

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 1. GROUP REORGANISATION AND BASIS OF PRESENTATION

### The Company

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 May 2000 under the Companies Law (2000 Revision) of the Cayman Islands. On incorporation, the Company had an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued and allotted nil paid on incorporation. Apart from the foregoing, no other transactions were carried out by the Company during the period from 18 May 2000 (date of incorporation) to 31 December 2000. Accordingly, the Company has not recorded any profits or losses for the period.

Comparative amounts have not been presented for the Company's balance sheet as the Company did not exist as at 31 December 1999.

### Group reorganisation

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 1 March 2001. This was accomplished by the Company acquiring the entire issued share capital of Global Corn Bio-chem Technology Company Limited ("Global Corn"), the then holding company of the other subsidiaries as set out in note 12 to the financial statements, in consideration and in exchange for the allotment and issue of a total of 1,000,000 shares of HK\$0.10 each in the share capital of the Company credited as fully paid, to the former shareholders of Global Corn. Further details of the Group reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 12, 19 and 20 to the financial statements and in the Company's listing prospectus dated 7 March 2001.

### Basis of presentation

The Group reorganisation involved companies under common control. As the Group reorganisation took place on 1 March 2001, according to the Statement of Standard Accounting Practice No. 2.127, "Accounting for Group Reconstructions", the Company together with its subsidiaries should be regarded and accounted for as a continuing group in the preparation of the Group's financial statements commencing from the year ending 31 December 2001. Nevertheless, for the benefit of shareholders, supplementary pro forma combined financial statements for the current year and the related notes thereto have also been presented in these financial statements, prepared on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of its acquisition of the subsidiaries on 1 March 2001. The pro forma combined results of the Group for the years ended 31 December 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation/establishment, where this is a shorter period. The supplementary pro forma combined balance sheets as at 31 December 1999 and 2000 have been prepared on the basis that the current Group structure was in place at those dates.

# NOTES TO FINANCIAL STATEMENTS

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## 1. GROUP REORGANISATION AND BASIS OF PRESENTATION (continued)

### Basis of presentation (continued)

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

Although the Group reorganisation was not completed and, accordingly, the Group did not legally exist until 1 March 2001, in the opinion of the directors of the Company, the presentation of such supplementary pro forma combined financial statements prepared on the aforesaid basis is necessary to apprise the Company's shareholders of the Group's profit and its state of affairs as a whole.

## 2. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 12 to the financial statements. There were no changes in the nature of the principal activities of the Company's subsidiaries during the year.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The supplementary pro forma combined financial statements of the Group have been presented on the basis as set out in note 1 above. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, as further explained below.

### 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) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

# NOTES TO FINANCIAL STATEMENTS

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

### Operating leases

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

### Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

### Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

### Fixed assets and depreciation

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

# NOTES TO FINANCIAL STATEMENTS

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

### Fixed assets and depreciation (continued)

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset 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 a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 50 years
Plant and machinery	15 years
Leasehold improvements, furniture, office equipment and motor vehicles	5 years

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 represents leasehold buildings, plant and leasehold improvements under construction, and is stated at cost and not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate is based on the actual cost of the related borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

# NOTES TO FINANCIAL STATEMENTS

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

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors of the Company, there have been permanent diminutions in values, when they are written down to values determined by the directors of the Company.

### Associates

An associate is a company, not being a subsidiary or a joint venture, 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 supplementary pro forma combined profit and loss account and reserves, respectively. The Group's interests in associates are stated in the supplementary pro forma combined balance sheet at the Group's share of net assets under the equity method of accounting.

### Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. 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 based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Deferred tax

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

### Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences on borrowings relating to the development of qualifying assets are capitalised during the development period. All other exchange differences are dealt with in the profit and loss account.

# NOTES TO FINANCIAL STATEMENTS

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

### Foreign currencies (continued)

On combination, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### 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 equivalents

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

## 4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year. All significant transactions among the companies comprising the Group have been eliminated on combination.

# NOTES TO FINANCIAL STATEMENTS

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## 5. PROFIT FROM OPERATING ACTIVITIES

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

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>799,398</b>	794,751
Depreciation	<b>33,224</b>	24,702
Operating lease rentals:		
Leasehold land and buildings	<b>1,001</b>	411
Plant and machinery	<b>280</b>	1,542
Staff costs (excluding directors' remuneration — note 6):		
Wages and salaries	<b>13,856</b>	8,682
Retirement scheme contributions	<b>5</b>	—
Auditors' remuneration	<b>1,350</b>	1,200
Research and development costs	<b>14,905</b>	28,526
Interest income	<b>(2,883)</b>	(1,113)

## 6. EMOLUMENTS OF DIRECTORS AND SIX HIGHEST PAID EMPLOYEES

The Group did not exist as at 31 December 2000. Had the Group reorganisation been completed on 1 January 1999, the details of the remuneration of the Company's directors would have been as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	<b>3,072</b>	2,880
Non-executive directors	—	—
	<b>3,072</b>	2,880

# NOTES TO FINANCIAL STATEMENTS

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## 6. EMOLUMENTS OF DIRECTORS AND SIX HIGHEST PAID EMPLOYEES (continued)

The number of directors whose remuneration fell within the following band is as follows:

	<b>2000</b>	1999
	<b>Number of</b>	Number of
	<b>directors</b>	directors
Nil - HK\$1,000,000	<b>6</b>	6

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

The six highest paid employees during the year included four (1999: four) directors, details of their remuneration have been disclosed above. The remuneration of the remaining two (1999: two) non-director, highest paid employees are as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	<b>278</b>	90
Pension scheme contributions	<b>2</b>	—
	<b>280</b>	90

## 7. FINANCE COSTS

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Interest on bank and other loans, wholly repayable within five years	<b>36,350</b>	25,462
Less: Interest capitalised	<b>(403)</b>	(1,650)
	<b>35,947</b>	23,812

Interest capitalised during the year was calculated at a rate of approximately 6% (1999: 8%) per annum.



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## 8. TAX

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Current year provision:		
Hong Kong	<b>375</b>	—
Elsewhere	<b>13,852</b>	174
	<b>14,227</b>	174

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

All of the Company's subsidiaries operating in the People's Republic of China (the "PRC") are exempted from the income tax of the PRC for two years starting from the first profitable year of their operations and are entitled to a 50% relief from the income tax of the PRC for the following three years.

Taxes on the assessable profits of three of the Company's PRC subsidiaries have been calculated at the applicable rates of tax prevailing in the PRC during the year. No provision for the income tax of the PRC has been made for other PRC subsidiaries as they did not generate any assessable profits for the year.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax in respect of the year (1999: Nil).

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, there is no deferred tax arising thereon.

## 9. DIVIDEND

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Interim dividend	—	30,000

The 1999 interim dividend was paid by a subsidiary of the Company to its then shareholders prior to the Group reorganisation, as set out in note 1 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the pro forma combined net profit from ordinary activities attributable to shareholders for the year of approximately HK\$230,168,000 (1999: HK\$112,758,000) and the pro forma weighted average of 960,000,000 (1999: 960,000,000) shares deemed to have been issued throughout the year, as set out in details in note 19 to the financial statements.

There were no potential dilutive ordinary shares in existence for the years ended 31 December 1999 and 2000, and accordingly, no pro forma diluted earnings per share have been presented.

## 11. FIXED ASSETS

### Group

	<b>Leasehold land and buildings</b>	<b>Construction in progress</b>	<b>Plant and machinery</b>	<b>Leasehold improvements, furniture, office equipment and motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost or valuation:</b>					
At beginning of year	126,183	181,663	297,493	12,726	618,065
Additions	94	101,908	40,101	2,429	144,532
Transfers	42,626	(149,942)	107,064	252	—
Surplus on revaluation	328	—	—	—	328
At 31 December 2000	169,231	133,629	444,658	15,407	762,925
<b>Analysis of cost or valuation:</b>					
At cost	—	133,629	444,658	15,407	593,694
At valuation	169,231	—	—	—	169,231
	169,231	133,629	444,658	15,407	762,925
<b>Accumulated depreciation:</b>					
At beginning of year	3,963	—	33,598	5,138	42,699
Provided during the year	3,330	—	27,040	2,854	33,224
Written back on revaluation	(7,293)	—	—	—	(7,293)
At 31 December 2000	—	—	60,638	7,992	68,630
<b>Net book value:</b>					
<b>At 31 December 2000</b>	<b>169,231</b>	<b>133,629</b>	<b>384,020</b>	<b>7,415</b>	<b>694,295</b>
At 31 December 1999	122,220	181,663	263,895	7,588	575,366

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 11. FIXED ASSETS (continued)

The Group's leasehold land and buildings included above are all held under medium term leases in the PRC.

At 31 December 2000, the Group's leasehold land and buildings were revalued on a depreciated replacement cost basis, by Chesterton Petty Limited, an independent firm of professional valuers, at approximately HK\$169,231,000. A surplus on revaluation of approximately HK\$7,621,000 arising from the above valuation has been credited to the fixed asset revaluation reserve (note 20).

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$161,610,000 (1999: HK\$122,220,000).

Prior to its transfer to other categories of fixed assets, the carrying amount of construction in progress included capitalised interest of approximately HK\$543,000 (1999: HK\$1,473,000).

At 31 December 2000, certain leasehold land and buildings of the Group with a carrying value of approximately HK\$51,250,000 and certain plant and machinery of the Group with an aggregate net book value of approximately HK\$183,310,000 were pledged to secure banking facilities granted to the Group (note 17).

## 12. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries which were acquired pursuant to the Group reorganisation are as follows:

<b>Name</b>	<b>Place of incorporation/ establishment/ and operations</b>	<b>Paid-up share/ registered capital</b>	<b>Percentage of equity attributable to the Company</b>	<b>Principal activities</b>
<b>Directly held</b>				
Global Corn Bio-chem Technology Company Limited	British Virgin Islands ("BVI")	Ordinary US\$200	100%	Investment holding

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 12. PARTICULARS OF SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment/ and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held</b>				
Global Bio-chem Technology Limited	BVI	Ordinary US\$200	100%	Investment holding
Global Corn Investments Limited	BVI	Ordinary US\$200	100%	Investment holding
Bio-chem Technology (HK) Limited	Hong Kong	Ordinary HK\$2	100%	Trading of corn refined products and corn based biochemical products
Changchun Dacheng Bio-chem Engineering Development Co., Ltd.	PRC	RMB83,600,000	90%	Manufacture and sale of corn based biochemical products
Changchun Dacheng Corn Development Co., Ltd.	PRC	RMB99,540,000	80%	Manufacture and sale of corn refined products
Changchun Dacheng Special Corn & Modified Starch Development Co., Ltd.	PRC	RMB99,250,000	90%	Manufacture and sale of corn based biochemical products

# NOTES TO FINANCIAL STATEMENTS

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## 12. PARTICULARS OF SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment/ and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held</b> (continued)				
Changchun Dacheng Starch Development Co., Ltd.	PRC	RMB54,400,000	90%	Manufacture and sale of corn refined products
Changchun Jiutai Corn Development Co., Ltd.	PRC	US\$560,000	100%	Manufacture and sale of livestock feeds
Shanghai Hao Cheng Food Development Co., Ltd.	PRC	US\$840,000	87%	Manufacture and sale of corn sweeteners

## 13. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	<b>65,682</b>	45,435
Finished goods	<b>24,733</b>	18,139
	<b>90,415</b>	63,574

# NOTES TO FINANCIAL STATEMENTS

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## 14. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 90 days. All trade receivables as at 31 December 2000 and 1999 were aged less than 90 days from the date of recognition of the sale.

## 15. TRADE PAYABLES

All trade payables as at 31 December 2000 and 1999 were aged less than 90 days from the date of receipt of the goods purchased.

## 16. INTEREST-BEARING BANK AND OTHER LOANS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Bank loans, secured and repayable:		
In the second year	<b>159,346</b>	—
In the third to fifth years, inclusive	<b>137,383</b>	146,729
	<b>296,729</b>	146,729
Other loans, secured and repayable:		
In the second year	—	124,000
In the third to fifth years, inclusive	—	77,500
	—	201,500
Total interest-bearing bank and other loans repayable after one year	<b>296,729</b>	348,229

# NOTES TO FINANCIAL STATEMENTS

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## 17. BANKING FACILITIES

At 31 December 2000, the Group's banking facilities were secured by the following:

- (i) Fixed charges on certain leasehold land and buildings, and plant and machinery of the Group (note 11);
- (ii) A corporate guarantee given by a subsidiary of the Company;
- (iii) Fixed deposits owned by certain directors of the Company;
- (iv) Personal guarantees given by certain directors of the Company; and
- (v) Corporate guarantees given by independent third parties.

Subsequent to the balance sheet date, the security over the fixed deposits owned by certain directors of the Company and the personal guarantees given by certain directors of the Company were released and replaced by the security over a fixed deposit owned by the Company and the corporate guarantee from the Company.

## 18. MINORITY INTERESTS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Minority interests	<b>99,204</b>	57,480
Due to minority shareholders	<b>73,178</b>	73,178
	<b>172,382</b>	130,658

The amounts due to minority shareholders are unsecured, interest-free and are not repayable before 31 December 2002.

# NOTES TO FINANCIAL STATEMENTS

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## 19. SHARE CAPITAL

The following changes in the Company's authorised and issued share capital took place during the period from 18 May 2000 (date of incorporation) to the date of this report:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued and allotted nil paid on 18 May 2000. At 31 December 2000, the authorised and issued share capital of the Company were HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each.
- (b) On 1 March 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of a further 1,000,000 shares of HK\$0.10 each, ranking pari passu with the existing share capital of the Company.
- (c) On 1 March 2001, as part of the Group reorganisation described in note 1 to the financial statements, the Company issued an aggregate of 1,000,000 shares of HK\$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Global Corn.
- (d) On 1 March 2001, HK\$100,000, being part of the amount credited to the capital reserve of the Company arising from the issue by the Company of the shares as set out in (c) above, was applied to pay up in full at par the 1,000,000 shares issued and allotted nil paid on 1 March 2001.
- (e) On 1 March 2001, the authorised share capital of the Company was increased from HK\$200,000 to HK\$300,000,000 by the creation of a further 2,998,000,000 shares of HK\$0.10 each, ranking pari passu with the existing share capital of the Company.
- (f) On 1 March 2001, a total of 958,000,000 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company, in proportion to their respective shareholdings as at the close of business on 1 March 2001, by way of the capitalisation of the sum of HK\$95,800,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the issue of new shares to the public as detailed in (g) below.
- (g) On 15 March 2001, a total of 320,000,000 shares of HK\$0.10 each were issued to the public at HK\$1.02 each for a total cash consideration, before expenses, of HK\$326,400,000.



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## 19. SHARE CAPITAL (continued)

A summary of the above movements in the issued share capital of the Company is as follows:

	Notes	Number of shares issued '000	Par value HK\$'000
Shares allotted and issued nil paid on incorporation	(a)	1,000	—
Shares issued as consideration for the acquisition of the entire issued share capital of Global Corn	(c)	1,000	100
Application of capital reserve to pay up nil paid shares	(d)	—	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	(f)	958,000	—
Pro forma share capital as at 31 December 1999 and 2000		960,000	200
Capitalisation of the share premium account as set out above	(f)	—	95,800
New issue on public listing	(g)	320,000	32,000
		1,280,000	128,000

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## 19. SHARE CAPITAL (continued)

### Share options

Under the terms of the Company's share option scheme adopted on 1 March 2001, the directors of the Company may, at their discretion, grant options to the employees, including executive directors of the Company and its subsidiaries to subscribe for shares of the Company. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option and will entitle the holders to subscribe for shares during such periods, in any event not later than 10 years from the date of grant of the option, as may be determined by the directors of the Company at a price not less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option. The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed, in nominal amount, 10% of the share capital of the Company in issue from time to time, or the maximum number of shares in respect of which options may be granted to any employee may not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme. Any shares allotted and issued on the exercise of options will rank *pari passu* with the other shares in issue at the date of exercise of the relevant option.

Up to the date of this report, no share options have been granted pursuant to the share option scheme.

## 20. RESERVES

	Contributed surplus	Fixed asset revaluation reserve	Statutory reserve fund	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	—	—	4,961	42,798	47,759
Arising on acquisition of subsidiaries	1	—	—	—	1
Net profit for the year	—	—	—	112,758	112,758
Dividend for the year — note 9	—	—	—	(30,000)	(30,000)
Transfer from retained profits	—	—	214	(214)	—
At 31 December 1999 and 1 January 2000	1	—	5,175	125,342	130,518
Surplus on revaluation — note 11	—	7,621	—	—	7,621
Surplus on revaluation shared by minority shareholders	—	(1,470)	—	—	(1,470)
Net profit for the year	—	—	—	230,168	230,168
Transfer from retained profits	—	—	481	(481)	—
At 31 December 2000	1	6,151	5,656	355,029	366,837

In accordance with the Law of the PRC on Sole Foreign Investment Enterprises, the Company's PRC subsidiary is required to transfer an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be distributed to shareholders in the form of a bonus issue.

# NOTES TO FINANCIAL STATEMENTS

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## 21. NOTES TO THE SUPPLEMENTARY PRO FORMA COMBINED CASH FLOW STATEMENT

### (a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Profit from operating activities	<b>316,683</b>	165,701
Interest income	<b>(2,883)</b>	(1,113)
Depreciation	<b>33,224</b>	24,702
Decrease/(increase) in prepayments, deposits and other receivables	<b>21,897</b>	(16,307)
(Increase)/decrease in inventories	<b>(26,841)</b>	54,023
Increase in trade receivables	<b>(99,439)</b>	(41,627)
(Decrease)/increase in trade payables	<b>(57,790)</b>	31,216
(Decrease)/increase in other payables and accruals	<b>(63,650)</b>	56,191
<b>Net cash inflow from operating activities</b>	<b>121,201</b>	272,786

### (b) Analysis of changes in financing activities during the years

	<b>Bank loans, secured</b>	<b>Other loans, secured</b>	<b>Minority interests</b>	<b>Contributed surplus</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 1999	162,242	124,000	114,434	—
Cash inflow from financing activities, net	60,617	77,500	23,923	1
Share of profit	—	—	34,483	—
Dividends	—	—	(4,953)	—
Additional interests of a subsidiary acquired	—	—	(37,229)	—
<b>Balance at 31 December 1999 and 1 January 2000</b>	<b>222,859</b>	<b>201,500</b>	<b>130,658</b>	<b>1</b>
Cash inflow/(outflow) from financing activities, net	317,183	(201,500)	5,596	—
Share of profit	—	—	36,341	—
Share of revaluation surplus	—	—	1,470	—
Dividends	—	—	(1,683)	—
<b>Balance at 31 December 2000</b>	<b>540,042</b>	<b>—</b>	<b>172,382</b>	<b>1</b>

# NOTES TO FINANCIAL STATEMENTS

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## 22. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

## 23. COMMITMENTS

At the balance sheet date, the Group had the following outstanding commitments:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
(a) Contracted capital commitments in respect of leasehold buildings	<b>8,527</b>	17,595
(b) Future aggregate lease payments under non-cancellable operating leases in respect of:		
Leasehold land and building expiring:		
Within one year	<b>755</b>	—
In the second to fifth years, inclusive	<b>248</b>	1,322
Plant and machinery expiring:		
Within one year	<b>280</b>	280
	<b>1,283</b>	1,602

At the balance sheet date, the Company did not have any significant commitments.

## 24. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Sale of goods to Lucky Summit Development Limited ("Lucky Summit")	<b>22,039</b>	25,295
Purchases of raw materials from Jilin Province Jiliang Shuang Lung Cereal Warehouse ("Jilin Warehouse")	<b>6,676</b>	6,015
Purchases of machinery from Lucky Summit	<b>6,731</b>	28,676

# NOTES TO FINANCIAL STATEMENTS

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## **24. RELATED PARTY TRANSACTIONS** (continued)

Mr. Liu Xiaoming and Mr. Kong Zhanpeng, directors of the Company, are the directors and shareholders of Lucky Summit.

Jilin Province Jiliang Cereal Group Co. Ltd., a minority shareholder with a 15% interest in a subsidiary of the Company, is the holding company of Jilin Warehouse.

In the opinion of the directors of the Company, the sale of goods to Lucky Summit and purchases of raw materials from Jilin Warehouse were carried out in the ordinary course of business of the Group and were effected on prices and terms similar to other customers and suppliers, respectively. The purchases of machinery represented the actual costs incurred by Lucky Summit.

## **25. POST BALANCE SHEET EVENTS**

Subsequent to the balance sheet date, the following events occurred:

- (i) On 1 March 2001, the companies now comprising the Group underwent a reorganisation in preparation for the listing of the shares of the Company on the Stock Exchange and the Company became the holding company of the Group. Further details of the Group reorganisation are set out in notes 1 and 19 to the financial statements.
- (ii) On 15 March 2001, a total of 320,000,000 shares of HK\$0.10 each were issued to the public at HK\$1.02 each for a total cash consideration, before expenses, of HK\$326,400,000;
- (iii) On 16 March 2001, the shares of the Company were listed on the Stock Exchange; and
- (iv) In March 2001, bank loans of approximately HK\$176 million were granted to the Group, which are secured by a corporate guarantee from a subsidiary of the Company.

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

The financial statements were approved by the board of directors on 24 April 2001.