

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated condensed interim accounts (the “Interim Accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“HKSSAP”) No. 25 “Interim Financial Reporting” and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that comparative figures for the cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Listing Rules.

The accounting policies and basis of preparation used in the preparation of the Interim Accounts are the same as those used in the annual financial statements for the year ended 31 December 2000, except in relation to the following:

- (a) During the period, the Group adopted the revised HKSSAP No. 9 “Events after the balance sheet date”. According to this revised HKSSAP, final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared they are recognised as a liability.

To comply with the revised SSAP, a prior year adjustment has been made, reclassifying the proposed final dividend for the year ended 31 December 2000, of HK\$26,415,000, which was recognised as a liability in the prior year, to the proposed final dividends account within the capital and reserves section of the balance sheet.

- (b) According to the HKSSAP No. 30 “Business Combinations”, goodwill (negative goodwill) arising on the consolidation of subsidiaries and on acquisition of associates represents the excess (deficits) of the purchase consideration paid over the fair values ascribed to the net underlying assets acquired and should be amortised (recognised as income) on a systematic basis over its useful life. On disposal of subsidiaries and associates, the relevant portion of attributable goodwill (negative goodwill), net of accumulated amortisation and any impairment losses (net of accumulated amount recognised as income) is included in the calculation of the gain or loss on disposal.

In prior years, such goodwill (negative goodwill) is eliminated against (taken to) reserves in the year in which it arises.

The Group has complied with the HKSSAP prospectively for the first time in this interim reporting period, as the Group has taken advantage of the transitional provisions set out in the Statement.

In respect of the goodwill arising on acquisitions during the current period, it has been amortised on a straight-line basis over its estimated useful life of 20 years.

- (c) The Group has adopted the HKSSAP No. 31 "Impairment of assets" for the first time in this interim reporting period in accordance with its requirements. According to the HKSSAP, at each balance sheet date an assessment is made whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

In prior years, prior to the HKSSAP No. 31 becoming effective, the Group has not adopted a policy of recognising impairment losses in respect of goodwill written off against reserves. At 31 December 1999, there was indication that an impairment loss with an amount of HK\$172,357,000 should have been recognised in relation to goodwill arising on acquisitions of a number of non-wholly owned subsidiaries. On adoption of the HKSSAP, a prior year adjustment is made in the Interim Accounts to recognise the impairment loss against the retained earnings balance as at 1 January 2000.

- (d) HKSSAP No. 14 (revised) "Leases" prescribes the accounting treatment and disclosures for leases and hire purchase contracts. This revised HKSSAP has been applied prospectively by the Group for the first time in this interim reporting period and has had no major impact on the Interim Accounts. However, the disclosures for commitments under non-cancellable operating leases have been changed. In prior years, operating lease commitments were disclosed as payment committed to be made during the next year, analysed between those in which the commitment would expire within that year, in the second to fifth years, inclusive, and over five years. In the current period, such disclosure has changed to the total of future minimum lease payments under non-cancellable operating leases analysed into those not later than one year, later than one year and not later than five years and later than five years. Disclosures as required are set out in note 14 to the Interim Accounts.

As a result of adoption of HKSSAP No.1 "Presentation of Financial Statements", the presentation of the unaudited consolidated profit and loss account for the six months ended 30 June 2000 have been revised to conform with the current period's presentation.

Certain comparative figures of the consolidated balance sheet have also been reclassified to accord with the presentation adopted in the current period.

## 2. SEGMENTAL INFORMATION

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period. An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the period is as follows:

	(Unaudited) Six months ended 30 June 2001		(Unaudited) Six months ended 30 June 2000	
	Turnover <i>HK\$'000</i>	Contribution to profit from operating activities <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Contribution to profit from operating activities <i>HK\$'000</i>
By activity:				
International food trading	812,254	16,944	479,392	6,138
Edible oils and fats refining	626,726	36,729	108,732	(20,628)
Wine making and beverage	36,142	6,329	–	–
Flour milling	174,279	2,094	128,781	4,755
Others	–	–	817	(533)
	<u>1,649,401</u>	<u>62,096</u>	<u>717,722</u>	<u>(10,268)</u>
Dividend and interest income		28,047		29,828
Corporate and others		1,194		15,759
		<u>91,337</u>		<u>35,319</u>
By geographical area:				
People's Republic of China:				
Hong Kong	812,254	35,025	479,392	38,315
Elsewhere	837,147	56,312	238,330	(2,996)
	<u>1,649,401</u>	<u>91,337</u>	<u>717,722</u>	<u>35,319</u>

### 3. PROFIT FROM OPERATING ACTIVITIES

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

	<b>Six months ended 30 June 2001 (Unaudited) HK\$'000</b>	Six months ended 30 June 2000 (Unaudited) HK\$'000
Write-back of provision for impairment in value of long term investments	<b>(9,967)</b>	(10,176)
Write-back of provision against inventories	–	(12,150)
(Write-back of) provision for impairment of other investments	<b>598</b>	(166)
Gain on disposal of other investments	–	(12,457)
Gain on trading of hedged commodity future contracts	<b>(12,737)</b>	–
Dividend from a long term investment	<b>(1,419)</b>	(3,324)
Interest income	<b>(26,628)</b>	(26,504)
Cost of inventories sold	<b>1,560,881</b>	723,213
Provision for doubtful debts	<b>513</b>	7,179
Depreciation	<b>13,166</b>	6,181
Loss on disposal of fixed assets	<b>146</b>	195
Amortisation of a long term investment	<b>700</b>	700
Amortisation of goodwill	<b>1,163</b>	–

#### 4. TAX

Hong Kong profits tax has been calculated at the rate of 16 per cent. (2000: 16 per cent.) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Six months ended 30 June 2001 (Unaudited) HK\$'000</b>	Six months ended 30 June 2000 (Unaudited) HK\$'000
The charge comprises:		
The Group:		
Hong Kong	2,584	1,780
Outside Hong Kong	4,505	–
	<u>7,089</u>	<u>1,780</u>
Share of tax attributable to associates:		
Outside Hong Kong	2,728	4,291
	<u>9,817</u>	<u>6,071</u>

#### 5. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit attributable to the shareholders for the period of HK\$80,946,000 (2000: HK\$55,433,000), and the weighted average of 854,106,870 (2000: 660,371,027) ordinary shares in issue during the period.

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

#### 6. ADDITIONS TO FIXED ASSETS

During the six months ended 30 June 2001, the Group spent approximately HK\$22,413,000 (Six months ended 30 June 2000: HK\$728,000) on additions to fixed assets.

## 7. TRADE DEBTORS

The trade debtors of the Group includes trading balances due from an associate and related companies of HK\$44,231,000 (31 December 2000: Nil).

The ageing analysis of trade debtors balance is as follows:

	<b>The Group</b>	
	<b>30 June</b>	31 December
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Outstanding balances with ages:		
Within 6 months	<b>147,063</b>	7,915
Between 7 to 12 months	<b>4,301</b>	28
Between 1 to 2 years	<b>12,566</b>	1,852
Over 2 years	<b>2,790</b>	1,698
	<hr/>	<hr/>
	<b>166,720</b>	11,493
Less: Provision for doubtful debts	<b>(7,411)</b>	(3,472)
	<hr/>	<hr/>
	<b>159,309</b>	8,021
	<hr/>	<hr/>

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.

## 8. ACCOUNTS PAYABLE

The accounts payable of the Group includes trading balances due to an associate, a fellow subsidiary and a related company of HK\$38,401,000 (31 December 2000: HK\$1,186,000).

The ageing analysis of accounts payable balance is as follows:

	<b>The Group</b>	
	<b>30 June 2001 (Unaudited) HK\$'000</b>	<b>31 December 2000 (Audited) HK\$'000</b>
Outstanding balances with ages:		
Within 6 months	158,055	20,430
Between 7 to 12 months	1,722	587
Between 1 to 2 years	587	1,768
Over 2 years	9,298	8,777
	<u>169,662</u>	<u>31,562</u>

## 9. BORROWINGS

### (a) Bank borrowings

	<b>The Group</b>	
	<b>30 June 2001 (Unaudited) HK\$'000</b>	<b>31 December 2000 (Audited) HK\$'000</b>
Secured bank loans	30,444	42,594
Unsecured bank loans	714,953	—
	<u>745,397</u>	<u>42,594</u>
The bank borrowings repayable:		
Within one year or on demand	737,693	34,890
In the second year	1,712	1,712
In the third to fifth years, inclusive	5,136	5,136
Beyond five years	856	856
	<u>745,397</u>	<u>42,594</u>
Portion classified as current liabilities	<u>(737,693)</u>	<u>(34,890)</u>
Non-current portion	<u>7,704</u>	<u>7,704</u>

The bank loans bear interest at rates ranging from 1.8 per cent. per annum to 7 per cent. per annum (31 December 2000: from 1.8 per cent. per annum to 7 per cent. per annum).

HK\$144,860,000 and HK\$46,729,000 of the unsecured bank loans were guaranteed by Northsea Oils and Grains Industries (Tianjin) Co., Ltd. ("North Sea"), an associate of the Group, and COFCO, respectively.

**(b) Loans from the ultimate holding company/Loans from minority shareholders of subsidiaries**

The loans from the ultimate holding company are unsecured, will not be repayable within the next twelve months and bear interest rate of 5.85 per cent. per annum.

Except for an advance from a minority shareholder of a subsidiary of HK\$11,682,000 (31 December 2000: HK\$11,682,000) which bears interest at 6.4 per cent. (31 December 2000: 6.4 per cent.) per annum, the loans from minority shareholders of subsidiaries are unsecured, interest-free and will not be repayable within the next twelve months.

**10. SHARE CAPITAL**

Movements in the issued share capital of the Company during the six months ended 30 June 2001 are as follows:

	<i>Note</i>	<b>Number of ordinary shares issued</b> <i>'000</i>	<b>Par value</b> <i>HK\$'000</i>
Balance as at 31 December 2000		660,371	66,037
Issue for acquisition of subsidiaries (note 12(a))		692,656	69,266
Issue for top-up share placements	(a)	192,000	19,200
<b>Balance as at 30 June 2001</b>		<b>1,545,027</b>	<b>154,503</b>

- (a) In May and June 2001, a total of 192,000,000 shares of HK\$0.1 each in the share capital of the Company were placed to independent investors at HK\$1.65 per share and HK\$1.975 per share, respectively. The same number of shares was subscribed by the vendors in the aforesaid placements at the aforesaid placing prices. The net proceeds of approximately HK\$353,689,000 are used for general corporate purpose and for financing part of the consideration to be payable for the Company's acquisitions, details of which are set out in the Company's circular dated 29 June 2001.



## 11. PLEDGE OF ASSETS

Certain bank loans of the Group are secured by:

- (a) a charge over the fixed assets of the Group with net book values of approximately HK\$92,856,000 (31 December 2000: HK\$107,746,000); and
- (b) pledge of bank deposits of approximately HK\$9,516,000 (31 December 2000: HK\$9,589,000).

## 12. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Interim Accounts, the Group had the following material transactions with related parties during the period:

- (a) At 16 May 2001, the Company issued in aggregate 692,656,250 new shares of HK\$0.1 each at an issue price of HK\$1.60 per share as consideration for the acquisition of entire issued share capital of COFCO Oils & Fats Holdings Limited ("COFCO Oils & Fats") and COFCO Wines & Spirits Holdings Limited from COFCO (HK). Further details of the acquisitions are set out in the Company's circular dated 22 February 2001.

	<b>Six months ended</b>	Six months ended
	<b>30 June 2001</b>	30 June 2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
	<i>Notes</i>	
Transactions with fellow subsidiaries:		
Purchase of goods and raw materials	<i>(i)</i> <b>61,652</b>	462,738
Sale of goods	<i>(i)</i> <b>9,132</b>	-
Freight charges paid	<i>(i)</i> <b>5,431</b>	5,217
Interest expenses paid	<i>(ii)</i> <b>2,280</b>	609
Reimbursement of advertising expenses	<i>(iii)</i> <b>1,285</b>	-
Transactions with the ultimate holding company:		
Sale of goods	<i>(i)</i> <b>382,654</b>	-
Purchase of raw materials	<i>(i)</i> <b>6,121</b>	-
Reimbursement of advertising expenses	<i>(iii)</i> <b>860</b>	-
Management fee paid	<i>(i)</i> <b>701</b>	-
Royalty fee paid	<i>(iii)</i> <b>308</b>	-
Interest expenses paid	<i>9(b)</i> <b>299</b>	-
Transactions with a holding company:		
Operating lease rentals paid	<i>(i)</i> <b>773</b>	424
Transactions with associates:		
Sale of goods	<i>(i)</i> <b>20,947</b>	-
Purchase of raw materials	<i>(i)</i> <b>496</b>	-
Interest income received	<i>(iv)</i> <b>185</b>	-
Transactions with minority shareholders of subsidiaries:		
Purchase of raw materials	<i>(i)</i> <b>234,277</b>	-
Interest expenses paid	<i>9(b)</i> <b>376</b>	376

- (i) These transactions were carried out at market price or, where no market price was available, at cost plus a percentage of profit mark-up.
- (ii) The interest expenses arose from the amounts due to certain fellow subsidiaries which are unsecured, bear interest at 3.5 per cent. – 6 per cent. per annum and were fully repaid during the current period under review.
- (iii) These transactions were based on mutual agreements.
- (iv) The interest income arose from a loan to an associate of HK\$26,117,000 which bears interest at 8.5 per cent. per annum.

Except for those disclosed in (ii) above and note 9(b) of the Interim Accounts, the balances with associates, fellow subsidiaries, holding companies and related companies are unsecured, interest-free and have no fixed terms of be repayment.

Except for those disclosed in (iv) above, all the remaining loans to associates are interest-free. All the loans to associates are unsecured and will not be repayable within the next twelve months.

The advance to an investee company is unsecured, interest-free and will not be repayable within the next twelve months.

- (c) During the period, pursuant to certain licensing agreements entered into between the Group and related parties, the Group is granted the exclusive right to use certain trade marks for its edible oils and fats businesses with no consideration.

### 13. CAPITAL COMMITMENTS

At 30 June 2001, the Group had the following capital commitments:

	<b>The Group</b>	
	<b>30 June</b>	31 December
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
(a) Capital commitments in respect of acquisition of property and plant, contracted for	<b><u>70,787</u></b>	<b><u>605</u></b>

- (b) Pursuant to an agreement dated 21 February 2001, the Group will acquire a further 5.37 per cent. equity interest in North Sea by paying consideration of approximately HK\$41,264,000.
- (c) Pursuant to a conditional sale and purchase agreement entered into between the Company, COFCO (HK) and COFCO, the Company procures COFCO Oils & Fats to purchase from COFCO (HK) the entire issued share capital of COFCO (BVI) No. 36 Limited ("COFCO BVI") for a consideration of approximately HK\$38.7 million payable by the issue and allotment of 24,202,697 new shares of the Company. The consideration may be increased by an amount of up to about HK\$23.7 million payable in cash, equivalent to any further investment made by COFCO or COFCO (HK) in COFCO BVI prior to completion of the sale and purchase.
- (d) On 7 June 2001, the Company entered into a conditional sale and purchase agreement with COFCO (HK) and COFCO, in respect of the proposed acquisition from COFCO (HK) of (a) the entire issued share capital of COFCO (BVI) No. 100 Limited; (b) the entire issued share capital of Prized Development Limited ("COFCO Chocolate"); and (c) the shareholder's loans of approximately HK\$113.2 million being owed by COFCO Chocolate and its subsidiaries to COFCO (HK) for a total consideration of HK\$708 million, which would be satisfied as to HK\$407 million in cash and as to HK\$301 million by the issue of convertible notes.

#### 14. OPERATING LEASE COMMITMENTS

At 30 June 2001, the Group had total commitments payable in the future years under non-cancellable operating leases as follows:

	<b>(Unaudited)</b> <b>HK\$'000</b>
Land and buildings:	
Not later than one year	<b>1,524</b>
Later than one year and not later than five years	<b>2,351</b>
	<b><u>3,875</u></b>

At 31 December 2000, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	<b>(Audited)</b> <b>HK\$'000</b>
Land and buildings expiring:	
Within one year	<b>901</b>
	<b><u>901</u></b>

**15. CONTINGENT LIABILITIES**

	<b>The Group</b>	
	<b>30 June 2001 (Unaudited) HK\$'000</b>	31 December 2000 (Audited) HK\$'000
Guarantees given to banks in connection with facilities granted to an investee company	—	8,900

**16. SUBSEQUENT EVENT**

On 4 September 2001, the Company completed the acquisition of COFCO BVI (including relevant shareholders loans) from COFCO (HK) and satisfied the consideration by the issue and allotment of 24,202,697 new shares of HK\$0.1 each at an issue price of HK\$1.60 per share and the payment of approximately HK\$48,676,000 in cash. Further details of the acquisition are set out in the Company's circular dated 22 February 2001.

**17. APPROVAL OF THE INTERIM ACCOUNTS**

The Interim Accounts were approved by the board of Directors on 25 September 2001.