



GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

Interim Report 2001

The Board of Directors of Guangnan (Holdings) Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2001 together with comparative figures. The results had 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

	Note	Six months ended 30 June	
		2001 (Unaudited) \$'000	2000 (Unaudited and restated) \$'000
Turnover	2	1,050,409	1,403,750
Cost of sales		(948,600)	(1,261,944)
Gross profit		101,809	141,806
Other revenue		24,587	27,951
Other net income		5,087	4,830
Distribution costs		(89,296)	(127,498)
Administrative expenses		(43,095)	(61,231)
Other operating expenses		(7,677)	(8,819)
Loss from operations		(8,585)	(22,961)
Non-operating income	3	13,665	729
Non-operating expenses	4	(14,113)	(191,247)
Finance costs	5(a)	(333)	(90,561)
Share of profits less losses of associates		1,699	(7,889)
Loss from ordinary activities before taxation	5	(7,667)	(311,929)
Taxation	6	(1,834)	(1,856)
Loss from ordinary activities after taxation		(9,501)	(313,785)
Minority interests		(307)	1,569
Loss attributable to shareholders		(9,808)	(312,216)
Loss per share			
Basic	7	\$ (0.12) cents	\$ (34.33) cents
Interim dividend		Nil	Nil

The notes on pages 5 to 12 form part of this interim financial report.

Consolidated Statement of Recognised Gains and Losses
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>\$'000</i>	<i>\$'000</i>
Exchange differences arising on consolidation	238	(18,878)
NET GAIN/(LOSS) NOT RECOGNISED IN THE PROFIT AND LOSS ACCOUNT	238	(18,878)
Loss for the period	(9,808)	(312,216)
Add: Transfer from the profit and loss account on liquidation of subsidiary	—	102
TOTAL RECOGNISED LOSSES	<u>(9,570)</u>	<u>(330,992)</u>

The notes on pages 5 to 12 form part of this interim financial report.

Consolidated Balance Sheet*(Expressed in Hong Kong dollars)*

		At 30 June 2001 (Unaudited) \$'000	At 31 December 2000 (Audited) \$'000
Non-current assets			
Fixed assets		167,110	234,189
Interest in associates		151,994	171,160
		319,104	405,349
Current assets			
Inventories		38,866	102,263
Trade and other receivables	8	70,037	91,879
Other securities		19,845	16,373
Cash and cash equivalents		81,295	113,720
		210,043	324,235
Current liabilities			
Interest-bearing borrowings		4,650	8,429
Trade and other payables	9	210,642	384,696
Taxation		904	6,191
		216,196	399,316
Net current liabilities		(6,153)	(75,081)
Total assets less current liabilities		312,951	330,268
Non-current liabilities			
Shareholders' loans to subsidiaries contributed by minority shareholders		11,673	20,257
Minority interests		61,394	60,640
		239,884	249,371
Capital and reserves			
Share capital	10	864,034	90,951
Reserves		(624,150)	(614,580)
		239,884	(523,629)
Loan from intermediate holding company	11	–	773,000
		239,884	249,371

The notes on pages 5 to 12 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement
(Expressed in Hong Kong dollars)

	Six months ended 30 June 2001 (Unaudited) \$'000
Net cash outflow from operating activities	(14,319)
Net cash inflow from returns on investments and servicing of finance	7,770
Tax paid	(7,008)
Net cash outflow from investing activities	(15,742)
Net cash outflow before financing	(29,299)
Net cash inflow from financing	665
Decrease in cash and cash equivalents	(28,634)
Cash and cash equivalents at 1 January	109,929
Cash and cash equivalents at 30 June	81,295

Major non-cash transaction

During the period, the proceeds from the shares underwritten and taken up by GDH Limited issued under the open offer amounting to \$754 million was settled by capitalising the loan from intermediate holding company, GDH Limited.

The notes on pages 5 to 12 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 13.

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 except that comparative figures for the cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 9 April 2001.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report.

In order to achieve a consistent presentation, certain comparative figures have been restated.

2 Segmental information

Analyses of the principal activities and geographical locations of operations by the Company and its subsidiaries during the period are as follows:

	Group turnover		Contribution to loss from operations	
	Six months ended 30 June 2001 (Unaudited) \$'000	2000 (Unaudited) \$'000	Six months ended 30 June 2001 (Unaudited) \$'000	2000 (Unaudited) \$'000
By principal activities				
<i>Continuing operations</i>				
Live and fresh foodstuffs distribution	661,225	775,637	10,403	9,795
Farming and feed production	100,392	70,832	948	1,533
Trading of foodstuffs	11,990	31,870	276	(1,933)
Unallocated corporate expenses	–	–	(19,140)	(25,002)
Other corporate revenue	–	–	12,739	16,068
	<u>773,607</u>	<u>878,339</u>	<u>5,226</u>	<u>461</u>
<i>Discontinued operations</i>				
Supermarket operations (note (i))	276,802	342,472	(13,811)	(44,709)
Tinplating (note (ii))	–	182,939	–	21,287
	<u>1,050,409</u>	<u>1,403,750</u>	<u>(8,585)</u>	<u>(22,961)</u>

2 Segmental information (continued)

	Group turnover	
	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>\$'000</i>	<i>\$'000</i>
By geographical locations of operations		
Hong Kong	930,295	1,084,831
Elsewhere in the People's Republic of China (the "PRC")	116,624	292,433
Others	3,490	26,486
	<u>1,050,409</u>	<u>1,403,750</u>

Notes:

- (i) During the period, the Group's supermarket operations have been discontinued following the cessation of supermarket operations in Guangzhou and the liquidation of its subsidiary, Guangnan (KK) Supermarket Limited, which was engaged in supermarket operations in Hong Kong. The loss on liquidation of the subsidiary amounted to \$1,125,000 (note 4).
- (ii) On 22 December 2000, the Group disposed of its tinplating operations in the PRC to a subsidiary of GDH Limited pursuant to a corporate reorganisation and indebtedness restructuring (the "Restructuring"). As the discontinued operations were transferred pursuant to the Restructuring, the resultant gain or loss on discontinuance of these operations cannot be quantified.

3 Non-operating income

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>\$'000</i>	<i>\$'000</i>
Provision for stocks written back	13,665	–
Recovery of bad and doubtful debts	–	729
	<u>13,665</u>	<u>729</u>

Provision for stocks was made previously against certain merchandises held for resale as a result of the cessation of the supermarket operations in Guangzhou, the PRC. During the period, most of these stocks were sold above the carrying value and the redundant provision for stocks was written back to the profit and loss account accordingly.

4 Non-operating expenses

	<i>Note</i>	Six months ended 30 June	
		2001 (Unaudited) \$'000	2000 (Unaudited) \$'000
Provisions for diminution in value of fixed assets	(i)	4,872	69,375
Loss on liquidation of a subsidiary	(ii)	1,125	16,527
Provision for impairment losses on amount due from associate	(iii)	8,116	–
Assets written off	(iv)	–	54,771
Provisions for compensation arising from a claim received	(v)	–	35,060
Provisions for diminution in value of investment securities	(vi)	–	15,514
		<u>14,113</u>	<u>191,247</u>

Notes:

- (i) Provisions for the period ended 30 June 2001 represented provisions for diminution in value of certain furniture and fixtures and leasehold improvements of the Group. Provisions for the period ended 30 June 2000 represented provisions for diminution in value of land and buildings as considered necessary by the directors taking into consideration a professional valuation in March 2000.
- (ii) Loss on liquidation of a subsidiary for the period ended 30 June 2000 and 2001 represented provisions for loss as a result of the liquidation of Shanghai Guangnan Supermarket Co. Ltd and Guangnan (KK) Supermarket Limited respectively.
- (iii) This represented the provision for impairment losses to the amount due from associate as a result of the cessation of its operations in Guangzhou, the PRC.
- (iv) These represented a write down of the carrying value of certain categories of assets of the Group to their recoverable amounts.
- (v) A claim of approximately \$35 million in connection with certain payments received by the Company was submitted to the Company in 1999 and disclosed as a contingent liability. After exchange of documents and taking into account the latest legal advice received, the directors considered that full provision should be made for the claim.
- (vi) These comprised provisions for investment securities which were made by reference to the market value of the relevant listed shares prevailing as at 30 June 2000. Such provisions were determined for each investment individually. The investment securities were disposed of pursuant to the Restructuring.

5 Loss from ordinary activities before taxation

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

	Six months ended 30 June	
	2001 (Unaudited) \$'000	2000 (Unaudited) \$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	333	63,353
Interest on convertible bonds	–	6,825
Amortisation of premium on redemption of bonds	–	20,383
	<u>333</u>	<u>90,561</u>
(b) Other items:		
Depreciation	9,713	25,038
Loss on disposal of fixed assets	1,155	362
Dividend income from investments	(2,022)	(8,644)
Interest income	(2,934)	(4,831)
Net unrealised gains on other securities carried at fair value	<u>(3,472)</u>	<u>(4,830)</u>

6 Taxation

Taxation in the consolidated profit and loss account represents:

	Six months ended 30 June	
	2001 (Unaudited) \$'000	2000 (Unaudited) \$'000
Provision for Hong Kong Profits Tax at 16% on the estimated assessable profits for the period	1,693	1,727
Over-provision in respect of prior years	–	(1,292)
	<u>1,693</u>	<u>435</u>
PRC income tax	29	1,231
Share of associates' taxation	112	190
	<u>1,834</u>	<u>1,856</u>

Income tax for subsidiaries established and operating in the PRC other than in Hong Kong is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC where the subsidiaries located.

No provision for deferred tax is made in the accounts as the Group has net deferred tax assets whose future realisation is not assured beyond reasonable doubt.

7 Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of \$9,808,000 (period ended 30 June 2000: \$312,216,000) and the weighted average of 7,996,097,666 (period ended 30 June 2000: 909,508,727) ordinary shares in issue during the period.

The exercise of the subscriptions rights conferred by the share options would not have any dilutive effect on the loss per share for the periods ended 30 June 2001 and 2000.

8 Trade and other receivables

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

	At 30 June 2001 (Unaudited) \$'000	At 31 December 2000 (Audited) \$'000
Within 1 month	4,055	6,881
1 to 3 months	3,611	1,618
More than 3 months but less than 12 months	645	1,315
More than 1 year	2,600	1,081
	<u>10,911</u>	<u>10,895</u>

The Group maintains a defined policy with credit period ranging from advance payment to not more than 60 days.

9 Trade and other payables

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

	At 30 June 2001 (Unaudited) \$'000	At 31 December 2000 (Audited) \$'000
Due within 1 month or on demand	74,701	198,453
Due after 1 month but within 3 months	10,823	39,849
Due after 3 months but within 12 months	-	5,325
Due after 1 year but within 2 years	72	-
	<u>85,596</u>	<u>243,627</u>

10 Share capital

	30 June 2001		31 December 2000	
	Number of shares (thousand)	\$'000 (Unaudited)	Number of shares (thousand)	\$'000 (Audited)
Authorised:				
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>
Issued and fully paid:				
At 1 January	909,509	90,951	909,509	90,951
Shares issued under the Open Offer	<u>7,730,824</u>	<u>773,083</u>	<u>–</u>	<u>–</u>
At 30 June/31 December	<u>8,640,333</u>	<u>864,034</u>	<u>909,509</u>	<u>90,951</u>

(a) Pursuant to the Restructuring, details of which were set out in a circular dated 17 November 2000, the Company has conducted an open offer to existing shareholders, excluding overseas shareholders, on the basis of 17 shares for every 2 existing shares held (the "Open Offer"). GDH Limited has taken up all the unsubscribed shares under the Open Offer. The Open Offer was complete on 16 January 2001. The number of shares issued at par under the Open Offer (the "Offer Shares") was 7,730,824,137. The proceeds of the Open Offer were used for repayment of the bridging loan (\$773 million) provided by GDH Limited.

(b) Share option scheme

As a result of the Open Offer, the number of options outstanding and the related exercise price were adjusted. The total number of unexercised share options previously granted after adjustment as at 30 June 2001 was 18,240,000 (31 December 2000: 8,130,000). Option was neither granted nor exercised during the period ended 30 June 2001 (31 December 2000: Nil).

At 30 June 2001, the outstanding options after adjustment were as follows:

Date granted	Period during which options exercisable	Exercise price per share	Number of options outstanding at the period end
3 July 1997	04/07/1998 to 02/07/2001	\$0.9827	3,040,000
11 February 1998	12/02/1999 to 10/02/2002	\$0.4295	<u>15,200,000</u>
			<u>18,240,000</u>

11 Loan from intermediate holding company

Up to March 2001, the bridging loan from intermediate holding company, GDH Limited, was fully repaid from the proceeds of the Open Offer.

12 Contingent liabilities

At 30 June 2001, there was a guarantee given to a bank in respect of banking facilities granted to an associate amounting to \$21,840,000 (At 31 December 2000: \$21,840,000).

13 Commitments

(a) Capital commitments outstanding as at 30 June 2001 not provided for in the accounts were as follows:

	At 30 June 2001 (Unaudited) \$'000	At 31 December 2000 (Audited) \$'000
Contracted for	34,476	34,777
Authorised but not contracted for	—	7,631
	<u>34,476</u>	<u>42,408</u>

(b) At 30 June 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2001 (Unaudited) \$'000	At 31 December 2000 (Audited) \$'000
Within 1 year	267	64,163
After 1 year but within 5 years	129	54,991
After 5 years	—	3,007
	<u>396</u>	<u>122,161</u>

Following the liquidation of Guangnan (KK) Supermarket Limited on 20 June 2001, the Group is not required to take up the commitment for the rental leases as entered by Guangnan (KK) Supermarket Limited.

14 Material related party transactions

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

	Six months ended 30 June	
	2001 (Unaudited) \$'000	2000 (Unaudited) \$'000
Sales of goods to associates	<u>118,696</u>	<u>153,586</u>
Purchases of goods from associates	<u>3,808</u>	<u>20,857</u>
Interest received from an associate	<u>1,683</u>	<u>3,089</u>
Commission paid to an associate	<u>11,922</u>	<u>12,679</u>
Open Offer fully underwritten by GDH Limited which was supported by a bridging loan	<u>773,000</u>	<u>—</u>
Management fee income from related companies	<u>2,520</u>	<u>—</u>

14 Material related party transactions (continued)

(b) Material balances with related parties at 30 June 2001 are as follows:

	30 June 2001 (Unaudited) \$'000	31 December 2000 (Audited) \$'000
Amounts due from related companies less provisions	<u>5,013</u>	<u>8,777</u>
Amounts due from associates	<u>37,409</u>	<u>56,767</u>
Advances to minority shareholders of partly owned subsidiaries less provisions	<u>25,697</u>	<u>25,625</u>
Amounts due to intermediate holding company	<u>1,147</u>	<u>773,000</u>

These balances are interest free and have no fixed terms of repayment, except for the following:

In 1999, the Company entered into an unsecured shareholders' loan agreement with an associate, Yellow Dragon Food Industry Company Limited. According to the agreement, the Company agreed to advance US\$6.7 million 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. Interest received and receivable from the associate amounted to \$1,683,000 (for the period ended 30 June 2000: \$3,089,000). At the balance sheet date, the outstanding loan and interest receivable from the associate amounted to \$36.7 million (31 December 2000: \$52.4 million) and \$Nil (31 December 2000: \$3.0 million) respectively.

15 Post balance sheet events

- (a) Subsequent to the balance sheet date, on 8 August 2001, GDH Limited, the intermediate holding company, entered into placing and subscription agreement, pursuant to which GDH Limited placed 300 million existing shares in the capital of the Company to independent investors at the price of \$0.17 per share and GDH Limited subscribed at the same price for 300 million new shares of par value of \$0.1 each, ranking pari passu in all respects with the existing issued shares. The placing and subscription of shares were completed on 13 August 2001 and 22 August 2001 respectively. Net proceeds of \$49.5 million from the subscription after issuance expenses of \$1.5 million is still maintained with the Company as for general working capital and future business development.
- (b) On 24 August 2001, a new share option scheme for the executive directors and employees of the Company and its subsidiaries was approved and adopted by the shareholders pursuant to which the directors are authorised to grant options to executive directors and employees of the Company or its subsidiaries to subscribe for shares of the Company.



Independent review report to the board of directors of Guangnan (Holdings) Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 12.

Directors' responsibilities

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.

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 Group 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 2001.

KPMG

Certified Public Accountants

Hong Kong

INTERIM DIVIDENDS

The Directors resolved not to declare the payment of an interim dividend for the six months ended 30 June 2001 (2000: Nil).

BUSINESS REVIEW

The Group recorded a total turnover of HK\$1,050.4 million, representing a 25.2 per cent decrease from the corresponding period last year. Loss attributable to shareholders for the period under review reduced by 96.9 per cent from HK\$ 312.2 million in the same period of last year to HK\$9.8 million.

The decline in turnover was mainly attributable to the disposal of the tinplating joint venture towards the end of last year as a condition of an indebtedness restructuring which was completed on 22 December 2000 and the cessation of the loss-making supermarket operation in Guangzhou during the first quarter of this year. On 20 June 2001, Guangnan (KK) Supermarket Limited (“Guangnan (KK)”), which was 70%-owned by the Group and engaged in supermarket operations in Hong Kong, was petitioned for a winding up. Excluding all these discontinued operations, turnover for the remaining operations declined by 11.9 per cent to HK\$773.6 million and the operating results of the group would have returned to a profit of HK\$5.2 million.

OPERATION REVIEW

Live and fresh foodstuffs

The live and fresh foodstuff distribution business contributed a turnover of HK\$661.2 million, down 14.8 per cent compared with HK\$775.6 million in the same period last year. The decline in turnover was mainly attributable to the strong competition from frozen foods, the smuggling of live and fresh foodstuffs into Hong Kong and a ban on importing mainland poultry imposed for almost a month by Hong Kong Government in the wake of the bird flu outbreak.

Notwithstanding the decline in turnover, the business yielded an operating profit up 6.2 per cent over the same period of last year to HK\$10.4 million which was achieved through a mix of growth in more high-profit-margin foodstuffs and effective control over operating expenses.

Farming and feed production

The business sector recorded a 41.7 per cent increase in turnover to HK\$100.4 million which mainly came from the feed production. Although the Group managed to secure additional business by striving for quality in its feed products, the profit margin has been under pressure at the increasing cost of raw materials. Amidst the prevailing market environment, price competition became more vigorous. As a result, the operating profit decreased by 38.2 per cent to HK\$0.9 million.

Facing with the strong market competition, the Group will continue to strengthen the cost control and to raise the product quality.

Trading of foodstuffs

Turnover was recorded at HK\$12.0 million, representing a drop of 62.4 per cent as compared with HK\$31.9 million in the same period of last year. The decline in turnover was mainly due to the high imported cost product which lost its competitiveness in the export markets. Despite the slid in revenue, the operation posted a turnaround in profit to HK\$0.3 million for the six months to 30 June 2001, from a loss of HK\$1.9 million in the same period last year. The improvement in the operating performance was attributable to the effective cost control measures and the discontinuance of loss-making products.

The PRC's imminent accession to the World Trade Organization ("WTO") is expected to generate increasing trading activities between the PRC and the rest of the world. To capture these business opportunities, the trading operation will continue to source more competitive products from the mainland to be exported overseas and to expand business network as well as to explore agency and distribution rights from overseas food manufacturers for the import of their products into the PRC.

Supermarket

Adversely affected by a decline in consumer spending power and intensive price war, Guangnan (KK) posted a turnover of HK\$261.4 million (up to 19 June 2001), representing a drop of 13.5 per cent against the period for six months ended 30 June 2000. Its operating loss reduced HK\$24.8 million to HK\$10.5 million, compared with a loss of HK\$35.3 million in the same period last year.

Although management has put great effort to improve the operation result of the supermarket chain in Hong Kong since the year-end of 2000, Guangnan (KK) still incurred substantial loss. Accordingly, the Board of the Company resolved on 19 June 2001 not to provide further financial support to the loss-making operations of Guangnan (KK) supermarket chain. As Guangnan (KK) was unable to repay the overdue debts, a wholly owned subsidiary of the Company, which holds 70% interest in Guangnan (KK) petitioned for a winding up of Guangnan (KK) on the following day.

The Group's joint-venture supermarkets in Guangzhou continued to incur substantial losses and have ceased operation since February 2001. As no buyer can be found, this business was closed down.

FINANCIAL POSITION

As at 30 June 2001, the Group's total liabilities stood at HK\$227.9 million, declined from HK\$1,192.6 million as at the last financial year-end. The improvement in financial position was mainly attributable to the de-consolidation of Guangnan (KK) Supermarket Limited following its liquidation on 20 June 2001 and the repayment of the loan to the intermediate holding company from the proceeds of an open offer in early January 2001. Following the open offer, shareholder's equity also restored from a deficit of HK\$ 523.6 million as at 31 December 2000 to a surplus of HK\$239.9 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a cash balance of HK\$81.3 million at the end of the period under review. Most of the Group's surplus fund have been placed in time deposits with reputable financial institutions.

Apart from a bank loan of HK\$4.7 million, the Group had no other bank borrowings for the period ended 30 June 2001. Most of the Group's operations during the period under review were financed by its own internal resources. As a result, finance costs reduced substantially from HK\$90.6 million in the same period of last year to HK\$0.3 million.

Shareholders' fund and the interest bearing borrowings as at 30 June 2001 were respectively amounted to HK\$239.9 million and HK\$4.7 million. Accordingly, the Group's gearing ratio which is measured on the basis of the Group's total interest bearing borrowings over the shareholders' fund at 30 June 2001 was 1.9 per cent. (31 December 2000: not applicable as shareholders' fund at the last year end was a deficit of HK\$ 523.6 million).

The net proceeds from the Company's share offer in August 2001 amounting to HK\$49.5 million have not yet been used and are still being held in the Company as for general working capital and for future business development.

The Group has committed continual resources for its debt recovery program and progress has been seen. It is expected that some of the debt recovery can be realized in the second half of the year and that it will help to further enhance the cash flow position.

CHARGES ON GROUP ASSETS

The Group did not have any charges on its assets as at 30 June 2001.

EMPLOYEES

As at 30 June 2001, the Group has a total of 399 employees, of whom 63 based in Hong Kong and 336 based in the PRC. The Group recognizes the importance of its human resources to its success therefore, remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and is in line with industry practice.

On 24 August 2001 the Company granted new share options to certain eligible staffs including the executive directors to acquire a total of 291,500,000 shares in the capital of the Company at an exercise price of HK\$ 0.1495 per share. The share options are exercisable for a period of five years commencing from 26 November 2001 up to 25 November 2006. 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 of such five year period.

PROSPECTS

During the first half year of 2001, the Group focused on building a solid foundation for its business. Loss-making business was closed down and operating expenses were substantially reduced to a cost-efficient level.

The challenging market condition is still ahead. The management will continue to be prudent with cost containment and at the same time remain acutely aware of the need to achieve profitability. The Group will cautiously introduce new projects with an aim to expand its asset base for business growth.

The Directors are optimistic that given the heavy loss-making supermarket chains ceased their operations in the first half of the year and the Group's competitive advantages in its existing business, barring unforeseeable circumstances, better results can be expected in the remaining of 2001.

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES

As at 30 June 2001, the following Directors had interests in shares and/or rights to subscribe for shares of the Company and its associated corporations that are required to be recorded in the register kept by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"):

Share

(i) Guangdong Investment Limited

Name	Number of ordinary shares held
Li Li	520,000
Chen Lizhong	300,000

(ii) Guangdong Brewery Holdings Limited

Name	Number of ordinary shares held
Luo Fanyu	70,000

(iii) Guangdong Tannery Limited

Name	Number of ordinary shares held
Hou Zhuobing	10,000
Luo Fanyu	70,000

Save as disclosed above, as at 30 June 2001, none of the Directors and chief executive of the Company had or was deemed to have any interest in any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which requires notification pursuant to section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under section 31 or part 1 of the schedule to the SDI Ordinance) or which is required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, and none of the Directors and chief executives of the Company, or their spouse or children under the age of 18, had any right to subscribe for any securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30 June, 2001, the following persons, other than the Directors and chief executive of the Company whose interests are disclosed above, had an interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, as recorded in the register of interests required to be kept by the Company pursuant to section 16(1) of the SDI Ordinance:–

Name	Number of ordinary shares held	Percentage holding
Guangdong Yue Gang Investment Holding Company Limited (“Yue Gang”)	<i>(Note)</i> 5,359,264,680	62.03%
GDH Limited (“GDH”)	5,359,264,680	62.03%

Note: The attributable interest which Yue Gang has in the Company represents 5,359,264,680 ordinary shares deemed to be held by GDH. GDH is 100% owned by Yue Gang.

Save as disclosed herein, the Directors are not aware of any shareholders who were interested in 10% or more of the issued share capital of the Company as at 30 June, 2001.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s securities.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30 June 2001, 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
Ye Xuquan
Chairman

Hong Kong, 25 September 2001