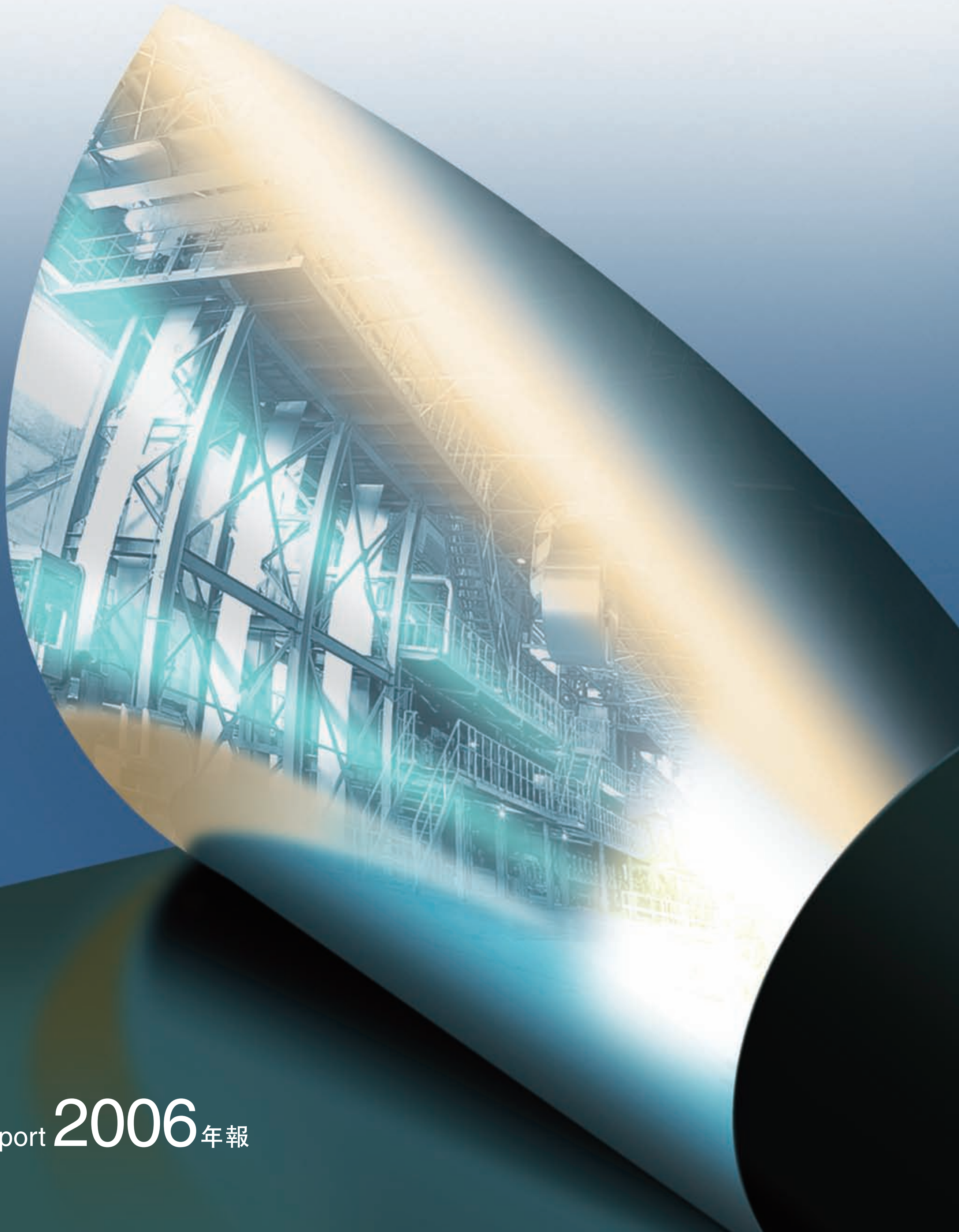
GUANGNAN (HOLDINGS) LIMITED
廣南(集團)有限公司

Stock Code 股份代號: 1203



Annual Report 2006 年報

Contents

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
DONG Decai
HOU Zhuobing

Independent Non-executive Directors

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

COMPANY SECRETARY

CHEUNG Mo Ching

REGISTERED OFFICE

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No. 24–32 Queen's Road East
Hong Kong
Telephone: (852) 2828 3938
Facsimile : (852) 2583 9288
Website : http://www.gdguangnan.com

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

The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited
Nanyang Commercial Bank, Limited

SHARE INFORMATION

Place of Listing	Main Board of The Stock Exchange of Hong Kong Limited
Stock Code	1203
Board lot	2,000 shares
Financial year end	31 December

SHAREHOLDERS' CALENDAR

Closure of Register of Members	5 June 2007 to 7 June 2007
Final Dividend	HK2.0 cents per share
Payment Date	29 June 2007

Chairman's Statement

PROSPECT

The domestic and overseas demand for tinplates will maintain strong in line with the development of metal packaging, particularly the domestic metal packaging. With the commencement of production of the black-plate manufacturing factory, the self-produced black-plates together with the supply of black-plates from POSCO, the Group has established a stable and adequate black-plates resources supply system. The Group will continue to devote on strengthening and maximizing its tinplate business with the help of Zhongyue Tinplate's comparative advantages in its production capacity, brand, technology, costing as well as resources, lowering transportation cost, increasing its market share and achieving more promising operating results.

Liang Jiang
Chairman

Hong Kong, 20 April 2007

Chairman's Statement

The Group recorded satisfactory results in 2006. The consolidated profit attributable to equity shareholders of the Company was HK$121,320,000, representing a decrease of 31.0% compared with HK$175,759,000 in 2005. Excluding factors such as valuation gains on investment properties, non-operating income and tax refund for re-investment, the profit from operations of the Group was HK$110,794,000 in 2006, representing an increase of 37.9% compared with 2005. The basic earnings per share was HK13.5 cents, representing a decrease of 30.8% from HK19.5 cents in 2005.

DIVIDEND

The Directors recommend the payment of a final dividend of HK2.0 cents per share for the year 2006. The final divided for 2006, subject to the approval by the shareholders of the Company at the annual general meeting, is expected to be paid on 29 June 2007.

REVIEW

In 2006, consolidated turnover was HK$1,221,254,000, a substantial increase of HK$300,037,000 or 32.6% from HK$921,217,000 in 2005. Such increase was attributable to the growth of the tinplating business. 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 sufficient supply of black-plates, leading to the surge in turnover of HK$311,141,000 or 39.0%. The increase in consolidated turnover resulted in the growth in profit from operations. Profit from operations was HK$110,794,000 for 2006, representing an increase of 37.9% compared with HK$80,369,000 in 2005.

In 2006, Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate") realized an annual production capacity of 200,000 tonnes and the production capacity utilization rate reached 83.5% for the year, which broke the highest records of tinplating business in terms of its sales and production volume since its operations commenced in 1990, compared with 74% for 2005. As a primary business of the Group, the proportion of its contribution to the profit from operations of the Group increased from 68.6% in 2005 to 73.8% in 2006, which brought a stable source of profit to the Group.

The new highest record of tinplating business was just the beginning of a new stage. In the end of 2006, the construction of black-plate manufacturing factory completed, and the entering into a joint venture agreement with POSCO Co. Ltd. ("POSCO"), an international steel company, to build a new factory with annual production capacity of 250,000 tonnes of tinplates in the northern region of PRC which is expected to complete and commence production at the end of this year. The production capacity of tinplates and black-plates increased from 120,000 tonnes in the middle of 2005 to 200,000 tonnes in 2006 to 350,000 tonnes this year and further to 600,000 tonnes next year. With the help of production and sales, the Group's profit will reach a higher rung on the ladder.

Management Discussion & Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group had a total of 723 full-time employees, increased by 198 compared with that as at the end of 2005. 22 of the employees were based in Hong Kong and 701 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 2006, 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

With the completion and commencement of production of Qinghuangdao Project, POSCO, originally the supplier, became the Group's strategic business partner. From now onwards, not only will the supply of black-plates, but also production technology and even market expansion be supported by POSCO. The tinplates business of the Group will have further development and continue to generate more profit contribution for the Group.

ratio (current assets divided by current liabilities) decreased from 2.54 as at the end of 2005 to 1.36. The Group has a very sound financial position, laying a solid foundation for future business expansion.

Liquidity and Financial Resources

As at 31 December 2006, the Group maintained cash and cash equivalent balances of HK$157,737,000. Part of the amount of HK$44,206,000 was Renminbi and HK$59,373,000 was United States Dollars while the remaining was denominated in Hong Kong dollars. Cash and cash equivalent balances increased by 62.8% from the end of the 2005.

As at 31 December 2006, the Group's interest-bearing borrowings amounted to HK$81,557,000. Accordingly, the Group's gearing ratio was 7.6%, which was measured on the basis of the Group's total interest-bearing borrowings over the shareholders' fund. The Group's interest-bearing borrowings will be payable by the proceeds from the bills discounted to the bank at an annual interest rate (or discount rate) between 1.92% to 3.24%.

As at 31 December 2006, the Group's total available banking facilities amounted to HK$257,400,000, of which HK$181,913,000 was utilized banking facilities for letters of credit. The unutilized banking facilities amounted to HK$75,487,000. The above-mentioned discounting bills did not use up any banking facilities. With its cash and cash equivalents holdings, the recurring cash flow from its operations and banking facilities, 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.

Litigation

In 2004, a claim was filed against a subsidiary of the Group alleging that the subsidiary had not repaid its outstanding amount due to the defendant. The legal dispute was heard in the Intermediate People's Court of Yue Yang City, Hunan which delivered a judgement in favour of the Group in January 2005. On 29 December 2006, the defendant filed a new claim against the subsidiary with the Intermediate People's Court of Zhongshan City. The amount of claim, together with damages arising from breach of contract was RMB5,788,000 (approximately HK$5,761,000). According to the information currently available, the Group is of the view that no provision is required to be made for this claim.

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.

Management Discussion & Analysis

Property Leasing

The Group's leasing properties mainly included the plant and staff dormitory of Zhongyue Shan Hai Industrial Co., Ltd. ("Shan Hai"), and the office building in Hong Kong. In 2006, the total turnover from property leasing business of the Group was recorded at HK$25,457,000, a decrease of HK$72,000 compared with 2005. The profit from operations of property leasing business amounted to HK$16,662,000, dropped by 6.2% as compared with 2005.

At the beginning of 2007, the Group has acquired 5% interest in Shan Hai from the PRC minority shareholders. Shan Hai became a wholly-owned subsidiary of the Group after the acquisition. There will be more room for future development and operations for Shan Hai.

Foodstuffs Distribution and Trading

In 2006, turnover of the foodstuffs distribution and trading business amounted to HK$86,858,000, representing a decrease of HK$11,032,000 or 11.3% as compared with 2005 due to the impact of bird flu in 2006. Profit from operations of foodstuffs distribution and trading in 2006 was HK$16,648,000, representing a decrease of HK$408,000 or 2.4% as compared with 2005.

Foodstuffs distribution and trading is the traditional business of the Group. At the end of 2006, the Group successfully expanded its chilled pork business. In 2007, 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 foodstuffs, so as to maintain its competitiveness and provide the Group with a stable income stream.

Associates

In 2006, Yellow Dragon Food Industry Co., Limited ("Yellow Dragon"), a principal associate of the Group, recorded a sales volume of 403,484 tonnes of corn starch, its major products, representing an increase of 4.6% as compared with 2005. Turnover of Yellow Dragon amounted to HK$1,124,155,000, grew by 15.3% and its profit attributable to shareholders amounted to HK$50,286,000, dropped by HK$412,000 or 0.8%.

The Group has 40% interest in Yellow Dragon and received a total dividend payment of RMB19,503,000 (equivalent to HK$18,965,000) in 2006. It is expected that the Group will receive a total dividend payment of RMB16,793,000 (equivalent to HK$16,716,000) this year.

FINANCIAL POSITION

As at 31 December 2006, the Group's total assets amounted to HK$1,539,289,000 and total liabilities stood at HK$428,378,000 representing an increase of HK$300,659,000 and HK$168,964,000 respectively compared with the positions at the end of 2005. The net current assets decreased from HK$380,978,000 at the end of 2005 to HK$144,383,000 and the current

Management Discussion & Analysis

BUSINESS REVIEW

Tinplating

In 2006, the production and sales volume of tinplate of Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate"), a subsidiary of the Group, amounted to 164,986 tonnes and 171,254 tonnes, a substantial increase of 43.8% and 67.6% respectively when compared with 2005. The turnover was HK$1,108,939,000, representing an increase of 39.0% when compared with 2005. Profit from operations was HK$81,797,000, grew by HK$26,702,000 or 48.5% when compared with 2005. Excluding the impairment loss from closing down of power plant amounting to HK$9,346,000 due to the high oil price, the increase would have been 65.4%. The contribution from the tinplating business to the Group's profit was the most significant, its turnover accounted for 90.8% of the Group's turnover and profit from operations accounted for 73.8% of the Group's profit from operations.

The construction of black-plate manufacturing factory completed at the end of 2006. For the year ended 31 December 2006, HK$198,636,000 was paid which mainly sourced from internal funding. The factory commenced production in March 2007 with an annual production capacity of 150,000 tonnes which is expected to provide favourable conditions to lower production cost and enter the niche market for tinplates comprehensively.

As a brand-name tinplate manufacturer in the mainland, both the tin-coated steel plates and chromium-coated steel plates of Zhongyue Tinplate were awarded the "China Packaging Brand Products" in April 2006 and were the only awarded tinplate manufacturer in the PRC. The company will continue its comparative advantages in its brand and technology and thereby increasing its market share.

On 21 December 2006, the Group entered into a joint venture agreement with POSCO Co. Ltd. ("POSCO"), a steel company ranked 4th in the world's steel production, to establish a tinplate manufacturing factory in Qinghuangdao City, Hebei Province, the PRC ("Qinghuangdao Project"), with a total investment of US$60,000,000 which 66% as to the Group and 34% as to POSCO. The annual production capacity of tinplates is 250,000 tonnes and is expected to commence production by the end of 2007 so that the aggregate annual tinplate production capacity will be 450,000 tonnes and annual black-plate production capacity will be 150,000 tonnes for the factories of the Company in south and north.

At the beginning of 2007, the Group has acquired 5% interest in Zhongyue Tinplate from the PRC minority shareholders. Zhongyue Tinplate became a wholly-owned subsidiary of the Group after the acquisition. There will be more room for future development and operations for Zhongyue Tinplate.

Directors' Profile

Miss TAM Wai Chu, Maria, *GBS, J.P., LL.D (Honorary), LL.B. (Hons.), Barrister-at Law*, aged 61, 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 Limited, 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 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 54, 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

The senior management of the Group comprises the Executive Directors above, namely, Mr. Liang Jiang, Mr. Tan Yunbiao and Mr. Tsang Hon Nam.

Directors' Profile

Mr. LUO Fanyu, aged 51, was appointed a Non-executive Director of the Company in May 2000. He is a director of GDH and a non-executive director of Kingway Brewery. He was a non-executive director of a fellow subsidiary of the Company, Guangdong Tannery Limited. He joined GDE in 1987 and was responsible for its legal affairs. Prior to joining GDE, he was a judge and a deputy chief judge of the Economic Court of People's High Court of Guangdong Province. Mr. Luo graduated from the economics department of Sun Yat-Sen University, the PRC.

Mr. DONG Decai, aged 59, was appointed a Non-executive Director of the Company in December 2006. He obtained a diploma from Guangdong Radio & Television University, the PRC. From June 1997 to September 2000, Mr. Dong served as the deputy director of the Representative Office in Macau of the government of Guangdong Province and a deputy general manager of Nam Yue (Group) Co., Limited ("Nam Yue"). From September 2000 to March 2003, he took up various positions in Guangdong Yuehai Holdings Limited, including the post of director, general manager and the chairman. He was the general manager of the Corporate Management Department of GDH until he serves as the consultant to the chairman of GDH from January 2006. He has been serving as the director of the Macau Office of GDH and the chairman of Nam Yue since April 2006. Nam Yue is a subsidiary of GDH.

Miss HOU Zhuobing, aged 45, was appointed a Non-executive Director of the Company in August 2006 and is also a director of Zhongyue Posco. She acted as a Non-executive Director of the Company between May 2000 to July 2002. Miss Hou graduated from the department of international finance of Jinan University, the PRC and obtained a Master's degree in Business Administration from Murdoch University, Australia. Miss Hou has extensive experience in treasury management and had worked for Guangzhou International Trust Investment Co., Ltd., Development Zone Branch. She joined the finance department of GDE in 1988 and was the general manager of finance department of GDH between August 2000 to July 2002. After that, Miss Hou acted as director and financial controller of Guangdong Teem (Holdings) Limited until July 2006 when she becomes the general manager of finance departments of Yue Gang and GDH.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gerard Joseph McMAHON, aged 63, 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. Mr. McMahon is also a barrister in Hong Kong. He is the chairman and a non-executive director of Quay Point Corporation Limited, a Hong Kong listed company. He has been appointed non-executive director of a number of publicly listed companies in Hong Kong, Indonesia and Australia since 1997.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. LIANG Jiang, aged 54, was appointed the Chairman of the Company in January 2002. He is also the chairman of three subsidiaries, Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate"), Zhongshan Shan Hai Industrial Co., Ltd. ("Shan Hai") and Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co., Ltd. ("Zhongyue Posco"). He is also an executive director of GDH Limited ("GDH"), a substantial shareholder of the Company. Mr. Liang graduated from South China Normal University, the PRC. He holds a Master's degree in Business Administration. 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 42, was appointed an Executive Director and the General Manager of the Company in February 2004. Mr. Tan graduated from South China Agricultural University, the PRC and worked in the municipal government in Zhongshan, the PRC between 1984 to 1988. Mr. Tan joined Shan Hai and Zhongyue Tinplate in 1988 and was promoted to the position of director and deputy general manager in 1997. He then became director and general manager of both companies in 2001. He is also a director of Zhongyue Posco.

Mr. TSANG Hon Nam, aged 37, 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 53, 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 the 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.

Subsequent to the balance sheet date, the Company signed a loan agreement with GDH pursuant to which GDH agreed to grant a loan to the extent of HK$200,000,000 to the Company. Such loan was made upon normal commercial terms (or better), without security and will mature on 31 December 2008.

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 2006 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.

By order of the Board

Liang Jiang
Chairman

Hong Kong, 20 April 2007

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, 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	Long/Short Position	Approximate % of issued share capital
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	Long position	59.49%
GDH Limited ("GDH")	536,380,868	Long position	59.49%

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 2006, 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 105 to 107, 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 without security, interest free and without fixed term of repayment. As at 31 December 2006, 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 105 to 107.

Report of the Directors

The fair value of share options granted on 9 March 2006 was HK$3,425,603 which was determined using binomial lattice option pricing model^^, and was recognised in the consolidated profit and loss account for the year. The weighted average fair value of share options granted during the year and the respective inputs and assumptions to the model were as follows:

Weighted average fair value of share option:	HK$0.29 per share
Risk-free interest rate:	4.444%@, being the approximate yield of 10-year Exchange Fund Note traded on 9 March 2006
Expected volatility:	78%, being the annualised volatility of the closing price of the ordinary shares of the Company from 9 March 2005 to 9 March 2006
Expected dividend yield:	2.564%, being historical dividend yield
Expected life of share options:	10 years
Assumptions:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period from 9 March 2005 to 9 March 2006.

Effects of early exercise factors were also considered in calculating the fair value of share options.

^ No forfeiture clause was contained in the relevant share option scheme.

^^ In prior years, in order to comply with Rule 17.08 of the Listing Rules, Black-Scholes option pricing model was adopted by the Company to calculate the theoretical value of share options granted for disclosure purpose only. With effect from 1 January 2005, in order to comply with Hong Kong Financial Reporting Standards No. 2, "Share-based payment", the Group has adopted a new policy for employee share options. Under the new policy, the Group recognizes the fair value of share options as an expense with a corresponding increase recognized in a capital reserve within equity. As binomial lattice option pricing model could capture assumption about early exercise of share option and is more appropriate for share options with relatively long contractual lives, the Group used binomial lattice model, instead of Black-Scholes model, to measure the fair value of share options granted.

The binomial lattice model (the "Model") is one of the option pricing models to estimate the fair value of an option. It should be noted that the Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the fair value of the share options derived from the Model should not be interpreted as the market or actual value of the option.

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

During the year, 3,470,000 options and 120,000 options were lapsed under the 2001 and 2004 Share Option Schemes respectively. During the year, 11,770,000 options were granted under the 2004 Share Option Scheme. As at 31 December 2006, options were outstanding under the 2001 and 2004 Share Option Schemes entitling the holders to subscribe for 8,320,000 shares and 11,650,000 shares of the Company respectively.

As at 31 December 2006, 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 and 2004 Share Option Schemes. Each option gives the holder the right to subscribe for one share of par value HK$0.5 each of the Company. Further details are set out in note 24 on the financial statements.

		Number of share options					During the year Number of share options				Share price	
Category	Date of share options granted#	Held on 01.01.2006 ('000)	Granted during the year ('000)	Exercisable period of share options*	Total consideration paid for share options granted (HK$)	Price per share to be paid on exercise of share options (HK$)	Exercised ('000)	Lapsed ('000)	Cancelled ('000)	Number of share options held on 31.12.2006 ('000)	At share options grant date** (HK$)	At share options exercise date (HK$)
Employees and other participants	24.08.2001	3,350	—	26.11.2001 to 25.11.2006	10	1.495	—	3,350	—	—	—	—
	06.02.2004	4,940	—	06.05.2004 to 05.05.2009	10	1.582	—	120	—	4,820	—	—
	09.03.2006	—	6,470	09.06.2006 to 08.03.2016	1	1.660	—	120	—	6,350	1.610	—

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 the last day of any of the option periods is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.

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

Note: The underlying shares of the outstanding share options under the 2004 Share Option Scheme as at 31 December 2006 represent 2.21% of the issued share capital of the Company.

Details of share options granted during the year:

Date of grant:	9 March 2006
Vesting period:	9 March 2006 to 8 June 2006
Exercise period:	9 June 2006 to 8 March 2016
Exercise price:	HK$1.66 per share
Number of share options granted:	11,770,000^

Report of the Directors

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.

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.

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

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

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 2006, 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 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.

Report of the Directors

(iii) Guangdong Tannery Limited

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

Note: The number of ordinary shares of Guangdong Tannery Limited in issue as at 31 December 2006 was 524,154,000.

(II) Long positions in options relating to ordinary shares of the Company

		Number of share options					During the year Number of share options				Share price	
Number of Director	Date of share options granted#	Held on 01.01.2006 ('000)	Granted during the year ('000)	Exercisable period of share options*	Total consideration paid for share options granted (HK$)	Price per share to be paid on exercise of share options (HK$)	Exercised ('000)	Lapsed ('000)	Cancelled ('000)	Number of share options held on 31.12.2006 ('000)	At share options grant date** (HK$)	At share options exercise date (HK$)
Liang Jiang	06.02.2004	2,000	—	06.05.2004 to 05.05.2009	10	1.582	—	—	—	2,000	—	—
	09.03.2006	—	2,000	09.06.2006 to 08.03.2016	1	1.660	—	—	—	2,000	1.610	—
Tan Yunbiao	06.02.2004	1,500	—	06.05.2004 to 05.05.2009	10	1.582	—	—	—	1,500	—	—
	09.03.2006	—	2,000	09.06.2006 to 08.03.2016	1	1.660	—	—	—	2,000	1.610	—
Tsang Hon Nam	09.03.2006	—	300	09.06.2006 to 08.03.2016	1	1.660	—	—	—	300	1.610	—
Zhao Leili	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—
Luo Fanyu	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—
Gerard Joseph McMahon	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—
Tam Wai Chu, Maria	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—
Li Kar Keung, Caspar	09.03.2006	—	200	09.06.2006 to 08.03.2016	1	1.660	—	—	—	200	1.610	—

\# 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Rules Governing The Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

(I) Long positions in shares

(i) The Company

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jiang	230,000	0.026%
Zhao Leili	218,000	0.024%

Note: The number of ordinary shares of the Company in issue as at 31 December 2006 was 901,583,285.

(ii) Kingway Brewery Holdings Limited

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

Note: The number of ordinary shares of Kingway Brewery Holdings Limited in issue as at 31 December 2006 was 1,396,368,000.

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	
DONG Decai	(appointed on 18 December 2006)
HOU Zhuobing	(appointed on 8 August 2006)
LIANG Jiangqin	(resigned on 8 August 2006)

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 92 of the Company's Articles of Association, Mr. DONG Decai and Miss HOU Zhuobing would retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. ZHAO Leili, Gerard Joseph McMAHON and LI Kar Keung, Caspar would retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25(c) on the financial statements.

RESERVES

Consolidated profits attributable to equity shareholders of the Company, before dividend, of HK$121,320,000 (2005: HK$175,759,000) have been transferred to reserves. Other movements in the reserves of the Group and the Company during the year are set out in notes 25(a) and 25(b) on the financial statements respectively.

RETIREMENT BENEFITS SCHEME

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, 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 2006 represented 58.4% of the Group's total purchases (not including purchases of capital nature), and the combined total of the five largest suppliers accounted for 68.8% of the Group's total purchases for the year.

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

PROPERTIES

Particulars of the major properties of the Group are set out on page 108.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years ended 31 December 2006 is set out on pages 109 and 110.

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 2006.

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 2 and 12 on the financial statements.

RESULTS AND DIVIDENDS

The Group's consolidated results for the year ended 31 December 2006 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 37 to 104.

An interim dividend of HK1.5 cents (2005: Nil) per share was paid on 18 October 2006. The Directors recommended the payment of a final dividend of HK2.0 cents (2005: HK1.5 cents) per share for the year ended 31 December 2006.

The proposed final dividend, if approved at the 2007 Annual General Meeting of the Company, is expected to be paid on 29 June 2007 to shareholders whose names appear on the register of members of the Company on 7 June 2007.

FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in notes 13(a) and 13(b) on the financial statements respectively.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates as at 31 December 2006 are set out in notes 36 and 38 on the financial statements respectively.

BORROWINGS AND INTEREST CAPITALISED

Details of borrowings of the Group are set out in note 22 on the financial statements. No interest was capitalised by the Group during the year.

Corporate Governance Report

During the year, review on the effectiveness and efficiency of material financial, operational and compliance controls and risk management procedures of the Group was made by the Board and the Audit Committee. The Board is generally satisfied with the effectiveness and adequacy of the existing internal control system of the Group. The Board acknowledges the importance of good corporate governance and will continue its efforts on enhancing the Group's internal controls to support further growth of the Group.

Internal control system of the Group is designed to provide reasonable (rather than absolute) assurance against unauthorized use or disposition. It could only manage, rather than eliminate, all risks of material misstatement, errors, loss or fraud.

INTERNAL CONTROLS

The Board is committed to establish and maintain a sound and effective internal control system of the Group to protect the shareholders' investment and to safeguard the Group's assets and to achieve corporate objectives. Key components of internal controls of the Group are set out below:

1. A defined organizational structure, with specified limits of authority and lines of responsibility, has been established.

2. Established operating policies and procedures.

3. Delegation of authority — The directors and/or management are delegated with respective level of authority relating to certain business or operational objectives. Committees (e.g. Audit, Remuneration and Nominee), of which their decision-making authority is delegated by the Board, are established where necessary to review, approve and monitor particular aspect of operation of the Group.

4. Budgetary system — (i) Business plan and forecasts are prepared annually and subject to monthly review and approval by the management . With annual budget and monthly rolling forecast, the management could identify and evaluate the likelihood of the financial impact of significant business risks in the coming year and achieve the business objectives; (ii) Budgetary system in relation to monthly recurrent and major capital expenditure is in place. Any material variances against budgets are investigated, explained and approved by the respective financial controller.

5. Internal Audit Department — In order to further enhance the internal control of the Group, an internal audit department was established during the year. The internal auditor could access unrestrictedly to review all aspects of the Group's activities and internal controls. Any serious internal control deficiencies or fraud identified would be reported immediately to the Directors or even directly to the Audit Committee.

6. Quarterly review by Audit Committee and the Board — The Directors review major business and operational activities and financial performance of the Group at least on a quarterly basis.

7. Comprehensive accounting system — A reliable and comprehensive accounting system are in place for the recording of financial information of the Group.

8. Monthly review by the management — Key operating and financial performance of each business segment are reviewed by the management on monthly basis. Regular meetings are held to review the business and financial performance against forecast and business strategies to be taken.

Corporate Governance Report

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.

The Audit Committee shall meet at least four times a year. During the financial year ended 31 December 2006, the Audit Committee held six meetings, inter alia, to review the 2005 annual results and the 2006 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 two times (out of which one time without the presence of the management) during the financial year ended 31 December 2006 to discuss any areas of concerns.

ACCOUNTABILITY AND AUDIT

The Directors have acknowledged that they are responsible for overseeing the preparation of financial statements, which give a true and fair view of the state of affairs of the Group and of the results and cash flows in the relevant year. The responsibilities of the external auditors to the shareholders are set out in the Auditors' Report on page 35. In preparing the financial statements for the year ended 31 December 2006, the Directors have selected appropriate accounting policies, applied them consistently in accordance with the accounting principles generally accepted in Hong Kong which are pertinent to its operations and relevant to the financial statements and, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis.

The Company aims at presenting a balanced, clear and comprehensible assessment of the Group's performance, position and prospects in all communications issued to shareholders, including annual and interim reports, announcements and circulars. The annual and interim results of the Company are announced in a timely manner within 4 months and 3 months respectively after the end of the relevant periods

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.

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.

Corporate Governance Report

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, reappointment 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.

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.

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, 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 2006, the Nomination Committee met three times to review the structure, size and composition of the Board and to consider, nominate and recommend suitable candidates for appointment and reappointment of directors.

AUDITORS' REMUNERATION

The remuneration of the Company's auditors, Messrs. KPMG, for services rendered in respect of the financial year ended 31 December 2006 is set out as follows:

Services rendered	**Fee**
	HK$'000
Audit of final results	1,700
Review of interim results	500
Review of continuing connected transactions	46
	2,246

Corporate Governance Report

The Compensation Committee comprises the Chairman, 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.

The Compensation Committee shall meet at least twice a year. During the year ended 31 December 2006, the Compensation Committee held five meetings to review the annual remuneration package and performance bonuses for the Executive Directors and the management of the Company.

Details of the Directors' remuneration are set out in note 7 to the financial statements.

NOMINATION OF DIRECTORS

The Company established a nomination committee (the "Nomination Committee") in 2005. 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 the 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 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.

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.

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.

Corporate Governance Report

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 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.

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 AGMs of the Company in accordance with the Articles. The Non-executive Directors who were re-elected in the 2005 AGM hold office for a term of approximately three years until they become due to retire by rotation in accordance with the Articles. In the 2006 AGM, the Company has approved the amendment of the Articles to so 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.

Corporate Governance Report

Details of Directors' attendance at the Annual General Meeting ("AGM"), Board and Board Committee meetings held during the financial year ended 31 December 2006 are set out below.

	Board	Audit Committee	Compensation Committee	Nomination Committee	AGM
Executive Directors					
Liang Jiang	6/6		5/5	3/3	1
Tan Yunbiao	6/6		5/5		1
Tsang Hon Nam	6/6				1
Non-executive Directors					
Zhao Leili	5/6				1
Luo Fanyu	5/6				1
Dong Decai*	1/1				
Hou Zhuobing#	3/3				
Liang Jianqin^	3/3				1
Independent Non-executive Directors					
Gerard Joseph McMahon	6/6	6/6	5/5	3/3	1
Tam Wai Chu, Maria	6/6	6/6	5/5	3/3	1
Li Kar Keung, Caspar	6/6	6/6	5/5	3/3	1

* Mr. Dong Decai was appointed a Non-executive Director on 18 December 2006.

\# Miss Hou Zhuobing was appointed a Non-executive Director on 8 August 2006.

^ Miss Liang Jianqin resigned as a Non-executive Director on 8 August 2006.

The Company has received confirmation of independence from 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 9 to 11 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

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 stakeholders 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 2006 with the exception that certain Non-executive Directors are not appointed for specific terms as Non-executive Directors are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association (the "Articles").

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 2006

BOARD OF DIRECTORS

The Board comprises three Executive Directors, being Messrs. Liang Jiang, Tan Yunbiao and Tsang Hon Nam, four Non-Executive Directors, being Messrs. Zhao Leili, Luo Fanyu and Dong Decai and Miss Hou Zhuobing, 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.

The Board meets at least quarterly and on other occasions when a Board decision is required on major issues. During the financial year ended 31 December 2006, the Board held six meetings.

Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

20 April 2006

Auditors' Report

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

We have audited the consolidated financial statements of Guangnan (Holdings) Limited (the "Company") set out on pages 37 to 104, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Consolidated Profit and Loss Account

For the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Turnover	2, 12	**1,221,254**	921,217
Cost of sales		**(1,057,781)**	(798,270)
Gross profit		**163,473**	122,947
Other revenue	3	**9,906**	11,584
Other net income	3	**14,327**	3,671
Distribution costs		**(19,914)**	(15,010)
Administrative expenses		**(47,056)**	(42,367)
Other operating expenses		**(9,942)**	(456)
Profit from operations		**110,794**	80,369
Non-operating income	4	**—**	59,746
Net valuation gains on investment properties		**23,123**	20,497
Finance costs	5(a)	**(2,906)**	(396)
Share of profits less losses of associates		**19,259**	20,315
Profit before taxation	5	**150,270**	180,531
Income tax	6(a)	**(23,476)**	(736)
Profit for the year		**126,794**	179,795
Attributable to:			
Equity shareholders of the Company	25(a)	**121,320**	175,759
Minority interests	25(a)	**5,474**	4,036
Profit for the year		**126,794**	179,795
Dividends payable to equity shareholders of the Company attributable to the year:	10		
Interim dividend declared during the year		**13,524**	—
Final dividend proposed after the balance sheet date		**18,032**	13,524
		31,556	13,524
Earnings per share	11		
Basic		**13.5 cents**	19.5 cents
Diluted		**13.5 cents**	N/A

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Non-current liability			
Deferred tax liabilities	18(b)	**21,687**	12,217
NET ASSETS		**1,110,911**	979,216
CAPITAL AND RESERVES			
Share capital	25(c)	**450,792**	450,792
Reserves		**622,477**	499,090
	25(a)	**1,073,269**	949,882
Total equity attributable to equity shareholders of the Company			
Minority interests		**37,642**	29,334
TOTAL EQUITY		**1,110,911**	979,216

Approved and authorised for issue by the board of directors on 20 April 2007.

Tan Yunbiao
Director

Tsang Hon Nam
Director

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2006 (Expressed in Hong Kong dollars)

	Note	**2006** **$'000**	2005 $'000
Non-current assets			
Fixed assets			
— Investment properties		**235,651**	207,496
— Other property, plant and equipment		**512,275**	167,580
— Interest in leasehold land held for own use under operating leases		**57,855**	59,330
	13(a)	**805,781**	434,406
Interest in associates	15	**182,434**	176,003
Other non-current financial assets	16	**—**	46
		988,215	610,455
Current assets			
Trading securities	17	**3,153**	3,059
Inventories	19	**115,478**	236,259
Trade and other receivables	20	**274,706**	291,986
Cash and cash equivalents	21	**157,737**	96,871
		551,074	628,175
Current liabilities			
Bank loans secured by bills receivable	22	**81,557**	26,991
Trade and other payables	23	**306,377**	200,604
Current taxation	18(a)	**18,757**	19,602
		406,691	247,197
Net current assets		**144,383**	380,978
Total assets less current liabilities		**1,132,598**	991,433

Balance Sheet

At 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Non-current assets			
Fixed assets			
— Investment properties		**98,200**	97,000
— Other property, plant and equipment		**957**	1,039
	13(b)	**99,157**	98,039
Interest in subsidiaries	14	**381,693**	373,617
Interest in associates	15	**169,258**	188,006
Other non-current financial assets	16	**—**	46
		650,108	659,708
Current assets			
Trading securities	17	**3,153**	3,059
Trade and other receivables	20	**1,018**	1,267
Cash and cash equivalents	21	**10,747**	12,294
		14,918	16,620
Current liabilities			
Trade and other payables	23	**11,344**	10,915
Amounts due to subsidiaries		**—**	7,878
		11,344	18,793
Net current assets/(liabilities)		**3,574**	(2,173)
NET ASSETS		**653,682**	657,535
CAPITAL AND RESERVES			
Share capital	25(c)	**450,792**	450,792
Reserves		**202,890**	206,743
TOTAL EQUITY	25(b)	**653,682**	657,535

Approved and authorised for issue by the board of directors on 20 April 2007.

Tan Yunbiao	**Tsang Hon Nam**
Director	*Director*

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Total equity at 1 January			
Attributable to equity shareholders of the Company	25(a)	**949,882**	760,915
Minority interests	25(a)	**29,334**	24,786
		979,216	785,701
Net income recognised directly in equity:			
Exchange differences on translation of:			
— financial statements of overseas subsidiaries and associates	25(a)	**26,634**	13,783
Reserves realised upon liquidation of a subsidiary	25(a)	**—**	(38)
Net income for the year recognised directly in equity		**26,634**	13,745
Net profit for the year:			
Net profit for the year	25(a)	**126,794**	179,795
Total recognised income and expenses for the year		**153,428**	193,540
Attributable to:			
Equity shareholders of the Company		**147,009**	188,967
Minority interests		**6,419**	4,573
		153,428	193,540
Dividends declared to minority shareholders	25(a)	**(1,421)**	(2,232)
Dividends declared during the year	25(a)	**(27,048)**	—
Contributions by minority shareholders	25(a)	**3,310**	2,207
Movements in equity arising from capital transactions:			
Equity-settled share-based transactions	25(a)	**3,426**	—
Total equity at 31 December		**1,110,911**	979,216

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2006 $'000	2005 $'000	2005 $'000
Cash generated from/(used in) operations		**248,389**		(163,816)	
Interest received		**3,359**		4,515	
Interest paid		**(2,906)**		(396)	
Hong Kong Profits Tax paid		**(1,281)**		(1,763)	
PRC income tax refunded		**—**		19,874	
PRC income tax paid		**(14,194)**		(11,672)	
Net cash generated from/(used in) operating activities			**233,367**		(153,258)
Investing activities					
Payment for purchase of fixed assets		**(225,768)**		(89,166)	
Dividends received from listed securities		**235**		235	
Dividends received from associate		**18,965**		17,962	
Proceeds from disposal of fixed assets		**6,387**		423	
Net cash used in investing activities			**(200,181)**		(70,546)
Financing activities					
Dividends paid		**(27,048)**		(475)	
Repayment to banks on maturity of discounted bills		**(455,391)**		(43,991)	
Proceeds from banks on discounted bills		**509,002**		70,982	
Net cash generated from financing activities			**26,563**		26,516
Increase/(decrease) in cash and cash equivalents			**59,749**		(197,288)
Cash and cash equivalents at 1 January			**96,871**		288,749
Effect of foreign exchange rate changes			**1,117**		5,410
Cash and cash equivalents at 31 December	21		**157,737**		96,871

The notes on pages 44 to 104 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2006 $'000	2005 $'000	2005 $'000
Operating activities					
Profit before taxation		**150,270**		180,531	
Adjustments for:					
— Finance costs		**2,906**		396	
— Interest income		**(3,359)**		(3,912)	
— Dividends from listed securities		**(235)**		(235)	
— Net realised and unrealised (gain)/loss on trading securities		**(94)**		141	
— Net valuation gains on investment properties		**(23,123)**		(20,497)	
— Impairment losses on other non-current financial assets		**46**		156	
— Net (gain)/loss on disposal of fixed assets		**(512)**		242	
— Write-back of liabilities		**(4,198)**		(42,740)	
— Net gain on liquidation of a subsidiary		**—**		(45)	
— Write-back of impairment losses on receivables		**(2,013)**		(355)	
— Recovery of bad debts		**—**		(17,006)	
— Depreciation		**16,681**		8,077	
— Amortisation of land lease premium		**1,778**		1,774	
— Share of profits less losses of associates		**(19,259)**		(20,315)	
— Foreign exchange gain		**(2,135)**		(1,762)	
— Impairment losses on fixed assets		**5,498**		—	
— Equity-settled share-based payment expenses		**3,426**		—	
Operating profit before changes in working capital		**125,677**		84,450	
Decrease/(increase) in inventories		**129,159**		(205,552)	
Increase in trade, bills and other receivables		**(22,035)**		(108,539)	
Decrease in amounts due from fellow subsidiaries		**156**		122	
Increase in amount due from associate		**(58)**		(63)	
Increase in trade creditors, other payables and accrued charges		**15,442**		61,375	
Increase/(decrease) in amounts due to holding companies and fellow subsidiaries		**48**		(243)	
Decrease in restricted cash deposits against legal claims		**—**		4,634	

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

37. LIST OF COMPANIES UNDER LIQUIDATION

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

Name of company	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 2006 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 and liabilities of the Group at 31 December 2006 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	$10	—	100%	Trading of raw materials for production of tinplate products
		Non-voting deferred	$230,000,000	—	—	
Zhongshan Shan Hai Industrial Co., Ltd.*	The PRC	N/A	RMB45,600,000	—	95%	Property development and leasing
Zhongshan Zhongyue Tinplate Industrial Co., Ltd.*	The PRC	N/A	US$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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

34. LITIGATION

In May 2004, a PRC third party filed a claim against a subsidiary of the Group alleging that the subsidiary had not yet settled an outstanding amount due to it. The Intermediate People's Court of Yue Yang City ordered to freeze a bank deposit of the subsidiary amounted to $4,700,000 in this regard.

According to the judgement of the Intermediate People's Court of Yue Yang City issued on 12 December 2004, the subsidiary was ordered to pay compensation and court charges amounting to RMB4,934,000 and RMB40,000 respectively. The subsidiary lodged an appeal to the High People's Court of Hunan Province 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 $4,700,000 was released.

In 2006, the PRC third party filed a new claim to the Intermediate People's Court of Zhongshan City. The court proceedings have not yet commenced at 31 December 2006. The claim filed in 2006 amounted to RMB5,788,000.

The directors have reviewed the nature of the claim under dispute and considered that no provision is required to be made in the financial statements.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

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 them is unlikely to have a significant impact on the Company's results of operations and financial position.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

33. SUBSEQUENT EVENTS

(i) On 13 September 2006, the Group entered into a contract to acquire from the minority shareholder the 5% equity interest and dividend payable in each of Zhongyue Tinplate and Zhongshan Shan Hai Industrial Co., Ltd ("Shanhai") for a total consideration of US$499,000 (equivalent to $3,892,000). Completion took place on 4 January 2007 following which Zhongyue Tinplate and Shanhai became wholly-owned subsidiaries of the Group.

(ii) On 21 December 2006, the Group entered into a joint venture agreement with POSCO Co., Ltd. ("POSCO") and POSCO-China Holding Corporation ("POSCO-China) in relation to the establishment of a joint venture company for the production and sale of tinplate products in Qinhuangdao City, Hebei Province, the PRC. The joint venture company, Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co., Ltd, a foreign joint venture limited company was incorporated on 16 February 2007 in accordance with the PRC law pursuant to the terms of the joint venture agreement which is 66% indirectly owned by the Company and 34% owned by POSCO and POSCO-China with a total registered capital of US$30,000,000 (equivalent to $234,000,000). On 15 March 2007, the Group entered into a sale and purchase agreement with POSCO in relation to acquisition of certain production facilities from POSCO and provision of consultation and training services by POSCO. The consideration for the purchase of production facilities is approximately US$17,605,000 (equivalent to $137,319,000).

(iii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. A subsidiary of the Group has been granted an extension to the status of a high-tech enterprise by Zhongshan Tax Bureau on 30 May 2006 for a period of two years and currently its effective income tax rate is 10.8%. According to the new tax law, certain high-tech enterprises will continue to be entitled to a reduced tax rate. However, the detailed implementation rules regarding the preferential tax policies (e.g. the details of how a taxpayer can qualify as a high-tech enterprise under the new tax law) have yet to be made public. Consequently, the Group is not able to assess whether it will qualify as a high-tech enterprise under the new tax law and therefore is not able make an estimate of the expected financial effect of the new tax law on its deferred tax assets and liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

30. 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 2006 was $1,480,000 (2005: $1,464,000). The forfeited contribution refunded for the year amounted to $139,000 (2005: $126,000).

31. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Impairment of assets

Internal and external sources of information are reviewed by the Company at each balance sheet date to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

32. IMMEDIATE PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the immediate parent and ultimate holding company at 31 December 2006 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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

29. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

Other than those transactions disclosed above, the Group also conducts business activities with other state-controlled entities which include but are not limited to the following:

— Sales and purchase of goods and ancillary materials;

— Rendering and receiving services;

— Lease of assets;

— Purchase of property, plant and equipment; and

— Obtaining finance.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval process do not depend on whether the counterparties are state-controlled or not.

Having considered the potential transactions impacted by related party relationships, the entity's pricing strategy, buying and approval process, and what information would be necessary for an understanding of the potential effects of the transactions on the financial statements, the directors are of the opinion that there are no other transactions that require disclosure as related party transactions.

(c) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 is as follows:

	2006	2005
	$'000	$'000
Short-term employee benefits	**4,019**	2,653
Post-employment benefits	**549**	428
Equity compensation benefits	**1,251**	—
	5,819	3,081

Total remuneration is included in "staff costs" (see note 5(b)).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

29. 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	**2006** **$'000**	2005 $'000
Sales of goods to related companies	(ii)	**—**	2,749
Purchases of goods from related companies	(ii)	**1,092**	955
Management, taxation services, and maintenance fee paid to the immediate holding company		**289**	411
Provision of electricity/water and leasing services to a fellow subsidiary		**3,482**	3,606
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.

(ii) Related companies to/from which goods were sold and purchased include associates.

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

The Group is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

28. COMMITMENTS (Continued)

(b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	The Group	
	2006	2005
	$'000	$'000
Within 1 year	**637**	697
After 1 year but within 5 years	**145**	385
	782	1,082

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 2006, the Company had committed to provide finance of $6,489,000 (2005: $6,489,000) to an associate of the Group.

27. FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency risk

The Group is exposed to foreign currency risk through purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily the United States dollars. Management does not consider this risk to be significant.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2006.

28. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	$'000	$'000
Contracted for	**3,463**	131,433
Authorised but not contracted for	**9,748**	168,005
	13,211	299,438

In addition to the above, the Group entered into a joint venture agreement with an independent third party to establish a subsidiary. According to the joint venture agreement, the Group is required to inject US$19,800,000 (equivalent to $154,440,000) into the subsidiary, being 66% of the total registered capital. Further details are set out in note 33(ii).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

27. FINANCIAL INSTRUMENTS (Continued)

(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 includes 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

	2006		2005	
	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	**1.92%**	**157,737**	1.83%	96,871
Maturity dates for liabilities which do not reprice before maturity				
Bank loans secured by bills receivable	**3.24%**	**(81,557)**	3.24%	(26,991)

The Company

	2006		2005	
	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	**4.49%**	**10,747**	2.57%	12,294

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, long outstanding liabilities totalling $4,198,000 (2005: $42,740,000) was written back (see note 3).

27. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and 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 the 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 5.6% (2005: 8.3%) and 21.3% (2005: 26.0%) 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.

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

25. CAPITAL AND RESERVES (Continued)

(d) Nature and purpose of reserves (Continued)

(ii) *Capital reserve (Continued)*

As part of the Capital Reorganisation, such amount has been eliminated by setting off against an equal amount of accumulated losses.

(iii) *Special capital reserve*

The special capital reserve was created under the Capital Reorganisation as mentioned in note 25(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 realised profits and will not be distributable unless and until certain conditions have been fulfilled.

(iv) *Capital reserve — share options*

The capital reserve — share options represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 1(o)(ii).

(v) *Exchange reserve*

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

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

(e) Distributability of reserves

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $43,774,000 (2005: $52,204,000).

25. CAPITAL AND RESERVES (Continued)

(c) Share capital (Continued)

The capital reorganisation of the Company ("the Capital Reorganisation") 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.

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 Reorganisation, every ten issued and unissued Reduced Shares were considered 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 Reorganisation.

(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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

25. CAPITAL AND RESERVES (Continued)

(c) Share capital

	2006 Number of shares (thousand)	**2006** $'000	2005 Number of shares (thousand)	2005 $'000
Authorised:				
Ordinary shares of nominal value of $0.1 each at 1 January	**3,000,000**	**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**	3,000,000	1,500,000
Issued and fully paid:				
At 1 January	**901,583**	**450,792**	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**	901,583	450,792

(Expressed in Hong Kong dollars)

25. CAPITAL AND RESERVES (Continued)

(b) The Company

	Note	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Capital reserve $'000	Special capital reserve $'000	(Accumulated losses)/retained profits $'000	Total equity $'000
At 1 January 2005		901,583	1,747,098	971	48,157	—	(2,111,278)	586,531
Elimination upon Capital Reorganisation	25(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
At 1 January 2006		**450,792**	**—**	**—**	**—**	**107,440**	**99,303**	**657,535**
Transfer to retained profits		**—**	**—**	**—**	**(50)**	**—**	**50**	**—**
Dividend declared in respect of the current year		**—**	**—**	**—**	**—**	**—**	**(27,048)**	**(27,048)**
Equity-settled share-based transactions		**—**	**—**	**—**	**3,426**	**—**	**—**	**3,426**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**19,769**	**19,769**
At 31 December 2006		**450,792**	**—**	**—**	**3,376**	**107,440**	**92,074**	**653,682**

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

25. CAPITAL AND RESERVES (Continued)

(a) The Group (Continued)

	Attributable to equity shareholders of the Company											
	Share capital	Share premium	Capital reserve-share options	Capital redemption reserve	Capital reserve	Exchange reserves	Special capital reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2006	450,792	—	—	—	657	12,260	107,440	2,783	375,950	949,882	29,334	979,216
Exchange difference on translation of:												
— financial statements of subsidiaries and associates outside Hong Kong	—	—	—	—	—	25,689	—	—	—	25,689	945	26,634
Transfer to statutory reserves	—	—	—	—	—	—	—	740	(740)	—	—	—
Dividends declared to minority shareholders	—	—	—	—	—	—	—	—	—	—	(1,421)	(1,421)
Contributions by minority shareholders	—	—	—	—	—	—	—	—	—	—	3,310	3,310
Grant of share options	—	—	3,426	—	—	—	—	—	—	3,426	—	3,426
Share options lapsed during the year	—	—	(50)	—	—	—	—	—	50	—	—	—
Dividends declared in respect of the current year	—	—	—	—	—	—	—	—	(27,048)	(27,048)	—	(27,048)
Profit for the year	—	—	—	—	—	—	—	—	121,320	121,320	5,474	126,794
At 31 December 2006	450,792	—	3,376	—	657	37,949	107,440	3,523	469,532	1,073,269	37,642	1,110,911

Included in figure for the retained profits as at 31 December 2006 is an amount of $2,374,000 (2005: $7,958,000), being the accumulated losses attributable to associates.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

25. 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 reserves $'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		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 and associates outside Hong Kong		—	—	—	—	13,246	—	—	—	13,246	537	13,783
Transfer to statutory reserves		—	—	—	—	—	—	1,333	(1,333)	—	—	—
Dividends declared to minority shareholders		—	—	—	—	—	—	—	—	—	(2,232)	(2,232)
Contributions by minority shareholders		—	—	—	—	—	—	—	—	—	2,207	2,207
Reserves realised upon liquidation of a subsidiary		—	—	—	—	(38)	—	—	—	(38)	—	(38)
Elimination upon Capital Reorganisation	25(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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

24. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) (Continued)

The options outstanding at 31 December 2006 had a weighted average exercise price of $1.627 (2005: $1.557) and a weighted average remaining contractual life of 6.34 years (2005: 2.65 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice option pricing model.

	2006
Fair value at measurement date	**$0.29**
Share price at the grant date	**$1.64**
Exercise price	**$1.66**
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**78%**
Option life (expressed as weighted average life used in the modelling under binomial option pricing model)	**10 years**
Expected dividends	**2.564%**
Risk-free interest rate (based on Exchange Fund Notes)	**4.444%**

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

24. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(a) The terms and conditions of the grants that existed during the years 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
— granted on 9 March 2006	5,500,000	Three months from the date of grant	10 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
— granted on 9 March 2006	6,270,000	Three months from the date of grant	10 years
Total share options	23,810,000		

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

	2006		2005	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	**$1.557**	**11,790**	$1.558	12,040
Granted during the year	**$1.660**	**11,770**		—
Lapsed during the year	**$1.503**	**(3,590)**	$1.582	(250)
Exercisable at the end of the year	**$1.627**	**19,970**	$1.557	11,790

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

23. TRADE AND OTHER PAYABLES (Continued)

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		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Renminbi	**RMB27,518**	RMB25,000	**RMB2,513**	RMB—
United States Dollars	**US$7,869**	US$6,187	**US$—**	US$—

24. 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 new share option scheme (the "2001 Share Options Scheme"). Pursuant to the 2001 Share Option Scheme, the directors are authorised, at their discretion, to invite full-time employees of the Company and its subsidiaries, including executive directors but excluding non-executive directors to take up options to subscribe for shares of the Company. A grant of options under the 2001 Share Option Scheme may be accepted in writing and upon payment of a consideration of $10 in total by the grantee to the Company within 21 days from the date of grant. The options vest after 3 months from the date of grant and are exercisable within a period of five years. Each option gives the holder the right to subscribe for one share.

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

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

22 BANK LOANS SECURED BY BILLS RECEIVABLE

	The Group	
	2006	2005
	$'000	$'000
Bank loans secured by bills receivable	**81,557**	26,991

Bank loans are secured by the related bills receivable and interest bearing at a fixed rate of 3.24% (2005: 3.24%) per annum.

At 31 December 2006 and 2005, the bank loans are repayable within one year.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Trade creditors	**103,837**	95,447	**29**	29
Other payables and accrued charges	**172,955**	74,037	**11,267**	10,886
Amount due to associate	**18**	18	**—**	—
Amounts due to minority shareholders	**6,269**	7,852	**—**	—
Amounts due to holding companies and fellow subsidiaries	**23,298**	23,250	**48**	—
	306,377	200,604	**11,344**	10,915

The amount of trade and other payables expected to be settled after more than one year is $1,557,000 (2005: $557,000).

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

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Due within 1 month or on demand	**103,837**	95,447	**29**	29

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

20. TRADE AND OTHER RECEIVABLES (Continued)

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

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Within 1 month	**149,105**	76,003	**508**	125
1 to 3 months	**92,386**	74,666	**—**	65
More than 3 months but less than 12 months	**6,779**	63,210	**129**	—
	248,270	213,879	**637**	190

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

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Deposits with banks	**37,477**	47,815	**9,332**	11,456
Cash at bank and in hand	**120,260**	49,056	**1,415**	838
	157,737	96,871	**10,747**	12,294

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

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
United States Dollars	**US$7,612**	US$1,922	**US$1,154**	US$1,139

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

19 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2006	2005
	$'000	$'000
Raw materials, spare parts and consumables	**65,948**	148,076
Finished goods	**49,530**	88,183
	115,478	236,259

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

	The Group	
	2006	2005
	$'000	$'000
Carrying amount of inventories sold	**1,051,265**	780,571
Write down of inventories	**3,848**	—
	1,055,113	780,571

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Trade debtors	**14,230**	16,570	**637**	190
Bills receivable	**234,040**	197,309	**—**	—
Other receivables, deposits and prepayments	**26,430**	77,945	**375**	1,072
Amounts due from fellow subsidiaries	**6**	162	**6**	5
	274,706	291,986	**1,018**	1,267

Included in the trade and other receivables are balances totalling $259,000 (2005: $302,000) expected to be recovered after one year.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

18 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation $'000	Revaluation of investment properties $'000	Tax losses $'000	Total $'000
Deferred tax arising from:				
At 1 January 2005	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
At 1 January 2006	**9,446**	**3,641**	**(870)**	**12,217**
Exchange differences	**371**	**253**	**—**	**624**
Charged/(credited) to consolidated profit and loss account	**1,619**	**7,785**	**(558)**	**8,846**
At 31 December 2006	**11,436**	**11,679**	**(1,428)**	**21,687**

(c) Deferred tax assets unrecognised:

	The Group		**The Company**	
	2006 **$'000**	2005 $'000	**2006** **$'000**	2005 $'000
Tax losses	**2,431,088**	2,478,863	**2,335,145**	2,370,516

The tax losses do not expire under the current tax legislation, except for an amount of $4,006,000 (2005: $15,489,000), which will expire in the coming 5 years.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

17 TRADING SECURITIES

	The Group and the Company	
	2006	2005
	$'000	$'000
Trading securities (at market value)		
Equity securities listed in Hong Kong	**3,153**	3,059

18 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2006	2005
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**650**	1,286
Provisional Profits Tax paid	**(970)**	(984)
	(320)	302
Taxation outside Hong Kong	**19,077**	19,300
	18,757	19,602

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

15 INTEREST IN ASSOCIATES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Unlisted shares, at cost	**—**	—	**244,980**	244,980
Share of net assets	**182,434**	157,192	**—**	—
Amount due from associate	**—**	18,811	**—**	18,748
	182,434	176,003	**244,980**	263,728
Less: impairment losses	**—**	—	**(75,722)**	(75,722)
	182,434	176,003	**169,258**	188,006

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

Summary of financial information on associates

	Assets	Liabilities	Equity	Revenues	Profit
	$'000	$'000	$'000	$'000	$'000
2006					
100 per cent	**552,603**	**(134,224)**	**418,379**	**1,149,093**	**47,435**
Group's effective interest	**219,150**	**(53,432)**	**165,718**	**457,143**	**19,259**
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

16 OTHER NON-CURRENT FINANCIAL ASSETS

	The Group and the Company	
	2006	2005
	$'000	$'000
Equity securities		
Unlisted equity securities, at cost	**540**	540
Less: impairment losses	**(540)**	(494)
	—	46

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

13 FIXED ASSETS (Continued)

(e) (Continued)

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Within 1 year	**20,122**	19,310	**3,055**	599
After 1 year but within 5 years	**49,413**	51,334	**3,583**	485
After 5 years	**35,370**	46,990	**—**	—
	104,905	117,634	**6,638**	1,084

14 INTEREST IN SUBSIDIARIES

	The Company	
	2006	2005
	$'000	$'000
Unlisted shares, at cost	**211,409**	211,409
Loans to subsidiaries	**124,705**	119,024
Amounts due from subsidiaries	**404,421**	553,801
	740,535	884,234
Less: impairment loss	**(358,842)**	(510,617)
	381,693	373,617

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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

13 FIXED ASSETS (Continued)

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

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
In Hong Kong on long-term leases	**98,200**	97,000	**98,200**	97,000
Elsewhere in the PRC on medium-term leases	**262,613**	237,263	**—**	—
	360,813	334,263	**98,200**	97,000
Representing:				
Land and buildings carried at fair value	**235,651**	207,496	**98,200**	97,000
Buildings carried at cost	**67,307**	67,437	**—**	—
	302,958	274,933	**98,200**	97,000
Interest in leasehold land held for use under operating leases	**57,855**	59,330	**—**	—
	360,813	334,263	**98,200**	97,000

(d) Investment properties of the Group and the Company situated in Hong Kong totalling $98,200,000 (2005: $97,000,000) were revalued at 31 December 2006 by RHL Appraisal 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 $137,451,000 (2005: $110,496,000) were revalued at 31 December 2006 by an independent firm of surveyors registered in the PRC, 深圳中勝會計師事務所 — 中國註冊房地產估價師, 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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

13 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 2005	1,381	2,609	1,488	5,478	78,200	83,678
Additions	64	28	—	92	—	92
Disposals	(60)	—	—	(60)	—	(60)
Fair value adjustment	—	—	—	—	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

	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 2006	**1,385**	**2,637**	**1,488**	**5,510**	**97,000**	**102,510**
Additions	**—**	**83**	**320**	**403**	**—**	**403**
Disposals	**—**	**(289)**	**(588)**	**(877)**	**—**	**(877)**
Fair value adjustment	**—**	**—**	**—**	**—**	**1,200**	**1,200**
At 31 December 2006	**1,385**	**2,431**	**1,220**	**5,036**	**98,200**	**103,236**
Representing:						
Cost	**1,385**	**2,431**	**1,220**	**5,036**	**—**	**5,036**
Valuation — 2006	**—**	**—**	**—**	**—**	**98,200**	**98,200**
	1,385	**2,431**	**1,220**	**5,036**	**98,200**	**103,236**
Accumulated depreciation:						
At 1 January 2006	**1,313**	**1,852**	**1,306**	**4,471**	**—**	**4,471**
Charge for the year	**19**	**187**	**76**	**282**	**—**	**282**
Written back on disposal	**—**	**(220)**	**(454)**	**(674)**	**—**	**(674)**
At 31 December 2006	**1,332**	**1,819**	**928**	**4,079**	**—**	**4,079**
Net book value:						
At 31 December 2006	**53**	**612**	**292**	**957**	**98,200**	**99,157**

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

13 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 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	—	—	—	—	—
Fair value adjustment	—	—	—	—	—	—	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

	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 2006	**91,941**	**1,918**	**4,177**	**172,094**	**2,702**	**272,832**	**207,496**	**67,689**	**548,017**
Exchange adjustments	**2,672**	**—**	**157**	**11,356**	**153**	**14,338**	**4,642**	**555**	**19,535**
Additions	**487**	**—**	**364,525**	**2,826**	**1,149**	**368,987**	**390**	**—**	**369,377**
Disposals	**—**	**—**	**—**	**(26,235)**	**(838)**	**(27,073)**	**—**	**—**	**(27,073)**
Transfer in from construction in progress	**—**	**—**	**(563)**	**563**	**—**	**—**	**—**	**—**	**—**
Fair value adjustment	**—**	**—**	**—**	**—**	**—**	**—**	**23,123**	**—**	**23,123**
At 31 December 2006	**95,100**	**1,918**	**368,296**	**160,604**	**3,166**	**629,084**	**235,651**	**68,244**	**932,979**
Representing:									
Cost	**95,100**	**1,918**	**368,296**	**160,604**	**3,166**	**629,084**	**—**	**68,244**	**697,328**
Valuation — 2006	**—**	**—**	**—**	**—**	**—**	**—**	**235,651**	**—**	**235,651**
	95,100	**1,918**	**368,296**	**160,604**	**3,166**	**629,084**	**235,651**	**68,244**	**932,979**
Accumulated depreciation:									
At 1 January 2006	**24,504**	**1,846**	**—**	**77,523**	**1,379**	**105,252**	**—**	**8,359**	**113,611**
Exchange adjustments	**1,537**	**—**	**—**	**8,911**	**128**	**10,576**	**—**	**252**	**10,828**
Charge for the year	**8,008**	**19**	**—**	**8,325**	**329**	**16,681**	**—**	**1,778**	**18,459**
Written back on disposals	**—**	**—**	**—**	**(20,519)**	**(679)**	**(21,198)**	**—**	**—**	**(21,198)**
Impairment losses	**—**	**—**	**—**	**5,498**	**—**	**5,498**	**—**	**—**	**5,498**
At 31 December 2006	**34,049**	**1,865**	**—**	**79,738**	**1,157**	**116,809**	**—**	**10,389**	**127,198**
Net book value:									
At 31 December 2006	**61,051**	**53**	**368,296**	**80,866**	**2,009**	**512,275**	**235,651**	**57,855**	**805,781**

12. SEGMENT REPORTING (Continued)

Geographical segments

The Group's business participates in two principal economic environments. Hong Kong is the major market for foodstuffs distribution and trading, whereas the PRC (other than 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.

	2006	
	The PRC $'000	**Hong Kong $'000**
Revenue from external customers	**1,132,337**	**88,917**
Segment assets	**1,172,526**	**168,969**
Capital expenditure incurred during the year	**368,782**	**192**

	2005	
	The PRC $'000	Hong Kong $'000
Revenue from external customers	821,644	99,573
Segment assets	889,275	155,694
Capital expenditure incurred during the year	48,966	48

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

12. SEGMENT REPORTING (Continued)

Business segments (Continued)

	2006			
	Tinplating $'000	**Foodstuffs distribution and trading $'000**	**Property leasing $'000**	**Consolidated $'000**
Segment assets	**1,017,617**	**59,892**	**263,986**	**1,341,495**
Interest in associates				**182,434**
Unallocated assets				**15,360**
Total assets				**1,539,289**
Segment liabilities	**230,068**	**40,539**	**5,749**	**276,356**
Unallocated liabilities				**152,022**
Total liabilities				**428,378**
Capital expenditure incurred during the year	**366,576**	**186**	**2,212**	

	2005			
	Tinplating $'000	Foodstuffs distribution and trading $'000	Property leasing $'000	Consolidated $'000
Segment assets	761,682	52,487	230,800	1,044,969
Interest in associates				176,003
Unallocated assets				17,658
Total assets				1,238,630
Segment liabilities	124,789	39,010	4,652	168,451
Unallocated liabilities				90,963
Total liabilities				259,414
Capital expenditure incurred during the year	45,709	48	3,257	

12. SEGMENT REPORTING (Continued)

Business segments (Continued)

	For the year ended 31 December 2005					
	Tinplating $'000	Foodstuffs distribution and trading $'000	Property leasing $'000	Inter-segment elimination $'000	Unallocated $'000	Consolidated $'000
Revenue from external customers	797,798	97,890	25,529	—	—	921,217
Inter-segment revenue	2,157	—	109	(2,266)	—	—
Other revenue from external customers	6,586	717	242	—	7,474	15,019
Total	806,541	98,607	25,880	(2,266)	7,474	936,236
Segment result	55,095	17,056	17,764			89,915
Unallocated operating income and expenses						(9,546)
Profit from operations						80,369
Share of profits less losses of associates	—	—	—	—	20,315	20,315
Net valuation gains on investment properties	—	—	20,497	—	—	20,497
Non-operating income						59,746
Finance costs						(396)
Income tax						(736)
Profit after taxation						179,795
Depreciation and amortisation for the year	7,867	100	1,566			
Impairment losses written-back for the year	—	(627)	—			

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

12. SEGMENT REPORTING (Continued)

Business segments (Continued)

	For the year ended 31 December 2006					
	Tinplating $'000	Foodstuffs distribution and trading $'000	Property leasing $'000	Inter-segment elimination $'000	Unallocated $'000	Consolidated $'000
Revenue from external customers	1,108,939	86,858	25,457	—	—	1,221,254
Inter-segment revenue	1,991	—	169	(2,160)	—	—
Other revenue from external customers	4,463	1,812	28	—	17,695	23,998
Total	1,115,393	88,670	25,654	(2,160)	17,695	1,245,252
Segment result	81,797	16,648	16,662			115,107
Unallocated operating income and expenses						(4,313)
Profit from operations						110,794
Share of profits less losses of associates	—	—	—	—	19,259	19,259
Net valuation gains on investment properties	—	—	23,123	—	—	23,123
Finance costs						(2,906)
Income tax						(23,476)
Profit after taxation						126,794
Depreciation and amortisation for the year	16,469	104	1,605			
Impairment losses made/ (written-back) for the year	9,346	(1,185)	—			

Notes:

(i) During the year, foodstuffs trading and live and fresh foodstuffs distribution have been combined into one business segment consistent with the Group's system of internal financial reporting. The comparative figures have been adjusted to conform with current year's presentation.

(ii) The directors consider that change in fair value on investment properties does not constitute part of the Group's operating performance. As a result, net valuation gain or losses on investment properties are included after profit from operations. The comparative figures have been adjusted to conform with the current year's presentation.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

11. EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The diluted earnings per share for the year ended 31 December 2006 is the same as the basic earnings per share as the potential ordinary shares are anti-dilutive. There were no potential ordinary shares outstanding during the year ended 31 December 2005.

12. SEGMENT REPORTING

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

Business segments

The Group comprises the following main business segments:

Tinplating	:	Production and sales of tinplate and related products which are used as packaging materials for the food processing manufacturers
Foodstuffs distribution and trading	:	Distribution, purchase and sale of foodstuffs
Property leasing	:	Leasing of properties to generate rental income

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

9. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $19,769,000 (2005: $71,004,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	2006	2005
	$'000	$'000
Interim dividend declared and paid of 1.5 cents per ordinary share (2005: Nil cent per ordinary share)	**13,524**	—
Final dividend proposed after the balance sheet date of 2.0 cents per ordinary share (2005: 1.5 cents per ordinary share)	**18,032**	13,524
	31,556	13,524

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

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2006	2005
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.5 cents per ordinary share (2005: Nil cent per ordinary share)	**13,524**	—

11. 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 $121,320,000 (2005: $175,759,000) and the number of 901,583,285 (2005: 901,583,285) ordinary shares in issue during the year.

7. DIRECTORS' REMUNERATION (Continued)

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(o)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 24.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, two (2005: three) directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2005: two) individuals are as follows:

	2006	2005
	$'000	$'000
Basic salaries, allowances and other benefits	**1,010**	779
Retirement benefit scheme contributions	**448**	305
Share-based payment	**1,305**	—
Bonuses	**2,743**	495
	5,506	1,579

The emoluments of the three (2005: two) individuals with the highest emoluments are within the following bands:

	2006	2005
	Number of individuals	Number of individuals
$		
Nil–1,000,000	**—**	2
1,000,001–1,500,000	**—**	—
1,500,001–2,000,000	**3**	—

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

7. 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	Sub-total $'000	Share-based payment $'000 (Note)	2005 Total $'000
Executive directors							
Liang Jiang	—	409	255	480	1,144	—	1,144
Tan Yunbiao	—	344	143	360	847	—	847
Tsang Hon Nam	—	894	30	166	1,090	—	1,090
Non-executive directors							
Zhao Leili	—	—	—	—	—	—	—
Luo Fanyu	—	—	—	—	—	—	—
Liang Jianqin	—	—	—	—	—	—	—
Independent non-executive directors							
Tam Wai Chu, Maria	—	300	—	—	300	—	300
Gerard Joseph McMahon	—	300	—	—	300	—	300
Li Kar Keung, Caspar	—	300	—	—	300	—	300
Total	—	2,547	428	1,006	3,981	—	3,981

	Directors' fees $'000	**Basic salaries, allowances and other benefits $'000**	**Retirement schemes contributions $'000**	**Bonus $'000**	**Sub-total $'000**	**Share-based payment $'000 (Note)**	**2006 Total $'000**
Executive directors							
Liang Jiang	**—**	**421**	**260**	**480**	**1,161**	**582**	**1,743**
Tan Yunbiao	**—**	**340**	**259**	**1,294**	**1,893**	**582**	**2,475**
Tsang Hon Nam	**—**	**941**	**30**	**543**	**1,514**	**87**	**1,601**
Non-executive directors							
Zhao Leili	**—**	**—**	**—**	**—**	**—**	**58**	**58**
Luo Fanyu	**—**	**—**	**—**	**—**	**—**	**58**	**58**
Liang Jianqin	**—**	**—**	**—**	**—**	**—**	**58**	**58**
Dong Decai	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Hou Zhuobing	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Independent non-executive directors							
Tam Wai Chu, Maria	**—**	**300**	**—**	**—**	**300**	**58**	**358**
Gerard Joseph McMahon	**—**	**300**	**—**	**—**	**300**	**58**	**358**
Li Kar Keung, Caspar	**—**	**300**	**—**	**—**	**300**	**58**	**358**
Total	**—**	**2,602**	**549**	**2,317**	**5,468**	**1,599**	**7,067**

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

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

	2006	2005
	$'000	$'000
Profit before tax	**150,270**	180,531
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**26,799**	35,899
Tax effect of non-deductible expenses	**4,203**	3,034
Tax effect of non-taxable revenue	**(7,785)**	(16,004)
Tax effect of current year's tax losses not recognised	**2,245**	669
Tax effect of utilisation of unrecognised tax losses	**(2,025)**	(3,616)
Tax refund for re-investment	**—**	(19,874)
Under-provision in prior years	**39**	628
Actual tax expense	**23,476**	736

The tax rate for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%). The applicable tax rates for PRC income tax range from 10.8% to 33% (2005: 15% to 33%) depending on the locations where the PRC subsidiaries are situated.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

6. INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	Note	**2006** **$'000**	2005 $'000
Current tax — Provision for Hong Kong Profits Tax			
Provision for Hong Kong Profits Tax at 17.5% (2005: 17.5%) on the estimated assessable profits for the year		**650**	1,286
Under-provision in respect of prior years		**9**	11
		659	1,297
Current tax — the PRC			
Tax for the year		**13,941**	16,567
Under-provision in respect of prior years		**30**	617
Tax refund for re-investment	(i)	**—**	(19,874)
	(ii)	**13,971**	(2,690)
Deferred tax			
Origination and reversal of temporary differences		**8,846**	2,129
		23,476	736

Notes:

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

(iii) A subsidiary, Zhongyue Tinplate, is entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in the income tax rate for the third to fifth years on its new production line. According to the approval from the Tax Bureau of Zhongshan, the proportion of deemed profit from Zhongyue Tinplate's new production line is calculated based on the 40% of the overall taxable income of Zhongyue Tinplate.

(Expressed in Hong Kong dollars)

4. NON-OPERATING INCOME (Continued)

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.

5. PROFIT BEFORE TAXATION

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

		2006	2005
		$'000	$'000
(a)	Finance costs:		
	Interest on bank advances and other borrowings repayable within 5 years	**2,906**	396
(b)	Staff costs:		
	Net contributions paid to defined contribution plans	**1,341**	1,338
	Equity-settled share-based payment expenses	**3,426**	—
	Salaries, wages and other benefits	**38,939**	31,077
		43,706	32,415
(c)	Other items:		
	Cost of inventories sold (note)	**1,051,265**	780,571
	Auditors' remuneration	**2,246**	2,121
	Depreciation	**16,681**	8,077
	Amortisation of land lease premium	**1,778**	1,774
	Impairment losses on fixed assets and inventories	**9,346**	—
	Operating lease charges in respect of property rentals	**939**	654
	Rentals receivable from investment properties less direct outgoings of $2,190,000 (2005: $2,261,000)	**(23,267)**	(23,268)

Note: Cost of inventories includes $24,880,000 (2005: $16,311,000) 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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

3. OTHER REVENUE AND NET INCOME

	2006 $'000	2005 $'000
Other revenue		
Sales of scrap materials	**2,500**	3,814
Interest income	**3,359**	3,912
Management income	**228**	88
Dividends from listed securities	**235**	235
Subsidy received	**1,033**	294
Others	**2,551**	3,241
	9,906	11,584
Other net income		
Net gain/(loss) on disposal of fixed assets	**512**	(242)
Net realised and unrealised gain/(loss) on trading securities	**94**	(141)
Write-back of impairment losses on receivables	**2,013**	355
Write-back of liabilities	**4,198**	—
Impairment losses on other non-current financial assets	**(46)**	(156)
Net realised and unrealised exchange gain	**7,556**	3,855
	14,327	3,671

4. NON-OPERATING INCOME

	Note	2006 $'000	2005 $'000
Write-back of liabilities	(i)	**—**	42,740
Recovery of bad debts	(ii)	**—**	17,006
		—	59,746

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Segment reporting (Continued)

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.

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. TURNOVER

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

	2006	2005
	$'000	$'000
Sales of goods		
— Tinplating	**1,108,939**	797,798
— Foodstuffs distribution and trading	**86,858**	97,890
	1,195,797	895,688
Property leasing	**25,457**	25,529
	1,221,254	921,217

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Non-current assets held for sale (Continued)

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, the non-current asset is not depreciated or amortised.

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Translation of foreign currencies (Continued)

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 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) Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

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.

(s) Translation of foreign currencies

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

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 other 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 profits 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 profits 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 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 they are 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 retirement 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 30.

(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 lattice 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 options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories (Continued)

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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently 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 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.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

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

— For trade and other receivables and other 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), where the effect of discounting is material.

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.

(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)

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

— 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.

(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 acquiring land held 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 (see note 1(f)).

(i) Impairment of assets

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

Investments in equity securities and trade and other current receivables that are stated at cost or amortised cost 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 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 where the effect of discounting is material. Impairment losses for equity securities are not reversed.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, 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, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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 to the Group 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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties (Continued)

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.

(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, and an appropriate proportion of production overheads and borrowing costs.

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.

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 equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include any data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. 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)).

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

(f) Investment properties

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).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and minority interests (Continued)

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(l) or 1(m) depending on the nature of the liability.

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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 31.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a 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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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 income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest 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.

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 certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. These new and revised HKFRSs have no significant impact on the results of the Group or the financial position of the Group and of the Company for the current and prior accounting periods.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 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 are stated at their fair value as explained in the accounting policies set out below.

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

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

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.

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

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 written off.

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

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 written off.

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 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 written off.

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 written off.

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$1,350,000. 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$1,923,000.

   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 2006 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.

   The Board of Directors have requested the auditors of the Company to perform certain agreed upon procedures on the continuing connected transactions and have received a letter from the auditors as required under Rule 14A.38 of the Listing Rules.

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

	As at 31 December				
	2006	2005	2004 (restated)	2003 (restated)	2002 (restated)
	$'000	$'000	$'000	$'000	$'000
Fixed assets	**805,781**	434,406	370,808	363,411	394,710
Interest in associates	**182,434**	176,003	169,689	154,978	151,264
Negative goodwill	**—**	—	—	(17,246)	(18,693)
Other non-current assets	**—**	46	202	4,318	6,843
Net current assets	**144,383**	380,978	254,835	126,507	73,049
Total assets less current liabilities	**1,132,598**	991,433	795,534	631,968	607,173
Non-current liabilities	**(21,687)**	(12,217)	(9,833)	(9,335)	(92,186)
	1,110,911	979,216	785,701	622,633	514,987
Share capital	**450,792**	450,792	901,583	901,583	899,833
Reserves	**622,477**	499,090	(140,668)	(299,334)	(404,969)
Total equity attributable to equity shareholders of the Company	**1,073,269**	949,882	760,915	602,249	494,864
Minority interests	**37,642**	29,334	24,786	20,384	20,123
Total equity	**1,110,911**	979,216	785,701	622,633	514,987

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. Figures for 2004 and 2005 have been adjusted for these new and revised policies. However, it is not practicable to restate earlier years for comparison purposes other than the presentation of share of associates' taxation and minority interests.

(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 2002 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)

RESULTS

		For the year ended 31 December				
		2006	2005	2004 (restated)	2003 (restated)	2002 (restated)
	Note	**$'000**	$'000	$'000	$'000	$'000
Turnover		**1,221,254**	921,217	681,875	1,525,807	1,783,020
Profit from operations		**110,794**	80,369	75,279	72,949	111,231
Net non-operating income		**—**	59,746	76,306	35,659	17,177
Net valuation gains on investment properties		**23,123**	20,497	14,287	—	—
Finance costs		**(2,906)**	(396)	(547)	(7,664)	(12,045)
Share of profits less losses of associates		**19,259**	20,315	25,477	22,274	10,422
Profit before taxation		**150,270**	180,531	190,802	123,218	126,785
Income tax		**(23,476)**	(736)	(28,536)	(15,831)	(9,593)
Profit for the year from continuing operations		**126,794**	179,795	162,266	107,387	117,192
Loss from discontinued operations		**—**	—	(9,674)	—	—
Profit for the year		**126,794**	179,795	152,592	107,387	117,192
Attributable to:						
Equity shareholders of the Company		**121,320**	175,759	146,616	102,762	115,509
Minority interests		**5,474**	4,036	5,976	4,625	1,683
Profit for the year		**126,794**	179,795	152,592	107,387	117,192
Earnings per share	(iii)					
Basic		**13.5 cents**	19.5 cents	16.3 cents	11.4 cents	12.8 cents
Diluted		**13.5 cents**	N/A	N/A	11.2 cents	12.3 cents
Dividend per share						
Interim dividend declared the year		**1.5 cents**	—	—	—	—
Final dividend proposed after the balance sheet date		**2.0 cents**	1.5 cents	—	—	—

GDH