) *Termination benefits*

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.

(p) Income tax

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 profit or loss except to the extent that they relate to items recognised directly in equity, in which case it is recognised in equity.

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.

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Cash and 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 consolidated cash flow statement.

(o) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees, except to the extent that they are included in cost of inventories not yet recognised as an expense. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Further information on the Group's contribution to retirement benefit schemes is set out in note 32.

(ii) *Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)(i)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) *Impairment of other assets (Continued)*

If any such indication exists, the asset's recoverable amount is estimated.

— *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).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *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. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment loss 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 profit or loss in the year in which the reversals are recognised.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(i) *Impairment of investments in equity securities, trade and other receivables (Continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) *Impairment of other 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:

— other property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— investments in subsidiaries and associates (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(u)).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of land held for own use under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(i) Impairment of assets

(i) *Impairment of investments in equity securities, trade and other receivables*

Investments in equity securities, trade and other current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreased. Impairment losses for equity securities are not reversed.

— For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.	
— Leasehold improvements	20% to 50% per annum
— Plant and machinery, furniture, fixtures and equipment	10% to 20% per annum
— Motor vehicles	20% per annum

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Leased assets

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership are classified as operating leases, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if held under a finance lease (see note 1(f)); and

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other property, plant and equipment

The following items of fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)(ii));

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)); and

— other items of plant and equipment.

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

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. Capitalization 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 below.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Other investments in equity securities

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

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(i)(i)).

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

(f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(r)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(h).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and controlled entities (Continued)

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses applicable 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 additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits 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 impairment losses (see note 1(i)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(u)).

(d) Associates

An associate is an entity in which the Group or 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 classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(u)). The consolidated profit and loss account includes the Group's share of the post-acquisition, post-tax results of the associates for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

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 profit and loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(i)(ii)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(u)).

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Subsidiaries and controlled entities

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

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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 and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

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 ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") 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 HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005.

With effect from 1 January 2004, the Group has early adopted HKFRS 3 "Business Combinations", HKAS 36 "Impairment of assets" and HKAS 38 "Intangible assets" in the financial statements for the year ended 31 December 2004. Other than the above, information on the changes in accounting policies resulting from initial application of the remaining new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— investment property (see note 1(f)); and

— financial instruments classified as trading securities (see note 1(e)).

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, 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.

6. 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.

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 Transactions have been entered into such that the aggregate amount has not exceeded the cap amount of HK$1,600,000 for the leasing of land and HK$2,500,000 for the provisions of electricity/water as disclosed in the announcement dated 12 April 2005;

(3) the Transactions have been entered into in accordance with the terms of the agreements governing the Transactions or on terms no less favourable than those available to or from independent third parties; and

(4) the Transactions have been entered into in accordance with the pricing policies of the Group.

2. 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.

3. 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.

4. 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

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 and B below (collectively the "Transactions") are continuing connected transactions subject to annual review requirements under Rules 14A.37 to 14A.41 of the Listing Rules and reporting requirements under Rules 14A.45 to 14A.46 of the Listing Rules.

   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 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$1,494,000. 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$1,792,000.

   The Board of Directors of the Company including the Independent Non-executive Directors have reviewed the Transactions described in A and B above and confirmed that the Transactions are:

   (i) entered into by Shan Hai Industrial and Zhongyue Tinplate 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

   (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.

   The Board of Directors of the Company including the Independent Non-executive Directors also confirmed that the aggregate amount for the year ended 31 December 2005 did not exceed the cap amounts of HK$1,600,000 for the Shan Hai Transaction and HK$2,500,000 for the Tinplate Transaction as disclosed in the announcement dated 12 April 2005.

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

(Expressed in Hong Kong dollars)

ASSETS AND LIABILITIES (Continued)

Notes: (Continued)

(ii) Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised statement, the Group adopted a new accounting policy for deferred tax in 2003. The new accounting policy has been adopted prospectively as the effect of this change in accounting policy is not material and, therefore, no comparative figures have been restated for earlier years.

(iii) Earnings per share from 2001 to 2004 have been retrospectively adjusted for the share consolidation of every 10 issued and unissued shares into one new share which took place in December 2005.

Financial Summary

(Expressed in Hong Kong dollars)

ASSETS AND LIABILITIES

	As at 31 December				
	2005	2004 (restated)	2003 (restated)	2002 (restated)	2001 (restated)
	$'000	$'000	$'000	$'000	$'000
Fixed assets	**434,406**	370,808	363,411	394,710	397,846
Interest in associates	**176,003**	169,689	154,978	151,264	152,238
Negative goodwill	**—**	—	(17,246)	(18,693)	(20,250)
Other non-current assets	**46**	202	4,318	6,843	6,036
Net current assets	**380,978**	254,835	126,507	73,049	33,848
Total assets less current liabilities	**991,433**	795,534	631,968	607,173	569,718
Non-current liabilities	**(12,217)**	(9,833)	(9,335)	(92,186)	(196,349)
	979,216	785,701	622,633	514,987	373,369
Share capital	**450,792**	901,583	901,583	899,833	894,333
Reserves	**499,090**	(140,668)	(299,334)	(404,969)	(539,359)
Total equity attributable to equity shareholders of the Company	**949,882**	760,915	602,249	494,864	354,974
Minority interests	**29,334**	24,786	20,384	20,123	18,395
Total equity	**979,216**	785,701	622,633	514,987	373,369

Notes:

(i) The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 2 to the financial statements. Figures for 2004 and 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions and as disclosed in note 2. However, it is not practicable to restate earlier years for comparison purposes other than the presentation of share of associates' taxation and minority interests.

Financial Summary

(Expressed in Hong Kong dollars)

RESULTS

		For the year ended 31 December				
		2005	2004	2003	2002	2001
			(restated)	(restated)	(restated)	(restated)
	Note	**$'000**	$'000	$'000	$'000	$'000
Turnover		**921,217**	681,875	1,525,807	1,783,020	1,819,350
Profit/(loss) from operations		**100,866**	89,566	72,949	111,231	(6,063)
Net non-operating income		**59,746**	76,306	35,659	17,177	31,991
Finance costs		**(396)**	(547)	(7,664)	(12,045)	(1,273)
Share of profits less losses of associates		**20,315**	25,477	22,274	10,422	(12,367)
Profit before taxation		**180,531**	190,802	123,218	126,785	12,288
Income tax		**(736)**	(28,536)	(15,831)	(9,593)	(2,672)
Profit for the year from continuing operations		**179,795**	162,266	107,387	117,192	9,616
Loss from discontinued operations		**—**	(9,674)	—	—	—
Profit for the year		**179,795**	152,592	107,387	117,192	9,616
Attributable to:						
Equity shareholders of the Company		**175,759**	146,616	102,762	115,509	51,518
Minority interests		**4,036**	5,976	4,625	1,683	(41,902)
Profit for the year		**179,795**	152,592	107,387	117,192	9,616
Earnings per share	(iii)					
Basic		**19.5 cents**	16.3 cents	11.4 cents	12.8 cents	6.1 cents
Diluted		**N/A**	N/A	11.2 cents	12.3 cents	N/A

GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

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