



GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

Interim Report 2003

CONTENTS

	<i>Pages</i>
Corporate Information	2
Interim Results	
Consolidated Profit and Loss Account	3
Consolidated Balance Sheet	4
Consolidated Statement of Changes in Equity	6
Condensed Consolidated Cash Flow Statement	7
Notes on the Unaudited Interim Financial Report	8
Independent Review Report	17
Interim Dividend	18
Management Discussion and Analysis	18
Directors' Interests in Securities	22
Substantial Shareholders	23
Share Option Scheme	24
Purchase, Sale or Redemption of Listed Securities	24
Code of Best Practice	24

CORPORATE INFORMATION***Board of Directors****Executive Directors*

LIANG Jiang (*Chairman*)
LI Xiangbin
HUI Wai Man, Lawrence

Non-executive Directors

LUO Fanyu
LIANG Jianqin

Independent Non-executive Directors

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

Company Secretary

CHEUNG Mo Ching

Registered Office

15th Floor, Tianjin Building
167 Connaught Road West
Hong Kong

Auditors

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Share Registrar

Computershare Hong Kong Investor
Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Nanyang Commercial Bank, Limited
Standard Chartered Bank

The Board of Directors of Guangnan (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 together with comparative figures. The results have been reviewed by the Company’s auditors, KPMG, and the Company’s audit committee.

INTERIM RESULTS

(Expressed in Hong Kong dollars)

Consolidated profit and loss account for the six months ended 30 June 2003 – unaudited

	Note	Six months ended 30 June	
		2003 \$'000	2002 \$'000
Turnover	2	745,165	892,392
Cost of sales		(669,260)	(787,329)
Gross profit		75,905	105,063
Other revenue		8,475	7,872
Other net income		180	1,301
Distribution costs		(16,523)	(28,188)
Administrative expenses		(28,911)	(27,781)
Other operating expenses		(5,154)	(3,815)
Profit from operations		33,972	54,452
Non-operating income	3	10,647	16,143
Finance costs	4(a)	(3,945)	(6,203)
Share of profits less losses of associates		9,513	105
Profit from ordinary activities before taxation	4	50,187	64,497
Taxation	5	(3,428)	(6,125)
Profit from ordinary activities after taxation		46,759	58,372
Minority interests		(1,698)	(2,299)
Profit attributable to shareholders		45,061	56,073
Transfer to other reserve		8,922	1,198
Earnings per share			
Basic	6(a)	0.50 cents	0.62 cents
Diluted	6(b)	0.49 cents	0.59 cents
Interim dividend		Nil	Nil

The notes on pages 8 to 16 form part of this interim financial report.

Consolidated balance sheet at 30 June 2003 – unaudited
 (Expressed in Hong Kong dollars)

	<i>Note</i>	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Non-current assets			
Fixed assets			
– Investment properties		178,754	178,048
– Other property, plant and equipment		212,981	216,662
		<u>391,735</u>	<u>394,710</u>
Interest in associates		160,574	151,264
Investment securities		540	1,079
Deferred tax assets		7,907	5,764
Negative goodwill		(17,970)	(18,693)
		<u>542,786</u>	<u>534,124</u>
Current assets			
Inventories		72,403	66,683
Trade and other receivables	7	125,539	116,423
Other securities		3,095	2,813
Cash and cash equivalents		262,598	243,010
		<u>463,635</u>	<u>428,929</u>
Current liabilities			
Interest-bearing borrowings		63,620	59,012
Trade and other payables	8	282,183	288,724
Taxation		5,940	8,144
		<u>351,743</u>	<u>355,880</u>
Net current assets		<u>111,892</u>	<u>73,049</u>
Total assets less current liabilities		<u>654,678</u>	<u>607,173</u>

Consolidated balance sheet at 30 June 2003 – unaudited (continued)
(Expressed in Hong Kong dollars)

	<i>Note</i>	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Non-current liabilities			
Convertible notes	9	80,000	80,000
Deferred taxation		9,360	–
Shareholder's loan to a subsidiary contributed by a minority shareholder		<u>12,189</u>	<u>12,186</u>
		<u>101,549</u>	<u>92,186</u>
Minority interests			
		<u>17,706</u>	<u>20,123</u>
		<u>535,423</u>	<u>494,864</u>
Capital and reserves			
Share capital	10	899,833	899,833
Reserves		<u>(364,410)</u>	<u>(404,969)</u>
		<u>535,423</u>	<u>494,864</u>

The notes on pages 8 to 16 form part of this interim financial report.

Consolidated Statement of Changes in Equity for the six months ended 30 June 2003 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Shareholders' equity at 1 January	494,864	354,974
	-----	-----
Recognition of deferred tax of investment properties revaluation reserve	(4,629)	–
Exchanges differences arising on translation of the PRC subsidiaries and associates	127	34
	-----	-----
Net gains not recognised in the profit and loss account	(4,502)	34
	-----	-----
Profit attributable to shareholders	45,061	56,073
Issue of share capital	–	8,223
	-----	-----
	45,061	64,296
	-----	-----
Shareholders' equity at 30 June	535,423	419,304
	=====	=====

The notes on pages 8 to 16 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement for the six months ended 30 June 2003 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Net cash from operating activities	16,128	10,232
Net cash (used in)/from investing activities	(1,129)	5,988
Net cash from/(used in) financing activities	4,589	(41,779)
Increase/(decrease) in cash and cash equivalents	19,588	(25,559)
Cash and cash equivalents at 1 January	243,010	228,001
Cash and cash equivalents at 30 June	262,598	202,442

The notes on pages 8 to 16 form part of this interim financial report.

Notes on the unaudited interim financial report

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the board of directors is included on page 17.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 11 April 2003.

The same accounting policies adopted in the financial statements for the year ended 31 December 2002 have been applied to the interim financial report, except as disclosed in note 1(a) below.

(a) *Deferred taxation*

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred taxation as follows:

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of 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 provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

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

2. Segment reporting (continued)
Business segments (continued)

	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Foodstuffs trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Consolidated \$'000
Period ended 30 June 2002								
Revenue from external customers	264,091	503,541	67,357	44,748	12,655	-	-	892,392
Inter-segment revenue	456	-	-	-	-	(456)	-	-
Other revenue from external customers	-	-	-	-	-	-	7,872	7,872
Total	264,547	503,541	67,357	44,748	12,655	(456)	7,872	900,264
Segment result	37,518	6,576	1,251	1,016	8,972	-	-	55,333
Inter-segment transactions	(177)	-	-	-	177	-	-	-
Contributions from operations	37,341	6,576	1,251	1,016	9,149	-	-	55,333
Unallocated operating income and expenses	-	-	-	-	-	-	-	(881)
Profit from operations	-	-	-	-	-	-	-	54,452
Finance costs	-	-	-	-	-	-	-	(6,203)
Share of profits less losses of associates	-	2	-	107	-	-	(4)	105
Non-operating income	-	-	-	-	-	-	-	16,143
Taxation	-	-	-	-	-	-	-	(6,125)
Minority interests	-	-	-	-	-	-	-	(2,299)
Profit attributable to shareholders	-	-	-	-	-	-	-	<u>56,073</u>

Geographical segments

The Group's business takes place in two principal economic environments. Hong Kong is the major market for live and fresh foodstuffs distribution, whereas the People's Republic of China (other than Hong Kong) (the "PRC") is the major market for most of the Group's other businesses. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	Group turnover	
	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Hong Kong	365,796	531,815
The PRC	372,042	343,289
Others	7,327	17,288
	<u>745,165</u>	<u>892,392</u>

3. Non-operating income

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Recovery of bad and doubtful debts (<i>note</i>)	<u>10,647</u>	<u>16,143</u>

Note: The amounts mainly represent the recovery of bad and doubtful debts previously written off or provided for as the recoverability was in doubt. During the period ended 30 June 2003, certain bad debts were recovered and the related write-off amounts of \$10,647,000 (period ended 30 June 2002: previously provided for \$16,143,000) were written back to the profit and loss account accordingly.

4. Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	2,160	2,130
Interest on convertible notes	1,785	4,073
	<u>3,945</u>	<u>6,203</u>
(b) Staff costs:		
Net contributions to/(refunded from) defined contribution plan	624	(571)
Salaries, wages and other benefits	20,753	25,347
	<u>21,377</u>	<u>24,776</u>
(c) Other items:		
Depreciation	4,572	7,045
Amortisation of negative goodwill	(723)	(835)
Dividend income		
– unlisted securities	–	(72)
– listed securities	(143)	(401)
Interest income	(2,161)	(2,278)
Loss/(profit) on sale of investment/other securities	236	(1,224)
Net unrealised gains on other securities carried at fair value	(282)	(77)
Operating lease charges in respect of properties rentals	509	449
Rentals receivable from investment properties less direct outgoings of \$1,948,000 (period ended 30 June 2002: \$1,240,000)	<u>(14,125)</u>	<u>(12,411)</u>

5. Taxation

Taxation in the consolidated profit and loss account represents:

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Current tax – Provision for Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax at 17.5% (period ended 30 June 2002: 16%) on the estimated assessable profits for the period	618	811
Over-provision in respect of prior years	–	(140)
	<u>618</u>	<u>671</u>
Current tax – PRC Income Tax		
Tax for the period	5,054	5,343
Under-provision in respect of prior years	480	–
	<u>5,534</u>	<u>5,343</u>
Deferred tax		
Origination and reversal of temporary differences	6,353	–
Effect of increase in tax rate on deferred tax balances	(4,009)	–
	<u>2,344</u>	<u>–</u>
Share of associates' taxation	<u>(5,068)</u>	<u>111</u>
	<u>3,428</u>	<u>6,125</u>

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

The effect of increase in tax rate on deferred tax balances relates to the anticipated change in tax rates applicable to certain PRC subsidiaries of the Group according to the expected manner of realisation of the respective temporary timing differences.

In addition to the amount charged to the consolidated profit and loss account, deferred tax attributable to the Group relating to the revaluation of its investment properties amounted to \$4,629,000 during the period has been charged directly to equity.

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$45,061,000 (period ended 30 June 2002: \$56,073,000) and the weighted average of 8,998,333,000 (period ended 30 June 2002: 8,995,294,000) ordinary shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 June 2003 is based on the adjusted profit attributable to ordinary shareholders of \$46,846,000 (period ended 30 June 2002: \$60,146,000) and the weighted average number of ordinary shares of 9,514,462,000 shares (period ended 30 June 2002: 10,225,301,000) after adjusting for the effects of all dilutive potential ordinary shares.

7. Trade and other receivables

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

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Within 1 month	46,385	40,931
1 to 3 months	25,712	37,712
More than 3 months but less than 12 months	42,213	22,599
More than 1 year but less than 2 years	451	104
	<u>114,761</u>	<u>101,346</u>

The Group maintains a defined policy with credit period ranging from advance payment to not more than 180 days (31 December 2002: 180 days).

8. Trade and other payables

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

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Due within 1 month or on demand	53,176	61,092
Due after 3 months but within 12 months	–	10
Over 1 year	70	70
	<u>53,246</u>	<u>61,172</u>

9. Convertible notes

On 3 December 2001, the Company issued convertible notes of \$185,000,000 to Richway Resources Limited, a fellow subsidiary of the Company, as part of the consideration for acquisition of Zhongyue Industry Material Limited. The notes bear interest at a fixed rate of 4.5% per annum and are convertible into ordinary shares of the Company on any business day other than the period in which the register of members of the Company is closed or ten business days prior to the maturity date on 3 December 2006 at an initial conversion price of \$0.155 per share, subject to adjustments in certain events.

At 30 June 2003, convertible notes of \$80,000,000 were outstanding.

10. Share capital

	At 30 June 2003		At 31 December 2002	
	Number of shares (thousand)	\$'000	Number of shares (thousand)	\$'000
<i>Authorised:</i>				
Ordinary shares of \$0.1 each	<u>15,000,000</u>	<u>1,500,000</u>	<u>15,000,000</u>	<u>1,500,000</u>
<i>Issued and fully paid:</i>				
At 1 January	8,998,333	899,833	8,943,333	894,333
Shares issued under share option scheme	<u>–</u>	<u>–</u>	<u>55,000</u>	<u>5,500</u>
At 30 June 2003/31 December 2002	<u>8,998,333</u>	<u>899,833</u>	<u>8,998,333</u>	<u>899,833</u>

(a) Movements in share options

	At 30 June 2003 Number	At 31 December 2002 Number
At 1 January	176,000,000	302,200,000
Exercised	–	(55,000,000)
Lapsed	<u>(125,000,000)</u>	<u>(71,200,000)</u>
At 30 June 2003/31 December 2002	<u>51,000,000</u>	<u>176,000,000</u>
Options vested at 30 June 2003/31 December 2002	<u>51,000,000</u>	<u>176,000,000</u>

In January 2002, options were exercised to subscribe for 55,000,000 ordinary shares of par value \$0.1 each in the Company at a consideration of \$8,223,000, of which \$5,500,000 was credited to share capital and the remaining balance of \$2,723,000 was credited to the share premium account.

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

Date of option granted	Period during which options exercisable	Exercise price per share	At 30 June 2003 Number	At 31 December 2002 Number
24/08/2001	26/11/2001 to 25/11/2006	\$0.1495	<u>51,000,000</u>	<u>176,000,000</u>

11. Commitments

- (a) Capital commitments outstanding at 30 June 2003 not provided for in the financial statements were as follows:

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Contracted for	1,161	1,348
Authorised but not contracted for	<u>2,825</u>	<u>2,825</u>
	<u>3,986</u>	<u>4,173</u>

- (b) At 30 June 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Within 1 year	601	707
After 1 year but within 5 years	<u>576</u>	<u>915</u>
	<u>1,177</u>	<u>1,622</u>

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

- (c) At 30 June 2003, the Company committed to provide finance of \$6,489,000 (31 December 2002: \$6,489,000) to an associate of the Group.

12. Litigations

During the six months ended 30 June 2003, the Group instigated litigation against a minority shareholder of a subsidiary in respect of amounts due to the Group totalling approximately \$40,000,000. The Group has pledged an equivalent amount of bills receivable with an authorised bank in the PRC in order to obtain a guarantee issued in favour of the Group to the Dongguan Intermediate People's Court. Full provision has previously been made against the amounts due from the minority shareholder.

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

13. Material related party transactions

(a) Material related party transactions during the period are summarised as follows:

	Note	Six months ended 30 June	
		2003 \$'000	2002 \$'000
Sales of goods to related companies	(i)	<u>2,123</u>	<u>4,865</u>
Purchases of goods from related companies	(i)	<u>14,560</u>	<u>15,667</u>
Interest income from an associate	(ii)	<u>846</u>	<u>1,186</u>
Management fee income from related companies		<u>–</u>	<u>840</u>
Commission paid to related companies		<u>718</u>	<u>–</u>
Interest on convertible notes payable to a fellow subsidiary	4(a)	<u>1,785</u>	<u>4,073</u>
Provision of electricity/water and leasing services to a fellow subsidiary		<u>1,535</u>	<u>1,531</u>

Notes:

- (i) Related companies to/from which goods were sold and purchased included associates and minority shareholders of partly-owned subsidiaries.
- (ii) In 1999, the Company entered into an unsecured shareholders' loan agreement with an associate, Yellow Dragon Food Industry Company Limited. Pursuant to the agreement, the Company advanced US\$6,700,000 to the associate at an interest rate of 7.8% per annum. The amount is repayable in full in 5 years commencing from 1 January 2000 and the principal and interest shall be payable twice annually. At the balance sheet date, the outstanding loan and interest receivable from the associate amounted to \$20,265,000 (31 December 2002: \$25,507,000) and \$852,000 (31 December 2002: \$920,000) respectively.
- (b) Material balances with related parties at 30 June 2003 are as follows:

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Convertible notes held by a fellow subsidiary (note 9)	<u>80,000</u>	<u>80,000</u>

Other balances with related parties at 30 June 2003 are included in amounts due from/to the respective parties in the balance sheet. These balances are interest free and have no fixed terms of repayment, except those disclosed in note (a)(ii) and (b) above.

14. Post balance sheet events

On 18 August 2003, the Group entered into a share transfer agreement with a party which is not connected with the Company for the disposal of the Group's 51% interest in Dongguan Guangnan Stock Development Co., Ltd. ("Dongguan Guangnan") at a consideration of Rmb5,000,000. According to the agreement, the transaction would be complete subject to fulfilment of certain conditions, including the receipt of the consideration in full and obtaining the necessary approvals from the PRC government authorities. A gain of approximately \$9,600,000 is expected from the transaction.



**INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF
GUANGNAN (HOLDINGS) LIMITED**

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 3 to 16.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the Group’s management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the period ended 30 June 2003.

KPMG

Certified Public Accountants

Hong Kong, 15 September 2003

INTERIM DIVIDEND

The Directors resolved not to declare the payment of interim dividend for the six months ended 30 June 2003 (period ended 30 June 2002: Nil).

BUSINESS REVIEW

In the first half of 2003, the Group conscientiously targeted its work towards improving management quality and operating system innovation, expediting the disposal of unhealthy assets and peripheral businesses, enhancing its competitiveness through business structure integration and further development of niche enterprises such as the tinsplating operation; the Group also aimed at seeking new investment opportunities and actively promoted strategic transformation of enterprises. Therefore, we achieved relatively good operating results despite the unsatisfactory economy environment in the first half of this year.

During the period under review, the Group's turnover amounted to HK\$745,165,000, representing a decrease of 16.5% compared with the corresponding period of last year. The main reasons for the decrease in turnover were the dramatic decrease of live and fresh foodstuffs agency business due to the change in policies of the PRC authority regarding state regulated quota management which resulted in the closure of the pond fish agency business, the effect of the outbreak of SARS in the first half of this year in Hong Kong, and the reduction in the foodstuffs trading after the opening up of the chilled chicken market towards the end of 2002 and the cessation of frozen meat trading operation. Except for the decrease in the business of live and fresh foodstuffs and foodstuffs trading which measured 31.9% and 34.3% respectively compared with the corresponding period of last year, tinsplating, property leasing, feed production and livestock farming and associate companies business in the PRC all recorded increase. For the six months ended 30 June 2003, the Group had profit before tax of HK\$50,187,000, down by 22.2% compared with the corresponding period of last year. The decrease was due to the businesses of live and fresh foodstuffs, foodstuffs trading, feed production and livestock farming and tinsplating. The profit attributable to shareholders for the period was HK\$45,061,000, down by 19.6% compared with the corresponding period of last year. The basic earnings per share is HK0.5 cents. The Board recommended no payment of interim dividend.

Tinsplating

Tinsplating operation was the core business and main contributor to profit for the Group. Shortage of steel plates in the first half of this year saw its production and sales volume decreased by 12.3% and 12.5% respectively when compared with the corresponding period of last year. Although the turnover recorded an increase through higher product prices, the operating profit dropped due to the effect of a greater price increase in steel plates and fuels; average gross profit margin dropped from 20.4% to 16.4% compared to the corresponding period of last year. From January to June, the turnover and operating profit of the tinsplating operation amounted to HK\$275,913,000 and HK\$31,738,000 respectively, representing an increase of 4.5% and a decrease of 15.0% respectively compared to the corresponding period of last year. In order to mitigate the effect of the shortage of steel plates and price increase of raw materials on the tinsplating operation results, the Group is currently taking measures to expand sourcing channels for steel plates, control power generating costs, scale up property leasing rates and carry out certain technical reform.

Faced with continuously expanding market prospect, the management believed that there are rooms for potential development of the tinsplating business. As such, in order to bolster the development of the tinsplating business and the PRC property leasing business, so as to increase the Group's competitiveness and economic efficiency through strengthening resources realignment, the Group took the decision to merge Zhongshan Zhongyue Tinsplate Industrial Co., Ltd. ("Zhongyue Tinsplate") and Zhongshan Shan Hai Industrial Co., Ltd. ("Zhongshan Shan Hai"), with relevant merger documents being approved by the corresponding PRC government authorities.

BUSINESS REVIEW (continued)***Property Leasing***

The Group's leasing properties include the factories and staff quarters of Zhongshan Shan Hai, the tinplating factories and equipment of Zhongyue Tinplate and the office property in Hong Kong. From January to June, the property leasing operation maintained steady growth. Revenue and operating profit from property leasing amounted to HK\$15,319,000 and HK\$10,792,000 respectively, up 21.1% and 18.0% compared to the corresponding period of last year.

Live and Fresh Foodstuffs Distribution

Subsequent to the State's Foreign Economic and Trade Department's deregulation of the pond-fish quota management and chilled fresh chicken and meat market on 1 January 2002 and the end of 2002 respectively, the pond-fish operation managed to sustain for one more year in 2002, after which the Company decided to terminate the pond-fish agency operation. As a result, the turnover decreased by HK\$104,729,000 compared to that in the same period of last year. The relapse of the bird flu this February and the outbreak of SARS affected the live chicken operation, its turnover decreased by HK\$62,382,000, as such, the turnover of live and fresh foodstuffs operation declined to HK\$342,731,000, a decrease of 31.9%. Due to the significant drop in turnover, the commission income also decrease significantly. As a result, the operating profits decreased HK\$2,082,000 or 31.7% compared to that in the same period of last year.

To prevent further deterioration of the live and fresh foodstuffs agency operation, the Group has taken positive steps to expand its non-policy regulated agency business and self-operating distribution business, proceeded with quantity-based profits underwriting incentives, significantly streamlined the staff, reduced various costs and expenditures, so as to minimize the impact as caused by the policy adjustment.

Trading of Foodstuffs

The trading of foodstuffs recorded a turnover of HK\$29,412,000 this January to June, a decrease of 34.3% compared to that in the same period of last year, operating profit amounted to HK\$685,000, a decrease of 32.6% compared to that in the same period of last year. The main reason for the decrease in turnover was that since the start of chilled chicken operation in December 2002, it replaced previous frozen poultry operation, and that the rice, amylaceous and egg powder operations also reported a significant drop. Frozen meat trading operation has ceased for the period while there was for the first half of 2002 also contributed to the reduction.

In order to cope with the continuing deflation in the Hong Kong consumer market and the keener competition in the foodstuffs trading operations, the Group is exploring new ideas to reform the foodstuffs trading operation.

BUSINESS REVIEW (continued)***Feed Production and Livestock Farming***

During the first half, the feed production and livestock farming did not perform as expected. From January to June, turnover was HK\$81,790,000. Despite the increase of 21.4% in turnover compared to that in the same period of last year, the operation recorded an operating loss of HK\$7,456,000 compared to that in the same period of last year, this was due to sharp increase in provisions for credit sales and the significant increase in the number of pigs infected by diseases resulting in much lower export sales.

Based on the present operating conditions of the feed production and livestock farming operations, the Group performed an overall review on this business segment during the first half of this year. Given that livestock farming operations are subject to local environmental policies, farming conditions are worsening, together with increasing incidence and severity of pig disease together with intensifying competition in the feed market and greater overdue receivables due to the industry's practice to increase sales advances to finance customers, related potential operating risks are on the rise in the feed production and livestock farming operations. Accordingly, the Group determined to gradually divest its peripheral business of feed production and livestock farming operations. In May, a wholly-owned pig farm of the Group in Dongguan carried out a reform in its operation. Through open tender, current assets were disposed of and realized, premises and equipment were rented out. Pursuant to an agreement in August, the Group disposed of 51% shares of Dongguan Guangnan at a consideration of Rmb5,000,000. The divestment of the feed production business is also under consideration.

The Group believes further disposal of unhealthy assets and peripheral business is of benefit to the Group. It is necessary for the Group to achieve a successful business integration and strategic conversion towards its core business. As such, the Group can focus on its core industry business, and also to rebuild a competitive and solid operation system with improved management and returns of capital.

FINANCIAL POSITION

At 30 June 2003, the Group's total assets amounted to HK1,006,421,000 and total liabilities stood at HK\$453,292,000 which were increased by HK\$43,368,000 and HK\$5,226,000, respectively as compared with that at 31 December 2002. The net current assets of the Group increased from HK\$73,049,000 as at 31 December 2002 to HK\$111,892,000 as at 30 June 2003 and the current ratio (current assets divided by current liabilities) edged up by 9.4% to 1.32 times. The Group's financial position has further enhanced since the last financial year-end date, indicating a continuous move towards improving results and paving the way for future business expansion.

Liquidity and Financial Resources

At 30 June 2003, the Group maintained cash balances of HK\$262,598,000, up 8.1% from the cash balances as at 31 December 2002.

The Group's interest bearing borrowings are repayable on demand and carry interest at annual rates ranging from 6.0% to 7.6%. At the end of the period under review, the Group's interest bearing borrowings together with the convertible notes, totalled HK\$143,620,000. Accordingly, the Group's gearing ratio, which was measured on the basis of the Group's total interest bearing borrowings and convertible notes over the shareholders' fund, was 26.8%, representing a decrease of 1.3% from that of 28.1% as at 31 December 2002.

As at 30 June 2003, the Group's total available credit facilities amounted to HK\$126,044,000, of which HK\$47,556,000 have been utilized. The unutilized banking facilities amounted to HK\$78,488,000. With its cash holdings, recurring cash flow from its operations and available banking facility, the Group believes that it will have sufficient funds to meet its present operation requirements and to further develop its business in the foreseeable future.

FINANCIAL POSITION (continued)***Charges on Group's Assets***

As mentioned in the annual report of the Company for the year ended 31 December 2002, certain land and buildings of a 51%-owned subsidiary in the PRC, namely Dongguan Guangnan, with gross carrying amount of HK\$10,372,000, have been pledged to a bank for a loan of HK\$8,479,000 granted to a minority shareholder of Dongguan Guangnan. A provision of HK\$10,372,000 was made in the previous year.

At 30 June 2003, certain of the Group's fixed assets with net book value of HK\$18,658,000 were pledged to secure general banking facilities amounting to HK\$9,044,000 of the Group.

In addition, certain bills receivable of the Group amounting to approximately HK\$40,000,000 as at 30 June 2003 has been pledged with an authorised bank in the PRC in order to obtain a guarantee issued in favour of the Group to the Dongguan Intermediate People's Court in a litigation against a minority shareholder of a subsidiary for recovering amounts due to the Group of an equivalent amount.

Exchange Rate Exposure

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

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2003, the Group has a total of 684 employees, reduced by 124 as compared to the end of 2002, of whom 40 were based in Hong Kong and 644 were based in the PRC. The staff remuneration is determined in accordance with the responsibility for the post, workload, individual performance and prevailing industry practice. The Group implemented control on the total salaries of each subsidiary. At the same time, the "performance bonus" incentive scheme rewarded the management, key personnel and outstanding staff with bonus of a designated proportion based on the profit after taxation achieved. This incentive scheme mobilized the work enthusiasm of the broad ranks of staff members.

PROSPECT

During 2003 and the following year, the Group will focus on integration of structure to secure a reposition in development. With disposal of the livestock farming and feed production operations and non-controlled investments, the Group intends to introduce a further operating system reform in live and fresh foodstuffs distribution and foodstuffs trading and also to acquire industry project with potential. We will establish an industry system with tinplating as core business, aiming to enhance the Group's overall economic strength, profitability and competitiveness, and eventually improve the quality of assets and economic benefits.

AUDIT COMMITTEE

In compliance with the Code of Best Practice as set out in Appendix 14 of Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company established an Audit Committee in July 1999. Members of the Audit Committee currently comprise three independent non-executive Directors of the Company.

Regular meetings were held by the Committee and it met three times in the first half of the year to review the Group's annual financial statements and the adequacy and effectiveness of the Group's internal control systems.

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

As at 30 June 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules 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	1,800,000	0.020%
Li Xiangbin	1,000,000	0.011%

(ii) Guangdong Investment Limited

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jiang	310,000	0.006%
Liang Jianqin	150,000	0.002%

(iii) Guangdong Brewery Holdings Limited

Name of Director	Number of ordinary shares held (personal interests)	Approximate % of issued share capital
Liang Jiang	200,000	0.016%
Luo Fanyu	70,000	0.006%
Liang Jianqin	46,000	0.004%

(iv) Guangdong Tannery Limited

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)
(II) Long positions in options relating to ordinary shares of Guangdong Investment Limited

Name of Director	Date of share options granted [#]	Number of share options		Exercisable period of share options	Total consideration paid for share options granted HK\$	Price per share to be paid on exercise of share options HK\$	During the period number of share options			Number of options held on 30 June 2003 '000
		Held on 1 January 2003 '000	Granted during the period '000				Exercised '000	Lapsed '000	Cancelled '000	
Liang Jianqin	16/03/98	450	-	17/09/98 to 16/09/03*	-	3.024	-	-	-	450
	10/08/01	400	-	11/02/02 to 10/02/07*	-	0.5312	400	-	-	-

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

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company held by the Directors in trust for the Company, as at 30 June 2003, none of the Directors and chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, so far as is known to any Directors or chief executives of the Company, the following persons (other than Directors and chief executives of the Company) had interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under Section 336 of the SFO:

Name	Number of ordinary shares beneficially held	Approximate % of issued share capital	Long/short positions
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang") (Note 1)	5,875,293,712	65.29%	Long position
GDH Limited ("GDH") (Note 2)	5,875,293,712	65.29%	Long position
Richway Resources Limited ("Richway")	516,129,032	5.74%	Long position

Notes:

- (1) The attributable interest which Yue Gang has in the Company is held through its 100 per cent. direct interest in GDH.
- (2) The interest of GDH includes attributable interest held through its wholly-owned subsidiary, Richway, being 5.74 per cent. interest derived from equity derivatives.

Save as disclosed above, as at 30 June 2003, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The following share options were outstanding under the share option scheme adopted by the Company on 24 August 2001 during the period:

Category	Date of share options granted [#]	Number of share options		Exercisable period of share options	Total consideration paid by each grantee for share options granted HK\$	Price per share to be paid on exercise of share options HK\$	During the period number of share options			Number of options held on 30 June 2003 '000
		Held on 1 January 2003 '000	Granted during the period '000				Exercised '000	Lapsed '000	Cancelled '000	
Employees and other participants	24/08/01	176,000	-	26/11/01 to 25/11/06*	10	0.1495	-	125,000	-	51,000

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive Directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

By Order of the Board
Liang Jiang
Chairman

Hong Kong, 15 September 2003