GDH

GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1203)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

Unaudited financial highlights for the six months ended 30 June

	2011	2010	
	HK$'000	HK$'000	Changes
Turnover	**1,713,887**	1,397,946	+22.6%
Profit from operations	**121,708**	166,721	-27.0%
Profit attributable to shareholders	**125,006**	136,128	-8.2%
Earnings per share – Basic	**HK 13.80 cents**	HK 15.03 cents	-8.2%
Interim dividend per share	**HK 2.5 cents**	HK 3.0 cents	-16.7%

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

RESULTS

For the first half of 2011, the unaudited consolidated profit attributable to shareholders was HK$125,006,000, representing a decrease of 8.2% from HK$136,128,000 for the corresponding period last year. Basic earnings per share was HK13.80 cents, a decrease of 8.2% from HK15.03 cents for the corresponding period last year.

INTERIM DIVIDEND

The Board of Directors of the Company (the "Board") declares the payment of an interim dividend for the six months ended 30 June 2011 of HK2.5 cents per share (six months ended 30 June 2010: HK3.0 cents per share).

BUSINESS REVIEW

During the period under review, all business segments of the Group were developing steadily. The Group's consolidated turnover was HK$1,713,887,000, representing an increase of HK$315,941,000 or 22.6% from HK$1,397,946,000 for the corresponding period last year. Profit from operations was HK$121,708,000, representing a decrease of HK$45,013,000 or 27.0% from HK$166,721,000 for the corresponding period last year. In respect of our tinplating business, the Group captured the beneficial opportunities of the increasingly sufficient supply of major raw materials to increase our production volume, increasing the total sales volume of tinplate products by 16.2% over the corresponding period of last year. However, as a result of supply outstripping demand in the iron and steel industry, the pressure on the selling price of tinplate products under intense competition, coupled with the rise in various costs, our profit margin decreased as compared to the corresponding period of last year. As to the fresh and live foodstuffs business, along with the increase in price of live pigs over last year, both turnover and operating profit from the fresh and live foodstuffs business recorded an increase over the corresponding period of last year. Given the devoted efforts of our operation team and premium quality sources of goods from major suppliers, the Group actively contributed to maintaining the supply in the market, the overall market share in the live pigs supply into Hong Kong remained at above 40%. This provided a steady contribution to the earnings of the Group. In respect of the property leasing business, along with the continual increase in the price of office units in Hong Kong in the first half of 2011, net valuation gains on investment properties of HK$17,854,000 (2010: HK$374,000) were recorded by the Group.

Tinplating

Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate") is a wholly-owned subsidiary of the Company. The Company holds a 66% interest in Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co., Ltd. ("Zhongyue Posco") while the remaining 34% is held by POSCO Co., Ltd. ("POSCO"), an internationally renowned iron and steel enterprise. Currently, the annual production capacity of tinplate products and blackplates of the Group is 470,000 tonnes and 150,000 tonnes respectively, of which 220,000 tonnes of tinplate products and 150,000 tonnes of blackplates are from Zhongshan's capacity, whereas 250,000 tonnes of tinplate products are from Qinhuangdao's capacity.

In the first half of 2011, the Group produced 173,405 tonnes of tinplate products, which represented an increase of 10.6% as compared to that in the corresponding period last year. Among which, Zhongyue Tinplate and Zhongyue Posco produced 96,711 tonnes and 76,694 tonnes respectively. In addition, the blackplate manufacturing plant of Zhongyue Tinplate produced 66,735 tonnes of blackplates, an increase of 1.9% as compared to that in the corresponding period last year, providing a steady supply of raw materials (i.e. blackplates) for its production of tinplates. The Group's tinplating plants in the northern and southern China sold 175,899 tonnes of tinplate products, an increase of 16.2% as compared to that in the corresponding period last year, of which, Zhongyue Tinplate and Zhongyue Posco sold 99,769 tonnes and 76,130 tonnes of tinplate products respectively, an increase of 11.5% and 22.8% respectively as compared to that in the corresponding period last year. Turnover was HK$1,582,230,000, an increase of 23.4% as compared to the corresponding period last year and profit from operations was HK$55,109,000, a decrease of HK$67,850,000 or 55.2% as compared to that in the corresponding period last year. The tinplating business contributed the largest share to the earnings of the Group and accounted for 92.3% and 45.3% of the Group's turnover and profit from operations respectively.

The market prices of both hot-rolled plates (the primary raw material for the production of blackplates) and tinplate products decreased in the second half of 2010, and it was not until the second quarter of 2011 that the market price of tinplate products showed signs of bottoming out. It is expected that the prices of iron and steel products will remain volatile in the second half of the year. During the period, the increasingly sufficient supply of major raw materials, excessive supply in the iron and steel industry and the pressure on the selling price of tinplate products under intense competition, coupled with the rise in various costs, all contributed to the lower gross profit margin of the Group's tinplating business as compared to that of the corresponding period of last year. The year 2011 is defined as the year for marketing breakthrough, aiming at fully utilising the production capacity of our tinplating plants based in the northern and southern China, lowering the unit production cost and achieving economies of scale. Facing keen competition within the industry, we are focused on analysing the needs of users, further enhancing product quality as well as sales service level, adjusting our product mix and increasing export volume in a timely manner and providing a diversity of appropriate products to our customers at selling prices more comparable to the market rate. We also capitalised on the increasingly sufficient supply of major raw materials to increase our production volume, resulting in a record high sales volume of tinplate products in the first half year of 2011, an increase of 16.2% as compared to that in the corresponding period last year. On the other hand, full implementation of budgetary control, strengthening of internal control, deployment of Six Sigma methodology for implementing a substantial number of projects for technology improvement, energy-saving, waste-reduction and efficiency-optimisation, together with active efforts in expanding sources of procuring domestic blackplates, and further utilisation of the production capacity of our blackplate manufacturing plant, have all provided the Group with conditions to benefit from the economies of scale, thus relieving the Group of the pressure brought by the rise in various costs. Furthermore, the Group has committed more resources to R&D initiatives, incubating strengths for the future development of our tinplating business.

Fresh and Live Foodstuffs

Guangnan Hong Company Limited ("Guangnan Hong") is a wholly-owned subsidiary of the Company. Guangnan Hong holds a 51% interest in Guangnan Live Pigs Trading Limited and 19.53% interest in an associate, Hubei Liangyou Livestock and Poultry Co. Ltd. ("Hubei Liangyou").

In the first half of 2011, the turnover of the fresh and live foodstuffs business amounted to HK$118,291,000, representing an increase of 15.8% as compared to that in the corresponding period last year. Together with the share of profit of an associate, Hubei Liangyou, the total profit from operations was HK$41,923,000, representing an increase of HK$4,925,000 or 13.3% as compared to that in the corresponding period last year. With the inflation of costs in feeds, staff costs and transportation expenses, the price of live pigs in both mainland China and Hong Kong increased over last year. Our fresh and live foodstuffs business reported an increase in both turnover and operating profit compared to the corresponding period of last year albeit with a decrease in the volume of live pigs distributed. Through continuous optimisation of business workflow, the Group proactively strengthened its communication with governmental authorities, suppliers, industry participants and customers. Service standards were enhanced. The Group also actively contributed to maintaining the supply in the market. The overall market share in the live pigs supply into Hong Kong remained at above 40%. This provided a steady contribution to the earnings of the Group.

In January 2011, the Group acquired a 19.53% interest in one of its major suppliers, Hubei Liangyou, at a consideration of RMB40 million (equivalent to approximately HK$47 million). Hubei Liangyou mainly engages in pig farming and related activities in Guangdong, Hubei and Hainan. Along with the increase in prices of live pigs in mainland China and those imported into Hong Kong, the Group's share of profit of Hubei Liangyou amounted to HK$3,678,000.

In June 2011, the Group signed an agreement to acquire a 34% interest in one of its suppliers, Guangdong Province Zijin Baojin Livestock Co., Ltd. ("Baojin"), at a consideration of RMB10.2 million (equivalent to approximately HK$12 million). This acquisition is expected to be completed by the end of the year. Baojin mainly engages in pig farming in Guangdong. It is expected that such acquisition will help the Group to consolidate premium quality sources of live pigs in order to gradually build a solid business chain for fresh and live foodstuffs business and enhance its competitiveness.

Property Leasing

The Group's leasing properties mainly include the plant and staff dormitories of Zhongyue Tinplate and Zhongyue Posco, and the office units in Hong Kong.

In the first half of 2011, turnover from the property leasing business of the Group was HK$13,366,000, a decrease of 1.2% as compared to that in the corresponding period last year. Profit from operations of leasing properties amounted to HK$8,674,000, a decrease of 3.6% as compared to that in the corresponding period last year. In addition, along with the continual increase in the price of office units in Hong Kong in the first half of 2011, net valuation gains on investment properties of HK$17,854,000 (2010: HK$374,000) were recorded.

Yellow Dragon

In the first half of 2011, Yellow Dragon Food Industry Co., Limited, an associate of the Group, recorded a sales volume of 201,890 tonnes in its major product, corn starch, representing a decrease of 4.7% as compared to that the corresponding period last year. With the continual rise in the price of the products during the period, turnover amounted to HK$1,036,910,000, representing an increase of 14.8% and its profit attributable to shareholders amounted to HK$48,099,000 representing a decrease of 6.5%, as compared with that in the corresponding period last year.

FINANCIAL POSITION

As at 30 June 2011, the Group's total assets and total liabilities amounted to HK$2,995,970,000 and HK$898,818,000, representing an increase of HK$101,419,000 and a decrease of HK$56,411,000 respectively when compared with the positions at the end of 2010. Net current assets decreased from HK$694,610,000 at the end of last year to HK$630,964,000. The current ratio (current assets divided by current liabilities) decreased from 1.93 as at the end of 2010 to 1.74.

Liquidity and Financial Resources

As at 30 June 2011, the Group maintained cash and cash equivalent balances of HK$580,743,000, including pledged bank deposits of HK$306,694,000. An amount of HK$441,124,000 was denominated in Renminbi and HK$84,940,000 was denominated in United States ("US") Dollars while the remaining balance was denominated in Hong Kong Dollars. Cash and cash equivalent balances decreased by 1.5% from the end of 2010.

As at 30 June 2011, the Group's borrowings comprised 1) bank borrowings of HK$461,525,000 (31 December 2010: HK$495,872,000), of which HK$189,668,000 (31 December 2010: HK$218,987,000) was unsecured and HK$271,857,000 (31 December 2010: HK$276,885,000) was secured by bank deposits of HK$306,549,000 (31 December 2010: HK$294,813,000); and 2) loans from a related company of HK$79,560,000 (31 December 2010: HK$79,560,000). 29.6% (31 December 2010: 27.8%) of the Group's borrowings was guaranteed by the Company. As at 30 June 2011, all of the Group's borrowings were repayable within 1 year, while as at 31 December 2010, 72.2% of the Group's borrowings was repayable within 1 year, and the remaining balance was repayable within 2 years. All borrowings were subject to annual interest rates ranging from 1.34% to 3.84% (31 December 2010: 0.64% to 3.16%). 44.3% (31 December 2010: 41.6%) of the Group's borrowings bears interest at floating rates. The management pays attention to variations in interest rates.

As at 30 June 2011, the Group's gearing ratio, calculated by dividing the net borrowings (being borrowings less cash and cash equivalents) of the Group by total equity attributable to equity shareholders of the Company, was -2.0% (31 December 2010: -0.8%).

As at 30 June 2011, the Group's available banking facilities amounted to HK$394,000,000, of which HK$225,143,000 was utilised and HK$168,857,000 was unutilised. 40.6% of the Group's banking facilities was guaranteed by the Company. Currently, the cash reserves and available banking facilities, as well as the steady cash flow from operations, were sufficient to meet the Group's debt obligations and business operations.

Capital Expenditure

The Group's capital expenditure in the first half of 2011 amounted to HK$12,926,000 (first half of 2010: HK$6,289,000). It is expected that the capital expenditure for 2011 will be approximately HK$47,000,000, mainly for the technology improvement projects of the blackplate manufacturing plant of Zhongyue Tinplate to further enhance the quality and added value of the blackplates.

Charge on Assets

As at 30 June 2011, certain assets of the Group with an aggregate carrying value of HK$306,694,000 (31 December 2010: HK$399,583,000) were pledged to secure loans and banking facilities of the Group.

Exchange Rate and Interest Rate Exposures

The majority of the Group's business operations are in mainland China and Hong Kong. The Group is exposed to foreign currency risk primarily through import purchases from overseas suppliers and export sales to overseas customers that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States Dollar against Renminbi. In respect of trade receivables and payables denominated in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

In respect of unforeseen fluctuations of exchange rates, the Group will hedge the exposure as and when necessary. As at 30 June 2011, there were forward foreign exchange contracts of US$35,960,000 (equivalent to HK$280,488,000) (31 December 2010: US$36,230,000 (equivalent to HK$282,594,000)) entered into by the Group to hedge against foreign currency loans. In addition, as at 30 June 2011, there were forward foreign exchange contracts of US$19,850,000 (equivalent to HK$154,830,000) (31 December 2010: US$26,850,000 (equivalent to HK$209,430,000)) entered into by the Group to hedge against the foreign currency exposure in respect of financing the working capital of certain subsidiaries of the Group in the PRC. Except for the abovementioned, other borrowings are denominated in the functional currency of the corresponding entities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the Group had a total of 1,166 full-time employees, an increase of 17 from the end of 2010. 109 of the employees were based in Hong Kong and 1,057 were in mainland China. The staff remuneration is determined in accordance with the duties, workload, skill requirements, hardship, working conditions and individual performance with reference to the prevailing industry practices. In 2011, the Group continued to implement control on the headcount, organisation structure and total salaries of each subsidiary. The performance bonus incentive scheme for the management remained effective. Through performance assessment of each subsidiary, performance bonus for various profit rankings was paid on the basis of net cash inflow from operations and profit after taxation. In addition, bonuses will be rewarded to the management, key personnel and outstanding staff through assessment of individual performance. These incentive schemes have effectively improved the morale of our staff members. The Company has also adopted a share option scheme to encourage excellent participants to continue their contribution to the Group.

PROSPECTS

Currently, there are a lot of uncertainties and underlying threats looming in the global economy and business environment. The persistent European debt crisis, slow recovery of the US economy and the introduction of the monetary tightening in mainland China notwithstanding its rapid economic growth puts pressure on liquidity and pace in placing purchase orders by many enterprises in mainland China. In respect of our tinplating business, the Group will continue to refine and implement the range of strategies set for the year of marketing breakthrough, to constantly improve the quality and increase the production volume of our blackplates, and at the same time to expand sources of procuring domestic blackplates. As the preparation for next year's marketing, we will also take advantage of the increasingly sufficient supply of major raw materials to increase production volume in order to achieve economies of scale. As to the fresh and live foodstuffs business, we will implement more sophisticated measures to manage our business, in order to further increase the quality of our services and ensure market supply. By leveraging on our sound financial position and abundant capital resources, we will continue to explore and capture various opportunities for development so as to lay a solid foundation for our sustainable development in future.

UNAUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2011

The Board announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2011, which have been reviewed by the Company's audit committee.

Consolidated Income Statement
For the six months ended 30 June 2011 - unaudited
(Expressed in Hong Kong dollars)

	Note	*Six months ended 30 June* **2011** **$'000**	*2010* $'000
Turnover	3	**1,713,887**	1,397,946
Cost of sales		**(1,563,939)**	(1,177,245)
Gross profit		**149,948**	220,701
Other revenue	4	**7,846**	6,700
Other net income	5	**43,116**	15,399
Distribution costs		**(33,193)**	(27,938)
Administrative expenses		**(45,199)**	(47,256)
Other operating expenses		**(810)**	(885)
Profit from operations		**121,708**	166,721
Net valuation gains on investment properties	10(b)	**17,854**	374
Finance costs	6(a)	**(5,482)**	(3,774)
Share of profits of associates		**22,918**	20,567
Profit before taxation	6	**156,998**	183,888
Income tax	7	**(21,932)**	(31,573)
Profit for the period		**135,066**	152,315
Attributable to:			
Equity shareholders of the Company		**125,006**	136,128
Non-controlling interests		**10,060**	16,187
Profit for the period		**135,066**	152,315
Interim dividend	8(a)	**22,682**	27,178
Earnings per share			
Basic	9(a)	**13.80 cents**	15.03 cents
Diluted	9(b)	**13.76 cents**	14.96 cents

Consolidated Balance Sheet at 30 June 2011 - unaudited

(Expressed in Hong Kong dollars)

	Note	*At 30 June 2011* **$'000**	*At 31 December 2010* $'000
Non-current assets			
Fixed assets			
- Investment properties	10(b)	**318,165**	295,832
- Other property, plant and equipment		**814,179**	825,123
- Interests in leasehold land held for own use under operating leases		**109,709**	109,884
	10	**1,242,053**	1,230,839
Interest in associates		**268,983**	214,724
Deferred tax assets		**3,570**	3,749
		1,514,606	1,449,312
Current assets			
Inventories	11	**336,875**	325,693
Trade and other receivables, deposits and prepayments	12	**563,746**	529,080
Current tax recoverable		**-**	644
Cash and cash equivalents	13	**580,743**	589,822
		1,481,364	1,445,239
Current liabilities			
Trade and other payables	14	**275,238**	302,009
Bank loans	15(a)	**461,525**	335,872
Loans from a related company	15(b)	**79,560**	79,560
Current tax payable		**34,077**	33,188
		850,400	750,629
Net current assets		**630,964**	694,610
Total assets less current liabilities		**2,145,570**	2,143,922
Non-current liabilities			
Bank loans	15(a)	**-**	160,000
Deferred tax liabilities		**48,418**	44,600
		48,418	204,600
Net assets		**2,097,152**	1,939,322
Capital and reserves			
Share capital		**453,647**	452,962
Reserves		**1,481,985**	1,338,034
Total equity attributable to equity shareholders of the Company		**1,935,632**	1,790,996
Non-controlling interests		**161,520**	148,326
Total equity		**2,097,152**	1,939,322

Notes to the unaudited consolidated financial information

(Expressed in Hong Kong dollars)

1. Basis of preparation

The interim results set out in this announcement do not constitute the Group's interim financial report for the six months ended 30 June 2011 but are extracted from the interim financial report.

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

2. Changes in accounting policies

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

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments related primarily to clarification of certain disclosure requirements applicable to the Group's interim financial report. These developments have had no material impact on the contents of the interim financial report.

3. Turnover and segment reporting

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

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

(a) Segment results, assets and liabilities

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

- Segment profit includes revenue and expenses that are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.
- Segment assets include all tangible assets and current assets with the exception of interest in associate not attributable to any segment and other corporate assets. Segment liabilities include current and non-current liabilities attributable to the business activities of the individual segments and borrowings managed directly by the segments.

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

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

3. Turnover and segment reporting (Continued)

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

For the six months ended 30 June	*Tinplating*		*Fresh and live foodstuffs*		*Property leasing*		*Total*	
	2011	*2010*	***2011***	*2010*	***2011***	*2010*	***2011***	*2010*
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Reportable segment revenue	**1,582,230**	1,282,293	**118,291**	102,124	**13,366**	13,529	**1,713,887**	1,397,946
Reportable segment profit	**55,109**	122,959	**41,923**	36,998	**8,674**	8,998	**105,706**	168,955
Reportable segment assets	**2,247,101**	2,245,592	**176,418**	122,302	**328,308**	308,621	**2,751,827**	2,676,515
Reportable segment liabilities	**823,940**	850,977	**28,729**	29,744	**36,981**	35,343	**889,650**	916,064

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

	Six months ended 30 June	
	2011	*2010*
	$'000	$'000
Profit		
Reportable segment profit derived from the Group's external customers	**105,706**	168,955
Unallocated head office and corporate income and expenses	**19,680**	(2,234)
Net valuation gains on investment properties	**17,854**	374
Finance costs	**(5,482)**	(3,774)
Share of profit of associate not attributable to any segment	**19,240**	20,567
Consolidated profit before taxation	**156,998**	183,888

	At 30 June 2011	*At 31 December 2010*
	$'000	$'000
Assets		
Reportable segment assets	**2,751,827**	2,676,515
Interest in associate not attributable to any segment	**216,814**	214,724
Unallocated head office and corporate assets	**27,329**	3,312
Consolidated total assets	**2,995,970**	2,894,551
Liabilities		
Reportable segment liabilities	**889,650**	916,064
Unallocated head office and corporate liabilities	**9,168**	39,165
Consolidated total liabilities	**898,818**	955,229

4. Other revenue

	Six months ended 30 June	
	2011	*2010*
	$'000	$'000
Interest income	**4,377**	4,577
Subsidies received	**1,285**	638
Others	**2,184**	1,485
	7,846	6,700

5. Other net income

	Six months ended 30 June	
	2011	*2010*
	$'000	$'000
Net (loss)/gain on forward foreign exchange contracts	**(1,252)**	7,006
Net realised and unrealised exchange gain	**15,369**	8,116
Write back of liabilities (note)	**28,090**	-
Excess of the Group's interest in the acquiree's net fair value of the identifiable assets and liabilities over the cost of acquisition	**147**	-
Others	**762**	277
	43,116	15,399

Note: The amounts mainly represent the write back of long outstanding liabilities as the statutory limitation periods stipulated in the relevant laws and regulations had expired and no actions were taken by these creditors.

6. Profit before taxation

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

	Six months ended 30 June	
	2011	*2010*
	$'000	$'000
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within 5 years	**4,963**	2,866
Interest on loans from a related company	**519**	908
	5,482	3,774
(b) Staff costs:		
Net contributions paid to defined contribution retirement plans	**3,808**	3,404
Equity-settled share-based payment expenses	**1,281**	321
Salaries, wages and other benefits	**53,495**	51,537
	58,584	55,262

6. Profit before taxation (Continued)

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

	Six months ended 30 June	
	2011	*2010*
	$'000	$'000
(c) Other items:		
Amortisation of land lease premium	**1,711**	1,672
Depreciation	**41,758**	41,989
Operating lease charges in respect of property rentals	**3,114**	2,804
Share of associates' taxation (note)	**6,612**	7,436
Rentals receivable from investment properties less direct outgoings of $922,000 (30 June 2010: $905,000)	**(12,444)**	(12,624)

Note: Income tax for associates established and operating in the PRC is calculated based on the applicable rates of income tax ruling in the relevant province in the PRC.

7. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

		Six months ended 30 June	
		2011	*2010*
	Note	**$'000**	$'000
Current tax – Provision for Hong Kong Profits Tax			
Provision for Hong Kong Profits Tax at 16.5% (2010: 16.5%) on the estimated assessable profits for the period		**7,314**	5,702
Current tax – the PRC			
Tax for the period		**11,241**	25,103
Under/(over)-provision in respect of prior years	(iv)	**333**	(13,027)
		11,574	12,076
Deferred tax			
Origination and reversal of temporary differences		**3,044**	13,795
	(i)	**21,932**	31,573

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

Taxation in the consolidated income statement represents: (Continued)

Notes:

(i) The provision for Hong Kong Profits Tax for 2011 is calculated by applying the estimated annual effective tax rate of 16.5% (2010: 16.5%) to the six months ended 30 June 2011. Income tax for subsidiaries established and operating in the PRC is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant provinces or economic zones in the PRC.

(ii) In accordance with the Corporate Income Tax Law of the PRC ("New Tax Law"), the standard PRC Enterprise Income Tax rate is 25% with effect from 1 January 2008. Furthermore, the State Council of the PRC passed the implementation guidance ("Implementation Guidance") on 26 December 2007, which sets out the details of how the existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, the income tax rate for certain PRC subsidiaries of the Group is to be changed gradually to the standard rate of 25% over a five-year transition period beginning from 2008. The details of the tax relief are disclosed below.

(iii) Zhongyue Posco, being a foreign investment enterprise established in the PRC before the New Tax Law was passed on 16 March 2007, was 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 beginning from the year 2008. The provision for 2011 is calculated by applying the tax rate of 12%, being 50% of the transitional tax rate of 24%, to the taxable profit for the six months ended 30 June 2011.

(iv) The amount for the six months ended 30 June 2010 represents reversal of an over-provision for PRC income tax in respect of the prior years.

(v) According to the New Tax Law, dividends declared by the PRC subsidiaries and associates to investors incorporated in Hong Kong are subject to a withholding tax of 5%.

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

8. Dividends

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

	Six months ended 30 June	
	2011	*2010*
	$'000	$'000
Interim dividend declared after the interim period of 2.5 cents per ordinary share (30 June 2010: 3.0 cents per ordinary share)	**22,682**	27,178

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

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2011	*2010*
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period of 2.0 cents per ordinary share (30 June 2010: 3.0 cents per ordinary share)	**18,118**	27,178

9. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2011 is based on the profit attributable to ordinary equity shareholders of the Company of $125,006,000 (30 June 2010: $136,128,000) and the weighted average number of 906,045,000 (30 June 2010: 905,785,000) ordinary shares in issue during the period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2011	*2010*
	'000	'000
Issued ordinary shares at 1 January	**905,923**	905,723
Effect of share options exercised	**122**	62
Weighted average number of ordinary shares	**906,045**	905,785

9. Earnings per share (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2011 is based on the profit attributable to ordinary equity shareholders of the Company of $125,006,000 (30 June 2010: $136,128,000) and the weighted average number of ordinary shares of 908,293,000 (30 June 2010: 909,767,000), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2011	*2010*
	'000	'000
Weighted average number of ordinary shares used in the basic earnings per share calculation	**906,045**	905,785
Effect of deemed issue of ordinary shares under the Company's share option schemes for nil consideration	**2,248**	3,982
Weighted average number of ordinary shares (diluted)	**908,293**	909,767

10. Fixed Assets

(a) Acquisitions

During the six months ended 30 June 2011, the Group acquired items of property, plant and equipment with a cost of $12,926,000 (30 June 2010: $6,289,000).

(b) Investment properties

Investment properties situated in Hong Kong were revalued at 30 June 2011 by an independent firm of surveyors, Vigers Appraisal and Consulting Limited, who have among their staff members of Hong Kong Institute of Surveyors, on an open market value basis. Investment properties situated in the PRC were revalued at 30 June 2011 by either 廣東財興資產評估土地房地產估價有限公司 or 秦皇島求實資產評估事務所, independent firms of valuers registered in the PRC, on an open market value basis. Based on the valuations, a net gain of $17,854,000 (30 June 2010: $374,000), and deferred tax thereon of $3,214,000 (30 June 2010: $72,000), have been included in the consolidated income statement.

11. Inventories

Inventories in the consolidated balance sheet comprise:

	At 30 June 2011 **$'000**	*At 31 December 2010* $'000
Raw materials, spare parts and consumables	**188,401**	168,659
Work in progress	**16,527**	20,827
Finished goods	**131,947**	136,207
	336,875	325,693

12. Trade and other receivables, deposits and prepayments

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

	At 30 June 2011 **$'000**	*At 31 December 2010* $'000
Current	**453,664**	435,395
Less than 1 month past due	**-**	4,461
1 to 3 months past due	**550**	2,596
More than 3 months but less than 12 months past due	**107**	365
Amounts past due	**657**	7,422
	454,321	442,817

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

13. Cash and cash equivalents

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

	At 30 June 2011 $'000	*At 31 December 2010* $'000
Deposits with banks	**306,550**	294,813
Cash at bank and in hand	**274,193**	295,009
Cash and cash equivalents in the consolidated balance sheet	**580,743**	589,822
Pledged bank deposits	**(306,694)**	(295,083)
	274,049	294,739

14. Trade and other payables

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

	At 30 June 2011 $'000	*At 31 December 2010* $'000
Due within 1 month or on demand	**114,266**	135,423

15. Borrowings

	Note	***At 30 June 2011 $'000***	*At 31 December 2010* $'000
(a) Bank loans			
- unsecured	(i)	**189,668**	218,987
- secured by bank deposits	(ii)	**271,857**	276,885
		461,525	495,872

At 30 June 2011, the bank loans were repayable as follows:

	At 30 June 2011 $'000	*At 31 December 2010* $'000
Within 1 year or on demand	**461,525**	335,872
After 1 year but within 2 years	**-**	160,000
	461,525	495,872

15. Borrowings (Continued)

(a) Bank loans (Continued)

Notes:

(i) Included in unsecured bank loans are loans of $160,000,000 (31 December 2010: $160,000,000) which are guaranteed by the Company and subject to fulfilment of certain loan covenants (note 15(a)(iii)).

(ii) The loans are secured by bank deposits of $306,549,000 (31 December 2010: $294,813,000).

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

Further, the loans are subject to the fulfilment of covenants relating to certain of the Group's balance sheet and income statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the amount would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2011, none of the covenants relating to the bank loans had been breached.

		At 30 June 2011 **$'000**	*At 31 December 2010* $'000
(b)	Loans from a related company	**79,560**	79,560

At 30 June 2011 and 31 December 2010, the loans were provided to a non-wholly owned subsidiary of the Group by a company related to the minority shareholder of this non-wholly owned subsidiary. The loans are unsecured, interest-bearing at 3-month London Interbank Offered Rate ("LIBOR") + 1% per annum and repayable on either 7 September 2011 or 14 October 2011. The Group also provided loans of $154,440,000 (31 December 2010: $154,440,000) to this non-wholly owned subsidiary in proportion to the Group's shareholding therein.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code on Corporate Governance Practices

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") throughout the six months ended 30 June 2011.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. All directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2011.

Audit Committee

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

The Audit Committee holds regular meetings and it met three times during the six months ended 30 June 2011.

Compensation Committee

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

During the six months ended 30 June 2011, a meeting was held by the Compensation Committee to explore into relevant issues.

Nomination Committee

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

During the six months ended 30 June 2011, 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 2011. 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 2011, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange.

Interim Dividend

The Board has resolved to declare the payment of an interim dividend of HK 2.5 cents per share (six months ended 30 June 2010: HK 3.0 cents per share) for the six months ended 30 June 2011. The interim dividend will be paid on Thursday, 27 October 2011 to the shareholders whose names appear on the register of members on Friday, 7 October 2011.

Closure of Register of Members

The register of members of the Company will be closed on Thursday, 6 October 2011 and Friday, 7 October 2011. During the period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 4 October 2011.

By order of the Board
Liang Jiang
Chairman

Hong Kong, 29 August 2011

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