

Notes to Financial Statements

31 December 2001

1. GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 May 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 March 2001, 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 16 to the financial statements. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 16 and 24 to the financial statements and in the Company's prospectus dated 7 March 2001.

2. CORPORATE INFORMATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, George Town, Grand Cayman, British West Indies.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently issued and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 2.109 (Revised) : Events after the balance sheet date
- SSAP 2.118 (Revised) : Revenue
- SSAP 2.126 : Segment reporting
- SSAP 2.128 : Provisions, contingent liabilities and contingent assets
- SSAP 2.129 : Intangible assets
- SSAP 2.130 : Business combinations
- SSAP 2.131 : Impairment of assets
- SSAP 2.132 : Consolidated financial statements and accounting for investments in subsidiaries

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3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 2.109 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet.

SSAP 2.118 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 2.109 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year.

SSAP 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

SSAP 2.128 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. SSAP 2.128 has had no major impact on these financial statements.

SSAP 2.129 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. SSAP 2.129 has had no major impact on these financial statements.

SSAP 2.130 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. SSAP 2.130 has had no major impact on these financial statements.

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3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 2.131 prescribes the recognition and measurement criteria for impairment of assets. SSAP 2.131 has had no major impact on these financial statements.

SSAP 2.132 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. SSAP 2.132 has had no major impact on these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, 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 periodic remeasurement of certain fixed assets as further explained below.

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 1 March 2001. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of acquisition of the subsidiaries. Accordingly, the results of the Group for the years ended 31 December 2001 and 2000 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation/establishment, where this is a shorter period. The comparative balance sheet as at 31 December 2000 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors of the Company, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

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; and
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

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4. 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. 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.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The MPF Scheme has operated since 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 MPF Scheme. The assets of the MPF 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 MPF Scheme.

Each of the subsidiaries operating in the People's Republic of China (the "PRC") has participated in the retirement benefits scheme (the "PRC RB Scheme") operated by the local municipal government in Jilin Province, the PRC. These PRC subsidiaries are required to contribute a certain percentage of their payroll to the PRC RB Scheme to fund the benefits. The only obligation of the Group with respect to the PRC RB Scheme is to pay the ongoing required contributions under the PRC RB Scheme. Contributions under the PRC RB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the PRC RB 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.

Dividends

Final dividends proposed by the directors of the Company are classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until they have been approved by the shareholders of the Company in a general meeting. When these dividends have been approved by the shareholders of the Company and declared, they are recognised as a liability.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends (continued)

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

In previous year, the Company and its subsidiaries did not propose or paid any interim and final dividends to shareholders. No revised accounting treatments for dividends resulting from the adoption of SSAP 2.109 (Revised) and SSAP 2.118 (Revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements.

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 or 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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation 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.

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. On the disposal or retirement of a revalued asset, the attributable revaluation surplus realised is transferred directly to retained profits as a movement in reserves.

Construction in progress represents leasehold buildings, plant and leasehold improvements under construction, which is stated at cost less any impairment losses, and is 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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by a contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Group holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities 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.

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 the 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.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities 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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. 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 consolidation.

6. SEGMENT INFORMATION

SSAP 2.126 was adopted during the year, as detailed in note 3 to the financial statements. 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 they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the corn refined products segment represents the manufacture and sale of corn starch, corn gluten, corn oil and feed; and
- (b) the corn based biochemical products segment represents the manufacture and sale of modified starch, corn sweeteners and amino acids.

In determining the Group's geographical segments, revenue and assets are attributed to the segments based on the location of the customers.

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6. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables represent revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2001 and 2000.

Group

	Corn refined products		Corn based biochemical products		Eliminations		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:								
Sales to external customers	771,784	858,382	614,024	349,644	-	-	1,385,808	1,208,026
Intersegment sales	238,472	146,534	3,200	-	(241,672)	(146,534)	-	-
Total revenue	<u>1,010,256</u>	<u>1,004,916</u>	<u>617,224</u>	<u>349,644</u>	<u>(241,672)</u>	<u>(146,534)</u>	<u>1,385,808</u>	<u>1,208,026</u>
Segment results	<u>184,647</u>	<u>197,314</u>	<u>252,378</u>	<u>114,486</u>	<u>-</u>	<u>-</u>	<u>437,025</u>	<u>311,800</u>
Unallocated revenue							12,985	4,933
Unallocated expenses							(10,385)	(50)
Profit from operating activities							439,625	316,683
Finance costs							(34,495)	(35,947)
Share of loss of a jointly-controlled entity							(506)	-
Profit before tax							404,624	280,736
Tax							(23,234)	(14,227)
Profit before minority interests							381,390	266,509
Minority interests							(51,312)	(36,341)
Net profit from ordinary activities attributable to shareholders							<u>330,078</u>	<u>230,168</u>
Segment assets	1,223,531	868,006	592,118	466,236	-	(140,641)	1,815,649	1,193,601
Interests in jointly-controlled entities							42,906	-
Unallocated assets							170,020	-
Total assets	<u>1,223,531</u>	<u>868,006</u>	<u>592,118</u>	<u>466,236</u>	<u>-</u>	<u>(140,641)</u>	<u>2,028,575</u>	<u>1,193,601</u>
Segment liabilities	73,567	108,115	46,635	132,391	-	(140,641)	120,202	99,865
Unallocated liabilities							484,325	726,699
Total liabilities	<u>73,567</u>	<u>108,115</u>	<u>46,635</u>	<u>132,391</u>	<u>-</u>	<u>(140,641)</u>	<u>604,527</u>	<u>826,564</u>
Other segment information:								
Capital expenditure	288,180	68,787	166,939	75,745	-	-	455,119	144,532
Depreciation	28,587	25,343	14,839	7,881	-	-	43,426	33,224

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6. SEGMENT INFORMATION (continued)

(b) Geographical segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from customers based in the PRC.

7. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	829,461	799,398
Depreciation	43,426	33,224
Minimum lease payments under operating leases:		
Leasehold land and buildings	1,417	1,001
Plant and machinery	280	280
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries*	22,958	13,856
Retirement benefits scheme contributions	177	5
Auditors' remuneration	1,750	1,350
Research and development costs	20,364	14,905
Interest income	<u>(7,366)</u>	<u>(2,883)</u>

* In addition to the above remuneration, 32,000,000 (2000: Nil) share options to subscribe for ordinary shares in the Company were granted to certain non-director employees of the Group during the year. No value was included in staff costs above in respect of the share options granted during the year. Further details of share option scheme are included in note 24 to the financial statements.

8. DIRECTORS' REMUNERATION AND SEVEN HIGHEST PAID EMPLOYEES

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees	<u>500</u>	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	9,552	3,072
Performance related bonuses	6,602	–
Retirement benefits scheme contributions	<u>46</u>	–
	<u>16,200</u>	3,072
	<u>16,700</u>	<u>3,072</u>

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8. DIRECTORS' REMUNERATION AND SEVEN HIGHEST PAID EMPLOYEES (continued)

Fees include HK\$500,000 (2000: Nil) payable to the independent non-executive directors of the Company. There were no other emoluments payable to the independent non-executive directors of the Company during the year (2000: Nil).

According to the directors' service contracts, each of the executive directors, on completion of every 12 months of service, is entitled to a management bonus. The aggregate amount of the bonuses payable to all the executive directors for any financial year may not exceed 5% of the consolidated net profit from ordinary activities attributable to shareholders in respect of that financial year. For the year ended 31 December 2001, the aggregate amount of the bonuses payable to the executive directors is equivalent to 2% of the net profit from ordinary activities attributable to shareholders.

The number of directors whose remuneration fell within the following bands are as follows:

	2001 Number of directors	2000 Number of directors
Nil – HK\$1,000,000	2	6
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$3,500,001 – HK\$4,000,000	2	–
HK\$5,000,001 – HK\$5,500,000	1	–
	<u>7</u>	<u>6</u>

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

During the year, 96,000,000 share options were granted to the directors of the Company in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 32 to 34. No value in respect of the share options granted during the year has been charged to the profit and loss account.

During the year, no emoluments were paid by the Group to the directors of the Company (including the seven highest paid individuals) as an inducement to join, or upon joining the Group, or compensation for loss of office.

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8. DIRECTORS' REMUNERATION AND SEVEN HIGHEST PAID EMPLOYEES (continued)

The seven highest paid employees during the year include five (2000: four) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining two (2000: three) non-directors, highest paid employees, which fell within the range of nil to HK\$1,000,000 are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,534	332
Retirement benefits scheme contributions	12	3
	<u>1,546</u>	<u>335</u>

During the year, 12,800,000 share options were granted to one of the non-director employee of the Group, further details of which are included in the disclosures set out under the heading "Share option scheme" in the Report of the Directors on pages 32 to 34. No value in respect of the share options granted during the year has been charged to the profit and loss account.

9. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans:		
Wholly repayable within five years	35,523	36,350
Repayable beyond five years	239	–
Interest on trust receipt loans, secured	36	–
	<u>35,798</u>	<u>36,350</u>
Less: Interest capitalised	<u>(1,303)</u>	<u>(403)</u>
	<u>34,495</u>	<u>35,947</u>

Interest capitalised during the year was calculated at a rate of approximately 6% (2000: 6%) per annum.

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10. TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	–	375
Elsewhere	<u>23,234</u>	<u>13,852</u>
Tax charge for the year	<u><u>23,234</u></u>	<u><u>14,227</u></u>

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the year (2000: 16%). Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

All of the Company's subsidiaries operating in the PRC are exempt 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 had been calculated at the applicable rates of tax prevailing in the PRC during the year. No provision for income tax had been made for two of the Company's PRC subsidiaries as they were exempt from income tax for their second year following the first profitable year of their operations. No provision for the income tax of the PRC had been made for other PRC subsidiaries as they did not generate any assessable profits for the year.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2000: 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.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 was approximately HK\$60,439,000 (period from 18 May 2000 (date of incorporation) to 31 December 2000: Nil).

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12. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim – HK1.5 cents (2000: Nil) per ordinary share	19,200	–
Proposed final – HK2.0 cents (2000: Nil) per ordinary share	<u>30,897</u>	<u>–</u>
	<u><u>50,097</u></u>	<u><u>–</u></u>

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

During the year, the Group adopted the revised SSAP 2.109 "Events after the balance sheet date", as detailed in note 3 to the financial statements. The effect of this change in accounting policy as at 31 December 2001, is that the current year's proposed final dividend of approximately HK\$30,897,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK\$330,078,000 (2000: HK\$230,168,000) and the weighted average number of 1,282,664,789 (2000: 960,000,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK\$330,078,000 and on 1,317,621,254 ordinary shares, being the weighted average number of ordinary shares in issue during the year plus the weighted average of 34,956,465 ordinary shares deemed to be issued at no consideration if all of the outstanding share options had been exercised since their respective dates of issue.

There were no potential dilutive ordinary shares in existence during the year ended 31 December 2000 and accordingly, no diluted earnings per share has been presented.

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14. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At 1 January 2001	169,231	133,629	444,658	15,407	762,925
Additions	69,788	227,218	151,582	6,531	455,119
Transfers	72,631	(210,977)	138,346	-	-
Revaluation	(3,150)	-	-	-	(3,150)
At 31 December 2001	<u>308,500</u>	<u>149,870</u>	<u>734,586</u>	<u>21,938</u>	<u>1,214,894</u>
Analysis of cost or valuation:					
At cost	-	149,870	734,586	21,938	906,394
At valuation	<u>308,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>308,500</u>
	<u>308,500</u>	<u>149,870</u>	<u>734,586</u>	<u>21,938</u>	<u>1,214,894</u>
Accumulated depreciation:					
At 1 January 2001	-	-	60,638	7,992	68,630
Provided during the year	4,309	-	34,930	4,187	43,426
Written back on revaluation	(4,309)	-	-	-	(4,309)
At 31 December 2001	<u>-</u>	<u>-</u>	<u>95,568</u>	<u>12,179</u>	<u>107,747</u>
Net book value:					
At 31 December 2001	<u>308,500</u>	<u>149,870</u>	<u>639,018</u>	<u>9,759</u>	<u>1,107,147</u>
At 31 December 2000	<u>169,231</u>	<u>133,629</u>	<u>384,020</u>	<u>7,415</u>	<u>694,295</u>

Notes to Financial Statements

31 December 2001

14. FIXED ASSETS (continued)

The Group's leasehold land and buildings included above are held under the following lease terms:

	Group	
	2001	2000
	HK\$'000	HK\$'000
At valuation:		
Medium term leases in Hong Kong	24,500	–
Medium term leases outside Hong Kong	284,000	169,231
	<u>308,500</u>	<u>169,231</u>

At 31 December 2001, the Group's leasehold land and buildings were revalued on a depreciated replacement cost basis, by Castores Magi Surveyors Limited, an independent firm of professional valuers, at approximately HK\$308,500,000 (2000: HK\$169,231,000). A surplus on revaluation of approximately HK\$1,159,000 (2000: HK\$7,621,000) arising from the above valuation has been credited to the fixed asset revaluation reserve (note 25).

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$24,367,000 (2000: Nil).

Had the Group's leasehold land and buildings held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$275,242,000 (2000: HK\$161,610,000).

Prior to its transfer to other categories of fixed assets, the carrying amount of construction in progress included capitalised interest of approximately HK\$1,748,000 (2000: HK\$543,000).

At 31 December 2001, certain leasehold land and buildings of the Group with a carrying value of approximately HK\$74,505,000 (2000: HK\$51,250,000) and certain plant and machinery of the Group with an aggregate net book value of approximately HK\$168,270,000 (2000: HK\$183,310,000) were pledged to secure banking facilities granted to the Group (note 22).

Notes to Financial Statements

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15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	1,835	–
Amounts due from jointly-controlled entities	41,071	–
	<u>42,906</u>	<u>–</u>

The amounts due from jointly-controlled entities are unsecured, interest-free and are not repayable before 31 December 2002.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of		Principal activities
				Ownership interest	Voting power	
<i>Directly held</i>						
Global Bio-chem - Cargill (Holdings) Limited	Corporate	Hong Kong	HK\$1,000	50%	50%	Investment holdings
<i>Indirectly held</i>						
GBT-Cargill High Fructose (Shanghai) Co., Ltd.	Corporate	PRC	US\$3,000,000	50%	50%	Manufacture and sale of high fructose corn syrup

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	<u>287,937</u>	<u>–</u>

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

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16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<i>Directly held</i>				
Global Corn Bio-chem Technology Company Limited	British Virgin Islands ("BVI")	Ordinary US\$600	100%	Investment holding
<i>Indirectly held</i>				
Global Bio-chem Technology Limited	BVI	Ordinary US\$200	100%	Investment holding
Global Corn Investments Limited	BVI	Ordinary US\$200	100%	Investment holding
Global Sweeteners Investments Limited	BVI	Ordinary US\$1	100%	Investment holding
Bio-chem Technology (HK) Limited	Hong Kong	Ordinary HK\$2	100%	Trading of corn refined products and corn based biochemical products
Datex Investment Limited	Hong Kong	Ordinary HK\$2	100%	Investment holding
Changchun Dacheng Bio-chem Engineering Development Co., Ltd.	PRC	RMB154,645,600	90%	Manufacture and sale of corn based biochemical products
Changchun Decheng Bio-chemical Feed Development Co., Ltd.	PRC	US\$846,400	100%	Manufacture and sale of corn based biochemical products

Notes to Financial Statements

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16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<i>Indirectly held (continued)</i>				
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
Changchun Dacheng Starch Development Co., Ltd.	PRC	RMB54,400,000	90%	Manufacture and sale of corn refined products
Changchun Jincheng Corn Development Co., Ltd.	PRC	RMB98,700,000	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\$2,668,000	100%	Manufacture and sale of corn sweeteners

Notes to Financial Statements

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17. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	109,997	65,682
Finished goods	33,340	24,733
	<u>143,337</u>	<u>90,415</u>

18. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 90 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
1 – 30 days	150,055	143,971
31 – 60 days	94,925	75,818
61 – 90 days	13,463	8,464
	<u>258,443</u>	<u>228,253</u>

19. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	183,244	95,731	3,423	–
Time deposits	228,151	–	166,597	–
	<u>411,395</u>	<u>95,731</u>	<u>170,020</u>	<u>–</u>
Less: Pledged time deposits for banking facilities-note 22	(61,554)	–	–	–
Cash and cash equivalents	<u>349,841</u>	<u>95,731</u>	<u>170,020</u>	<u>–</u>

Notes to Financial Statements

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20. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
1-30 days	36,112	65,678
31-60 days	9,675	8,358
61-90 days	153	422
	<u>45,940</u>	<u>74,458</u>

21. INTEREST-BEARING BANK LOANS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trust receipt loans, secured	16,802	–
Bank loans, secured and repayable:		
Within one year	171,503	243,313
In the second year	21,121	159,346
In the third to fifth years, inclusive	29,144	137,383
Beyond five years	8,561	–
	<u>230,329</u>	<u>540,042</u>
	247,131	540,042
Portion classified as current liabilities	<u>(188,305)</u>	<u>(243,313)</u>
Long term portion	<u>58,826</u>	<u>296,729</u>

Notes to Financial Statements

31 December 2001

22. BANKING FACILITIES

At 31 December 2001, 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 14);
- (ii) The pledge of certain time deposits of the Group amounting to approximately HK\$61,554,000 (note 19); and
- (iii) A corporate guarantee of HK\$86,800,000 given by the Company.

23. MINORITY INTERESTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Minority interests	156,335	99,204
Due to minority shareholders	46,005	73,178
	<u>202,340</u>	<u>172,382</u>

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

24. SHARE CAPITAL

Shares

	Company	
	2001 HK\$'000	2000 HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.10 each (2000: 1,000,000 ordinary shares of HK\$0.10 each)	<u>300,000</u>	<u>100</u>
Issued and fully paid:		
1,543,296,000 ordinary shares of HK\$0.10 each (2000: 1,000,000 ordinary shares nil paid)	<u>154,330</u>	<u>–</u>

Notes to Financial Statements

31 December 2001

24. SHARE CAPITAL (continued)

Shares (continued)

The comparative amount of the share capital as at 31 December 2001 as shown on the consolidated balance sheet represents the pro forma issued share capital of the Company after the issue of 1,000,000 ordinary shares of HK\$0.10 each nil paid on incorporation, the issue of 1,000,000 ordinary shares credited as fully paid in consideration for the acquisition of the entire issued share capital of Global Corn, pursuant to the Group Reorganisation on 1 March 2001, an amount of HK\$100,000 being a portion of the amount credited to the share premium on the issue and allotment of 1,000,000 ordinary shares nil paid on incorporation in exchange for the shares of Global Corn, and the capitalisation issue of nil paid 958,000,000 ordinary shares of HK\$0.10 each.

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 31 December 2001:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each, all of which were issued and allotted nil paid on that date. 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 ordinary 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, the Company issued an aggregate of 1,000,000 ordinary shares of HK\$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Global Corn. The excess of the fair value of the shares of Global Corn, determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's shares issued and credited as fully paid in exchange therefor, amounting to approximately HK\$287,735,000 was credited to the Company's share premium account as set out in note 25 to the financial statements.
- (d) On 1 March 2001, an amount of HK\$100,000, being a portion of the amount credited to the share premium of the Company on the issue of shares in exchange for the shares of Global Corn as set out in (c) above, was applied to pay up, in full at par value, the 1,000,000 ordinary shares issued and allotted nil paid on incorporation.

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31 December 2001

24. SHARE CAPITAL (continued)

Shares (continued)

- (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 ordinary 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 ordinary 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 (the "Capitalisation Issue"), 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 ordinary shares of HK\$0.10 each were issued to the public at HK\$1.02 each (the "New Issue") for a total cash consideration, before expenses, of HK\$326,400,000. The excess of the consideration received for share issued over the nominal value amounting to HK\$294,400,000, before related expenses, was credited to the share premium account.
- (h) On 27 September 2001 and 4 October 2001, the Company had effectively placed 180,000,000 and 76,000,000 new ordinary shares to independent investors at a price of HK\$1.86 per share, respectively. The total proceeds of HK\$476,160,000, before related expenses, were received by the Company. The excess of the consideration received for shares issued over their nominal value, amounting to HK\$450,560,000, before related expenses, was credited to the share premium account.
- (i) During the year, 7,296,000 share options, which entitled the holders to subscribe for ordinary shares of HK\$0.10 each in the Company at price of HK\$0.98 each at any time up to 13 May 2011 were exercised and total proceeds of approximately HK\$7,150,000 were received by the Company.

Notes to Financial Statements

31 December 2001

24. SHARE CAPITAL (continued)

Shares (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	–
Issued share capital of the Company as at 31 December 2000		1,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of Global Corn pursuant to the Group Reorganisation	(c)	1,000	100
Application of share premium 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 2000		960,000	200
New Issue on public listing	(g)	320,000	32,000
Capitalisation of the share premium account as set out above	(f)	–	95,800
Shares issued on placement	(h)	256,000	25,600
Shares issued on exercise of share options	(i)	7,296	730
Issued share capital as at 31 December 2001		<u>1,543,296</u>	<u>154,330</u>

Subsequent to the balance sheet date, on 14 March 2002, the Company proposed to grant bonus shares to its shareholders on the basis of one bonus ordinary share for every five ordinary shares of HK\$0.10 each in the issued share capital of the Company held by the shareholders whose names appear on the register of members of the Company on 23 April 2002. The bonus shares will rank pari passu in all respects with the shares of the Company in issue on the date of allotment but shall not be entitled to the proposed final dividend for the year ended 31 December 2001.

Notes to Financial Statements

31 December 2001

24. SHARE CAPITAL (continued)

Shares (continued)

The issue of the bonus shares is conditional upon: (i) the approval by the shareholders for the allotment and issue of bonus shares; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the bonus shares. Application will be made to the Listing Committee of the Stock Exchange in respect of such listing.

Share options

The Company operates a share option scheme (the "SO Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 32 to 34.

Share options expiring on 13 May 2011

On 14 May 2001, the Company granted a total of 38,400,000 share options to certain executive directors and certain full time employees of the Group, which entitled them to subscribe for a total of 38,400,000 ordinary shares of HK\$0.10 each in the Company. The share options are exercisable at a price of HK\$0.98 per ordinary share for the period from 14 May 2001 to 13 May 2011, both days inclusive.

During the year, 7,296,000 share options to subscribe for the ordinary shares of HK\$0.10 each in the Company were exercised at a subscription price of HK\$0.98 per share, resulting in the issue of 7,296,000 new ordinary shares in the Company at a total consideration of approximately HK\$7,150,000.

Share options expiring on 20 August 2011

On 21 August 2001, the Company granted a total of 89,600,000 share options to certain executive directors and certain full time employees of the Group, which entitled them to subscribe for a total of 89,600,000 ordinary shares of HK\$0.10 each in the Company. The share options are exercisable at a price of HK\$1.58 per share for the period from 21 August 2001 to 20 August 2011, both days inclusive.

At 31 December 2001, all of these share options remained outstanding.

Other than the SO Scheme disclosed above, the Company also granted share options to other corporations as follows:

Cargill International Trading Pte Ltd. ("Cargill International")

On 6 March 2001, the Company granted two lots of 5,600,000 share options each to Cargill International, which entitled Cargill International to subscribe for the Company's ordinary shares of HK\$0.10 each at an exercise price of HK\$1.40 and HK\$1.80 per share, respectively. The two lots of share options are exercisable for the period from 18 March 2002 to 16 April 2002, and from 16 September 2002 to 15 October 2002, both days inclusive, respectively.

Notes to Financial Statements

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24. SHARE CAPITAL (continued)

Shares options (continued)

Cargill International Pte Ltd. ("Cargill International") (continued)

On 25 September 2001, the Company granted 23,800,000, 36,800,000 and 47,420,000 share options to Cargill International, which entitled Cargill International to subscribe for the Company's ordinary shares of HK\$0.10 each at an exercise price of HK\$1.91, HK\$2.19 and HK\$2.65 per share, respectively. The three lots of share options are exercisable for the period from 25 March 2003 to 23 April 2003, from 25 March 2004 to 23 April 2004, and from 25 March 2005 to 25 April 2005, both days inclusive, respectively.

Cheung Kong (Holdings) Limited ("Cheung Kong")

On 6 March 2001, the Company granted two lots of 32,000,000 share options each to Cheung Kong, which entitled Cheung Kong to subscribe for the Company's ordinary shares of HK\$0.10 each at an exercise price of HK\$1.40 and HK\$1.80 per share, respectively. The two lots of share options are exercisable for the period from 18 March 2002 to 16 April 2002, and from 16 September 2002 to 15 October 2002, both days inclusive, respectively.

At 31 December 2001, all of these share options granted to corporations remained outstanding.

Notes to Financial Statements

31 December 2001

25. RESERVES

Group

	Share premium HK\$'000	Fixed asset revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2000	-	-	5,175	125,343	130,518
Surplus on revaluation	-	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 and 1 January 2001	-	6,151	5,656	355,030	366,837
Issue of shares	751,380	-	-	-	751,380
Capitalisation issue of shares – note 24	(95,800)	-	-	-	(95,800)
Share issue expenses	(64,630)	-	-	-	(64,630)
Surplus on revaluation – note 14	-	1,159	-	-	1,159
Surplus on revaluation shared by minority shareholders	-	(106)	-	-	(106)
Net profit for the year	-	-	-	330,078	330,078
Interim dividend – note 12	-	-	-	(19,200)	(19,200)
Proposed final dividend – note 12	-	-	-	(30,897)	(30,897)
At 31 December 2001	<u>590,950</u>	<u>7,204</u>	<u>5,656</u>	<u>635,011</u>	<u>1,238,821</u>

Notes to Financial Statements

31 December 2001

25. RESERVES (continued)

Company

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
Arising on acquisition of Global Corn and applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation – note 24	287,735	–	287,735
Issue of shares	751,380	–	751,380
Capitalisation issue of shares – note 24	(95,800)	–	(95,800)
Share issue expenses	(64,630)	–	(64,630)
Net profit for the year – note 11	–	60,439	60,439
Interim dividend – note 12	–	(19,200)	(19,200)
Proposed final dividend – note 12	–	(30,897)	(30,897)
	<u>878,685</u>	<u>10,342</u>	<u>889,027</u>
At 31 December 2001			

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation, as at set out in notes 1 and 24 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the New Issue during the year; (iii) the premium arising from the Capitalisation Issue during the year; and (iv) the premium arising from the placing and subscriptions of new ordinary shares during the year.

The share premium account of the Company includes: (i) the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 24 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the New Issue during the year; (iii) the premium arising from the Capitalisation Issue during the year; and (iv) the premium arising from the placing and subscriptions of new ordinary shares during the year.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

The subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory reserve fund until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or capitalised as paid-up capital of the subsidiaries.

Notes to Financial Statements

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26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	439,625	316,683
Interest income	(7,366)	(2,883)
Depreciation	43,426	33,224
Decrease in prepayments, deposits and other receivables	19,560	21,897
Increase in inventories	(52,922)	(26,841)
Increase in trade receivables	(30,190)	(99,439)
Decrease in trade payables	(28,518)	(57,790)
Increase/(decrease) in other payables and accruals	60,103	(63,650)
Net cash inflow from operating activities	<u>443,718</u>	<u>121,201</u>

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

	Bank loans, secured HK\$'000	Other loans, secured HK\$'000	Minority interests HK\$'000	Issued capital and share premium HK\$'000
Balance at 1 January 2000	222,859	201,500	130,658	200
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)	-
Balance at 31 December 2000 and 1 January 2001	540,042	-	172,382	200
Cash (outflow)/inflow from financing activities, net	(292,911)	-	(13,983)	745,080
Share of profit	-	-	51,312	-
Share of revaluation surplus	-	-	106	-
Dividends	-	-	(7,477)	-
Balance at 31 December 2001	<u>247,131</u>	<u>-</u>	<u>202,340</u>	<u>745,280</u>

Notes to Financial Statements

31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Major non-cash transactions

The Group Reorganisation involved the acquisition of subsidiaries by the issue of ordinary shares, further details of which are set out in notes 1, 16 and 24 to the financial statements.

During the year, the Group acquired an additional 13% equity interests in Shanghai Hao Cheng Food Development Co., Ltd. ("Shanghai Hao Cheng") based on the unaudited net asset value of Shanghai Hao Cheng as at 30 September 2001 of approximately HK\$41,721,000, of which HK\$2,743,000 was included in the amounts due to minority shareholders of a subsidiary as at 31 December 2001.

27. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

At 31 December 2001, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$33,150,000 (2000: Nil).

28. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings ranges from 1 to 50 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	489	1,035
In the second to fifth years, inclusive	965	248
After five years	9,379	–
	<u>10,833</u>	<u>1,283</u>

The Company did not have any operating lease arrangement as at 31 December 2001.

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29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had capital commitments as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Leasehold buildings, contracted for	128,830	8,527
Plant and machinery, contracted for	115,352	—
	<u>244,182</u>	<u>8,527</u>

The Company did not have any significant commitments as at 31 December 2001.

30. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following related party transactions, in addition to those disclosed elsewhere in the financial statements:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Sale of goods to Lucky Summit Development Limited ("Lucky Summit")	—	22,039
Purchases of raw materials from Jilin Province Jiliang Shuang Lung Cereal Warehouse ("Jilin Warehouse")	7,280	6,676
Purchases of machinery from Lucky Summit	<u>—</u>	<u>6,731</u>

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 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 suppliers.

Notes to Financial Statements

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30. RELATED PARTY TRANSACTIONS (continued)

The following related party transactions also constitute connected transactions as defined under the Listing Rules:

- (a) During the year, Global Bio-chem Technology Limited (“Global Bio-chem Technology”), a wholly-owned subsidiary of the Company and Changchun Dacheng Corn Development Co., Ltd. (“Dacheng Corn”), a 80% owned subsidiary of the Company each entered into a transfer agreement with Global Sweeteners Investments Limited (“Global Sweeteners”), a wholly-owned subsidiary of the Company. Pursuant to the agreement, Global Bio-chem Technology and Dacheng Corn agreed to sell their equity interests of 35% and 65% in Shanghai Hao Cheng, a subsidiary of the Company to Global Sweeteners.

Upon the transfer, the Group effectively acquired an additional 13% equity interests in Shanghai Hao Cheng and Shanghai Hao Cheng became a wholly-owned subsidiary of the Company.

The considerations payable to Global Bio-chem Technology and Dacheng Corn were approximately HK\$15 million and approximately HK\$27 million, respectively. The respective considerations were based on the unaudited net asset value of Shanghai Hao Cheng as at 30 September 2001 of approximately HK\$42 million (based on the generally accepted accounting principles adopted in Hong Kong) and the proportionate holdings of the equity interests in Shanghai Hao Cheng by Global Bio-chem Technology and Dacheng Corn, respectively.

Further details of the transactions were set out in a press announcement dated 11 December 2001.

- (b) Pursuant to a new joint venture contract between Global Corn Investments Limited (“Global Corn”), a wholly-owned subsidiary of the Company, and Changchun Dacheng Enterprise Group Company Limited (“Dacheng Enterprise”), a minority shareholder of certain of the Group’s PRC subsidiaries, being the respective PRC joint venture partner on 27 December 2001, the total investment in and registered capital of Changchun Jincheng Corn Development Co., Ltd. (“Jincheng”), a wholly-owned subsidiary of the Company, will be increased from approximately HK\$207 million and approximately HK\$83 million to approximately HK\$230 million and approximately HK\$92 million, respectively. Dacheng Enterprise will be responsible for 10% of the enlarged total investment and registered capital of Jincheng by contributing to Jincheng approximately HK\$23 million and approximately HK\$9 million, respectively.

Further details of the transactions were set out in a press announcement dated 28 December 2001.

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31. POST BALANCE SHEET EVENTS

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

- (i) On 14 January 2002, 1,536,000 share options under the SO Scheme were exercised;
- (ii) On 14 March 2002, the directors of the Company recommended the payment of a final dividend of HK2.0 cents per ordinary share and the grant of bonus shares to its shareholders whose names appeared on the register of members of the Company on 23 April 2002 as detailed in notes 12 and 24; and
- (iii) On 14 March 2002, the directors of the Company proposed to increase the authorised share capital from HK\$300 million to HK\$1,000 million by the creation of an additional 7,000 million ordinary shares of HK\$0.10 each.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 March 2002.