

# Notes to the Financial Statements

For the year ended 31 December 2004

## 1. CORPORATE INFORMATION

During the year, the Group engaged in food processing and related businesses which include edible oils, soya bean meal and related products, wineries, confectionery, flour milling and trading.

The Company is a subsidiary of COFCO (Hong Kong) Limited (“COFCO (HK)”), a company incorporated in Hong Kong. The ultimate holding company is China National Cereals, Oils & Foodstuffs Corporation (“COFCO”), which is a state-owned enterprises of the People’s Republic of China (the “PRC”) under purview of the State Council of the PRC.

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

SSAP 36 “Agriculture” is effective for the first time for the current year’s financial statements and has had a significant impact thereon.

SSAP 36 prescribes the accounting treatment, financial statement presentation and disclosures relating to agricultural activity. Agricultural activity comprises an entity’s management of the biological transformation of living animals or plants (biological assets) for sale, into either agricultural produce or into additional biological assets.

In general, biological assets on initial recognition and at each balance sheet date are measured at fair value less estimated point-of-sale costs. Agricultural produce harvested from an entity’s biological assets is measured at its fair value less estimated point-of-sale costs at the point of harvest. Gains and losses arising on initial recognition and subsequent changes in fair values are included in the profit and loss account.

The adoption of SSAP 36 has resulted in the Group stating grape vines and grape at fair value less estimated point-of-sale costs. In prior years, grape vines were stated at cost less accumulated depreciation and grapes were stated at the lower of cost and net realisable value.

Further details of these changes and the prior year adjustment arising from them are included in the accounting policy for biological assets in note 3 and in note 19 to the financial statements.

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its result of operations and financial positions.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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, investment properties and biological assets 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 2004. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

#### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

#### **Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associate.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as of the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years or the management contract period of 10 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

#### Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as of the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as of the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Negative goodwill (continued)

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as of the date of acquisition, negative goodwill not exceeding the fair values of the acquired non-monetary assets is recognised in the consolidated profit and loss account on a systematic basis over the remaining weighted average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

#### Impairment of assets

An assessment is made at each balance sheet date of 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 asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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 over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Buildings	2.8% to 16.2%
Plant, machinery and equipment	4.5% 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.

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

#### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the 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 or any impairment losses assessed by the directors on an individual basis. An impairment loss is charged to the profit and loss account in the period in which it arises.

Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

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.

#### Biological assets

Grape vines are measured at their fair value less estimated point-of-sale costs. The fair value of grape vines is determined based on the present value of expected net cash flows from the grape vines discounted at a current market-determined pre-tax rate. Grape vines are perennial plants which have growth cycles of more than one year. Gain or loss arising on initial recognition of grape vines at fair value less estimated point-of-sale costs is dealt with in the profit and loss account when it arises.

Agricultural produce comprises grapes. Self-grown grapes are measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of grapes is determined based on market prices in the local area, which represents the estimated purchase cost that the Group has to procure such raw materials in the market on an arm's length basis.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Other investments

Other investments are those which are not classified as long term investments, and are stated at fair value on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unrealised holding gains or losses arising from changes in fair value are dealt with in the profit and loss account in the period in which they arise.

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 sales proceeds and the carrying amount of the investment. Where the investee company was previously a subsidiary or an associate of the Company and previously-arising reserves attributable to this investee company remain, the reserves attributable to such investee companies are also released to the profit and loss account on disposal.

#### Inventories

Inventories, other than agricultural produces which is measured in accordance with the accounting policy for "Biological assets" above, 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 to 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.

#### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.



## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

#### 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) from 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) rental income, in the period in which the properties are leased and on the straight-line basis over the lease terms;
- (c) agency commission and reimbursement of advertising expenses, on an accrual basis;
- (d) from the rendering of services, in the period in which the services are rendered;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (f) dividend income, when the shareholders' right to receive payment is established;
- (g) proceeds from the sale of other investments, on the transaction dates when the relevant contract notes are exchanged; and
- (h) tax refunds, when the acknowledgement of refunds from the tax bureau is received.

#### Dividends

Interim dividends are simultaneously proposed and declared because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

#### Employee benefits

##### *Retirement benefits schemes*

Retirement benefits are provided to 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 Mandatory Provident Fund Scheme under which employer contributions have to be made. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to both schemes are at a maximum of 10% of the monthly salaries of the employees. When an employee leaves the Mandatory Provident Fund Exempted ORSO Scheme prior to his or 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 the forfeited contributions. However, in respect of the Mandatory Provident Fund Scheme, only the employer voluntary contribution amounts are refundable to the Group when the members leave employment prior to their contributions vesting fully. The Group's mandatory contributions vest fully with the employees when the employees leave the scheme.

In addition, the employees of the Group's subsidiaries which operate in the PRC are required to participate in the central pension scheme which is operated by the relevant authorities of the provinces or 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.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Employee benefits (continued)

##### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

##### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or 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 and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the edible oils, soya bean meal and related products segment engages in the extraction, refining and trading of edible oils and the related businesses;
- (b) the wineries segment engages in the production, sale and trading of grape wine and other relevant beverage products;
- (c) the confectionery segment engages in the production and distribution of chocolate and other related products;
- (d) the trading segment engages in the trading of food commodities, animal feedstock, and agricultural and aquatic products;
- (e) the flour milling segment engages in flour milling and related businesses; and
- (f) the corporate and others segment comprises the Group's management services business, which provides management services relating to imports and exports, together with corporate income and expense items.

In determining the Group's geographical segments, revenues and assets are attributed to the segments based on the location of the production or service facilities.

To accord with the presentation adopted in the current year, which in the opinion of the directors, achieve a consistent presentation, certain segment revenue and results of certain business segments for prior year have been restated.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 4. SEGMENT INFORMATION (continued)

#### (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

#### Group

	Edible oils, soya bean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)						(Restated)				(Restated)
Segment revenue:														
Sales to external customers	<b>11,657,102</b>	9,168,253	<b>1,164,246</b>	890,960	<b>343,725</b>	293,526	<b>3,038,295</b>	2,923,391	<b>589,255</b>	418,332	-	-	<b>16,792,623</b>	13,694,462
Segment results	<b>116,631</b>	276,416	<b>211,709</b>	138,925	<b>39,048</b>	41,794	<b>115,807</b>	60,710	<b>14,525</b>	10,902	<b>(16,258)</b>	3,186	<b>481,462</b>	531,933
Interest and dividend income													<b>23,409</b>	31,627
Unallocated gains and expenses, net													<b>4,804</b>	2,134
Profit from operating activities													<b>509,675</b>	565,694
Finance costs													<b>(84,265)</b>	(53,797)
Share of profits less losses of associates	<b>28,801</b>	91,941	-	13,355	-	-	-	-	-	-	-	-	<b>28,801</b>	105,296
Profit before tax													<b>454,211</b>	617,193
Tax													<b>(97,272)</b>	(93,963)
Profit before minority interests													<b>356,939</b>	523,230
Minority interests													<b>(56,237)</b>	(110,578)
Net profit from ordinary activities attributable to shareholders													<b>300,702</b>	412,652

## Notes to the Financial Statements

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### 4. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

##### Group

	Edible oils, soya bean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)												(Restated)
Segment assets	4,815,314	5,336,314	1,564,805	1,383,620	480,194	386,608	619,634	1,122,853	198,128	185,032	184,766	170,215	(22,386)	(133,842)	7,840,455	8,450,800
Interests in associates	429,397	397,601	-	-	-	-	-	-	-	-	-	-	-	-	429,397	397,601
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	845,704	828,388
Total assets	5,244,711	5,733,915	1,564,805	1,383,620	480,194	386,608	619,634	1,122,853	198,128	185,032	184,766	170,215	(22,386)	(133,842)	9,115,556	9,676,789
Segment liabilities	1,164,747	1,477,775	631,383	543,690	223,213	212,346	261,686	528,899	33,421	39,035	146,630	134,342	(1,257,586)	(1,134,707)	1,203,494	1,801,380
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,659,117	2,907,686
Total liabilities	1,164,747	1,477,775	631,383	543,690	223,213	212,346	261,686	528,899	33,421	39,035	146,630	134,342	(1,257,586)	(1,134,707)	3,862,611	4,709,066
Other segment information: Depreciation and amortisation	143,650	117,172	48,846	38,941	9,361	8,380	7,017	7,277	5,854	5,916	21,402	21,319	-	-	236,130	199,005
Other non-cash expenses	8,158	1,732	1,018	491	22	84	-	-	-	133	-	1,486	-	-	9,198	3,926
Capital expenditure	334,145	715,655	65,630	48,015	40,756	58,501	356	931	2,351	1,907	8	1,001	-	-	443,246	826,010

## Notes to the Financial Statements

For the year ended 31 December 2004

### 4. SEGMENT INFORMATION (continued)

#### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

#### Group

	Hong Kong		Elsewhere in the PRC		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)				(Restated)
Segment revenue:								
Sales to external customers	<b>1,129,654</b>	1,197,080	<b>15,662,969</b>	12,497,382	-	-	<b>16,792,623</b>	13,694,462
Other segment information:								
Segment assets	<b>2,047,497</b>	2,056,403	<b>8,621,488</b>	8,767,450	<b>(1,553,429)</b>	(1,147,064)	<b>9,115,556</b>	9,676,789
Capital expenditure	<b>8</b>	1,011	<b>443,238</b>	824,999	-	-	<b>443,246</b>	826,010

### 5. TURNOVER AND REVENUE

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

An analysis of other revenue is as follows:

	2004 HK\$'000	2003 HK\$'000
<b>Other revenue</b>		
Sales of by-products and scrap items	<b>23,705</b>	50,406
Gross rental income	<b>6,736</b>	6,974
Agency commission	<b>5,253</b>	7,821
Management fee income from COFCO	<b>24,292</b>	40,031
Interest income	<b>19,534</b>	29,311
Dividends from an unlisted long term investment and listed equity securities	<b>3,875</b>	2,316
Government grants*	<b>5,837</b>	13,461
Rental of containers	<b>16,846</b>	3,169
Others	<b>36,975</b>	21,340
	<b>143,053</b>	174,829

\* Various government grants have been received for investments in certain provinces in the PRC and for generating revenue in foreign currencies. There are no unfulfilled conditions or contingencies relating to these grants.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 6. PROFIT FROM OPERATING ACTIVITIES

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

		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
	Notes		(Restated)
Cost of inventories sold		<b>15,449,416</b>	12,512,615
Write back of provision against inventories		<b>(2,407)</b>	(3,074)
Cost of sales		<b>15,447,009</b>	12,509,541
Auditors' remuneration		<b>2,547</b>	2,362
Depreciation	14	<b>196,425</b>	160,566
Loss on disposal of fixed assets		<b>8,523</b>	1,240
Amortisation of a long term investment	18(a)	<b>1,400</b>	1,400
Minimum lease payments under operating leases in respect of land and buildings		<b>24,981</b>	18,754
Staff costs (including directors' remuneration – note 8):			
Wages and salaries		<b>186,643</b>	159,130
Retirement benefits scheme contributions		<b>7,894</b>	9,012
		<b>194,537</b>	168,142
Other operating expenses, net, including:			
Amortisation of goodwill	15, 17	<b>41,705</b>	40,438
Negative goodwill recognised as income	15	<b>(3,400)</b>	(3,399)
Gain on disposal of subsidiaries		–	(721)
Gain on trading of investments		–	(1,055)
Gain on disposal of listed debt securities		<b>(920)</b>	–
Gain arising from changes in fair value of biological assets		<b>(972)</b>	(1,604)
Provision/(write-back of provision for) doubtful debts		<b>641</b>	(434)
Unrealised holding gains on listed equity securities		<b>(870)</b>	(148)
Unrealised holding gains on listed debt securities		–	(1,610)
Unrealised holding gains on unlisted portfolio funds		<b>(1,668)</b>	–
Write off of other investments		–	655
Release of reserve upon write off of other investments*		–	(1,752)
		–	(1,097)
Exchange gains, net		<b>(1,383)</b>	(2,996)
Net rental income		<b>(5,920)</b>	(6,156)

\* The investment was previously an associate of the Group and the previously-arising reserves attributable to this investment were released to the profit and loss account upon write off.



## Notes to the Financial Statements

For the year ended 31 December 2004

### 7. FINANCE COSTS

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	<b>68,918</b>	40,576
Loans from the ultimate holding company and a fellow subsidiary	<b>13,489</b>	8,726
Convertible notes	–	4,288
Others	<b>1,858</b>	207
	<b>84,265</b>	53,797

### 8. DIRECTORS' REMUNERATION

The directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	<b>1,400</b>	1,400
Independent non-executive directors	<b>400</b>	400
	<b>1,800</b>	1,800
Other emoluments to Executive directors:		
Salaries, allowances and benefits in kind	<b>5,696</b>	3,791
Retirement benefits scheme contributions	<b>226</b>	171
	<b>5,922</b>	3,962
	<b>7,722</b>	5,762

## Notes to the Financial Statements

For the year ended 31 December 2004

### 8. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	6	8
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$3,000,001 – HK\$3,500,000	1	–
	<b>9</b>	<b>10</b>

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

During the year, 19,850,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2003: one) non-director, highest paid employee for the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	480	786
Retirement benefits scheme contributions	34	51
	<b>514</b>	<b>837</b>

The remuneration of the non-director, highest paid employee for the year ended 31 December 2004 and 2003 fell within the band of Nil – HK\$1,000,000.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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.

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	<b>1,265</b>	2,261
Current – Elsewhere in the PRC		
Charge for the year	<b>100,512</b>	90,301
Under/(over) provision in prior year	<b>(4,351)</b>	356
Deferred (note 25)	<b>(1,511)</b>	(8,004)
	<b>95,915</b>	84,914
Share of tax attributable to associates:		
Elsewhere in the PRC	<b>1,357</b>	9,049
Tax charge for the year	<b>97,272</b>	93,963

## Notes to the Financial Statements

For the year ended 31 December 2004

### 10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, the majority of its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

#### Group – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<b>(7,610)</b>		<b>461,821</b>		<b>454,211</b>	
Tax at the statutory tax rate	<b>(1,332)</b>	<b>17.5</b>	<b>152,401</b>	<b>33.0</b>	<b>151,069</b>	<b>33.3</b>
Lower tax rate for specific provinces or local authority	–	–	<b>(34,185)</b>	<b>(7.4)</b>	<b>(34,185)</b>	<b>(7.5)</b>
Profit not subject to tax, due to concessions	–	–	<b>(5,008)</b>	<b>(1.1)</b>	<b>(5,008)</b>	<b>(1.1)</b>
Adjustments in respect of current tax of previous periods	–	–	<b>(4,351)</b>	<b>(0.9)</b>	<b>(4,351)</b>	<b>(1.0)</b>
Income not subject to tax	<b>(7,954)</b>	<b>104.5</b>	<b>(11,416)</b>	<b>(2.5)</b>	<b>(19,370)</b>	<b>(4.3)</b>
Expenses not deductible for tax	<b>10,402</b>	<b>(136.7)</b>	<b>3,857</b>	<b>0.8</b>	<b>14,259</b>	<b>3.1</b>
Tax losses utilised from previous periods	<b>(38)</b>	<b>0.5</b>	<b>(6,225)</b>	<b>(1.3)</b>	<b>(6,263)</b>	<b>(1.4)</b>
Tax losses not recognised	<b>227</b>	<b>(3.0)</b>	<b>1,087</b>	<b>0.2</b>	<b>1,314</b>	<b>0.3</b>
Others	<b>(42)</b>	<b>0.6</b>	<b>(151)</b>	–	<b>(193)</b>	–
Tax charge at the Group's effective rate	<b>1,263</b>	<b>(16.6)</b>	<b>96,009</b>	<b>20.8</b>	<b>97,272</b>	<b>21.4</b>

## Notes to the Financial Statements

For the year ended 31 December 2004

### 10. TAX (continued)

Group – 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000 (Restated)	%	HK\$'000 (Restated)	%
Profit before tax	21,991		595,202		617,193	
Tax at the statutory tax rate	3,848	17.5	196,417	33.0	200,265	32.4
Lower tax rate for specific provinces or local authority	–	–	(65,731)	(11.1)	(65,731)	(10.7)
Profit not subject to tax, due to concessions	–	–	(26,982)	(4.5)	(26,982)	(4.4)
Adjustments in respect of current tax of previous periods	–	–	356	0.1	356	0.1
Income not subject to tax	(12,660)	(57.6)	(12,009)	(2.0)	(24,669)	(4.0)
Expenses not deductible for tax	7,906	36.0	8,450	1.4	16,356	2.7
Tax losses utilised from previous periods	(32)	(0.1)	(7,950)	(1.3)	(7,982)	(1.3)
Tax losses not recognised	3,264	14.8	307	–	3,571	0.6
Others	(65)	(0.3)	(1,156)	(0.2)	(1,221)	(0.2)
Tax charge at the Group's effective rate	2,261	10.3	91,702	15.4	93,963	15.2

### 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$165,136,000 (2003: HK\$34,432,000).

## Notes to the Financial Statements

For the year ended 31 December 2004

### 12. DIVIDENDS

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Additional final dividend in respect of prior year	<b>484</b>	–
Interim – 2.76 HK cents (2003: 4.5 HK cents) per share	<b>48,496</b>	78,619
Proposed final – 3.74 HK cents (2003: 5 HK cents) per share	<b>65,766</b>	87,371
	<b>114,746</b>	165,990

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The additional final dividend represents the additional payment of the prior year's final dividend of 5 HK cents per share to the new shareholders of 9,680,000 shares registered as members between 1 April 2004 and 10 May 2004, the date upon which members were entitled to the dividend.

### 13. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
		(Restated)
<b>Earnings</b>		
Net profit attributable to shareholders, used in the basic earnings per share calculations	<b>300,702,000</b>	412,652,000
Deemed saving in finance costs on the convertible notes	–	3,537,000
Adjusted net profit attributable to shareholders, used in the diluted earnings per share calculations	<b>300,702,000</b>	416,189,000

## Notes to the Financial Statements

For the year ended 31 December 2004

### 13. EARNINGS PER SHARE (continued)

	Number of shares	
	2004	2003
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	<b>1,754,088,687</b>	1,630,482,912
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	<b>4,735,036</b>	21,430,176
Assumed issued on the deemed conversion of the convertible notes	–	99,726,027
	<hr/>	<hr/>
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<b>1,758,823,723</b>	1,751,639,115

## Notes to the Financial Statements

For the year ended 31 December 2004

### 14. FIXED ASSETS

	<b>Investment properties</b>	<b>Leasehold land and buildings</b>	<b>Group Plant, machinery and equipment</b>	<b>Construction in progress</b>	<b>Total</b>	<b>Company Plant and equipment</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
-						
Cost or valuation:						
At 1 January 2004						
As previously reported	56,038	1,316,103	1,815,706	163,370	3,351,217	1,814
Prior year adjustment:						
SSAP 36 – restatement of biological assets (note 19)	-	(21,604)	-	-	(21,604)	-
As restated	56,038	1,294,499	1,815,706	163,370	3,329,613	1,814
Additions	-	28,200	69,608	345,438	443,246	-
Disposals	-	(5,309)	(14,908)	(5)	(20,222)	-
Transfers	-	73,864	106,669	(180,533)	-	-
At 31 December 2004	56,038	1,391,254	1,977,075	328,270	3,752,637	1,814
Analysis of cost or valuation:						
At cost	-	1,391,254	1,977,075	328,270	3,696,599	1,814
At 31 December 2004 valuation	56,038	-	-	-	56,038	-
	56,038	1,391,254	1,977,075	328,270	3,752,637	1,814
Accumulated depreciation and impairment:						
At 1 January 2004						
As previously reported	-	103,193	290,789	-	393,982	775
Prior year adjustment:						
SSAP 36 – restatement of biological assets (note 19)	-	(1,139)	-	-	(1,139)	-
As restated	-	102,054	290,789	-	392,843	775
Provided during the year	-	44,245	152,180	-	196,425	333
Disposals	-	(591)	(10,101)	-	(10,692)	-
At 31 December 2004	-	145,708	432,868	-	578,576	1,108
Net book value:						
At 31 December 2004	56,038	1,245,546	1,544,207	328,270	3,174,061	706
At 31 December 2003 (restated)	56,038	1,192,445	1,524,917	163,370	2,936,770	1,039



## Notes to the Financial Statements

For the year ended 31 December 2004

### 14. FIXED ASSETS (continued)

All of the Group's investment properties and leasehold land and buildings are held outside Hong Kong under medium term leases.

The Group's investment properties were revalued on 31 December 2004 by Chesterton Petty Limited, independent professionally qualified valuers, at HK\$56,038,000 (2003: HK\$56,038,000) on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the financial statements.

At 31 December 2004, the Group's investment properties with a carrying value of HK\$56,038,000 (2003: HK\$56,038,000), and certain of the Group's fixed assets with a net book value of approximately HK\$95,093,000 (2003: HK\$120,619,000), were pledged to secure banking facilities granted to the Group (note 24).

### 15. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

	<b>Group</b>	
	<b>Goodwill</b>	<b>Negative goodwill</b>
	HK\$'000	HK\$'000
Cost:		
At beginning of year as previously reported	632,535	(23,798)
Prior year adjustment:		
SSAP 36 – restatement of biological assets (note 19)	(6,678)	–
	<hr/>	<hr/>
As restated at beginning of year and at 31 December 2004	625,857	(23,798)
	<hr/>	<hr/>
Accumulated amortisation/(recognition as income):		
At beginning of year	85,442	(7,366)
Amortisation provided/(recognised as income) during the year	40,855	(3,400)
	<hr/>	<hr/>
At 31 December 2004	126,297	(10,766)
	<hr/>	<hr/>
Net book value:		
At 31 December 2004	499,560	(13,032)
	<hr/>	<hr/>
At 31 December 2003 (as restated)	540,415	(16,432)
	<hr/>	<hr/>

## Notes to the Financial Statements

For the year ended 31 December 2004

### 15. GOODWILL AND NEGATIVE GOODWILL (continued)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against or credited to the capital reserve, respectively. The amounts of the goodwill and negative goodwill remaining in the consolidated capital reserve as of 31 December 2004, arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 2001, are as follows:

	<b>Group</b>	
	<b>Goodwill eliminated against capital reserve</b>	<b>Negative goodwill credited to capital reserve</b>
	HK\$'000	HK\$'000
Cost:		
At beginning of year and at 31 December 2004	261,897	(649)
Accumulated impairment:		
At beginning of year and at 31 December 2004	(172,357)	–
Net amount:		
At 31 December 2004	89,540	(649)
At 31 December 2003	89,540	(649)

### 16. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b>	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	<b>2,359,796</b>	2,359,796
Amounts due from subsidiaries	<b>1,729,391</b>	1,443,325
Amounts due to subsidiaries	<b>(352,835)</b>	(338,980)
	<b>3,736,352</b>	3,464,141
Provision for impairment	<b>(128,100)</b>	(128,100)
	<b>3,608,252</b>	3,336,041

## Notes to the Financial Statements

For the year ended 31 December 2004

### 16. INTERESTS IN SUBSIDIARIES (continued)

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as of the date when the Company became the holding company of the Group pursuant to the group reorganisation in 1991 and the costs of acquisitions of certain subsidiaries in 2001.

Particulars of the Company's principal subsidiaries as of 31 December 2004 are set out in note 35 to the financial statements.

### 17. INTERESTS IN ASSOCIATES

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>291,460</b>	266,954
Amounts due from/(to) associates	<b>5,949</b>	(2,191)
Loans to associates	<b>117,049</b>	117,049
Goodwill	<b>14,939</b>	15,789
	<b>429,397</b>	397,601

The amount of goodwill arising from an additional capital injection made to an associate in the prior year is as follows:

	<b>Group</b>
	<b>Goodwill</b>
	HK\$'000
Cost:	
At beginning of year and 31 December 2004	17,068
Accumulated amortisation:	
At beginning of year	1,279
Provided during the year	850
	2,129
Net book value:	
At 31 December 2004	14,939
At 31 December 2003	15,789

## Notes to the Financial Statements

For the year ended 31 December 2004

### 17. INTERESTS IN ASSOCIATES (continued)

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

The loans to associates are capital in nature. The balances are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Group's principal associates at 31 December 2004 are set out in note 36 to the financial statements.

### 18. INVESTMENTS

#### (a) Long term investments

	Group	
	2004	2003
	HK\$'000	HK\$'000
Long term investments:		
Unlisted equity investments, at cost	54,133	54,133
Amortisation of investment cost	(22,965)	(21,565)
Amount due from an investee company	2,734	3,623
	33,902	36,191

Particulars of the principal long term unlisted equity investment as of 31 December 2004 are as follows:

Name of company	Place of registration	Percentage of equity interest attributable to the Group	Principal activity
江蘇江源熱電有限公司 Jiangsu Jiangyuan Thermal Power Co. Ltd. ("JJYTP")	PRC	50	Thermal power plant operator

JJYTP is a co-operative joint venture with a term of 25 years. The sharing of the profits during the joint venture period and the sharing of the net assets at the expiration of the joint venture period are governed by the joint venture contract and are not in proportion to the joint venture partners' equity ratio. In the opinion of the directors, the Group is not in a position to exercise significant influence over the financial and operating policy decisions of JJYTP. Accordingly, JJYTP is regarded as a long term investment rather than an associate of the Group.

In the opinion of the directors, the value of the above investment is at least equal to its carrying amount.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 18. INVESTMENTS (continued)

#### (b) Other investments

	Group	
	2004 HK\$'000	2003 HK\$'000
Listed equity securities in Hong Kong, at market value	2,897	822
Unlisted portfolio funds, at fair value	138,106	–
Listed debt securities elsewhere than Hong Kong, at market value	–	220,548
Unlisted debt securities elsewhere than Hong Kong, at fair value	107,928	–
Unlisted debt securities in Hong Kong, at fair value	23,400	–
Time deposits under fund management	5,194	–
	<b>277,525</b>	221,370

### 19. BIOLOGICAL ASSETS

	Group	
	2004 HK\$'000	2003 HK\$'000
At beginning of year		
As previously reported	–	–
Prior year adjustment:		
SSAP 36 – restatement of biological assets	32,651	31,047
As restated	32,651	31,047
Gains arising from changes in fair value attributable to physical changes	6,932	6,756
Decrease due to harvest	(5,960)	(5,152)
At 31 December	<b>33,623</b>	32,651

## Notes to the Financial Statements

For the year ended 31 December 2004

### 19. BIOLOGICAL ASSETS (continued)

SSAP 36 was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in the following prior year adjustments:

- (a) reversal of depreciation on the grape vines of HK\$1,139,000 for the year ended 31 December 2003 and reclassification of grape vines with a carrying value of HK\$21,604,000 from fixed assets to biological assets as of 31 December 2003;
- (b) increase in biological assets of HK\$7,621,000, decrease in goodwill of HK\$6,678,000 and increase in minority interests of HK\$943,000 to reflect the fair value of the biological assets at the acquisition dates of subsidiaries; and
- (c) recognition of the increase in fair value of the biological assets at 1 January 2003 of HK\$1,822,000 and of HK\$1,604,000 for the year ended 31 December 2003.

As a consequence, the Group's biological assets as of 31 December 2003 has been increased by HK\$32,651,000. The net profit attributable to shareholders for the year ended 31 December 2003 has been increased by HK\$2,743,000. The consolidated retained profits at 1 January 2003 and 2004 have been increased by HK\$1,822,000 and HK\$4,565,000, respectively, as detailed in the consolidated summary statement of changes in equity.

The Group harvested 3,222,000 kg of grape with a fair value less estimated point-of-sale costs of HK\$7,533,000 in the year ended 31 December 2004.

Significant assumptions made in determining the fair value of the biological assets are as follows:

- (a) The grape vines will continue to be competently managed and remain free from irremediable disease in the remaining estimated useful lives;
- (b) The expected prices of grapes are based on the past actual average district prices; and
- (c) The future cash flows have been discounted at the target rate of return on equity of the wineries segment.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 20. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	732,021	1,191,670
Work in progress	40,217	215,475
Finished goods	1,000,750	1,098,612
	1,772,988	2,505,757

No inventory was carried at net realisable value as of 31 December 2004 (2003: Nil).

### 21. ACCOUNTS RECEIVABLE

The accounts receivable of the Group at 31 December 2003 included trading balances due from associates of HK\$41,797,000 and due from the ultimate holding company of HK\$37,358,000. The trade balances due from associates and the ultimate holding company at 31 December 2004 have been included in notes 17 and 34 to the financial statements.

An analysis of the accounts receivable as of 31 December 2004 is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 6 months	933,336	709,622
7 to 12 months	24,731	45,498
1 to 2 years	3,638	4,602
Over 2 years	20,805	19,228
	982,510	778,950
Less: Provision for doubtful debts	(23,382)	(22,762)
	959,128	756,188

## Notes to the Financial Statements

For the year ended 31 December 2004

### 22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	<b>620,014</b>	557,741	<b>1,876</b>	5,699
Time deposits	<b>524,434</b>	556,059	<b>2,470</b>	231,320
	<b>1,144,448</b>	1,113,800	<b>4,346</b>	237,019

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$847,393,000 (2003: HK\$507,244,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

### 23. ACCOUNTS PAYABLE

The accounts payable of the Group at 31 December 2003 included trading balances due to the ultimate holding company of HK\$1,916,000 and due to fellow subsidiaries of HK\$114,000. The trade balances due to ultimate holding company and fellow subsidiaries at 31 December 2004 have been included in note 34 to the financial statements.

An analysis of the accounts payable as of 31 December 2004 is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Outstanding balances with ages:		
Within 6 months	<b>423,744</b>	460,207
7 to 12 months	<b>4,850</b>	3,761
1 to 2 years	<b>9,248</b>	4,862
Over 2 years	<b>1,952</b>	2,504
	<b>439,794</b>	471,334



## Notes to the Financial Statements

For the year ended 31 December 2004

### 24. INTEREST-BEARING BANK LOANS AND OTHER LOANS

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans:		
Secured	57,830	172,925
Unsecured	2,073,778	2,295,372
	<b>2,131,608</b>	2,468,297
Other loans:		
Unsecured	478,715	396,851
	<b>2,610,323</b>	2,865,148
Bank loans repayable:		
Within one year or on demand	2,108,023	2,418,297
In the second year	–	28,302
In the third to fifth years, inclusive	23,585	21,698
	<b>2,131,608</b>	2,468,297
Other loans repayable:		
Within one year or on demand	470,743	388,879
In the second year	–	–
In the third to fifth years, inclusive	7,972	–
Beyond five years	–	7,972
	<b>478,715</b>	396,851
	<b>2,610,323</b>	2,865,148
Portion classified as current liabilities	<b>(2,578,766)</b>	(2,807,176)
Non-current portion	<b>31,557</b>	57,972

## Notes to the Financial Statements

For the year ended 31 December 2004

### 24. INTEREST-BEARING BANK LOANS AND OTHER LOANS (continued)

The Group's bank loans are secured by:

- (a) a charge over the Group's investment properties held outside Hong Kong with a carrying value at the balance sheet date of HK\$56,038,000 (2003: HK\$56,038,000) (note 14); and
- (b) a charge over certain fixed assets of the Group with a net book value of approximately HK\$95,093,000 (2003: HK\$120,619,000) (note 14).

In addition, the ultimate holding company and an associate of the Group had guaranteed certain of the Group's unsecured bank loans up to HK\$272,465,000 (2003: HK\$327,490,000) as of the balance sheet date.

The other loans represent loans from COFCO and a financial institution in the COFCO group. These balances are unsecured and bear interest at rates ranging from 2.308% to 5.58% per annum.

### 25. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

#### Deferred tax liabilities

##### Group

	HK\$'000
At 1 January 2003	15,225
Deferred tax credited to the profit and loss account during the year (note 10)	<u>(6,773)</u>
Deferred tax liabilities at 31 December 2003 and at 1 January 2004	8,452
Deferred tax credited to the profit and loss account during the year (note 10)	<u>(3,559)</u>
Deferred tax liabilities at 31 December 2004	<u>4,893</u>

## Notes to the Financial Statements

For the year ended 31 December 2004

### 25. DEFERRED TAX (continued)

#### Deferred tax assets

#### Group

	HK\$'000
At 1 January 2003	7,542
Deferred tax credited to the profit and loss account during the year (note 10)	<u>1,231</u>
Deferred tax assets at 31 December 2003 and at 1 January 2004	8,773
Deferred tax charged to the profit and loss account during the year (note 10)	<u>(2,048)</u>
Deferred tax assets at 31 December 2004	<u><u>6,725</u></u>

The Group has tax losses arising in Hong Kong and Mainland China of HK\$54,741,000 (2003: HK\$53,599,000) and HK\$36,918,000 (2003: HK\$61,131,000), respectively, that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

### 26. MINORITY INTERESTS

	2004 HK\$'000	2003 HK\$'000 (Restated)
Share of net assets attributable to minority shareholders	878,335	718,330
Advances from minority shareholders	<u>61,625</u>	<u>114,366</u>
	<u><u>939,960</u></u>	<u>832,696</u>

The advances from minority shareholders are capital in nature. The balances are unsecured, interest-free and have no fixed terms of repayment.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 27. SHARE CAPITAL

#### Shares

	2004 HK\$'000	2003 HK\$'000
Authorised:		
2,500,000,000 ordinary shares of HK\$0.10 each	<b>250,000</b>	250,000
Issued and fully paid:		
1,757,099,974 (2003: 1,747,088,974) ordinary shares of HK\$0.10 each	<b>175,710</b>	174,709

During the year, the subscription rights attaching to 10,011,000 share options were exercised at subscription prices of HK\$1.368 per share (note 28), resulting in the issue of 10,011,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$13,695,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
As of 1 January 2003	1,569,229,974	156,923	2,413,788	2,570,711
Share options exercised	37,859,000	3,786	57,776	61,562
Conversion of the convertible notes	140,000,000	14,000	287,000	301,000
As of 1 January 2004	1,747,088,974	174,709	2,758,564	2,933,273
Share options exercised	10,011,000	1,001	12,694	13,695
As of 31 December 2004	1,757,099,974	175,710	2,771,258	2,946,968

#### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme became effective on 23 June 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date and will expire on 22 June 2007. In 2002, the Scheme was amended to comply with certain amendments to the Listing Rules which came into effect on 1 September 2001.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to any director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 28. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options					Date of grant of share options <sup>1</sup>	Exercise period of share options	Exercise price of share options <sup>2</sup>	Price of Company's shares <sup>3</sup>	
	At 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2004				At grant date of options	At exercise date of options
<b>Directors</b>										
Mr. Zhou Mingchen	1,500,000	-	(1,500,000)	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	-	4.250
	4,500,000	-	-	-	4,500,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	-	5,000,000	-	-	5,000,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	3.050	-
	6,000,000	5,000,000	(1,500,000)	-	9,500,000					
Mr. Liu Fuchun	1,350,000	-	(1,350,000)	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	-	4.250
	4,050,000	-	-	-	4,050,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	-	4,500,000	-	-	4,500,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	3.050	-
	5,400,000	4,500,000	(1,350,000)	-	8,550,000					
Mr. Yu Guangquan	117,000	-	(117,000)	-	-	23.3.2001	23.3.2002 - 22.3.2006	1.368	-	4.250
	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	-	3,000,000	-	-	3,000,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	3.050	-
	2,817,000	3,000,000	(117,000)	-	5,700,000					
Mr. Xue Guoping	900,000	-	(900,000)	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	-	4.250
	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	-	3,000,000	-	-	3,000,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	3.050	-
	3,600,000	3,000,000	(900,000)	-	5,700,000					

## Notes to the Financial Statements

For the year ended 31 December 2004

### 28. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options					Date of grant of share options <sup>1</sup>	Exercise period of share options	Exercise price of share options <sup>2</sup> HK\$	Price of Company's shares <sup>3</sup>	
	At 1	Granted	Exercised	Lapsed	At 31				At grant	At exercise
	January 2004	during the year	during the year	during the year	December 2004				date of options	date of options
<b>Directors (continued)</b>										
Mr. Liu Yongfu	900,000	-	(900,000)	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	-	4.250
	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	-	3,000,000	-	-	3,000,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	3.050	-
	3,600,000	3,000,000	(900,000)	-	5,700,000					
Mr. Ng Eng Leong	300,000	-	(300,000)	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	-	3.475
	900,000	-	-	-	900,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	-	1,000,000	-	-	1,000,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	3.050	-
	1,200,000	1,000,000	(300,000)	-	1,900,000					
Mr. Qu Zhe	105,000	-	(105,000)	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	-	4.250
	320,000	-	-	-	320,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	-	350,000	-	-	350,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	3.050	-
	425,000	350,000	(105,000)	-	670,000					
<b>Other employees</b>										
In aggregate	240,000	-	(240,000)	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	-	4.400
	4,599,000	-	(4,599,000)	-	-	23.3.2001	23.3.2002 - 22.3.2006	1.368	-	4.240
	1,000,000	-	-	-	1,000,000	3.10.2001	3.10.2002 - 2.10.2006	1.370	-	-
	14,704,000	-	-	(720,000)	13,984,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	-	14,870,000	-	-	14,870,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	3.050	-
	20,543,000	14,870,000	(4,839,000)	(720,000)	29,854,000					
	43,585,000	34,720,000	(10,011,000)	(720,000)	67,574,000					

## Notes to the Financial Statements

For the year ended 31 December 2004

### **28. SHARE OPTION SCHEME (continued)**

- (1) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (2) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (3) The price of the Company's shares disclosed as of the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as of the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

As of the balance sheet date, the Company had 67,574,000 share options outstanding under the Scheme, which represented approximately 3.8% of the Company's shares in issue as of that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 67,574,000 additional ordinary shares of the Company and additional share capital of HK\$6,757,400 and share premium of HK\$216,584,576 (before issue expenses).



## Notes to the Financial Statements

For the year ended 31 December 2004

### 29. RESERVES

Group	Notes	Share	Investment	Other	Reserve	Exchange	Retained	Total	
		premium	properties	properties		fluctuation			profits
		account	Capital	revaluation	revaluation	Reserve	profits		
		HK\$'000	reserve	reserve	reserve	funds*	reserve	HK\$'000	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2003		2,413,788	135,742	2,216	55	47,413	2,522	679,537	3,281,273
Prior year adjustment:									
SSAP 36 – restatement of biological assets	19	-	-	-	-	-	-	1,822	1,822
As restated		2,413,788	135,742	2,216	55	47,413	2,522	681,359	3,283,095
Issue of shares	27	344,776	-	-	-	-	-	-	344,776
Release upon write off of investment			(1,475)	(222)	(55)	-	-	-	(1,752)
Revaluation of investment properties		-	-	189	-	-	-	-	189
Exchange realignment		-	-	-	-	-	(23)	-	(23)
Transfer from retained profits		-	-	-	-	16,625	-	(16,625)	-
Profit for the year (as restated)		-	-	-	-	-	-	412,652	412,652
Dividends	12	-	-	-	-	-	-	(165,990)	(165,990)
At 31 December 2003		2,758,564	134,267	2,183	-	64,038	2,499	911,396	3,872,947
At 1 January 2004		2,758,564	134,267	2,183	-	64,038	2,499	906,831	3,868,382
Prior year adjustment:									
SSAP 36 – restatement of biological assets	19	-	-	-	-	-	-	4,565	4,565
As restated		2,758,564	134,267	2,183	-	64,038	2,499	911,396	3,872,947
Issue of shares	27	12,694	-	-	-	-	-	-	12,694
Exchange realignment		-	-	-	-	-	(88)	-	(88)
Transfer from retained profits		-	-	-	-	53,934	-	(53,934)	-
Profit for the year		-	-	-	-	-	-	300,702	300,702
Dividends	12	-	-	-	-	-	-	(114,746)	(114,746)
At 31 December 2004		2,771,258	134,267	2,183	-	117,972	2,411	1,043,418	4,071,509

## Notes to the Financial Statements

For the year ended 31 December 2004

### 29. RESERVES (continued)

Group	Share	Investment		Exchange	Retained	Total	
	premium	Capital	properties	fluctuation	profits		
	account	reserve	revaluation	Reserve	Reserve		
	HK\$'000	HK\$'000	reserve	funds*	reserve	HK\$'000	
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Reserves retained by:							
Company and subsidiaries	2,771,258	134,267	2,183	100,336	2,411	925,594	3,936,049
Associates	-	-	-	17,636	-	117,824	135,460
<hr/>							
At 31 December 2004	2,771,258	134,267	2,183	117,972	2,411	1,043,418	4,071,509
<hr/>							
Reserves retained by:							
Company and subsidiaries	2,758,564	134,267	2,183	55,407	2,499	812,011	3,764,931
Associates	-	-	-	8,631	-	99,385	108,016
<hr/>							
At 31 December 2003	2,758,564	134,267	2,183	64,038	2,499	911,396	3,872,947
<hr/>							

\* Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of certain of the Company's subsidiaries and associates in the PRC has been transferred to reserve funds which are restricted as to use.

The Group's capital reserve includes the contributed surplus which represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor under the group reorganisation in 1991, less the goodwill arising on the acquisition of subsidiaries and associates which remains eliminated against the capital reserve, as explained in note 15 to the financial statements.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 29. RESERVES (continued)

#### Company

		<b>Share premium account</b>	<b>Contributed surplus</b>	<b>Retained profits</b>	<b>Total</b>
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003		2,413,788	498,184	182,457	3,094,429
Issue of shares	27	344,776	–	–	344,776
Profit for the year		–	–	34,432	34,432
Dividends	12	–	–	(165,990)	(165,990)
<hr/>					
At 31 December 2003 and 1 January 2004		2,758,564	498,184	50,899	3,307,647
Issue of shares	27	12,694	–	–	12,694
Profit for the year		–	–	165,136	165,136
Dividends	12	–	–	(114,746)	(114,746)
<hr/>					
At 31 December 2004		2,771,258	498,184	101,289	3,370,731

The contributed surplus of the Company represents the difference between the underlying net assets of Seabase International (B.V.I.) Limited and its subsidiaries and the nominal value of the Company's shares issued in exchange therefor under the group reorganisation in 1991.

In addition to the retained profits of the Company, under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is also available for distribution to its shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of its contributed surplus, if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 30. CONTINGENT LIABILITIES

	<b>Company</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Guarantees given to banks in connection with facilities granted to:		
Subsidiaries	<b>234,000</b>	432,900

As of the balance sheet date, none of the above facilities were utilised by the subsidiaries.

### 31. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,843</b>	769
In the second to fifth years, inclusive	<b>989</b>	1,108
After five years	-	21
	<b>2,832</b>	1,898

## Notes to the Financial Statements

For the year ended 31 December 2004

### 31. OPERATING LEASE ARRANGEMENTS (continued)

#### (b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 30 years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	15,307	7,356
In the second to fifth years, inclusive	17,904	18,795
After five years	48,281	45,150
	81,492	71,301

### 32. CAPITAL COMMITMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	–	45,419
Contracted, but not provided for	52,652	–
	52,652	45,419

## Notes to the Financial Statements

For the year ended 31 December 2004

### 33. OTHER COMMITMENTS

(a) Commitments under forward foreign exchange contracts

	Group	
	2004 HK\$'000	2003 HK\$'000
Sale of US dollar	<b>4,339</b>	16,131
Sale of EURO	–	16,899
Sale of GBP	<b>4,377</b>	–

(b) Commitments under future contracts

	Group	
	2004 HK\$'000	2003 HK\$'000
Purchase of soya bean meal	<b>1,026</b>	81,349
Sale of soya bean meal	<b>97,972</b>	140,251

The unrealised gains and losses in respect of the above futures contracts at the balance sheet date are not significant and have not been recorded in these financial statements.

Other than disclosed above, neither the Group, nor the Company, had any significant capital or other commitments as of the balance sheet date.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 34. CONNECTED AND RELATED PARTY TRANSACTIONS

Apart from the transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Transactions with fellow subsidiaries:			
Sales of goods *	(i)	<b>431,721</b>	420,888
Purchases of goods *	(i)	<b>261,604</b>	141,623
Operating lease rentals paid **	(i)	<b>7,495</b>	1,698
Interest expenses paid **	(ii)	<b>11,251</b>	8,237
Interest income received	(iv)	<b>4,141</b>	780
Commission paid	(i)	<b>108</b>	–
Storage and processing expenses paid *	(i)	<b>7,036</b>	–
Transactions with the ultimate holding company:			
Sales of goods *	(i)	<b>302,465</b>	232,994
Purchases of goods *	(i)	<b>22,028</b>	91,542
Operating lease rentals paid *	(i)	–	4,794
Royalty paid	(i)	<b>16,752</b>	15,197
Management fee income *	(i)	<b>24,292</b>	40,031
Management fee paid **	(i)	<b>8,019</b>	8,679
Interest expenses paid *	(ii)	<b>331</b>	489
Transactions with associates:			
Sales of goods *	(i)	<b>93,631</b>	164,011
Purchases of goods *	(i)	<b>11,315</b>	34,161
Purchases of steel barrel	(i)	<b>12,512</b>	–
Management fee income	(v)	–	6,330
Processing fee expenses	(i)	<b>39,893</b>	6,637
Reimbursement of advertising expenses	(iii)	<b>3,773</b>	–
Transaction with the immediate holding company:			
Interest expenses on convertible notes		–	4,288
Transactions with minority shareholders of subsidiaries and their fellow subsidiaries:			
Sales of goods *	(i)	–	267,225
Purchases of goods *	(i)	–	2,307,773
Transactions with a related company:			
Purchases of goods *	(i)	<b>5,866,892</b>	5,523,977
Storage and processing expenses paid *		–	805

## Notes to the Financial Statements

For the year ended 31 December 2004

### 34. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

- \* These related party transactions also constituted connected transactions disclosable in accordance with the Listing Rules.
- \*\* Certain amounts of these related party transactions also constituted connected transactions disclosable in accordance with the Listing Rules.

Notes:

- (i) These transactions were carried out with reference to the prevailing market prices or, where no market prices were available, at cost plus a percentage of profit mark-up.
- (ii) Interest expenses arose from the loans from the ultimate holding company and COFCO Finance Corporation Limited (“COFCO Finance”), a beneficially wholly-owned subsidiary of COFCO, which are unsecured, bear interest at rates ranging from 2.308% to 5.58% per annum and of which HK\$470,743,000 are repayable within one year.
- (iii) The reimbursement of advertising expenses was calculated with reference to the actual advertising expenses incurred for the year ended 31 December 2004.
- (iv) Interest income received arose from the deposits placed with COFCO Finance. COFCO Finance is a non-banking finance institution regulated by the People’s Bank of China (the “PBOC”) and China Banking Regulatory Commission. In the PRC, deposit rates are set by the PBOC which is applicable to all financial institutions. The interest rates offered by COFCO Finance are the same as the rates promulgated by the PBOC which were applicable to account deposits with PRC banks or finance companies and ranged from 1.44% to 1.89% per annum during the year. The deposits placed with COFCO Finance by the Group and one of its associates as at 31 December 2004 amounted to approximately RMB394,213,000 (2003: RMB99,636,000).
- (v) The management fee income was calculated with reference to the actual management services expenses incurred for the year ended 31 December 2004.

In addition to the above connected transactions, the sales and purchases of edible oils and oil-related products and the resale of soya bean with a total value of approximately HK\$219,773,000 were made by certain subsidiaries of COFCO Oils & Fats Group to another subsidiaries within COFCO Oils & Fats Group. These transactions have been eliminated on consolidation but still constituted connected transactions under the Listing Rules.

On 24 March 2004, pursuant to an equity transfer agreement, a wholly-owned subsidiary of the Company and a connected party became the investors in a wholly foreign-owned company (“JV Co”) in Mainland China, in which the Company held 70% equity interests. The registered capital of the JV Co was US\$12,800,000. On 28 February 2005, the registered capital of the JV Co was increased by US\$9,600,000 (equivalent to approximately HK\$74,880,000).

Except for the loans of HK\$478,715,000 (2003: HK\$396,851,000) from the ultimate holding company and COFCO Finance, the terms of which are detailed in note 24 to the financial statements, the remaining balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group’s subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Pursuant to certain licensing agreements entered into between the Group and a related party, the Group has been granted the exclusive rights to use certain trademarks for its edible oils, soya bean meal and related products businesses. The licensing fee for the current year and prior year was waived by the related party.



## Notes to the Financial Statements

For the year ended 31 December 2004

### 35. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as of 31 December 2004 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Seabase International (B.V.I.) Limited #	British Virgin Islands/ Hong Kong	Ordinary HK\$1,000	<b>100</b>	100	Investment holding
Blissea Consortium Company Limited	Hong Kong	Ordinary HK\$1,000	<b>100</b>	100	Investment holding
COFCO International Trading Services Limited	Hong Kong	HK\$2	<b>100</b>	100	Provision of trading management services
東洲油脂工業(廣州) 有限公司 Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd.**	PRC	RMB55,000,000	<b>84</b>	84	Processing and refining of edible oils and fats
東海糧油工業(張家港) 有限公司 Eastocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.*	PRC	US\$98,000,000	<b>54</b>	54	Production and sale of edible oils, and trading of soya beans and rapeseed
黃海糧油工業(山東) 有限公司 Yellowsea Oils and Grains Industries (Shandong) Co., Ltd.*	PRC	US\$22,773,770	<b>72.94</b>	72.94	Production and sale of edible oils

## Notes to the Financial Statements

For the year ended 31 December 2004

### 35. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
中糧艾地盟糧油工業(荷澤) 有限公司 COFCO ADM Oils and Grains Industries (Heze) Co., Ltd.*	PRC	US\$12,800,000	70	70 <sup>@</sup>	Production and sale of edible oils
中國長城葡萄酒有限公司 China Great Wall Wine Co., Ltd.*	PRC	RMB110,000,000	100	100	Production and sale of wine and beverage products
煙台中糧葡萄釀酒有限公司 Yantai COFCO Winery Co., Ltd.**	PRC	RMB64,000,000	60	60	Production and sale of grape wine
華夏葡萄釀酒有限公司 Huaxia Winery Co., Ltd.*	PRC	RMB80,000,000	100	100	Production and sale of grape wine
中糧酒業有限公司 COFCO Wines and Spirits Co., Ltd.*	PRC	RMB11,760,000	100	100	Provision of management services
深圳市華夏紅酒業有限公司 Shenzhen Huaxiahong Wines and Spirits Co., Ltd.**	PRC	RMB3,000,000	80	80	Wholesale of grape wine
煙台長城酒業有限公司	PRC	RMB1,000,000	60	60	Wholesale of grape wine
秦皇島華夏長城酒業有限公司	PRC	RMB1,000,000	100	100	Wholesale of grape wine

## Notes to the Financial Statements

For the year ended 31 December 2004

### 35. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
中糧金帝食品(深圳)有限公司 COFCO Le Conte Food (Shenzhen) Co., Ltd.*△	PRC	US\$15,000,000	<b>100</b>	100	Production and distribution of chocolate products
深圳金帝營銷有限公司 Shenzhen Le Conte Marketing Services Co., Ltd.**	PRC	RMB15,000,000	<b>90</b>	90	Distribution of chocolate products
China Foods Trading Limited §	Hong Kong	Ordinary HK\$10,000,000	<b>100</b>	100	Trading of food products
中糧國際(北京)有限公司 COFCO International (Beijing) Co., Ltd.*	PRC	RMB60,000,000	<b>100</b>	100	Trading of rice, cereals, oils feedstuffs, fruits, vegetables and aquatic products
鄭州海嘉食品有限公司 Zhengzhou Haijia Food Co., Ltd.** §	PRC	RMB30,000,000	<b>55</b>	55	Manufacture of flour products
廈門海嘉麵粉有限公司 Xiamen Haijia Flour Mills Co., Ltd.** §	PRC	RMB71,325,000	<b>60</b>	60	Manufacture of flour products

# Except for Seabase International (B.V.I.) Limited, all of the above principal subsidiaries are indirectly held by the Company.

\* Wholly foreign-owned enterprise

\*\* Sino-foreign equity joint venture

§ Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

@ The capital injection amounting to US\$7,680,000 has not yet verified as at 31 December 2003.

△ Formerly known as 深圳金帝食品有限公司 Shenzhen Le Conte Foodstuff Co., Ltd.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 35. PRINCIPAL SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company, which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### 36. ASSOCIATES

Particulars of the Company's principal associates as of 31 December 2004 are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2004	2003	
萊陽魯花濃香花生油有限公司 Laiyang Luhua Fragrant Peanut Oil Co., Ltd.	Corporate	PRC	24	24	Production and sale of peanut oil
北海糧油工業(天津)有限公司 Northsea Oils and Grains Industries (Tianjin) Co., Ltd.	Corporate	PRC	50	50	Production and sale of edible oils
大海糧油工業(防城港)有限公司 Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co., Ltd.	Corporate	PRC	40	40	Soya bean oil extraction, refining and packaging, and production of soya bean meal

The above associates are held through wholly-owned subsidiaries of the Company.

## Notes to the Financial Statements

For the year ended 31 December 2004

### **37. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

### **38. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 6 April 2005.