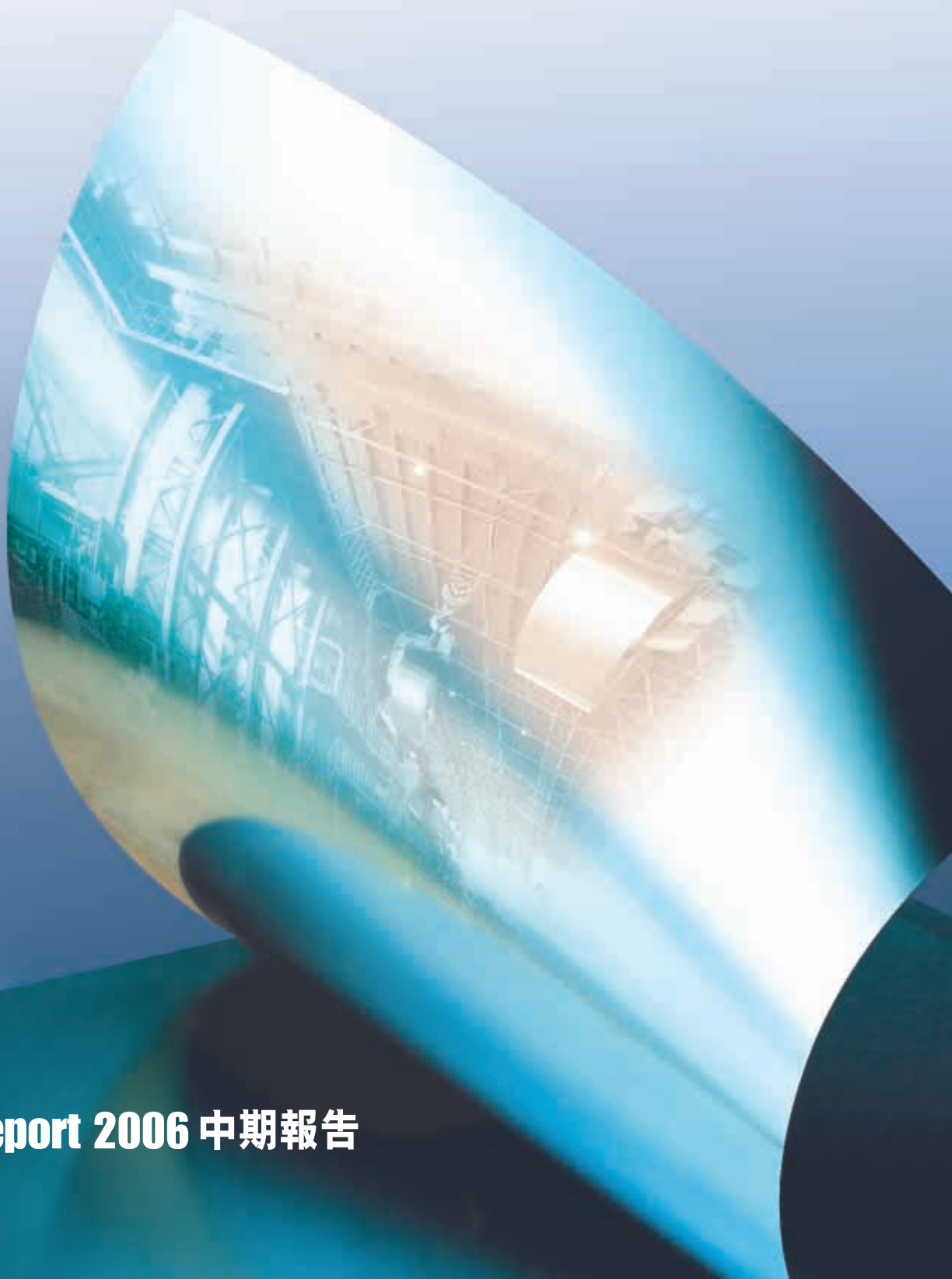




GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

Stock Code 股份代號 : 1203



Interim Report 2006 中期報告

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CORPORATE INFORMATION

Board of Directors

Executive Directors

LIANG Jiang (*Chairman*)
TAN Yunbiao (*General Manager*)
TSANG Hon Nam (*Chief Financial Officer*)

Non-executive Directors

ZHAO Leili
LUO Fanyu
HOU Zhuobing

Independent Non-executive Directors

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

Company Secretary

CHEUNG Mo Ching

Auditors

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

Principal Bankers

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

Registered Office

22/F., Tesbury Centre
No. 24–32 Queen's Road East
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Telephone: (852) 2828 3938
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Website: <http://www.gdguangnan.com>

Share Registrar

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

Share Information

<i>Place of Listing</i>	Main Board of The Stock Exchange of Hong Kong Limited
<i>Stock Code</i>	1203
<i>Board lot</i>	2000 shares
<i>Financial year end</i>	31 December

Shareholders' Calendar

<i>Closure of Register of Members</i>	4 October 2006 and 5 October 2006
<i>Interim Dividend Payable</i>	HK1.5 cents per share 18 October 2006

The Board of Directors (the “Board”) 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 2006 together with comparative figures. The results have been reviewed by the Company’s auditors, KPMG, and the Company’s audit committee.

INTERIM RESULTS

Consolidated profit and loss account for the six months ended 30 June 2006 — unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2006 \$'000	2005 \$'000
Turnover	2	622,781	399,791
Cost of sales		<u>(541,695)</u>	<u>(343,515)</u>
Gross profit		81,086	56,276
Other revenue		6,532	7,248
Other net income	3	8,585	215
Distribution costs		(10,913)	(5,870)
Administrative expenses		(23,538)	(15,945)
Other operating expenses		(6,500)	(40)
Profit from operations		55,252	41,884
Non-operating income		—	44,509
Net valuation gains on investment properties		5,867	22,149
Finance costs	4(a)	(1,436)	—
Share of profits less losses of associates		<u>11,762</u>	<u>11,954</u>
Profit before taxation	4	71,445	120,496
Income tax	5	<u>(10,409)</u>	<u>(885)</u>
Profit for the period		<u>61,036</u>	<u>119,611</u>

Consolidated profit and loss account for the six months ended 30 June 2006 — unaudited
(continued)
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2006 \$'000	2005 \$'000
Attributable to:			
Equity shareholders of the Company		58,624	117,355
Minority interests		<u>2,412</u>	<u>2,256</u>
Profit for the period		<u>61,036</u>	<u>119,611</u>
Transfer to other reserves		<u>1,734</u>	<u>876</u>
Earnings per share			
Basic	7(a)	6.5 cents	13.0 cents
Diluted	7(b)	<u>6.5 cents</u>	<u>13.0 cents</u>

Consolidated balance sheet at 30 June 2006 — unaudited
(Expressed in Hong Kong dollars)

		At 30 June 2006 \$'000	At 31 December 2005 \$'000
	<i>Note</i>		
Non-current assets			
Fixed assets			
— Investment properties		214,533	207,496
— Other property, plant and equipment	8(a)	315,860	167,580
— Interest in leasehold land held for own use under operating leases		<u>58,533</u>	<u>59,330</u>
		588,926	434,406
Interest in associates		170,612	176,003
Other non-current financial assets		<u>46</u>	<u>46</u>
		<u>759,584</u>	<u>610,455</u>
Current assets			
Trading securities		3,059	3,059
Inventories	9	157,280	236,259
Trade and other receivables	10	301,645	291,986
Cash and cash equivalents	11	<u>186,139</u>	<u>96,871</u>
		<u>648,123</u>	<u>628,175</u>
Current liabilities			
Bank loans secured by bill receivables		116,954	26,991
Trade and other payables	12	223,727	200,604
Current taxation		<u>17,832</u>	<u>19,602</u>
		<u>358,513</u>	<u>247,197</u>
Net current assets		<u>289,610</u>	<u>380,978</u>
Total assets less current liabilities		<u>1,049,194</u>	<u>991,433</u>

Consolidated balance sheet at 30 June 2006 — unaudited *(continued)*
(Expressed in Hong Kong dollars)

		At 30 June 2006 \$'000	At 31 December 2005 \$'000
Non-current liabilities			
Deferred tax liabilities		<u>14,908</u>	<u>12,217</u>
Net assets		<u>1,034,286</u>	<u>979,216</u>
Capital and reserves			
Share capital	13	450,792	450,792
Reserves		<u>555,707</u>	<u>499,090</u>
Total equity attributable to equity shareholders of the Company	13	<u>1,006,499</u>	949,882
Minority interests	13	<u>27,787</u>	<u>29,334</u>
Total equity	13	<u>1,034,286</u>	<u>979,216</u>

**Consolidated statement of changes in equity for the six months ended 30 June 2006 —
unaudited**

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June			
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Total equity at 1 January:					
Attributable to:					
— Equity shareholders of the Company	13	949,882		760,915	
— Minority interests	13	<u>29,334</u>		<u>24,786</u>	
At 1 January	13		<u>979,216</u>		<u>785,701</u>
Net income for the period recognised directly in equity:					
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	13	5,232		(270)	
Share of associates' reserves	13	<u>1,659</u>		<u>(26)</u>	
			<u>6,891</u>		<u>(296)</u>
Net profit for the period:					
Net profit for the period	13		<u>61,036</u>		<u>119,611</u>
Total recognised income and expense for the period carried forward			<u>67,927</u>		<u>119,315</u>

**Consolidated statement of changes in equity for the six months ended 30 June 2006 —
unaudited** (continued)

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June			
		2006		2005	
		\$'000	\$'000	\$'000	\$'000
Total recognised income and expense for the period brought forward			<u>67,927</u>		<u>119,315</u>
Attributable to:					
— Equity shareholders of the Company		65,275		117,074	
— Minority interests		<u>2,652</u>		<u>2,241</u>	
		<u>67,927</u>		<u>119,315</u>	
Dividends declared to:					
— minority shareholders	13		(4,199)		(2,212)
— equity shareholders of the Company			<u>(13,524)</u>		<u>—</u>
			<u>(17,723)</u>		<u>(2,212)</u>
Capital contribution by minority shareholders	13		<u>—</u>		<u>2,207</u>
Movements in equity arising from capital transactions:					
Equity settled share-based transactions	13		<u>4,866</u>		<u>—</u>
Total equity at 30 June	13		<u>1,034,286</u>		<u>905,011</u>

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The notes on pages 10 to 22 form part of this interim financial report.

**Condensed consolidated cash flow statement for the six months ended 30 June 2006 —
unaudited**

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2006 \$'000	2005 \$'000
Cash generated from/(used in) operations		111,035	(22,770)
Tax paid		<u>(9,617)</u>	<u>(5,840)</u>
Net cash from/(used in) operating activities		101,418	(28,610)
Net cash used in investing activities		(88,917)	(23,189)
Net cash from financing activities		<u>76,439</u>	<u>—</u>
Increase/(decrease) in cash and cash equivalents		88,940	(51,799)
Cash and cash equivalents at 1 January	11	96,871	288,749
Effect of foreign exchange rates changes		<u>328</u>	<u>—</u>
Cash and cash equivalents at 30 June	11	<u>186,139</u>	<u>236,950</u>

The notes on pages 10 to 22 form part of this interim financial report.

Notes to the unaudited interim financial report

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 15 September 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company and by the auditors, KPMG, in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 23.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information 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 2005 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 April 2006.

2. Turnover and segment reporting

The Group’s primary format for reporting segment information is business segments. Revenue from external customers (turnover) represents the sales value of goods supplied to customers and rental income.

Business segments

The Group comprises the following main business segments:

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

2. Turnover and segment reporting (continued)

	Tinplating \$'000	Foodstuffs distribution and trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Consolidated \$'000
		Note (i)				
Period ended 30 June 2006						
Revenue from external customers	569,047	42,149	11,585	—	—	622,781
Inter-segment revenue	1,038	115	71	(1,224)	—	—
Other revenue from external customers	—	—	—	—	13,460	13,460
Total	570,085	42,264	11,656	(1,224)	13,460	636,241
Segment result	35,661	8,381	8,159	—	—	52,201
Unallocated operating income and expenses						3,051
Profit from operations						55,252

Notes:

- (i) During the period, foodstuffs trading and live and fresh foodstuffs distribution have been combined into one business segment consistent with the Group's system of internal financial reporting. The comparative figures have been adjusted to conform with current period's presentation.
- (ii) The directors consider that change in fair value on investment properties does not constitute part of the Group's operating performance. As a result, net valuation gains or losses on investment properties are included after profit from operations. The comparative figures have been adjusted to conform with the current period's presentation.

	Tinplating \$'000	Foodstuffs distribution and trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Consolidated \$'000
		Note (i)				
Period ended 30 June 2005						
Revenue from external customers	332,477	54,407	12,907	—	—	399,791
Inter-segment revenue	977	—	56	(1,033)	—	—
Other revenue from external customers	—	—	—	—	5,160	5,160
Total	333,454	54,407	12,963	(1,033)	5,160	404,951
Segment result	24,246	7,714	9,287	—	—	41,247
Unallocated operating income and expenses						637
Profit from operations						41,884

3. Other net income

	Note	Six months ended 30 June	
		2006 \$'000	2005 \$'000
Write-back of long-outstanding payables	(i)	3,444	—
Recovery of bad debts	(ii)	1,034	—
Exchange gain		4,109	182
Others		(2)	33
		<u>8,585</u>	<u>215</u>

Notes:

- (i) The amount mainly represents the write-back of liabilities which have been outstanding for a long period of time with no demand for settlement. The directors are of the opinion that the creditors will not lodge claims against the Group.
- (ii) The amount mainly represents the recovery of bad debts previously provided for or written off to the consolidated profit and loss account as the recoverability was in doubt. During the period, certain of these bad debts were recovered and the related provisions were written back to the consolidated profit and loss account accordingly.

4. Profit before taxation

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

	Note	Six months ended 30 June	
		2006 \$'000	2005 \$'000
(a) Finance costs:			
Interest on bank borrowings wholly repayable within 5 years (discounted bills)		<u>1,436</u>	<u>—</u>
(b) Staff costs:			
Net contributions paid to defined contribution plans		1,123	497
Salaries, wages and other benefits		12,874	12,127
Equity settled share-based payment expenses		<u>4,866</u>	<u>—</u>
		<u>18,863</u>	<u>12,624</u>

4. Profit before taxation (continued)

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

	Note	Six months ended 30 June	
		2006 \$'000	2005 \$'000
(c) Other items:			
Amortisation of land lease premium		888	123
Depreciation		5,450	2,464
Dividend income from trading securities		(118)	(118)
Operating lease charges in respect of properties		473	297
Share of associates' taxation	(i)	3,414	3,679
Rentals receivable from investment properties less direct outgoings of \$748,000 (30 June 2005: \$801,000)		<u>(10,837)</u>	<u>(12,106)</u>

Note:

- (i) Income tax for associates established and operating in the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC.

5. Income tax in the consolidated profit and loss account

Taxation in the consolidated profit and loss account represents:

	Note	Six months ended 30 June	
		2006 \$'000	2005 \$'000
Current tax — Provision for Hong Kong Profits Tax			
Provision for Hong Kong Profits Tax at 17.5% on the estimated assessable profits for the period		<u>1,038</u>	<u>1,522</u>
Current tax — the PRC			
Tax for the period		6,827	9,196
Under-provision in respect of prior years		—	612
Tax refund for re-investment	(i)	<u>—</u>	<u>(12,030)</u>
		<u>6,827</u>	<u>(2,222)</u>
Deferred tax			
Origination and reversal of temporary differences		<u>2,544</u>	<u>1,585</u>
	(ii)	<u>10,409</u>	<u>885</u>

5. Income tax in the consolidated profit and loss account (continued)

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

Notes:

- (i) The Group successfully obtained tax refunds of PRC Enterprise Income Tax from the Tax Bureau of Zhongshan following the capitalisation of retained earnings of Zhongshan Zhongyue Tinplate Industrial Co., Ltd ("Zhongyue Tinplate") during the year ended 31 December 2004.
- (ii) 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.
- (iii) Zhongyue Tinplate is entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in the income tax rate for the third to fifth years on its third production line. According to the approval from Tax Bureau of Zhongshan, the proportion of income tax exempted arising from Zhongyue Tinplate's third production line is determined based on the 40% of the Zhongyue Tinplate's overall taxable income.

6. Dividends

- (a) Dividend attributable to the period

	Six months ended 30 June	
	2006	2005
	\$'000	\$'000
Interim dividend declared and paid after the period of 1.5 cents per ordinary share (30 June 2005: Nil)	<u>13,524</u>	<u>—</u>

The interim dividend has not been recognised as a liability at the balance sheet date.

- (b) Dividend attributable to the previous financial year, approved and paid during the period

	Six months ended 30 June	
	2006	2005
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the period of 1.5 cents per ordinary share (30 June 2005: Nil) (Note 13)	<u>13,524</u>	<u>—</u>

7. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$58,624,000 (30 June 2005: \$117,355,000) and the number of 901,583,285 (30 June 2005 (restated): 901,583,285) ordinary shares in issue during the period.

Pursuant to the share consolidation of the Company whereby ten ordinary shares of nominal value of \$0.05 each were consolidated into one ordinary share of nominal value of \$0.5 each in December 2005, the basic earnings per share for the period ended 30 June 2005 has been adjusted accordingly.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the period ended 30 June 2006 is based on the profit attributable to ordinary equity shareholders of the Company of \$58,624,000 and the weighted average number of ordinary shares of 901,725,417 after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option schemes. The diluted earnings per share for the period ended 30 June 2005 is the same as the basic earnings per share as the potential ordinary shares outstanding during the period ended 30 June 2005 were anti-dilutive.

8. Fixed assets

(a) *Acquisitions and disposals*

During the six months ended 30 June 2006, the Group acquired items of property, plant and equipment with a cost of \$155,672,000 (30 June 2005: \$37,016,000).

(b) *Valuation of investment properties*

Investment properties situated in Hong Kong carried at fair value were revalued on an open market value basis at 30 June 2006 by an independent firm of surveyors, RHL Appraisal Limited, who have among their staff Fellows of Hong Kong Institute of Surveyors. Investment properties situated in the Mainland China carried at fair value were revalued by an independent firm of valuers in the PRC, 廣州朗樺會計事務所有限公司 — 中國註冊房地產估價師, on an open market value basis. Based on the valuations, a net gain of \$5,867,000 (30 June 2005: \$22,149,000), and deferred tax thereon of \$1,738,000 (30 June 2005: \$1,585,000), have been included in the consolidated profit and loss account.

(c) *Impairment losses*

Based on management's assessment of the recoverable amount of certain fixed assets, an impairment loss of \$3,178,000 has been recognised and included in other operating expenses in the consolidated profit and loss account. The estimate of the recoverable amount is based on a valuation by an independent firm of valuers in the PRC, Guangdong Yangcheng CPAs Co., Ltd, on an open market value basis. The carrying amount of the fixed assets after provision for the impairment loss amounted to \$10,400,000 as at 30 June 2006.

8. Fixed assets (continued)

(d) Leases

The Group leases out investment properties under operating leases. The leases run for an initial period of one to twenty eight years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amount of investment properties of the Group held for use in operating leases was \$214,533,000 (31 December 2005: \$207,496,000).

9. Inventories

Inventories in the consolidated balance sheet comprise:

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Raw materials	93,158	142,343
Finished goods	61,781	88,183
Spare parts and consumables	2,341	5,733
	<u>157,280</u>	<u>236,259</u>

Based on management's assessment of the net realisable value of certain spare parts and consumables, the amount of write-down of inventories to estimated net realisable value during the period amounted to \$3,156,000 (30 June 2005: Nil), which is included in other operating expenses in the consolidated profit and loss account.

10. Trade and other receivables

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

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Within 1 month	130,979	76,003
1 to 3 months	132,044	74,666
More than 3 months but less than 12 months	31,757	63,210
	<u>294,780</u>	<u>213,879</u>

The Group maintains a credit policy ranging from advance payment to not more than 180 days (31 December 2005: 180 days).

11. Cash and cash equivalents

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

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Deposits with banks	79,817	47,815
Cash at bank and in hand	<u>106,322</u>	<u>49,056</u>
	(i) <u>186,139</u>	<u>96,871</u>

Note:

- (i) Included in cash and cash equivalents is a balance of RMB56,108,000 (31 December 2005: RMB29,049,000). Renminbi is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

12. Trade and other payables

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

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Due within 1 month or on demand	<u>98,782</u>	<u>95,447</u>

13. Capital and reserves

	Attributable to equity shareholders of the Company								Minority interests	Total equity
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Other reserves	Accumulated losses	Total		
Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2005	901,583	1,747,098	971	48,814	(948)	1,450	(1,938,053)	760,915	24,786	785,701
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	—	(255)	—	—	(255)	(15)	(270)
Transfer to statutory reserves	—	—	—	—	—	876	(876)	—	—	—
Share of associates' reserves	—	—	—	—	(26)	—	—	(26)	—	(26)
Dividend declared to minority shareholders	—	—	—	—	—	—	—	—	(2,212)	(2,212)
Capital contribution by minority shareholders	—	—	—	—	—	—	—	—	2,207	2,207
Profit for the period	—	—	—	—	—	—	117,355	117,355	2,256	119,611
At 30 June 2005	<u>901,583</u>	<u>1,747,098</u>	<u>971</u>	<u>48,814</u>	<u>(1,229)</u>	<u>2,326</u>	<u>(1,821,574)</u>	<u>877,989</u>	<u>27,022</u>	<u>905,011</u>

13. Capital and reserves (continued)

Note	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Special capital reserve	Other reserves	(Accumulated losses)/ retained profits	Total	Minority interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2005	901,583	1,747,098	971	48,814	(1,229)	—	2,326	(1,821,574)	877,989	27,022	905,011
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	—	9,892	—	—	—	9,892	552	10,444
Transfer to statutory reserves	—	—	—	—	—	—	457	(457)	—	—	—
Share of associates' reserves	—	—	—	—	3,635	—	—	—	3,635	—	3,635
Dividend declared to minority shareholders	—	—	—	—	—	—	—	—	—	(20)	(20)
Reserve realised upon liquidation of a subsidiary	—	—	—	—	(38)	—	—	—	(38)	—	(38)
Elimination upon capital reorganisation	(450,791)	(1,747,098)	(971)	(48,157)	—	107,440	—	2,139,577	—	—	—
Profit for the period	—	—	—	—	—	—	—	58,404	58,404	1,780	60,184
At 31 December 2005	450,792	—	—	657	12,260	107,440	2,783	375,950	949,882	29,334	979,216

Note	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Special capital reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2006	450,792	—	—	657	12,260	107,440	2,783	375,950	949,882	29,334	979,216
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	—	4,992	—	—	—	4,992	240	5,232
Equity settled share-based transactions (i)	—	—	—	4,866	—	—	—	—	4,866	—	4,866
Share of associates' reserves	—	—	—	—	1,659	—	—	—	1,659	—	1,659
Transfer to statutory reserves	—	—	—	—	—	—	1,734	(1,734)	—	—	—
Dividends declared to minority shareholders	—	—	—	—	—	—	—	—	—	(4,199)	(4,199)
Dividends paid to shareholders 6(b)	—	—	—	—	—	—	—	(13,524)	(13,524)	—	(13,524)
Profit for the period	—	—	—	—	—	—	—	58,624	58,624	2,412	61,036
At 30 June 2006	450,792	—	—	5,523	18,911	107,440	4,517	419,316	1,006,499	27,787	1,034,286

13. Capital and reserves (continued)

(i) Equity settled share-based transactions

On 9 March 2006, 11,770,000 share options were granted for nominal consideration to employees, directors and non-executive directors of the Company under the Company's share option scheme (no share option was granted during the six months ended 30 June 2005). Each option gives the holder the right to subscribe for one ordinary share of \$0.50 each of the Company. These share options will vest on 9 June 2006 and then be exercisable until 8 March 2016. The exercise price is \$1.66, being the average closing price of the Company's ordinary shares for the five business days immediately preceding the date of grant of the share options.

No option was exercised during the six months ended 30 June 2006 (30 June 2005: nil).

Total options outstanding at 30 June 2006 are 23,560,000 (31 December 2005: 11,790,000) and the weighted average exercise price is \$1.609 (31 December 2005: \$1.557).

14. Retirement benefits scheme

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the Group and administered by an independent trustee. Under the MPF Scheme, the Group and its employees are each required to make a contribution to the Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000 (the "Cap"). The amounts in excess of the Cap are contributed to the MPF Scheme by both employers and employees as voluntary contributions. Mandatory contributions to the MPF Scheme are vested to the employees immediately. Any unvested balance from voluntary contributions is refunded to the Group.

Employees engaged by the Group outside Hong Kong are covered by the appropriate local defined contribution schemes pursuant to the local labour rules and regulations.

The Group's pension cost charged to the profit and loss account for the six months ended 30 June 2006 was \$1,123,000 (30 June 2005: \$497,000).

15. Commitments

- (a) *Capital commitments outstanding at 30 June 2006 not provided for in the financial statements were as follows:*

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Contracted for	162,399	131,433
Authorised but not contracted for	<u>43,089</u>	<u>168,005</u>
	<u>205,488</u>	<u>299,438</u>

- (b) *At 30 June 2006, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:*

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Within 1 year	815	697
After 1 year but within 5 years	<u>142</u>	<u>385</u>
	<u>957</u>	<u>1,082</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 the terms are renegotiated. None of the leases includes contingent rentals.

- (c) At 30 June 2006, the Company is committed to provide finance of \$6,489,000 (31 December 2005: \$6,489,000) to an associate of the Group.

16. Material related party transactions

Other than those disclosed elsewhere in the interim financial report, the Group entered into the following material related party transactions.

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

	Note	Six months ended 30 June	
		2006 \$'000	2005 \$'000
Sales of goods to related companies	(i)	<u>—</u>	<u>1,180</u>
Purchases of goods from related companies	(i)	<u>476</u>	<u>608</u>
Provision of electricity/water and leasing services to fellow subsidiaries		<u>2,092</u>	<u>1,665</u>
Maintenance fee paid to the immediate holding company		<u>189</u>	<u>204</u>

Note:

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

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

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

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

- Sales and purchase of goods and ancillary materials;
- Rendering and receiving services;
- Lease of assets;
- Purchase of property, plant and equipment; and
- Obtaining finance.

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

16. Material related party transactions (continued)

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

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

(c) Key management personnel remuneration

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

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
Short-term employee benefits	1,555	1,553
Post-employment benefits	239	237
Equity compensation benefits	1,778	—
	<u>3,572</u>	<u>1,790</u>

17. Non-adjusting post balance sheet events

On 13 September 2006, the Group entered the contracts to acquire from the minority shareholder the 5% equity interest and dividend payable respectively in Zhongyue Tinplate and Zhongshan Shan Hai Industrial Co., Ltd ("Shanghai") for a consideration of US\$499,000.

Zhongyue Tinplate and Shanghai will become wholly-owned subsidiaries of the Company when the approval is obtained from the relevant PRC authorities.

18. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2006

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2006:

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

The above amendments, new standards and interpretations were not applied in this interim financial report because the directors expect that the Group will not early apply them, where applicable when preparing the Group's annual financial statements for the year ending 31 December 2006.

The Group is in the process of making an assessment of the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.



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 22.

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 Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public 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 Institute of Certified Public 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 six months ended 30 June 2006.

KPMG

Certified Public Accountants

Hong Kong, 15 September 2006

RESULTS

For the first half of 2006, the Group's unaudited consolidated profit attributable to equity shareholders of the Company was HK\$58,624,000, representing a decrease of 50.0%, compared with HK\$117,355,000 of the corresponding period last year. Excluding factors such as net valuation gains on investment properties, non-operating income and tax refund for re-investment, operating profit was HK\$55,252,000, representing an increase of 31.9% compared to the corresponding period last year. Basic earnings per share was HK6.5 cents, a decrease of 50.0% from HK13.0 cents (restated) of the corresponding period last year.

INTERIM DIVIDEND

The Board declared the payment of interim dividend for the six months ended 30 June 2006 of HK1.5 cents per share (six months ended 30 June 2005: Nil).

BUSINESS REVIEW

During the period under review, consolidated turnover was HK\$622,781,000, representing a significant increase of HK\$222,990,000, or 55.8%, from HK\$399,791,000 of the corresponding period last year. Such increase was mainly attributable to the growth in the tinplating business. In respect of the tinplating business, since the new production line has been put into operation and there was a sufficient supply of black-plates, the production and sales volume have increased while the turnover has increased substantially by HK\$236,570,000, or 71.2%. The increase in consolidated turnover drove the increase in profit from operations. The profit from operations of the period was HK\$55,252,000, an increase of 31.9% comparing to HK\$41,884,000 of the corresponding period last year.

During the period, we fully leveraged our production capacity of 200,000 tonnes of tinplates to achieve 83.5% in the semi-annual utilization rate of production capacity, comparing to 74% of the same period last year, breaking a new record in the half-year production and sales since the establishment of the tinplating business. As the core business of the Group, its profit contribution to the Group's profit from operations increased from 57.9% of the first half of last year to 64.5% of this period, bringing a more stable profit source to the Group.

Tinplating

During the first half of 2006, the tinplate production and sales volume of Zhongshan Zhongyue Tinplate Industrial Co., Ltd ("Zhongyue Tinplate"), a subsidiary of the Group, amounted to 83,482 tonnes and 88,694 tonnes, a substantial increase of 87.9% and 122.5% respectively when compared with the corresponding period last year. The turnover amounted to HK\$569,047,000, representing an increase of 71.2% comparing to the same period last year. Operating profit was HK\$35,661,000, an increase of HK\$11,415,000, or 47.1% comparing to the same period last year. The increase would have reached 73.2% if excluding the impairment loss of HK\$6,334,000 arising from the closure of power plant due to the surging oil price. The tinplating business made the greatest profit contribution to the Group, with its turnover and operating profit accounting for 91.4% and 64.5% of the Group's turnover and operating profit respectively.

The construction project of a factory for production of black-plates was not affected by the macro-economic austerity measures in the Mainland China and is currently under good progress. As at 30 June 2006, the work-in-progress amounted to HK\$150,454,000, which was substantially internally funded by the Group. It is expected that such project will be put into commercial production early next year, thus resulting in lowering the production cost and its entry to the diversified tinplating market.

Being a prestigious tinplate manufacturer in the Mainland China, Zhongyue Tinplate was awarded the "Top Brand-Named Packaging Product in China" for its tinplate and tin-free steel products in April this year. It is the only tinplate manufacturer gaining this award in the PRC. In the second half of the year, we will continue to exploit our brand and technological advantages in order to gain further market share.

To accelerate the pace of development of Zhongyue Tinplate, the Group will acquire 5% equity interest from the PRC minority shareholders. After the acquisition, Zhongyue Tinplate will become a wholly-owned subsidiary of the Group. A share transfer agreement has already been signed on 13 September this year. Completion of the acquisition is subject to the approval from the government authorities. The acquisition signifies greater room for expansion and development for Zhongyue Tinplate in the future.

Property Leasing

The Group's leasing properties included the plant and staff dormitory of Zhongyue Shan Hai Industrial Co., Ltd. ("Shanghai"), and the office building in Hong Kong. In the first half of 2006, the total turnover of leasing properties owned by the Group amounted to HK\$11,585,000, a decrease of 10.2% compared with the same period last year. The profit from operations of leasing properties amounted to HK\$8,159,000, representing a decrease of 12.1% as compared with the same period last year.

To accelerate the pace of development of Shanghai, the Group will acquire 5% equity interest from the PRC minority shareholders. After the acquisition, Shanghai will become a wholly-owned subsidiary of the Group. A share transfer agreement has already been signed on 13 September this year. Completion of the acquisition is subject to relevant government approval. The acquisition signifies greater room for expansion and development for Shanghai in the future.

Foodstuffs Distribution and Trading

During the first half of 2006, turnover of foodstuffs distribution and trading business amounted to HK\$42,149,000. With the impact of the bird flu this year, it represented a decrease of HK\$12,258,000, or 22.5% as compared with the same period last year. For the first six months of this year, the operating profit from foodstuffs distribution and trading increased by HK\$667,000, or 8.6%, from the same period last year to HK\$8,381,000.

Foodstuffs distribution and trading is the traditional business of the Group. By taking measures such as opening up new sources of revenue, reducing costs and improving services, the Group will continue to maintain its agency business and actively expand its trading business, so as to maintain its competitive edge and provide the Group with a stable income stream.

FINANCIAL POSITION

As at 30 June 2006, the Group's total assets amounted to HK\$1,407,707,000, and total liabilities stood at HK\$373,421,000, representing an increase of HK\$169,077,000 and HK\$114,007,000 respectively compared with the positions at the end of last year. The net current assets decreased from HK\$380,978,000 at the end of last year to HK\$289,610,000, and the current ratio (current assets divided by current liabilities) decreased from 2.54 as at the end of last year to 1.81. The Group has a very sound financial position, laying a solid foundation for future business expansion.

Liquidity and Financial Resources

As at 30 June 2006, the Group maintained cash and cash equivalent balances of HK\$186,139,000, of which an amount equivalent to HK\$54,503,000 was Renminbi and the remaining amounts were denominated in Hong Kong dollars and US dollars. The cash and cash equivalents increased by 92.2% comparing with the position at the end of last year.

As at 30 June 2006, the Group's interest-bearing borrowings totaled HK\$116,954,000. Accordingly, the Group's gearing ratio, which was measured on the basis of the Group's total interest-bearing borrowings over the shareholders' fund was 11.6%. The Group's interest-bearing borrowings will be repaid by the proceeds from the bills discounted to the banks on maturity and carry interests (or discounted rates) at annual rates ranging from 1.92% to 3.24%.

As at 30 June 2006, the Group's total available banking facilities amounted to HK\$352,266,000, HK\$83,622,000 of which was issued with letters of credit, and HK\$268,644,000 was unutilized banking facilities while discounting bills as mentioned above did not use up any banking facilities. With its cash and cash equivalents on hand and the recurring cash flows from its operations, the Group believes that it will have sufficient funds to meet its present operation requirements and to further develop its businesses in the foreseeable future.

Exchange Rate Exposure

The Group's assets, liabilities and transactions were primarily denominated in Hong Kong dollars, US dollars or Renminbi. As the exchange rates of these currencies were relatively stable during the period, the Group was not exposed to significant exchange risk. Foreign exchange gain for the period was HK\$4,109,000.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the Group had a total of 628 full-time employees, increased by 103 compared with that as at the end of 2005. Among them, 22 were based in Hong Kong and 606 were based in the Mainland China. The staff remuneration is determined in accordance with the duties, workload, skill requirements, hardship, working conditions and individual performance with reference to the prevailing industry practices. In 2006, the Group continued to implement control on the headcount, organization structure and payroll of each subsidiary. The performance bonus incentive scheme for the management remained effective. Through performance assessment of each subsidiary, performance bonus for various profit rankings was paid on basis of net cash inflow from operation and profit after taxation. In addition, bonus will be distributed to the management, key personnel and outstanding staff according to assessment results of individual performance. These incentive schemes have effectively improved the morale of our staff members. The Group has also adopted a share option scheme to reward, attract, retain and motivate excellent and brilliant participants for their contributions to the Group.

PROSPECTS

With the development of the metal packaging industry, especially in the Mainland China, the domestic and overseas demand for tinplates remained strong with promising prospects. The crucial factor for success of the tinplating business in the second half of the year is still the supply of black-plates. With the commencement of operations of the black-plate factory, self production and external purchasing can supply up to 300,000 tonnes of black-plates next year. The management is actively studying the development strategies for exploring new markets, including construction of a new tinplate plant in northern China, leveraging the existing brandname, technology and low cost advantages of Zhongyue Tinplate together with the resource advantage established gradually. By lowering logistics costs and increasing market share, we will strive continuously to strengthen and expand the core tinplating business, aiming to achieve better operating results.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities ("Listing Rules") on the Hong Kong Stock Exchange, were as follows:

Interests and short positions in the Company

(i) Interest in ordinary shares

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of holding
Liang Jiang	Personal	230,000	Long position	0.026%

Note: The number of ordinary shares of the Company in issue as at 30 June 2006 was 901,583,285.

(ii) Interests in options relating to ordinary shares

Name of Director	Date of options granted# (dd.mm.yy)	Number of options held as at 1 January 2006 ('000)	Options granted Jan-Jun 2006		Period during which share options is exercisable* (dd.mm.yy)	Total consideration paid for share options granted (HK\$)	Price per ordinary share payable on exercise of options (HK\$)	Number of options exercised Jan-Jun 2006 ('000)	Number of options held as at 30 June 2006 ('000)	Share Price	
			Date # (dd.mm.yy)	Number ('000)						At share option grant date** (HK\$)	At share option exercise date (HK\$)
Liang Jiang	06.02.04	2,000	—	—	06.05.04–05.05.09	10	1.582	—	2,000	—	—
	—	—	09.03.06	2,000	09.06.06–08.03.16	1	1.660	—	2,000	1.610	—
Tan Yunbiao	06.02.04	1,500	—	—	06.05.04–05.05.09	10	1.582	—	1,500	—	—
	—	—	09.03.06	2,000	09.06.06–08.03.16	1	1.660	—	2,000	1.610	—
Tsang Hon Nam	—	—	09.03.06	300	09.06.06–08.03.16	1	1.660	—	300	1.610	—
Zhao Leili	—	—	09.03.06	200	09.06.06–08.03.16	1	1.660	—	200	1.610	—
Luo Fanyu	—	—	09.03.06	200	09.06.06–08.03.16	1	1.660	—	200	1.610	—
Liang Jianqin	—	—	09.03.06	200	09.06.06–08.03.16	1	1.660	—	200	1.610	—
Gerard Joseph McMahon	—	—	09.03.06	200	09.06.06–08.03.16	1	1.660	—	200	1.610	—
Tam Wai Chu, Maria	—	—	09.03.06	200	09.06.06–08.03.16	1	1.660	—	200	1.610	—
Li Kar Keung, Caspar	—	—	09.03.06	200	09.06.06–08.03.16	1	1.660	—	200	1.610	—

- # The vesting period of the share options is from the date of grant until the commencement of the exercisable period or the grantee's completion of half year's full time service with the Company or its subsidiaries, whichever is the later.
- * If the last day of any of the option periods is not a business day in Hong Kong, the option period shall end at the close of business on the last business day preceding that day.
- ** The share price disclosed as "At share option grant date" is the closing price of the shares of the Company quoted on the Hong Kong Stock Exchange on the trading day immediately prior to the date of grant of the share options.

Interests and short positions in Guangdong Investment Limited

Interest in ordinary shares

<u>Name of Director</u>	<u>Capacity/nature of interests</u>	<u>Number of ordinary shares held</u>	<u>Long/short position</u>	<u>Approximate percentage of holding</u>
Zhao Leili	Personal	200,000	Long position	0.003%
Liang Jianqin	Personal	200,000	Long position	0.003%

Note: The number of ordinary shares of Guangdong Investment Limited in issue as at 30 June 2006 was 6,022,248,071.

Interests and short positions in Kingway Brewery Holdings Limited

Interest in ordinary shares

<u>Name of Director</u>	<u>Capacity/nature of interests</u>	<u>Number of ordinary shares held</u>	<u>Long/short position</u>	<u>Approximate percentage of holding</u>
Luo Fanyu	Personal	70,000	Long position	0.005%
Liang Jianqin	Personal	46,000	Long position	0.003%

Note: The number of ordinary shares of Kingway Brewery Holdings Limited in issue as at 30 June 2006 was 1,395,568,000.

Interests and short positions in Guangdong Tannery Limited

Interest in ordinary shares

<u>Name of Director</u>	<u>Capacity/nature of interests</u>	<u>Number of ordinary shares held</u>	<u>Long/short position</u>	<u>Approximate percentage of holding</u>
Luo Fanyu	Personal	70,000	Long position	0.013%

Note: The number of ordinary shares of Guangdong Tannery Limited in issue as at 30 June 2006 was 524,154,000.

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company held by the directors in trust for the Group, as at 30 June 2006, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company, its holding companies or any of its subsidiaries or associated corporation a party to any arrangements to enable the directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Note: Miss Liang Jianqin resigned as a non-executive director of the Company on 8 August 2006.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2006, so far as is known to any director and chief executive of the Company, the following persons (other than a director and chief executive of the Company) had an interest or short position 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:

<u>Name of Shareholder</u>	<u>Number of ordinary shares beneficially held</u>	<u>Long/short position</u>	<u>Approximate percentage of issued share capital</u>
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang") (Note)	536,380,868	Long position	59.49%
GDH Limited ("GDH")	536,380,868	Long position	59.49%

Note: The attributable interest which Yue Gang has in the Company is held through its 100 per cent direct interest in GDH.

Save as disclosed above, no other person (other than a director and chief executive of the Company) known to any director and chief executive of the Company as at 30 June 2006 had an interest or short position 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 as recorded in the register kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

On 11 June 2004, the Company adopted a new share option scheme ("2004 Share Option Scheme") enabling the Company to attract, retain and motivate high caliber and talented participants to make contributions to the Group. On the same day, the Company also terminated its share option scheme that was adopted on 24 August 2001 ("2001 Share Option Scheme"). Options granted under the 2001 Share Option Scheme prior to 11 June 2004 remain valid until lapsed.

During the period, options were not exercised nor lapsed. On 9 March 2006 options were granted under the 2004 Share Option Scheme enabling the holders to subscribe for a total of 11,770,000 shares of the Company.

As at 30 June 2006, save as disclosed in the section of "Directors' Interests and Short Positions in Securities", the following share options were outstanding under the 2001 and 2004 Share Option Schemes. Each option gives the holder the right to subscribe for one share of par value HK\$0.5 each of the Company.

Category	Date of share options granted# (dd.mm.yy)	Number of options held as at 1 January 2006 (‘000)	Options granted Jan-Jun 2006		Period during which share options is exercisable* (dd.mm.yy)	Total consideration paid for share options granted (HK\$)	Price per ordinary share payable on exercise of options (HK\$)	Number of options exercised Jan-Jun 2006 (‘000)	Number of options held as at 30 June 2006 (‘000)	Share Price	
			Date #	Number						At share option grant date** (HK\$)	At share option exercise date (HK\$)
			(dd.mm.yy)	(‘000)						(‘000)	(‘000)
Employees and other participants	24.08.01	3,350	—	—	26.11.01–25.11.06	10	1.495	—	3,350	—	—
	06.02.04	4,940	—	—	06.05.04–05.05.09	10	1.582	—	4,940	—	—
	—	—	09.03.06	6,270	09.06.06–08.03.16	1	1.660	—	6,270	1.610	—

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

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

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

Details of share options granted during the period:

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

The fair value of share options granted on 9 March 2006 was HK\$4,867,070 which was determined using binomial lattice option pricing model^{###}, and was recognised in the consolidated profit and loss account for the period. The weighted average fair value of share options granted during the period and the respective inputs and assumptions to the model were as follows:

Weighted average fair value of share option	: HK\$0.4135 per share
Risk-free interest rate	: 4.444%*, being the approximate yield of 10-year Exchange Fund Note traded on 9 March 2006
Expected volatility	: 39.4908%, being the annualised volatility of the closing price of the ordinary shares of the Company from 9 March 2005 to 9 March 2006
Expected dividend yield	: 2.564%, being historical dividend yield
Expected life of share options	: 10 years
Assumptions	: There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period from 9 March 2005 to 9 March 2006.

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

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

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

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code on Corporate Governance Practices

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006, with the exception that certain non-executive directors are not appointed for specific terms as non-executive directors are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. All directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

Audit Committee

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

The Audit Committee holds regular meetings and it met three times during the six months ended 30 June 2006.

Compensation Committee

The Company established a compensation committee in 1999 and its terms of reference are in line with the CG Code. The Compensation Committee comprises the chairman of the Board, Mr. Liang Jiang, executive director and general manager, Mr. Tan Yunbiao, and the three independent non-executive directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar (chairman of the Compensation Committee). The principal duties of the Compensation Committee include, *inter alia*, making recommendations to the Board relating to the Company's policy for directors' and senior management's

remuneration, determining the executive directors' and senior management's remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss of offices.

During the six months ended 30 June 2006, two meetings were held by the Compensation Committee to explore into relevant issues.

Nomination Committee

The Company established a nomination committee in June 2005. The Nomination Committee comprises the chairman of the Board, Mr. Liang Jiang who is also chairman of the Nomination Committee, and the three independent non-executive directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. The principal duties of the Nomination Committee include, *inter alia*, identifying suitable and qualified individuals to become board member and making recommendation on appointment and reappointment of directors.

During the six months ended 30 June 2006, a meeting was held by the Nomination Committee to explore into relevant issues.

Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial report and the interim report of the Group for the six months ended 30 June 2006. In addition, the Company's external auditors, KPMG, have also reviewed the aforesaid unaudited interim financial report.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Hong Kong Stock Exchange.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK1.5 cents (six months ended 30 June 2005: Nil) per share for the six months ended 30 June 2006. The interim dividend will be paid to the shareholders whose names appear on the Register of Members on 5 October 2006. The interim dividend will be paid on 18 October 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed on 4 October 2006 and 5 October 2006, during these two days no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 3 October 2006.

By order of the Board
Liang Jiang
Chairman

Hong Kong, 15 September 2006