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## GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

*(Incorporated in Hong Kong with limited liability)*

(Stock code: 1203)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009

#### Unaudited financial highlights for the six months ended 30 June

	2009 HK\$'000	2008 HK\$'000	Changes
<b>Turnover</b>	<u>1,122,679</u>	<u>1,374,163</u>	-18.3%
<b>Profit from operations</b>	<u>110,734</u>	<u>140,092</u>	-21.0%
<b>Profit attributable to shareholders</b>	<u>83,121</u>	<u>112,207</u>	-25.9%
<b>Earnings per share – Basic</b>	<u>HK 9.18 cents</u>	<u>HK 12.39 cents</u>	-25.9%
<b>Interim dividend per share</b>	<u>HK 1.5 cents</u>	<u>HK 2.0 cents</u>	-25.0%

# **BUSINESS REVIEW, MANAGEMENT DISCUSSION AND ANALYSIS, PROSPECTS AND OTHER INFORMATION**

## **RESULTS**

For the first half of 2009, the unaudited consolidated profit attributable to shareholders was HK\$83,121,000, representing a decrease of 25.9% from HK\$112,207,000 of the corresponding period last year. Basic earnings per share was HK9.18 cents, a decrease of 25.9% from HK12.39 cents of the corresponding period last year.

## **INTERIM DIVIDEND**

The Board of Directors (the “Board”) declares the payment of an interim dividend for the six months ended 30 June 2009 of HK1.5 cents per share (six months ended 30 June 2008: HK2.0 cents per share).

## **BUSINESS REVIEW**

During the period under review, all business segments of the Group were consolidating their development. The Group’s consolidated turnover was HK\$1,122,679,000, representing a decrease of HK\$251,484,000, or 18.3%, from HK\$1,374,163,000 of the corresponding period last year. Profit from operations was HK\$110,734,000, representing a decrease of HK\$29,358,000, or 21.0%, from HK\$140,092,000 of the corresponding period last year. For the tinplating business, with the slump in prices of iron and steel during the fourth quarter of 2008 after the occurrence of global financial tsunami, the sales volume and prices of the Group’s tinplate products fell substantially following the decrease in market demand as a whole. It was only until the second quarter of 2009 when the prices of iron and steel resumed to a stable level and there were preliminary signs showing recovery in the global economy that the sales volume of the Group’s tinplate products resumed its normal level. For the fresh and live foodstuffs business, there was a substantial fall in the price of live pigs as compared with last year. However, with the devoted endeavours of the operations team and the premium goods sourced from major suppliers, the overall market share in live pigs import market was maintained at above 40% during the period under review. This contributed to relatively steady earnings of the Group.

### **Tinplating**

Zhongshan Zhongyue Tinplate Industrial Co., Ltd. (“Zhongyue Tinplate”) is a wholly-owned subsidiary of the Company. The Company holds a 66% interest in Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co., Ltd. (“Zhongyue Posco”) while the remaining 34% is held by POSCO Co., Ltd. (“POSCO”), an internationally renowned steel enterprise.

## **Tinplating (Continued)**

In the first half of 2009, the Group's production volume of tinplate products amounted to 124,467 tonnes, a decrease of 22.7% compared with the corresponding period in 2008. Of which, 84,093 tonnes and 40,374 tonnes were produced by Zhongyue Tinplate and Zhongyue Posco respectively. In addition, the blackplate manufacturing plant of Zhongyue Tinplate produced 48,334 tonnes of blackplates, which provided a stable supply of raw materials (blackplates) to its tinplating factory. 134,801 tonnes of tinplate products were sold by these two production bases in the northern and southern regions, representing a decrease of 6.3% from the corresponding period in 2008. Turnover was HK\$1,021,517,000, representing a decrease of 18.7% from the corresponding period last year. Profit from operations was HK\$76,573,000, representing an increase of HK\$1,914,000 or 2.6% from the corresponding period last year. The tinplating business contributed the largest share to the earnings of the Group, with its turnover representing 91.0% of the Group's turnover, and its profit from operations accounted for 69.2% of the Group's profit from operations.

During the fourth quarter of 2008, the prices of various raw materials fell substantially around the world. Demand for steel in the international market shrank. The purchase price of the Group's raw materials and the sales volume and selling price of the Group's tinplate products dropped substantially following the overall decrease in the market demand. It was only until the second quarter of 2009 that the prices of iron and steel resumed a stable level and iron and steel manufacturers began to increase their selling prices. It is expected that the prices of iron and steel will still remain volatile for a certain period in future. With the preliminary completion of de-stocking in the market at the end of last year, downstream customers successively replenished their stocks in the first half of 2009. The sales volume of the Group's tinplating products also resumed to a normal level. In 2009, the tinplating business entered into a phase of consolidation. In order to respond to the crisis, the Group implemented principal strategies of "cost reduction", "quality enhancement", "market price alignment", "aggressively getting sales orders" and "assuring collection of trade debts". In respect of the sales and marketing development, the Group adopted a price setting mechanism that aligned more closely to the market price. Product quality was enhanced with an expansion of product categories. These facilitated in maintaining our sales volume. In addition, the Group insisted on executing the policy of obtaining deposits from customers, so as to assure the collection of trade debts. In terms of cost savings, the Group continued to improve its tendering system and widen its purchasing channels, which proactively reduced purchase costs. Through the comprehensive introduction of Six Sigma methodology in its management, the workflow was optimised. This resulted in minimising unnecessary production costs to the maximum extent and achieving higher efficiency.

## **Fresh and Live Foodstuffs**

Guangnan Hong Company Limited ("Guangnan Hong") is a wholly-owned subsidiary of the Company. Guangnan Hong holds a 51% interest in Guangnan Live Pigs Trading Limited.

## **Fresh and Live Foodstuffs (Continued)**

In the first half of 2009, turnover of the fresh and live foodstuffs business amounted to HK\$88,049,000, representing a decrease of 16.5% as compared with the corresponding period last year. Profit from operations was HK\$32,757,000, representing a decrease of HK\$10,094,000 or 23.6% as compared with the corresponding period last year. With the substantial fall in the price of live pigs as compared with last year, and the impact on the live poultry agency business resulting from the announcement by the Hong Kong government of the arrangements to accept for the return of licences by live poultry retailers in July 2008, both turnover and profit from operations of fresh and live foodstuffs business fell as compared with the corresponding period last year. Through continuous improvement in the equipment of infrastructure, optimisation of business workflow, the Group proactively strengthened its communication with the suppliers, industry participants and customers and enhanced its service standard. The overall market share in live pigs import market remained at above 40%. This contributed to relatively steady earnings of the Group.

## **Property Leasing**

The Group's leasing properties mainly included the plant and staff dormitory of Zhongyue Shan Hai Industrial Co., Ltd. ("Shanghai"), and the office units in Hong Kong.

In the first half of 2009, turnover from the property leasing business of the Group was HK\$13,113,000, an increase of 3.0% as compared with the corresponding period last year. Profit from operations of leasing properties amounted to HK\$7,928,000, a decrease of 14.0% as compared with the corresponding period last year. In addition, after the general fall in the price of office units in Hong Kong during the fourth quarter of 2008, the price increased with the rebound of asset prices around the world in the first half of 2009. Valuation gains on investment properties of HK\$12,267,000 (first half of 2008: HK\$2,049,000) were included in the consolidated income statement of the Group.

## **Associate**

In the first half of 2009, Yellow Dragon Food Industry Co., Limited ("Yellow Dragon"), an associate of the Group, recorded a sales volume of 217,944 tonnes in its major product, corn starch, representing an increase of 9.7% as compared with the corresponding period last year. With the substantial fall in the price of the products last year, turnover amounted to HK\$710,403,000, representing a decrease of 7.5% and its loss attributable to shareholders amounted to HK\$3,155,000 as compared with a profit attributable to shareholders of HK\$48,273,000 in the corresponding period last year.

## **FINANCIAL POSITION**

As at 30 June 2009, the Group's total assets and total liabilities amounted to HK\$2,650,465,000 and HK\$1,017,811,000, representing a decrease of HK\$32,381,000 and HK\$114,841,000 respectively when compared with the positions at the end of last year. The net current assets decreased from HK\$479,403,000 at the end of 2008 to HK\$357,563,000, which was mainly attributable to the repayment of bank borrowings amounting to HK\$160,000,000 at the beginning of 2009. The current ratio (current assets divided by current liabilities) decreased from 1.68 as at the end of 2008 to 1.43.

## **Liquidity and Financial Resources**

As at 30 June 2009, the Group maintained cash and cash equivalent balances of HK\$447,111,000, including pledged bank balances of HK\$121,821,000. An amount of HK\$365,311,000 was denominated in Renminbi and HK\$31,090,000 was denominated in United States (“US”) Dollars while the remaining balance was denominated in Hong Kong Dollars. Cash and cash equivalent balances increased by 4.5% from the end of 2008, which was mainly attributable to the net cash inflow from operations during the period.

As at 30 June 2009, the Group’s borrowings comprised 1) bank borrowings of HK\$531,758,000 (31 December 2008: HK\$589,564,000), of which HK\$Nil (31 December 2008: HK\$85,043,000) was unsecured, HK\$106,498,000 (31 December 2008: HK\$Nil) was secured by bills receivable, HK\$320,000,000 (31 December 2008: HK\$480,000,000) is pledged by investment properties in Hong Kong and HK\$105,260,000 (31 December 2008: HK\$24,521,000) was secured by bank deposits of HK\$105,627,000 (31 December 2008: HK\$24,515,000); 2) a loan from immediate holding company of HK\$Nil (31 December 2008: HK\$10,000,000); and 3) a loan from a minority shareholder of HK\$Nil (31 December 2008: HK\$2,940,000). 69.9% (31 December 2008: 32.8%) of the Group’s borrowings were repayable within one year, and the remaining balance was repayable within two years (31 December 2008: three years). The borrowings were subject to annual interest rates ranging from 0.28% to 1.78% (31 December 2008: 0.90% to 11.94%). 60.2% (31 December 2008: 93.8%) of the Group’s borrowings were guaranteed by the Company.

As at 30 June 2009, the Group’s gearing ratio, calculated by dividing the net borrowings (being borrowings less cash and cash equivalents) of the Group by total equity attributable to equity shareholders of the Company, was 5.6% (31 December 2008: 12.1%). The decrease was primarily due to the significant net cash inflow from operations during the period.

As at 30 June 2009, the Group’s available banking facilities amounted to HK\$636,960,000, of which HK\$386,862,000 was utilised and HK\$250,098,000 was unutilised. 50.2% of the Group’s banking facilities was guaranteed by the Company which also provided the investment properties situated in Hong Kong as collateral. The cash reserves and available banking facilities, as well as the steady cash flow from operations, were sufficient to meet the Group’s debt obligations and business operations.

## **Capital Expenditure**

The Group’s capital expenditure in the first half of 2009 amounted to HK\$18,484,000 (first half of 2008: HK\$70,236,000). After the tinplating plant of Zhongyue Posco commenced production in February 2008, the capital expenditure in 2009 was significantly less than that in 2008. It is expected that the capital expenditure for the year 2009 will be approximately HK\$42,000,000, which mainly relates to technology upgrade projects.

## **Charge on Assets**

As at 30 June 2009, certain assets of the Group with an aggregate carrying value of HK\$321,392,000 (31 December 2008: HK\$123,477,000) were pledged to secure loans and banking facilities of the Group.

## **Exchange Rate and Interest Rate Exposures**

The majority of the Group's business operations are in mainland China and Hong Kong. During the period, the exchange rates of Hong Kong Dollars against US Dollars were relatively stable without causing any material risk of exchange rate to the Group; as to the impact of exchange rate of Renminbi against US Dollars, since the majority of the Group's sales and purchases are mainly made in Renminbi and US Dollars, the Group does not have material exposure to foreign exchange.

The majority of the Group's borrowings bear interest at floating rates. Management pays attention to variations in interest rates. In respect of unforeseen fluctuations of exchange rates, the Group will adopt hedging instruments to hedge the exposure as and when necessary. As at 30 June 2009, there were forward foreign exchange contracts entered into by the Group to hedge certain foreign currency loans which amounted to US\$15,360,000 (equivalent to HK\$119,808,000) (31 December 2008: US\$3,144,000 (equivalent to HK\$24,521,000)). In addition, as at 30 June 2009, there were forward foreign exchange contracts of US\$37,000,000 (equivalent to HK\$288,600,000) (31 December 2008: HK\$114,240,000 and US\$33,500,000 (equivalent to HK\$375,540,000 in aggregate)) entered into by the Group to hedge the foreign currency exposure in respect of financing the working capital of certain subsidiaries of the Group in the PRC. Except for the above-mentioned, other borrowings are denominated in the functional currency of the corresponding entities.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2009, the Group had a total of 1,105 full-time employees, a decrease of 67 from the end of 2008. 82 of the employees were based in Hong Kong and 1,023 were in mainland China. The staff remuneration is determined in accordance with the duties, workload, skill requirements, hardship, working conditions, and individual performance with reference to the prevailing industry practices. In 2009, the Group continued to implement control on the headcount, organisation structure and total salaries of each subsidiary. The performance bonus incentive scheme for the management remained effective. Through performance assessment of each subsidiary, performance bonuses for various profit rankings were paid on the basis of net cash inflow from operations and profit after taxation. In addition, bonuses 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 to continue their contribution to the Group.

## **PROSPECTS**

Notwithstanding that the global economy is gradually resuming a level stability, the Group remains cautious in respect of difficulties and challenges possibly subsisting in the business environment. Although the sales price and sales volume of iron and steel products began to rebound, external demands have still not yet fully recovered. In the meantime, the production capacity of iron and steel in mainland China is not yet fully utilized in the short run. It is anticipated that the increase in price of iron and steel will be subject to certain limitations and market competition will remain keen. The Group will continue to persist in operating steadily, conclude seriously from the experiences and lessons from mitigating the global financial tsunami this time, and enhance our management skills through tribulations and trials to lay a solid foundation for future development. In the course of proactively responding to changes in the market, the Group will seek new developments for the tinplating business. Together with the healthy development of fresh and live foodstuffs business, the operating result for the full year is expected to improve from last year. By leveraging on our sound financial position and sufficient capital, as well as proactively capturing opportunities arising, the Group will endeavour to deliver better value to its shareholders.

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## **UNAUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2009**

The Board announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2009, which have been reviewed by the Company's audit committee.

**Consolidated Income Statement**  
**For the six months ended 30 June 2009 - unaudited**  
*(Expressed in Hong Kong dollars)*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2009</b>	<b>2008</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Turnover</b>	3	<b>1,122,679</b>	1,374,163
Cost of sales		<b>(1,000,277)</b>	(1,217,900)
<b>Gross profit</b>		<b>122,402</b>	156,263
Other revenue	4	<b>43,166</b>	8,387
Other net income	5	<b>2,733</b>	40,408
Distribution costs		<b>(23,325)</b>	(23,333)
Administrative expenses		<b>(33,928)</b>	(37,580)
Other operating expenses		<b>(314)</b>	(4,053)
<b>Profit from operations</b>		<b>110,734</b>	140,092
Valuation gains on investment properties	10(b)	<b>12,267</b>	2,049
Finance costs	6(a)	<b>(4,153)</b>	(15,071)
Share of profits less losses of associates		<b>(1,262)</b>	19,106
<b>Profit before taxation</b>	6	<b>117,586</b>	146,176
Income tax	7	<b>(17,586)</b>	(19,942)
<b>Profit for the period</b>		<b>100,000</b>	126,234
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>83,121</b>	112,207
Minority interests		<b>16,879</b>	14,027
<b>Profit for the period</b>		<b>100,000</b>	126,234
<b>Interim dividend</b>	8(a)	<b>13,584</b>	18,112
<b>Earnings per share</b>			
Basic	9(a)	<b>9.18 cents</b>	12.39 cents
Diluted	9(b)	<b>9.18 cents</b>	12.39 cents

## Consolidated Balance Sheet at 30 June 2009 - unaudited

(Expressed in Hong Kong dollars)

	Note	At 30 June 2009 \$'000	At 31 December 2008 \$'000
<b>Non-current assets</b>			
Fixed assets			
- Investment properties	10(b)	273,780	262,388
- Other property, plant and equipment		897,584	919,846
- Interest in leasehold land held for own use under operating leases		106,713	107,380
	10	1,278,077	1,289,614
Interest in associate		182,389	201,973
Deferred tax assets		2,207	9,426
		<u>1,462,673</u>	<u>1,501,013</u>
<b>Current assets</b>			
Trading securities		3,111	2,259
Inventories	11	221,435	401,092
Trade and other receivables, deposits and prepayments	12	516,055	346,489
Current taxation recoverable		80	151
Cash and cash equivalents	13	447,111	428,009
		<u>1,187,792</u>	<u>1,178,000</u>
<b>Non-current asset classified as held for sale</b>		-	3,833
		<u>1,187,792</u>	<u>1,181,833</u>
<b>Current liabilities</b>			
Trade and other payables	14	427,704	481,036
Bank loans	15(a)	371,758	184,521
Loan from immediate holding company	15(b)	-	10,000
Loan from minority shareholder	15(c)	-	2,940
Current taxation payable		30,767	23,933
		<u>830,229</u>	<u>702,430</u>
<b>Net current assets</b>		<u>357,563</u>	<u>479,403</u>
<b>Total assets less current liabilities</b>		<u>1,820,236</u>	<u>1,980,416</u>
<b>Non-current liabilities</b>			
Bank loans	15(a)	160,000	405,043
Deferred tax liabilities		27,582	25,179
		<u>187,582</u>	<u>430,222</u>
<b>Net assets</b>		<u>1,632,654</u>	<u>1,550,194</u>
<b>Capital and reserves</b>			
Share capital		452,802	452,802
Reserves		1,054,068	982,135
Amounts recognised directly in equity relating to non-current asset held for sale		-	2,476
<b>Total equity attributable to equity shareholders of the Company</b>		<u>1,506,870</u>	<u>1,437,413</u>
<b>Minority interests</b>		<u>125,784</u>	<u>112,781</u>
<b>Total equity</b>		<u>1,632,654</u>	<u>1,550,194</u>

## **Notes to the unaudited consolidated financial information**

*(Expressed in Hong Kong dollars)*

### **1. Basis of preparation**

The interim results set out in this announcement do not constitute the Group's interim financial report for the six months ended 30 June 2009 but are extracted from the interim financial report.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

### **2. Changes in accounting policies**

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following of these developments are relevant to the Group's interim financial report:

- HKFRS 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements - cost of an investment in a subsidiary, jointly controlled entity or associate
- Amendments to HKFRS 7, Financial instruments: Disclosures - improving disclosures about financial instruments
- HKAS 23 (revised 2007), Borrowing costs
- Amendments to HKFRS 2, Share-based payment - vesting conditions and cancellations

## 2. Changes in accounting policies (Continued)

The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's interim financial report as the amendments are consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management (see note 3). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have been presented on a basis consistent with the revised segment information.
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in the interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- The "Improvements to HKFRS (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the Group's accounting policies:
  - As a result of amendments to HKAS 40, Investment property, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. As the Group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the periods presented.

## 2. Changes in accounting policies (Continued)

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions for the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

## 3. Turnover and segment reporting

The Group manages its businesses by divisions, which are organised by products and services. On first-time adoption of HKFRS 8, Operating Segments and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Tinplating : this segment produces and sells tinplates and related products which are mainly used as packaging materials for the food processing manufacturers.
- Fresh and live foodstuffs : this segment distributes, purchases and sells fresh and live foodstuffs.
- Property leasing : this segment leases office and industrial premises to generate rental income.

### *(a) Segment results, assets and liabilities*

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Segment profit includes revenue and expenses that are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.
- Segment assets include all tangible, intangible assets and current assets with the exception of interest in associate, trading securities and other corporate assets. Segment liabilities include current and non-current liabilities attributable to the business activities of the individual segments and bank borrowings managed directly by the segments.

### 3. Turnover and segment reporting (Continued)

#### (a) Segment results, assets and liabilities (Continued)

In addition, management is provided with segment information concerning revenue (inter-segment sales are not material), profit or loss, assets, liabilities and other information relevant to the assessment of segment performance and allocation of resources between segments (if material). Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

For the six months ended 30 June	Tinplating		Fresh and live foodstuffs		Property leasing		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reportable segment revenue	<u>1,021,517</u>	<u>1,255,926</u>	<u>88,049</u>	<u>105,506</u>	<u>13,113</u>	<u>12,731</u>	<u>1,122,679</u>	<u>1,374,163</u>
Reportable segment profit	<u>76,573</u>	<u>74,659</u>	<u>32,757</u>	<u>42,851</u>	<u>7,928</u>	<u>9,214</u>	<u>117,258</u>	<u>126,724</u>
Reportable segment assets	<u>2,039,271</u>	<u>2,061,970</u>	<u>80,916</u>	<u>103,217</u>	<u>299,737</u>	<u>285,182</u>	<u>2,419,924</u>	<u>2,450,369</u>
Reportable segment liabilities	<u>914,394</u>	<u>1,014,383</u>	<u>28,070</u>	<u>31,158</u>	<u>33,970</u>	<u>32,158</u>	<u>976,434</u>	<u>1,077,699</u>

#### (b) Reconciliations of reportable segment profit or loss, assets and liabilities

	Six months ended 30 June	
	2009	2008
	\$'000	\$'000
<b>Profit</b>		
Reportable segment profit derived from the Group's external customers	<b>117,258</b>	126,724
Unallocated head office and corporate income and expenses	<b>(6,524)</b>	13,368
Valuation gains on investment properties	<b>12,267</b>	2,049
Finance costs	<b>(4,153)</b>	(15,071)
Share of profits less losses of associates	<b>(1,262)</b>	19,106
Consolidated profit before taxation	<b>117,586</b>	146,176

### 3. Turnover and segment reporting (Continued)

#### (b) Reconciliations of reportable segment profit or loss, assets and liabilities (Continued)

	<i>At</i> <b>30 June</b> <i>2009</i> \$'000	<i>At</i> <b>31 December</b> <i>2008</i> \$'000
<b>Assets</b>		
Reportable segment assets	2,419,924	2,450,369
Interest in associate	182,389	201,973
Trading securities	3,111	2,259
Non-current asset classified as held for sale	-	3,833
Unallocated head office and corporate assets	45,041	24,412
Consolidated total assets	<u>2,650,465</u>	<u>2,682,846</u>
	<i>At</i> <b>30 June</b> <i>2009</i> \$'000	<i>At</i> <b>31 December</b> <i>2008</i> \$'000
<b>Liabilities</b>		
Reportable segment liabilities	976,434	1,077,699
Loan from immediate holding company	-	10,000
Unallocated head office and corporate liabilities	41,377	44,953
Consolidated total liabilities	<u>1,017,811</u>	<u>1,132,652</u>

### 4. Other revenue

	<i>Six months ended 30 June</i>	
	<i>2009</i> \$'000	<i>2008</i> \$'000
Sales of scrap materials	1,630	6,161
Interest income	1,643	1,344
Dividends from listed securities	-	118
Subsidies received (note)	37,101	-
Others	2,792	764
	<u>43,166</u>	<u>8,387</u>

Note: The amounts mainly represent subsidies granted to a subsidiary, Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co., Ltd. ("Zhongyue Posco") by the local government authority in the PRC for its continuous contribution to the development of the metal-plating industry.

## 5. Other net income

	<i>Six months ended 30 June</i>	
	<i>2009</i>	<i>2008</i>
	<i>\$'000</i>	<i>\$'000</i>
Net realised and unrealised gain/(loss) on trading securities	<b>1,552</b>	(1,505)
Gain on disposal of associate	<b>1,061</b>	-
Gain on deregistration of subsidiary	<b>829</b>	-
Net (loss)/gain on forward foreign exchange contracts	<b>(693)</b>	605
Net exchange (loss)/gain	<b>(16)</b>	41,308
	<b><u>2,733</u></b>	<b><u>40,408</u></b>

## 6. Profit before taxation

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

	<i>Note</i>	<i>Six months ended 30 June</i>	
		<i>2009</i>	<i>2008</i>
		<i>\$'000</i>	<i>\$'000</i>
(a) Finance costs:			
Interest on bank advances and other borrowings wholly repayable within 5 years		<b>4,072</b>	15,711
Interest on loan from immediate holding company		<b>81</b>	327
		<b><u>4,153</u></b>	<u>16,038</u>
Less : Interest expenses capitalised into construction in progress	(i)	<b>-</b>	(967)
		<b><u>4,153</u></b>	<b><u>15,071</u></b>
(b) Staff costs:			
Net contributions paid to defined contribution retirement plans		<b>4,202</b>	3,990
Equity-settled share-based payment expenses		<b>348</b>	-
Salaries, wages and other benefits		<b>38,087</b>	39,159
		<b><u>42,637</u></b>	<u>43,149</u>
(c) Other items:			
Amortisation of land lease premium		<b>1,527</b>	1,414
Depreciation		<b>41,023</b>	35,085
Operating lease charges in respect of properties		<b>1,712</b>	1,432
Share of associates' taxation	(ii)	<b>(449)</b>	6,433
Rentals receivable from investment properties less direct outgoings of \$1,069,000 (30 June 2008: \$1,251,000)		<b>(12,044)</b>	(11,480)

Notes:

- (i) The amount represents interest expenses paid for a bank loan borrowed by a subsidiary of the Group specifically for the purpose of the construction of fixed assets.
- (ii) Income tax for associates established and operating in the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC.

## 7. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents :

	<i>Six months ended 30 June</i>	
	<b>2009</b>	<b>2008</b>
<i>Note</i>	<b>\$'000</b>	<b>\$'000</b>
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
Provision for Hong Kong Profits Tax at 16.5% (2008: 16.5%) on the estimated assessable profits for the period	5,530	2,038
Under-provision in respect of prior years	<u>2,023</u>	<u>-</u>
	<u>7,553</u>	<u>2,038</u>
<b>Current tax – the PRC</b>		
Tax for the period	<u>417</u>	<u>15,964</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>9,616</u>	<u>1,940</u>
	<u>(i) 17,586</u>	<u>19,942</u>

Notes:

- (i) The provision for Hong Kong Profits Tax for 2009 is calculated by applying the estimated annual effective tax rate of 16.5% (2008: 16.5%) to the six months ended 30 June 2009. Income tax for subsidiaries established and operating in the PRC is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant provinces or economic zones in the PRC.
- (ii) In accordance with the Corporate Income Tax Law of the PRC (“New Tax Law”), the standard PRC Enterprise Income Tax rate is 25% with effect from 1 January 2008. Furthermore, the State Council of the PRC passed the implementation guidance (“Implementation Guidance”) on 26 December 2007, which sets out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the Implementation Guidance, the income tax rate applicable for certain PRC subsidiaries of the Group is to be changed gradually to the standard rate of 25% over a five-year transition period beginning from 2008. The details of the tax relief are disclosed in the following notes.
- (iii) In 2006, a subsidiary, Zhongshan Zhongyue Tinplate Industrial Co., Ltd. (“Zhongyue Tinplate”), was granted 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 beginning from 2006. 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. However, a formal notice on the transitional arrangements under the New Tax Law has not been issued by the relevant tax authorities up to the date of issue of the interim financial report. In view of this, Zhongyue Tinplate has adopted the standard PRC Enterprise Income Tax rate of 25% for tax provision purposes for the period ended 30 June 2009 (2008: 25%). When the final arrangement is known, any over-provision for income tax will be accounted for in future periods.

## 7. Income tax in the consolidated income statement (Continued)

Taxation in the consolidated income statement represents : (Continued)

Notes: (Continued)

- (iv) Zhongyue Posco, being a foreign investment enterprise established in the PRC before the New Tax Law passed on 16 March 2007, has applied for 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 beginning from the year 2008. Zhongyue Posco has been informed of the approval verbally by the tax authorities but no formal approval document has been received up to the date of issue of the interim financial report. The directors believe that Zhongyue Posco may enjoy such tax benefits and, therefore, no tax provision has been made for the current and prior periods.
- (v) According to the New Tax Law, dividends declared by the PRC subsidiaries and associates to investors incorporated in Hong Kong are subject to a withholding tax of 5%.

In accordance with Caishui (2008) No. 1 issued by State Tax Authorities, undistributed profits from the PRC companies up to 31 December 2007 will be exempted from withholding tax when they are distributed in future.

In addition, as the Company controls the dividend policy of the PRC subsidiaries and it has determined that the profits of the PRC subsidiaries for the current and prior periods will not be distributed in the foreseeable future, no provision for withholding tax in respect of the undistributed profits from the PRC subsidiaries is made for the six months ended 30 June 2009 and 30 June 2008.

## 8. Dividends

- (a) *Dividends payable to equity shareholders of the Company attributable to the interim period declared after the interim period:*

	<i>Six months ended 30 June</i>	
	<i>2009</i>	<i>2008</i>
	<i>\$'000</i>	<i>\$'000</i>
Interim dividend declared after the interim period of 1.5 cents per ordinary share (30 June 2008: 2.0 cents per ordinary share)	<u>13,584</u>	<u>18,112</u>

The interim 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 interim period:*

	<i>Six months ended 30 June</i>	
	<i>2009</i>	<i>2008</i>
	<i>\$'000</i>	<i>\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the following interim period of 1.5 cents per ordinary share (30 June 2008: 2.0 cents per ordinary share)	<u>13,584</u>	<u>18,112</u>

## 9. 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 \$83,121,000 (30 June 2008: \$112,207,000) and the number of 905,603,285 (30 June 2008: 905,603,285) ordinary shares in issue during the period.

### (b) *Diluted earnings per share*

The diluted earnings per share for the six months ended 30 June 2009 and 30 June 2008 is the same as the basic earnings per share as the potential ordinary shares are anti-dilutive.

## 10. Fixed Assets

### (a) *Acquisitions*

During the six months ended 30 June 2009, the Group acquired items of property, plant and equipment with a cost of \$18,484,000 (30 June 2008: \$70,236,000).

### (b) *Investment properties*

Investment properties situated in Hong Kong carried at fair value were revalued on an open market value basis at 30 June 2009 by an independent firm of surveyors, Vigers Appraisal and Consulting Limited, who have among their staff Members of Hong Kong Institute of Surveyors. Investment properties situated in the PRC carried at fair value were revalued by independent firms of valuers in the PRC, 廣東財興資產評估土地房地產估價有限公司 and 秦皇島正揚資產評估事務所, on an open market value basis. Based on the valuations, a gain of \$12,267,000 (30 June 2008: \$2,049,000), and deferred tax thereon of \$2,668,000 (30 June 2008: \$463,000), have been included in the consolidated income statement.

Investment properties in Hong Kong are pledged to secure the bank loans of \$320,000,000 (note 15(a)(iv)).

## 11. Inventories

Inventories in the consolidated balance sheet comprise:

	<i>At</i> <b>30 June</b> <b>2009</b> <b>\$'000</b>	<i>At</i> <b>31 December</b> <b>2008</b> <b>\$'000</b>
Raw materials, spare parts and consumables	<b>105,817</b>	167,867
Work in progress	<b>7,948</b>	21,615
Finished goods	<b>107,670</b>	211,610
	<b>221,435</b>	401,092

## 12. Trade and other receivables, deposits and prepayments

Included in trade and other receivables, deposits and prepayments are trade debtors, bills receivable and trade balances due from a related company (net of allowance for bad and doubtful debts) with the following ageing analysis:

	<i>At</i> <b>30 June</b> 2009 \$'000	<i>At</i> <b>31 December</b> 2008 \$'000
Current	<u>419,817</u>	<u>272,297</u>
Less than 1 month past due	1,833	277
1 to 3 months past due	556	261
4 to 6 months past due	-	2,081
Amounts past due	<u>2,389</u>	<u>2,619</u>
	<u><b>422,206</b></u>	<u>274,916</u>

For tinplating operations, deposits, prepayments, bills or letters of credit are normally obtained from customers. Credit evaluations are performed on all customers requiring credit over a certain amount. The trade receivables are usually due within 30 days from the date of billing and the maturity dates for bills receivable issued by banks range from 3 to 6 months. For the foodstuffs trading business, the credit period usually ranges from 1 to 2 months. For distribution of fresh and live foodstuffs business, the credit period is usually less than 1 month. Cash deposits or financial guarantees from other parties are required for certain customers. For the Group's property leasing operations, rental is collected one month in advance and rental deposits are obtained from the tenants. In general, debtors of the Group with balances that are more than 1 month overdue are requested to settle all outstanding balances before any further credit is granted.

## 13. Cash and cash equivalents

Analysis of the balances of cash and cash equivalents is set out below:

	<i>At</i> <b>30 June</b> 2009 \$'000	<i>At</i> <b>31 December</b> 2008 \$'000
Deposits with banks	308,014	149,273
Cash at bank and in hand	<u>139,097</u>	<u>278,736</u>
Cash and cash equivalents in the consolidated balance sheet	447,111	428,009
Pledged bank balances	<u>(121,821)</u>	<u>(37,566)</u>
	<u><b>325,290</b></u>	<u>390,443</u>

## 14. Trade and other payables

Included in trade and other payables are trade creditors and trade balances due to a related company with the following ageing analysis:

	<i>At</i> <b>30 June</b> 2009 \$'000	<i>At</i> <b>31 December</b> 2008 \$'000
Due within 1 month or on demand	<b>125,292</b>	263,303
Due after 1 month but within 3 months	<b>111,578</b>	58,525
Due after 3 months but within 1 year	<b>25</b>	-
	<b><u>236,895</u></b>	<b><u>321,828</u></b>

## 15. Borrowings

	<i>At</i> <b>30 June</b> 2009 \$'000	<i>At</i> <b>31 December</b> 2008 \$'000
(a) Bank loans		
- unsecured	(i) -	85,043
- secured by bills receivable	(ii) <b>106,498</b>	-
- secured by bank deposits	(iii) <b>105,260</b>	24,521
- secured by investment properties	(iv) <b>320,000</b>	480,000
	<b><u>531,758</u></b>	<b><u>589,564</u></b>

At 30 June 2009, the bank loans were repayable as follows:

	<i>At</i> <b>30 June</b> 2009 \$'000	<i>At</i> <b>31 December</b> 2008 \$'000
Within 1 year or on demand	<b><u>371,758</u></b>	<u>184,521</u>
After 1 year but within 2 years	<b>160,000</b>	245,043
After 2 years but within 5 years	-	160,000
	<b><u>160,000</u></b>	<u>405,043</u>
	<b><u>531,758</u></b>	<b><u>589,564</u></b>

Notes:

- (i) The unsecured bank loans as at 31 December 2008 were granted to Zhongyue Posco, a non-wholly owned subsidiary of the Group and guaranteed by Zhongyue Tinplate, a subsidiary of the Group. As at 31 December 2008, the minority shareholder provided a counter-guarantee to Zhongyue Tinplate of \$28,915,000 in relation to these unsecured bank loans.
- (ii) The loans are secured by bills receivable with carrying amounts of \$106,498,000 (31 December 2008: \$Nil).

## 15. Borrowings (Continued)

### (a) Bank loans (Continued)

Notes: (Continued)

- (iii) The loans are secured by bank deposits of \$105,627,000 (31 December 2008: \$24,515,000).
- (iv) The loans are guaranteed by the Company which also provided the investment properties situated in Hong Kong with carrying value of \$93,073,000 (31 December 2008: \$85,911,000) as collateral.

In addition, it is provided in the loan agreement that if the immediate holding company, GDH Limited, ceases to maintain (i) a direct or indirect holding of 50% or more of the voting share capital of the Company, or (ii) an effective management control over the Company, then the lenders are entitled to request immediate repayment of the outstanding loans and all accrued interest.

Further, the loans are subject to the fulfilment of covenants relating to certain of the Group's balance sheet and income statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the amount would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2009, none of the covenants relating to the bank loans had been breached.

	<i>At</i> <b>30 June</b> <b>2009</b> \$'000	<i>At</i> <b>31 December</b> <b>2008</b> \$'000
(b) Loan from immediate holding company	<u>-</u>	<u>10,000</u>

At 31 December 2008, the loan was unsecured, interest-bearing at 3-month Hong Kong Interbank Offered Rate ("HIBOR") + 0.35% per annum and repayable on 30 June 2009.

	<i>At</i> <b>30 June</b> <b>2009</b> \$'000	<i>At</i> <b>31 December</b> <b>2008</b> \$'000
(c) Loan from minority shareholder	<u>-</u>	<u>2,940</u>

At 31 December 2008, the loan was provided to a non-wholly owned subsidiary of the Group and was unsecured, interest-free and repayable on or before 31 December 2009. At 31 December 2008, the Group also provided a loan of \$3,060,000 to this non-wholly owned subsidiary in proportion to the Group's shareholding. The loan has been fully repaid during the current period.

# **CORPORATE GOVERNANCE AND OTHER INFORMATION**

## **Code on Corporate Governance Practices**

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) throughout the six months ended 30 June 2009.

## **Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ 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 throughout the six months ended 30 June 2009.

## **Audit Committee**

The Company established an audit committee (“Audit Committee”) in 1999 and its terms of reference are in line with the CG Code. The Audit Committee comprises the three independent non-executive directors, Mr. Gerard Joseph McMahon (chairman of the Audit Committee), Ms. Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company’s financial reports and the Group’s internal controls and risk management systems.

The Audit Committee holds regular meetings and it met three times during the six months ended 30 June 2009.

## **Compensation Committee**

The Company established a compensation committee (“Compensation Committee”) in 1999 and its terms of reference are in line with the CG Code. The Compensation Committee comprises the three independent non-executive directors, Mr. Gerard Joseph McMahon, Ms. Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar (chairman of the Compensation Committee). The principal duties of the Compensation Committee include, inter alia, making recommendations to the Board relating to the Company’s policy for directors’ and senior management’s remuneration, determining the executive directors’ and senior management’s remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss or termination of offices.

During the six months ended 30 June 2009, a meeting was held by the Compensation Committee to explore relevant issues.

## **Nomination Committee**

The Company established a nomination committee (“Nomination Committee”) in 2005 and its terms of reference are in line with the CG Code. The Nomination Committee comprises the chairman of the Board, Mr. Liang Jiang (chairman of the Nomination Committee) and the three independent non-executive directors, Mr. Gerard Joseph McMahon, Ms. Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. The principal duties of the Nomination Committee include, inter alia, identifying suitable and qualified individuals to become board members and making recommendations to the Board on appointment and reappointment of directors.

During the six months ended 30 June 2009, a meeting was held by the Nomination Committee to explore relevant issues.

## **Review of Interim Results**

The Audit Committee has reviewed the unaudited interim financial report and the interim report of the Group for the six months ended 30 June 2009. In addition, the Company’s external auditors, KPMG, have also reviewed the aforesaid unaudited interim financial report.

## **Purchase, Sale and Redemption of Listed Securities**

During the six months ended 30 June 2009, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s securities listed on the Stock Exchange.

## **Interim Dividend**

The Board has resolved to declare the payment of an interim dividend of HK1.5 cents per share (six months ended 30 June 2008: HK2.0 cents per share) for the six months ended 30 June 2009. The interim dividend will be paid on Wednesday, 28 October 2009 to the shareholders whose names appear on the register of members on Friday, 9 October 2009.

## **Closure of Register of Members**

The register of members of the Company will be closed on Thursday, 8 October 2009 and Friday, 9 October 2009. During the period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Share Registrar, Computershare Hong Kong Investor Services Limited, of Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 7 October 2009.

By Order of the Board

**Liang Jiang**

*Chairman*

Hong Kong, 11 September 2009

*As at the date of this announcement, the Board is composed of three executive directors, namely Messrs. Liang Jiang, Tan Yunbiao and Sung Hem Kuen, three non-executive directors, namely Mr. Huang Xiaofeng, Mr. Luo Fanyu and Ms. Hou Zhuobing, and three independent non-executive directors, namely Mr. Gerard Joseph McMahon, Ms. Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar.*