



GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司



Interim Report 2002

The Board of Directors of Guangan (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 2002 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 2002 – unaudited

	Note	Six months ended 30 June	
		2002 \$'000	2001 \$'000 (Note 3)
Turnover	2	892,392	1,050,409
Cost of sales		(787,329)	(948,600)
Gross profit		105,063	101,809
Other revenue		7,872	24,587
Other net income		1,301	5,087
Distribution costs		(28,188)	(89,296)
Administrative expenses		(27,781)	(43,095)
Other operating expenses		(3,815)	(7,677)
Profit/(loss) from operations		54,452	(8,585)
Non-operating income	4	16,143	13,665
Non-operating expenses	5	–	(14,113)
Finance costs	6(a)	(6,203)	(333)
Share of profits less losses of associates		105	1,699
Profit/(loss) from ordinary activities before taxation	6	64,497	(7,667)
Taxation	7	(6,125)	(1,834)
Profit/(loss) from ordinary activities after taxation		58,372	(9,501)
Minority interests		(2,299)	(307)
Profit/(loss) attributable to shareholders		56,073	(9,808)
Transfer to other reserve		1,198	Nil
Earnings/(loss) per share			
Basic	8(a)	0.62 cents	(0.12) cents
Diluted	8(b)	0.59 cents	N/A
Interim dividend		Nil	Nil

The notes on pages 6 to 15 form part of this interim financial report.

GUANGNAN (HOLDINGS) LIMITED

Consolidated Balance Sheet at 30 June 2002

(Expressed in Hong Kong dollars)

		At 30 June 2002 (Unaudited) \$'000	At 31 December 2001 (Audited) \$'000
	<i>Note</i>		
Non-current assets			
Fixed assets			
– Investment properties	9	104,055	104,044
– Other property, plant and equipment		<u>288,079</u>	<u>293,802</u>
		392,134	397,846
Construction in progress		4,373	–
Interest in associates		140,100	152,238
Investment securities		1,079	1,079
Deferred tax assets		4,957	4,957
Negative goodwill		<u>(19,415)</u>	<u>(20,250)</u>
		<u>523,228</u>	<u>535,870</u>
Current assets			
Inventories		112,519	77,337
Trade and other receivables	10	134,963	102,876
Other securities		4,819	14,240
Cash and cash equivalents		<u>202,442</u>	<u>228,001</u>
		<u>454,743</u>	<u>422,454</u>
Current liabilities			
Interest-bearing borrowings		59,383	105,877
Trade and other payables	11	325,495	277,593
Taxation		<u>7,306</u>	<u>5,136</u>
		<u>392,184</u>	<u>388,606</u>
Net current assets		<u>62,559</u>	<u>33,848</u>
Total assets less current liabilities		<u>585,787</u>	<u>569,718</u>

Consolidated Balance Sheet at 30 June 2002 (Continued)
(Expressed in Hong Kong dollars)

		At 30 June 2002 (Unaudited) \$'000	At 31 December 2001 (Audited) \$'000
	<i>Note</i>		
Non-current liabilities			
Convertible notes	12	135,000	185,000
Shareholders' loans to subsidiaries contributed by minority shareholders		11,615	11,349
		<u>146,615</u>	<u>196,349</u>
		-----	-----
Minority interests		19,868	18,395
		<u>419,304</u>	<u>354,974</u>
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Capital and reserves			
Share capital	13	899,833	894,333
Reserves		(480,529)	(539,359)
		<u>419,304</u>	<u>354,974</u>
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The notes on pages 6 to 15 form part of this interim financial report.

GUANGNAN (HOLDINGS) LIMITED

Consolidated Statement of Changes in Equity for the six months ended 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2002 \$'000	2001 \$'000
Opening balance – total equity	354,974	(523,629)
Exchanges differences arising on translation of the PRC subsidiaries and associates	<u>34</u>	<u>238</u>
Net gains not recognised in the profit and loss account	34	238
Profit/(loss) attributable to shareholders	56,073	(9,808)
Issue of share capital	<u>8,223</u>	<u>773,083</u>
Closing balance – total equity	419,304	239,884

The notes on pages 6 to 15 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement for the six months ended 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2002	2001
	<i>\$'000</i>	<i>\$'000</i>
Net cash from/(used in) operating activities	10,232	(18,727)
Net cash from/(used in) investing activities	5,988	(10,572)
Net cash (used in)/from financing	(41,779)	665
Decrease in cash and cash equivalents	(25,559)	(28,634)
Cash and cash equivalents at 1 January	228,001	109,929
Cash and cash equivalents at 30 June	202,442	81,295

(a) Discontinuing operations

Included in the above amounts are the following net cash flows related to the supermarket operations which were discontinued during the period ended 30 June 2001:

	2001
	<i>\$'000</i>
Cash flows from operating activities	(52,569)
Cash flows from investing activities	(1,502)
Cash flows from financing activities	49,386

(b) Major non-cash transaction

During the period, a loan of \$46.5 million was assigned by the lender to a fellow subsidiary.

The notes on pages 6 to 15 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 16.

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 2001 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 2001 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 17 April 2002.

The same accounting policies adopted in the 2001 annual accounts have been applied to the interim financial report.

2 Segmental information

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

Business segments

The Group comprises the following main business segments:

Tinplating	:	Production and sales of tin-plate and related products which are used as packaging materials for the food processing manufacturers.
Live and fresh foodstuffs distribution	:	Distribution of live and fresh foodstuffs.
Feed production and livestock farming	:	Production and trading of feeds, pig rearing and distribution.
Trading of foodstuffs	:	Purchase and sale of foodstuffs.
Industrial property leasing	:	Leasing of industrial properties to generate rental income.

2 Segmental information (Continued)

Business segments (Continued)

	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Trading of foodstuffs \$'000	Industrial 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 results	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>

2 Segmental information (Continued)

Business segments (Continued)

	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Trading of foodstuffs \$'000	Discontinued supermarket operations \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Consolidated \$'000
Period ended 30 June 2001							
Revenue from external customers	661,225	100,392	11,990	276,802	-	-	1,050,409
Inter-segment revenue	10	-	4,899	-	(4,909)	-	-
Other revenue from external customers	-	-	-	12,561	-	12,026	24,587
Total	661,235	100,392	16,889	289,363	(4,909)	12,026	1,074,996
Segment results	9,982	892	884	(14,599)			(2,841)
Inter-segment transactions	(10)	-	(774)	784			-
Contributions from operations	9,972	892	110	(13,815)			(2,841)
Unallocated operating income and expenses							(5,744)
Loss from operations							(8,585)
Finance costs							(333)
Share of profits less losses of associates	617	-	364	-	-	718	1,699
Non-operating income							13,665
Non-operating expenses							(14,113)
Taxation							(1,834)
Minority interests							(307)
Loss attributable to shareholders							<u>(9,808)</u>

Geographical segments

The Group's business participates in two principal economic environments. Hong Kong is the major market for live and fresh foodstuffs distribution and other foodstuffs trading, whereas the People's Republic of China (other than Hong Kong) (the "PRC") is the major market for most of the Group's other business.

	Group turnover	
	Six months ended 30 June	
	2002	2001
	\$'000	\$'000
Hong Kong	531,815	930,295
Elsewhere in the PRC	343,289	116,624
Others	17,288	3,490
	<u>892,392</u>	<u>1,050,409</u>

3 Discontinuing operations

In March 2001 and June 2001, the Group's supermarket operations were discontinued following the cessation of supermarket operations in Guangzhou and Hong Kong respectively. The net gain on liquidation of these companies amounted to \$4,828,000.

The results of the Group's operations for the previous period were analysed as follows:

	Six months ended 30 June 2001		
	Continuing operations \$'000	Discontinuing operations \$'000	Total \$'000
Turnover	773,607	276,802	1,050,409
Cost of sales	(729,656)	(218,944)	(948,600)
	43,951	57,858	101,809
Other revenue	9,637	14,950	24,587
Other net income	5,087	–	5,087
Distribution costs	(24,010)	(65,286)	(89,296)
Administrative expenses	(26,916)	(16,179)	(43,095)
Other operating expenses	(2,523)	(5,154)	(7,677)
Profit/(loss) from operations	5,226	(13,811)	(8,585)
Non-operating income	–	13,665	13,665
Non-operating expenses	(1,125)	(12,988)	(14,113)
Finance costs	(333)	–	(333)
Share of profits less losses of associates	1,699	–	1,699
Profit/(loss) from ordinary activities before taxation	5,467	(13,134)	(7,667)
Taxation	(1,834)	–	(1,834)
Profit/(loss) from ordinary activities after taxation	<u>3,633</u>	<u>(13,134)</u>	<u>(9,501)</u>

The net liabilities of the supermarket operations as at the date of discontinuance were as follows:

	2001 \$'000
Total assets	184,370
Total liabilities	<u>(190,988)</u>
Net liabilities	<u><u>(6,618)</u></u>

4 Non-operating income

		Six months ended 30 June	
		2002	2001
	<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>
Provision for stocks written back	(i)	–	13,665
Recovery of bad and doubtful debts	(ii)	16,143	–
		<hr/>	<hr/>
		16,143	13,665
		<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) 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 ended 30 June 2001, most of these stocks were disposed of above the carrying value and the redundant provision for stocks was written back to the profit and loss account accordingly.
- (ii) The amounts mainly represent the write back of provision for bad and doubtful debts previously made as the recoverability was in doubt. During the period ended 30 June 2002, certain bad debts have been recovered and the related provisions were written back to the profit and loss account accordingly.

5 Non-operating expenses

		Six months ended 30 June	
		2002	2001
		<i>\$'000</i>	<i>\$'000</i>
Provisions for diminution in value of fixed assets		–	4,872
Loss on liquidation of a subsidiary		–	1,125
Provision for amount due from associate		–	8,116
		<hr/>	<hr/>
		–	14,113
		<hr/> <hr/>	<hr/> <hr/>

6 Profit/(loss) from ordinary activities before taxation

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

	Six months ended 30 June	
	2002	2001
	<i>\$'000</i>	<i>\$'000</i>
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	2,130	333
Interest on convertible notes	4,073	–
	<u>6,203</u>	<u>333</u>
(b) Other items:		
Staff costs	24,776	36,668
Depreciation	7,045	9,713
Loss on disposal of fixed assets	–	1,155
Amortisation of negative goodwill	(835)	–
Dividend income		
– unlisted securities	(72)	–
– listed securities	(401)	(2,022)
Interest income	(2,278)	(2,934)
Profit on sale of other securities	(1,224)	–
Net unrealised gains on other securities carried at fair value	(77)	(3,472)
	<u>(77)</u>	<u>(3,472)</u>

7 Taxation

Taxation in the consolidated profit and loss account represents:

	Six months ended 30 June	
	2002	2001
	<i>\$'000</i>	<i>\$'000</i>
Provision for Hong Kong Profits Tax at 16% on the estimated assessable profits for the period	811	1,693
Over-provision in respect of prior years	(140)	–
	<u>671</u>	<u>1,693</u>
PRC income tax	5,343	29
Share of associates' taxation	111	112
	<u>6,125</u>	<u>1,834</u>

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

8 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of \$56,073,000 (period ended 30 June 2001: loss attributable to shareholders of \$9,808,000) and the weighted average of 8,995,294,185 (period ended 30 June 2001: 7,996,097,666) 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 2002 is based on the profit attributable to ordinary shareholders of \$60,146,000 and the weighted average number of ordinary shares of 10,225,301,079 shares after adjusting for the effects of all dilutive potential ordinary shares.

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

9 Fixed assets

The investment properties of the Group situated in the PRC represent land use rights together with the factory premises thereon situated in Zhongshan, the PRC. The applications for the property ownership certificates of certain of these factory premises with net book value totalling \$27,890,000 are still in progress and these property ownership certificates have not yet been issued to the Group by the relevant offices of the State-owned Land Bureau in the PRC as at the balance sheet date. The Directors are of the opinion that the Group has acquired beneficial title to these properties as at 30 June 2002 and the ownership certificates can be obtained.

10 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 2002 \$'000	At 31 December 2001 \$'000
Within 1 month	35,778	42,174
More than 1 month but less than 3 months	50,392	20,427
More than 3 months but less than 12 months	19,725	19,332
More than 1 year but less than 2 years	659	1,303
	<u>106,554</u>	<u>83,236</u>

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

11 Trade and other payables

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

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Due within 1 month or on demand	48,481	74,524
Due after 3 months but within 12 months	121	–
	<u>48,602</u>	<u>74,524</u>

12 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. During the period, \$50,000,000 convertible notes were redeemed by the Company.

13 Share capital

	At 30 June 2002		At 31 December 2001	
	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	8,943,333	894,333	909,509	90,951
Shares issued under the Open Offer (note (a))	-	-	7,730,824	773,082
Shares issued under the Placement (note (b))	-	-	300,000	30,000
Shares issued under share option schemes (note (c))	<u>55,000</u>	<u>5,500</u>	<u>3,000</u>	<u>300</u>
At 30 June/31 December	<u>8,998,333</u>	<u>899,833</u>	<u>8,943,333</u>	<u>894,333</u>

Notes:

- (a) Pursuant to the summary indicative heads of terms dated 16 December 1999 and, inter alia, a restructuring agreement dated 22 December 2000, the Group underwent a corporate reorganisation and indebtedness restructuring (the "Restructuring"). As part of the Restructuring, the Company conducted an open offer to its shareholders, excluding overseas shareholders, on the basis of 17 shares for every 2 existing shares held (the "Open Offer"). The number of shares issued at par under the Open Offer was 7,730,824,137. The proceeds of the Open Offer were used for repayment of the bridging loan of \$773 million provided by GDH Limited, the intermediate holding company.
- (b) On 8 August 2001, GDH Limited entered into a 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, which ranked pari passu in all respects with the existing issued shares (the "Placement"). The Placement was complete in August 2001.
- (c) Share option schemes

During the period ended 30 June 2002, options to subscribe for 15,200,000 shares at a price of \$0.4295 each under the share option scheme adopted on 21 November 1994 and options to subscribe for 1,000,000 shares at a price of \$0.1495 each under the share option scheme adopted on 24 August 2001 were lapsed. In January 2002, options to subscribe for 55,000,000 shares were exercised at a price of \$0.1495 each.

At 30 June 2002, the outstanding options were as follows:

Date of options granted	Period during which options exercisable	Exercise price per share	Number of options outstanding at the period end
24 August 2001	26/11/2001 to 25/11/2006	\$0.1495	231,000,000

14 Contingent liabilities

- (a) There was no guarantee given to banks at 30 June 2002 (At 31 December 2001: \$2,340,000).
- (b) During the period ended 30 June 2002, the Company has received a claim and the Directors are of the opinion that, given the status of this claim and its outcome cannot reasonably be estimated at present, no provision has been made in the interim financial report.

15 Commitments

- (a) Capital commitments outstanding as at 30 June 2002 not provided for in the accounts were as follows:

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Contracted for	4,734	35,447
Authorised but not contracted for	10,365	10,474
	<u>15,099</u>	<u>45,921</u>

- (b) At 30 June 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Within 1 year	241	442
After 1 year but within 5 years	4	65
	<u>245</u>	<u>507</u>

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

- (c) At 30 June 2002, the Company has committed to provide finance of \$6,489,000 (At 31 December 2001: \$6,489,000) to an associate of the Group.

16 Material related party transactions

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

		Six months ended 30 June	
		2002	2001
	<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>
Sales of goods to related companies	<i>(i)</i>	<u>4,865</u>	<u>118,696</u>
Purchases of goods from related companies	<i>(i)</i>	<u>15,667</u>	<u>3,808</u>
Interest income from an associate	<i>(ii)</i>	<u>1,186</u>	<u>1,683</u>
Management fee income from related companies		<u>840</u>	<u>2,520</u>
Commission paid to related companies		<u>–</u>	<u>11,922</u>
Reimbursement of expenses to an intermediate holding company		<u>509</u>	<u>489</u>
Interest on convertible notes payable to a fellow subsidiary		<u>4,073</u>	<u>–</u>
Receipt of rental and utility expenses from a fellow subsidiary		<u>1,531</u>	<u>–</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 are payable twice annually. At the balance sheet date, the outstanding loan and interest receivable from the associate amounted to \$26,208,000 (31 December 2001: \$35,990,000) and \$Nil (31 December 2001: \$1,400,000) respectively.

(b) Material balances with related parties at 30 June 2002 are as follows:

	At 30 June	At 31 December
	2002	2001
	<i>\$'000</i>	<i>\$'000</i>
Convertible notes held by a fellow subsidiary <i>(note 12)</i>	<u>135,000</u>	<u>185,000</u>

Other balances with related parties at 30 June 2002 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) above.

17 Post balance sheet events

- (a) Subsequent to the balance sheet date, options to subscribe for 30,000,000 shares at a price of \$0.1495 each under the share option scheme adopted on 24 August 2001 were lapsed and unexercised.
- (b) Subsequent to the balance sheet date, convertible notes with a principal amount of \$40,000,000 were redeemed by 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 15.

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 2002.

KPMG

Certified Public Accountants

Hong Kong, 12 September 2002

INTERIM DIVIDENDS

The Directors resolved not to declare the payment of interim dividend for the six months ended 30 June 2002 (period ended 30 June 2001: Nil).

BUSINESS REVIEW

With the continuing strenuous efforts in adjusting the management structure, improving the product mix, integrating resources in all areas of operation, developing potential and enhancing efficiency, tightening cost and financial control, the Group achieved overall operating efficiency and recorded noticeable improvement in operating results for the first half of 2002.

For the period under review, the Group recorded a total turnover of HK\$892,392,000, representing a 15% decline from the same period of last year. The drop in turnover was largely due to the cessation of the loss-making supermarket operations during the first half of 2001 and the declining business as suffered by the live and fresh foodstuffs operation. Despite the fall in the turnover, the Group was able to increase gross profit by 3.2% from HK\$101,809,000 in the same period of last year to HK\$105,063,000 and to improve the average gross profit margin from 9.7% to 11.8%. The improvement in average gross profit margin was attributable to the Group's successful effort in maximizing profit margins by shifting its product mix to products with higher gross profit margin, discontinuing the loss-making products and tightening the cost control. Coupled with the stringent cost control measures and the cessation of the loss-making supermarket operations, the Group also succeeded in reducing its expenses. Consequently, the total of distribution costs, administrative expenses and other operating expenses as a percentage of turnover reduced from 13.3% in the same period of last year to 6.7%. The Group's severe loss-making supermarket operations had been discontinued since the first half of 2001 and the operations in tinplating and industrial property leasing which were re-acquired in December 2001 have contributed remarkable profits to the Group. As a result, the Group posted a turnaround in profit to HK\$56,073,000 for the six months ended 30 June 2002, from a loss of HK\$9,808,000 for the same period in last year. Earnings per share were 0.62 cents, against loss of 0.12 cents per share previously.

OPERATION REVIEW

Tinplating and Industrial Property Leasing

The operations in tinplating and industrial property leasing, which were successfully acquired by the Group in December 2001, become a major growth driver and profit contributor of the Group. For the six months ended 30 June 2002, the newly acquired operations reported a turnover of HK\$276,746,000 and contributed an operating profit of HK\$46,490,000 which respectively accounted for 31% of the Group's total turnover and 85.4% of the Group's total operating profits.

During the first half of the year, the tinplating operation controlled the rising material cost through the forward purchase contracts, strategically promoted the high profit margin products and intensified the promotion sales effort in positioning the products to meet the increasing market demand. As a result, it bolstered both the sales and profit growth. For the six months ended 30 June 2002, it reported a sales growth of 17.1% over the same period of last year and the average gross profit margin rising from 12.8% in the previous corresponding period to 20.4%, resulting in a surge in the operating profit by 34.7% as compared with the same period of last year.

Live and Fresh Foodstuffs Distribution

The live and fresh foodstuffs distribution operation is the Group's traditional business. As affected by the substantial increases in market competition following the PRC's accession to the World Trade Organization ("WTO") and hit by the bird flu outbreak in the first quarter of this year, total turnover contributed by the business dropped by 23.8% from HK\$661,225,000 in the same period of last year to HK\$503,541,000. Although the business was facing a difficult operating environment, it still recorded an operating profit of HK\$6,576,000, representing a 34.1% decline compared to the same period of last year.

In order to fortify the traditional live and fresh foodstuffs distribution operation to meet the ever changing market competition, the Group put vigorous efforts to reposition its business focus and to readjust its operational strategies. These efforts are particularly directed at building up an effective incentive scheme to develop the direct selling operation of live chicken, looking for strategic partners to build up live and fresh foodstuffs production center and exploring the new frozen poultry business.

Trading of Foodstuffs

The trading of foodstuffs operation reported strong growth in turnover, reaching HK\$44,748,000 which was 2.7 times over the turnover of HK\$11,990,000 for the same period of last year. The surge in turnover was mainly attributable to the competitively priced and diversified frozen food products, which were well positioned to capture the market demand. With the sharp increase in the turnover, the operation yielded an operating profit of HK\$1,016,000, representing 8.2 times over the profit for the same period of last year.

Feed Production and Livestock Farming

The feed production and livestock farming operations registered a turnover of HK\$67,357,000, representing a 32.9% decline from the turnover of HK\$100,392,000 for the same period of last year. The drop in turnover was largely attributable to the discontinuance of certain loss-making feed products.

Notwithstanding the decline in turnover, the operations saw a rise in operating profit by 40% from HK\$892,000 in the same period of last year to HK\$1,251,000. The notable improvement in profitability was attributable to the strategic refocus of the sales mix: shifting from discontinuance of the loss-making poultry feed products and moving towards the higher-margin shrimp feed products. As a result, the average gross profit margin of the feed products was up from 3.5% in the same period of last year to 9.7%.

The Group's feed production operation is located in Zhan Jiang of Guangdong province where the aquatic food industry is developing fast. It is expected that the aqua feed market would have great growing potential prospect. In order to capitalize the growing demand for the aqua feed products, the Group enhanced the production facility for the shrimp feed products in May 2002, raising the monthly production for the shrimp feed products from 400 tonnes to 1,000 tonnes. The Group is now exploring the feasibility to further expand the production line for the shrimp feed products. Following the readjustment of the product mix, the Group believes that profit contribution from the feed production operation will notably increase.

FINANCIAL POSITION

At 30 June 2002, the Group's total assets amounted to HK\$977,971,000 and total liabilities stood at HK\$538,799,000 which were respectively increased by HK\$19,647,000 and declined by HK\$46,156,000 as compared with the position as at the year end date of 2001. The net current assets of the Group increased from HK\$33,848,000 as at 31 December 2001 to HK\$62,559,000 as at 30 June 2002 and the current ratio (current assets divided by current liabilities) edged up by 0.07 times. The Group's financial position has further enhanced since the last financial year-end date, indicating a steady move towards improving results and paving the way for future business expansion.

Liquidity and Financing Resources

At 30 June 2002, the Group maintained cash balances of HK\$202,442,000, down 11.2% from the cash balances as at 31 December 2001. The decrease in cash balances was mainly due to the early redemption of HK\$50,000,000 interest-bearing convertible notes.

The Group's interest bearing borrowings are repayable on demand and carry interest at annual rates ranging from 6.5% to 7.5%. At the end of the period under review, the Group's interest bearing borrowings together with the convertible notes, totalled HK\$194,383,000. 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 46.4%, representing a sharp decrease of 35.5% from the 81.9% as at 31 December 2001.

One of the Group's subsidiaries in the PRC has secured banking facility for letters of credit in a total amount of US\$6,000,000 of which US\$4,387,000 was utilized by the end of interim period. 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.

Charges on Group Assets

As mentioned in the annual report of the Company for the year ended 31 December 2001, certain land & buildings of a 51%-owned subsidiary in the PRC, namely Dongguan Guangnan Stock Development Co. Ltd. (the "Subsidiary"), with gross carrying amount of HK\$10,373,000, have been pledged to a bank for a loan of HK\$8,480,000 granted to a minority shareholder of the Subsidiary. A provision of HK\$10,373,000 was made in the previous year.

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

As at 30 June 2002, the Group has a total of 826 employees, of whom 57 based in Hong Kong and 769 based in the PRC. Employees' remuneration is determined in accordance with their performance, experience and prevailing industry practice. Discretionary bonus will be awarded to employees based on individual performance and the Group's performance under a reward evaluation policy. In addition, a share option scheme has been adopted since 24 August 2001 under which share options were or will be granted to members of the senior and middle management as incentive and award for their contribution to the Group.

The Group has established a Compensation Committee to be responsible for receiving advice and making recommendations to the Board with respect to the remuneration policies of senior employees. The Committee comprises the Chairman, the General Manager and three independent non-executive Directors. During the first half of 2002, one compensation committee meeting was held to explore relevant issues.

PROSPECT

Following the successful completion of its major debt restructuring by the end of 2000 and a year of hard work in 2001, the Group has achieved satisfactory progress in respect of various aspects, including the cessation of its severe loss-making supermarket operations, the elimination of the non-performing assets and loss-making business, the successful acquisition of Zhongshan Zhongyue Tinplate Industrial Co. Ltd. and Zhongshan Shan Hai Industrial Co. Ltd., exploring new business opportunities and laying foundation for stable and progressive growth. With vigorous efforts in re-engineering the business, undertaking the stringent cost control measures and raising the overall operating quality, the Group has recovered its strength in its operations and achieved noticeable improvement in its asset base, financial position and operating results.

While the business environment continues to present great challenges, the Group is committed to implementing measures on stringent cost control and operating efficiency. The management considers that the Group will consolidate the "result-oriented" management philosophy and will continue to adjust its business model to take advantage of emerging opportunities, to actively explore into new and quality investment opportunities with good potential in profitability, to expedite the adjustments in both business structure and product mix and to reinforce the financial management and control. The management also believes that the Group will leverage its capacities and operating results to create a new fresh look to the market and will progress towards a healthy development prospect.

AUDIT COMMITTEE

In compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company established an Audit Committee in July 1999. Members of the Audit Committee currently comprise three independent non-executive Directors of the Company. Two meetings of the Audit Committee were held in the first half of this year, during which the annual report of the Group for the year ended 31 December 2001 was reviewed and discussed prior to recommending the accounts to the Board of Directors of the Company for approval.

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES

As at 30 June 2002, 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 Listing Rules:

(I) Share

(i) The Company

Name	Number of Ordinary Shares held
Liang Jiang	300,000
Woo Ching Yee	2,000,000

(ii) Guangdong Investment Limited

Name	Number of Ordinary Shares held
Liang Jiang	310,000
Li Li (Resigned on 31 July 2002)	520,000

(iii) Guangdong Brewery Holdings Limited

Name	Number of Ordinary Shares held
Luo Fanyu	70,000

(iv) Guangdong Tannery Limited

Name	Number of Ordinary Shares held
Luo Fanyu	70,000
Hou Zhuobing (Resigned on 31 July 2002)	10,000

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES
(Continued)

(II) Share Options

The Company

As at 30 June 2002, the Directors of the Company did not have any interests in rights to subscribe for shares of the Company under the share option scheme adopted by the Company on 21 November 1994 ("1994 Share Option Scheme"). Certain employees and other participants of the Company had the following interests in rights to subscribe for shares of the Company granted under the 1994 Share Option Scheme of the Company. Each option gives the holder the right to subscribe for one share of par value HK\$0.1 each of the Company.

Category or Name	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 option HK\$	During the period number of share options			Number of share options held on 30 June 2002 '000
		Held on 1 January 2002 '000	Granted during the period '000				Exercised '000	Lapsed '000	Cancelled '000	
		Employees and other participants	11/02/1998				15,200	-	12/02/1999 to 10/02/2002	

The vesting period of the share options is from the date of grant until the commencement of the exercise period.

As at 30 June 2002, the Directors and certain employees of the Company had the following interests in rights to subscribe for shares of the Company granted under the share option scheme adopted by the Company on 24 August 2001. Each option gives the holder the right to subscribe for one share of par value HK\$0.1 each of the Company.

Category or Name	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 option HK\$	During the period number of share options			Share price (**)		
		Held on 1 January 2002 '000	Granted during the period '000				Exercised '000	Lapsed '000	Cancelled '000	Number of share options held on 30 June 2002 '000	At grant date of options during the period HK\$	At exercise date of options during the period HK\$
		Directors										
Ye Xuquan (resigned on 14 January 2002)	24/08/2001	55,000	-	26/11/2001 to 25/11/2006*	10	0.1495	55,000	-	-	-	-	0.235
Li Li (resigned on 31 July 2002)	24/08/2001	45,000	-	26/11/2001 to 25/11/2006*	10	0.1495	-	-	-	45,000	-	-
Chen Lizhong (resigned on 10 June 2002)	24/08/2001	35,000	-	26/11/2001 to 25/11/2006*	10	0.1495	-	-	-	35,000	-	-
Employees	24/08/2001	152,000	-	26/11/2001 to 25/11/2006*	10	0.1495	-	1,000	-	151,000	-	-

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES
(Continued)

(II) Share Options (Continued)

- # 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.
- ** The share price disclosed as at the date of exercise of share options is the Hong Kong Stock Exchange closing price of the shares of the Company on the trading day immediately prior to the date of exercise of the share options.

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company held by the Directors in trust for the Company, as at 30 June 2002, none of the Directors and chief executive of the Company had or was deemed to have any interest in the equity or debt 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 equity or debt securities of the Company, or had exercised any such right.

During the period, no share options were granted by the Company or its subsidiaries.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, 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 beneficially held	Percentage holding
Guangdong Yue Gang Investment Holdings Company Limited ("Yue Gang")	5,359,264,680 (Note)	59.56%
GDH Limited ("GDH")	5,359,264,680	59.56%

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 2002.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH 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 2002, 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, 12 September 2002