

1. CORPORATE INFORMATION

During the year, the Group was engaged in food processing and related businesses including edible oils refining, wine-making and beverage, food trading and flour milling.

The Company is a subsidiary of Top Glory International Holdings Limited, a company incorporated and listed in Hong Kong. In the opinion of the Directors, the ultimate holding company is China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), which is registered in the People's Republic of China (the "PRC").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital/registered capital or controls the composition of its board of Directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the Directors, there have been other-than-temporary impairment in values, when they are written down to values determined by the Directors.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Goodwill and capital reserve**

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess purchase consideration paid for such companies over the fair values ascribed to the net underlying assets at the date of acquisition and is eliminated against reserves in the year in which it arises.

Capital reserve on consolidation represents the excess of the fair values ascribed to the acquired subsidiaries' or associates' net underlying assets at the date of acquisition over the purchase consideration for such subsidiaries or associates.

Upon the disposal of an interest in a subsidiary or an associate, the relevant portion of attributable goodwill or capital reserve previously eliminated against or taken to reserves is realised and taken into account in arriving at the gain or loss on disposal of the investment.

Fixed assets and depreciation

Fixed assets, other than machinery and construction in progress, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, other than machinery and construction in progress, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Buildings	3.33% to 4.5%
Plant, machinery and equipment	10% to 25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Machinery and construction in progress is stated at cost and is not depreciated. Cost comprises direct costs of construction incurred during the period of construction. Machinery and construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Fixed assets and depreciation** (Cont'd)

Where, in the opinion of the Directors, the recoverable amounts of certain fixed assets have declined below their carrying amounts, provision are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amount are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are investments which are intended to be held on a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose. Long term investments are included in the balance sheet at cost less amortisation/provision for any other-than-temporary impairment in value, assessed by the Directors on an individual basis.

The profit or loss on disposal of long term investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the investments.

Other investments

Other investments are those which are not classified as long term investments, and are stated at fair value, assessed by the Directors, at the balance sheet date. Unrealised holding gains or losses arising on revaluation to fair value are dealt with in the profit and loss account.

The profit or loss on disposal of other investments is accounted for in the period in which the disposal occurs as the difference between the net sale proceeds and the carrying amount of the investments, except in the case where the investee company was previously a subsidiary or an associate of the Company and there was reserve attributable to this investee company, in which case the relevant portion of reserve attributable to the disposal is also released to the profit and loss account.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Trade debtors

Trade debtors, which generally have credit terms of 30 – 90 days, are recognised and carried at original invoiced amount less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and associates denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

Retirement benefits are provided to certain staff employed by the Group. In accordance with the Mandatory Provident Fund Schemes Ordinance, the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO scheme, or the newly set up Mandatory Provident Fund Scheme (effective from 1 December 2000) under which employer's contributions have to be made. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. When an employee leaves the Mandatory Provident Fund Exempted ORSO scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. However, in respect of the Mandatory Provident Fund Scheme, the forfeited amount shall be refunded to the Group when the members leave employment prior to the vesting of any employer voluntary contributions. The Group's mandatory contributions are fully vested with the employees when the employees leave the scheme.

Prior to 1 December 2000, the Group operated a defined contribution retirement benefits scheme (i.e. the predecessor of the Mandatory Provident Fund Exempted ORSO scheme) for those employees who were eligible and had elected to participate in the scheme. The assets of the scheme were held separately from those of the Group in an independently administered fund. Contributions were made based on a percentage of the participating employees' basic salaries and were charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Retirement benefits scheme** (Cont'd)

In addition, the China Benefit Schemes are operated by the relevant authorities of the provinces/municipalities in the PRC in which the Group's subsidiaries are located. The Group contributes to these schemes in respect of its employees in the PRC and such costs are charged to the profit and loss account as incurred.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) dividends, when the shareholders' right to receive payment is established; and
- (d) proceeds from sale of other investments, on the transaction dates when the relevant contract notes are exchanged.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts during the year.

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2000	1999
	HK\$'000	HK\$'000
Cost of inventories sold	1,279,380	760,929
Auditors' remuneration	1,068	900
Depreciation	13,696	14,002
Exchange losses, net	–	736
Loss on disposal of fixed assets	331	132
Amortization of a long term investment	1,400	3,200
Operating lease rentals in respect of land and buildings	1,239	2,219
Provision against inventories	–	12,617
Staff costs (including Directors' remuneration – note 6):		
Wages and salaries	16,552	13,831
Retirement benefits scheme contributions	1,273	1,155
Less: Forfeited contributions	(448)	(18)
Net retirement benefits contributions*	825	1,137
	17,377	14,968
Other operating income, net, including:		
Provision for impairment in values of fixed assets	4,855	–
Provision for impairment in values of other investments	642	–
Loss on disposal of subsidiaries	971	–
Provision for doubtful debts	6,419	–
Write-back of provision for doubtful debts	–	(15,571)**
Write-back of provision for impairment in value of long term investments	(13,021)	(6,500)**
	(134)	(22,071)

* At 31 December 2000, no forfeited contributions were available to the Group to reduce its contributions to the retirement benefit scheme in future years (1999: Nil).

** These amounts in the previous year were classified as other revenue. To accord with the presentation adopted in the current year, which in the opinion of the Directors, better reflects the underlying nature of the transactions, they have been reclassified to other operating income, net.

4. PROFIT FROM OPERATING ACTIVITIES (Cont'd)

	2000	1999
	HK\$'000	HK\$'000
Write-back of provision against inventories	(9,572)	–
Write-back of provision for other expenses	–	(4,000)
Dividend from a long term investment	(4,070)	(12,589)
Exchange gains, net	(3,632)	–
Gain on trading of commodity future contracts	(1,524)	–
Gain on disposal of other investments	(12,457)	(471)
Interest income	(58,050)	(49,991)

5. FINANCE COSTS

	2000	1999
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	2,777	3,603
Bank loans not wholly repayable within five years	196	227
Loan from a minority shareholder of a subsidiary	826	1,724
Amount due to fellow subsidiaries	1,904	–
	5,703	5,554

6. DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Section 161 of the Companies Ordinance are as follows:

	2000	1999
	HK\$'000	HK\$'000
Fees:		
Executive Directors	700	450
Independent non-executive Directors	300	300
	1,000	750
Other emoluments to executive Directors:		
Salaries, allowances and benefits in kind	1,632	2,262
Bonuses	80	115
Retirement benefits scheme contributions	90	124
	1,802	2,501
	2,802	3,251

The remuneration of the Directors fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	9	7
HK\$1,000,001 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	1	1
	10	8

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (1999: two) Director, details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining four (1999: three) non-Director, highest paid employees are as follows:

	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,596	1,872
Bonuses	40	109
Retirement benefits scheme contributions	63	87
	1,699	2,068

The remuneration of each of the non-Director, highest paid employees fell within the band of HK\$1,000,000.

8. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2000	1999
	HK\$'000	HK\$'000
Group:		
Hong Kong	1,277	1,148
Under/(Over) provision in prior year	32	(914)
	1,309	234
Share of tax attributable to associates:		
Hong Kong	1,073	–
Elsewhere	6,117	6,287
Overprovision in prior year	–	(114)
	7,190	6,173
Tax charge for the year	8,499	6,407

There was no material unprovided deferred tax for the year (1999: Nil).

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$42,107,000 (1999: HK\$44,752,000).

10. DIVIDENDS

	2000	1999
	HK\$'000	HK\$'000
Interim – 3 HK cents (1999: 3 HK cents) per share	19,811	19,811
Proposed final – 4 HK cents (1999: 4 HK cents) per share	26,415	26,415
	46,226	46,226

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$90,432,000 (1999: HK\$87,130,000) and on 660,371,027 (1999: 660,371,027) shares in issue during the year.

No diluted earnings per share has been presented as the exercise of the Company's outstanding share options would be anti-dilutive.