

1 ACQUISITION OF ZHONGYUE INDUSTRY MATERIAL LIMITED

As disclosed in a circular of the Company dated 5 November 2001, the Company and Richway Resources Limited, a fellow subsidiary of the Company, entered into an acquisition agreement to effect a proposed acquisition of 100% of Zhongyue Industry Material Limited (“ZIML”) (the “Acquisition”) which involved:

- (i) the subscription of ten new ordinary shares of par value of \$1 each in the share capital of ZIML by the Company (or its wholly-owned subsidiary);
- (ii) the proposed deferred share scheme of ZIML under which the 230,000,000 shares of \$1 each in the share capital of ZIML would be converted into 230,000,000 non-voting deferred shares of \$1 each in the share capital of ZIML (the “Zhongyue Deferred Shares”);
- (iii) an option to be granted by Richway Resources Limited to the Company at a consideration of \$10 to acquire all the Zhongyue Deferred Shares at \$1 at any time after 2 years from the completion date of the Acquisition; and
- (iv) the issue of 5-year convertible notes for a principal amount of \$185 million with an interest rate of 4.5% per annum by the Company to Richway Resources Limited.

The consideration of the Acquisition represents cash payment of \$55 million and the issuance of \$185 million convertible notes to Richway Resources Limited. The Acquisition was complete on 3 December 2001.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by revaluation of investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates

An associate is a company in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 2(e).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 2(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Negative goodwill

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill arising on or after 1 January 2001 and not yet recognised in the consolidated profit and loss account:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for associates, such negative goodwill is included in the carrying amount of the interest in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Minority interests

Losses attributable to minority shareholders of partly owned subsidiaries are accounted for based on the respective equity owned by the minority shareholders up to the amount of the capital contributed by and other reserves attributable to the minority shareholders. Thereafter, all further losses are assumed by the Group.

(g) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.
- (iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Fixed assets

- (i) Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheets at their open market value which is either assessed annually by external qualified valuers, or assessed by Directors taking into consideration of professional valuation.
- (ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:
 - when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and
 - when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the profit and loss account.
- (iii) Land and buildings held for own use are carried in the balance sheets at cost less accumulated depreciation and impairment losses (see note 2(k)).
- (iv) Other fixed assets are carried in the balance sheets at cost less accumulated depreciation and impairment losses (see note 2(k)).
- (v) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Fixed assets (Continued)

- (vi) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(i) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) *Assets held for use in operating leases*

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(p).

(ii) *Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Depreciation

- (i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.
- (ii) Depreciation is calculated to write-off the cost or revalued amount of fixed assets over their estimated useful lives from the date on which they are put into use and after taking into account their estimated residual value, using the straight line method, as follows:

Leasehold land	Over the unexpired term of the lease
Buildings	Over the shorter of the unexpired term of the lease and 20 to 50 years
Leasehold improvements	20% to 50% per annum
Plant and machinery, furniture, fixtures and equipment	10% to 20% per annum
Motor vehicles	20% per annum

(k) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts); and
- investments in subsidiaries and associates (except for those accounted for at fair value under notes 2(c) and (d)).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purpose of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

(n) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Dividends

- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income from bank deposits and advances to associates is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of subsidiaries and associates outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of subsidiaries or associates outside Hong Kong, the cumulative amount of the exchange differences which relate to that subsidiary or associate is included in the calculation of the profit or loss on disposal.

(r) Retirement costs

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the retirement benefits scheme in accordance with relevant local arrangement outside Hong Kong are charged to the profit and loss account when incurred.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, taxation, corporate and financing expenses and minority interests.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 TURNOVER

The principal activities of the Group are distribution of live and fresh foodstuffs, livestock farming and feed production, trading of foodstuffs, manufacturing and trading of tinsplate, property leasing and supermarket operations.

Turnover represents the sales value of goods and rental income from investment properties received under operating leases, after eliminating inter-company transactions. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2001	2000
	\$'000	\$'000
Sales of goods		
– Live and fresh foodstuffs distribution	1,260,672	1,444,350
– Livestock farming and feed production	189,556	167,095
– Trading of foodstuffs	45,345	46,910
– Tinplating	44,825	374,575
– Supermarket operations	276,907	708,787
	1,817,305	2,741,717
Property leasing	2,045	22,481
	1,819,350	2,764,198

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 DISCONTINUED OPERATIONS

In March 2001 and June 2001, the Group's supermarket operations were discontinued following the cessation of supermarket operations in Guangzhou and Hong Kong respectively. The turnover and loss from ordinary activities after taxation of the supermarket operations for the year are as follows:

	2001	2000
	\$'000	\$'000
Turnover	<u>276,907</u>	<u>708,787</u>
Loss from ordinary activities after taxation	<u>19,986</u>	<u>179,398</u>

The net gain on liquidation of these companies amounted to \$4,828,000. Tinplating and property leasing operations were treated as discontinued operations in 2000 financial statements following the completion of a corporate reorganisation and indebtedness restructuring (see note 7(v)). In December 2001, tinplating and property leasing operations were re-acquired from a fellow subsidiary (see note 1). As a result, tinplating and property leasing operations for 2000 were reclassified as continuing operations.

5 OTHER REVENUE

	2001	2000
	\$'000	\$'000
Advertising and promotion income	6,813	9,347
Interest income	6,217	16,409
Concession sale income	4,563	10,693
Management income	3,831	–
Dividends from listed securities	2,760	21,832
Dividends from unlisted securities	450	188
Rental income	1,730	1,602
Subsidy received	–	8,109
Others	8,003	11,816
	<u>34,367</u>	<u>79,996</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 OTHER NET INCOME

	2001 \$'000	2000 \$'000
Net realised and unrealised gains on other securities carried at fair value	1,840	–

7 NON-OPERATING INCOME

	Note	2001 \$'000	2000 \$'000
Net gain on disposal of associates	(i)	14,699	13,805
Write back of long outstanding payables	(ii)	15,124	–
Write back of inventory provisions	(iii)	14,716	–
Write back of bad debt provisions	(iv)	8,765	–
Net gain on the Restructuring	(v)	48,436	1,433,265
Net gain on liquidation of subsidiaries (see note 4)		4,828	–
		106,568	1,447,070

Notes:

- (i) The amounts mainly represent the write back of the net deficit of associates previously shared by the Group as a result of the disposal of associates.
- (ii) The amounts mainly represent the write back of long outstanding payables. The Directors are of the opinion that it is not likely that the creditors will lodge claims against the Group.
- (iii) The amounts mainly represent the write back of provisions for inventories previously made against certain merchandises held for resale as a result of the cessation of the supermarket operations in Guangzhou, the People's Republic of China (the "PRC"). During the year, most of these inventories were disposed above the carrying value and the redundant provisions for inventories were written back to the profit and loss account accordingly.
- (iv) The amounts mainly represent the write back of provisions for bad debts previously made against debtors as the recoverability is in doubt. During the year, certain bad debts have been recovered and the related provisions were written back to the profit and loss account accordingly.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 NON-OPERATING INCOME (Continued)

- (v) Pursuant to the summary indicative heads of terms dated 16 December 1999 and, inter alia, a restructuring agreement dated 22 December 2000, the Group underwent a corporate reorganisation and indebtedness restructuring (the “Restructuring”). The Restructuring was approved by independent shareholders and bank creditors and was complete on 22 December 2000. The net gain on the Restructuring for the year ended 31 December 2001 mainly relate to adjustments on payables and the write back of certain provisions following the completion of the Restructuring.

The analysis of the net gain on the Restructuring for the year ended 31 December 2000 was as follows:

	\$'000
Discharge of indebtedness to bank and other creditors and convertible bondholders	3,141,813
Share of the net liabilities of subsidiaries transferred	1,722,635
Waiver of a loan payable to related company	40,356
Waiver or assignment of inter-company payables and receivables between the Group and Guangdong Enterprises (Holdings) Limited and its subsidiaries	(2,571,631)
Group Restructuring consideration paid by the Group	(773,000)
Net carrying value of non-core assets disposed of at nil consideration	(126,908)
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	1,433,265
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NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 NON-OPERATING EXPENSES

	Note	2001 \$'000	2000 \$'000
Losses on disposal of fixed assets	(i)	28,127	29,231
Provisions for the amounts due from minority shareholders	(ii)	20,985	–
Provisions for impairment losses on cessation of operations of a subsidiary and an associate	(iii)	8,198	18,533
Provisions for certain payments to suppliers	(iv)	5,084	–
Provisions for impairment losses of fixed assets	(v)	12,183	88,314
Provision for bad and doubtful debts	(vi)		
– trade debtors		–	22,875
– other debtors		–	28,803
Net loss on liquidation of subsidiary	(vii)	–	16,527
Provision for compensation arising from a claim received	(viii)	–	35,060
Provisions for diminution in value of investment securities	(ix)	–	21,744
Write off of pre-operating expenses and prepayments	(x)	–	24,240
Loss on disposal of an associate	(xi)	–	2,215
Provisions for diminution in value of listed securities	(xii)	–	49,241
		74,577	336,783

Notes:

- (i) The losses on disposal of fixed assets relate to net carrying value of certain fixed assets which have not been in use following a realignment of the Group's business operation.
- (ii) The Directors are of the opinion that the recoverability of the amounts from minority shareholders is in doubt and thus full provisions have been made in the financial statements.

8 NON-OPERATING EXPENSES (Continued)

- (iii) Provisions for the year ended 31 December 2001 represent impairment losses against the amount due from an associate as a result of the cessation of its operations in Guangzhou, the PRC.

Provisions for the year ended 31 December 2000 represented impairment losses to the carrying value of the Group's investments in a subsidiary and the provision for the back to back guarantee given to another shareholder of an associate in respect of a loan obtained from a third party as a result of the cessation of the supermarket operations in Guangzhou, the PRC.

- (iv) These relate to provisions for certain payments to suppliers following the Executive Directors' review of the business arrangements with the suppliers during the year.

- (v) Provisions for the year ended 31 December 2001 mainly represent the impairment loss of buildings with carrying value of \$11,948,000 of a 51%-owned subsidiary, namely Dongguan Guangnan Stock Development Co., Ltd., as the property ownership certificates of buildings have not been issued to the Group as at 31 December 2001. The Directors consider that full provisions should be made in the financial statements as the ownership was in doubt.

Provisions for the year ended 31 December 2000 represented impairment losses of the land and buildings, together with the furniture and fixtures, of the Group as considered necessary by the Directors taking into consideration a professional valuation at 26 September 2000.

- (vi) Provisions were made against trade and other debtors balances brought forward from previous years which remained outstanding at 31 December 2000 as a result of:

- a review of the underlying security documentation by the Company's lawyers and it was evident that certain security documentation might not be legally enforceable; and
- diminution in value of the underlying security pledged to the Group.

- (vii) The amount represented net loss on the liquidation of a subsidiary in the PRC.

- (viii) A claim of approximately \$35 million in connection with certain payments received by the Company was submitted to the Company in 1999 and disclosed as a contingent liability. After exchange of documents and taking into account the latest legal advice received, the Directors considered that full provision should be made for the claim.

- (ix) These represented provisions for diminution in value of investment securities which were principally engaged in pig farming activities. The Directors considered that provisions were necessary to reflect the decrease in recoverable amount as a result of repositioning of such activities.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 NON-OPERATING EXPENSES (Continued)

- (x) This related to the write off of certain pre-operating expenses and prepayments, which were considered as irrecoverable by the Directors.
- (xi) This represented the loss arising from the disposal of a 20% equity interest in an associate of the Company.
- (xii) These comprised provisions for diminution in value of listed securities which were made by reference to the market value of the relevant listed shares at 31 December 2000.

9 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2001	2000
	\$'000	\$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	634	100,569
Interest on convertible notes	639	48,489
Amortisation of premium on redemption of bonds	–	20,383
	1,273	169,441
(b) Other items:		
Cost of inventories	1,664,060	2,503,555
Staff costs (including net retirement cost refund of \$683,000 (2000: net refund of \$905,000))	50,024	140,054
Auditors' remuneration	2,166	3,221
Depreciation	17,198	50,075
Amortisation of deferred expenses	–	2,403
Operating lease charges in respect of property rentals	34,093	70,845
Rentals receivable from investment properties less direct outgoing of \$Nil (2000: \$Nil)	(2,045)	(22,481)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

Cost of inventories includes \$9,018,000 (2000: \$19,922,000) relating to staff costs and depreciation expenses, which is also included in the respective total amounts disclosed separately above for each of these types of expenses. No provision against inventories has been included in cost of inventories (2000: \$1,022,000).

10 TAXATION

Taxation in the consolidated profit and loss account represents:

	2001	2000
	\$'000	\$'000
Provision for Hong Kong Profits Tax at 16% (2000: 16%) on the estimated assessable profits for the year	2,378	2,879
(Over)/under provision in respect of prior years	(420)	1,297
	1,958	4,176
PRC income tax	714	1,324
Share of associates' taxation	147	518
	2,819	6,018

Income tax for subsidiaries established and operating in other places within the PRC is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2001 \$'000	2000 \$'000
Fees	23	22
Salaries and other emoluments	2,663	4,924
Discretionary bonuses	240	–
Retirement scheme contributions	74	114
	<u>3,000</u>	<u>5,060</u>

Included in the Directors' remuneration were fees and other emoluments of \$7,500 and \$900,000 (2000: \$6,000 and \$900,000) respectively paid to the Independent Non-executive Directors during the year.

In addition to the above remuneration, Executive Directors were granted share options under the Company's 2001 Share Option Scheme. Details of these benefits in kind are disclosed in the section of "Share Option Schemes of the Company and Associated Corporation" in the Report of the Directors.

The remuneration of the Directors is within the following band:

\$	2001 Number of directors	2000 Number of directors
Nil – 1,000,000	13	18
1,000,000 – 1,500,000	–	1
	<u>13</u>	<u>19</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included 4 Directors of the Company (2000: 2), details of whose remuneration are set out in note 11 above. The remuneration of the other individual (2000: 3) is as follows:

	2001 \$'000	2000 \$'000
Salaries and other emoluments	607	1,638
Discretionary bonuses	15	–
Retirement scheme contributions	31	42
	653	1,680

The remuneration of the individual (2000: 3) is within the band of \$Nil to \$1,000,000.

13 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of \$101,470,000 (2000: profit of \$828,160,000) which has been dealt with in the financial statements of the Company.

14 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$51,518,000 (2000: \$866,057,000) and the weighted average of 8,426,517,000 (2000: 909,509,000) ordinary shares in issue during the year.

The exercise of the subscriptions rights conferred by the share options and convertible notes would not have any dilutive effect on the earnings per share for the years 2001 and 2000 as the non-operating income and non-operating expenses would not be taken into account in calculating the diluted earnings per share.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Tinplating	: The production and sales of tin-plate and related products which are used as packaging materials for the food processing manufacturers
Live and fresh foodstuffs distribution	: Distribution of live and fresh foodstuffs
Livestock farming and feed production	: Production and trading of feeds, pig rearing and distribution
Trading of foodstuffs	: The purchase and sale of foodstuffs
Property leasing	: The leasing of properties to generate rental income
Supermarket operations	: Sales of goods under supermarket operations (discontinued in 2001)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 SEGMENT REPORTING (Continued)

Business segments (Continued)

	Tinplating	Live and fresh foodstuffs distribution	Livestock farming and feed production	Trading of foodstuffs	Property leasing	Dis-continued - supermarket operations	Inter-segment elimination	Unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
For the year ended 31 December 2001									
Revenue from external customers	44,825	1,260,672	189,556	45,345	2,045	276,907	-	-	1,819,350
Inter-segment revenue	-	10	-	4,899	-	-	(4,909)	-	-
Other revenue from external customers	-	-	-	-	-	12,561	-	4,376	16,937
Total	44,825	1,260,682	189,556	50,244	2,045	289,468	(4,909)	4,376	1,836,287
Segment result	4,932	17,633	(1,190)	2,070	1,480	(17,634)	-	-	7,291
Inter-segment transactions	-	(10)	-	(774)	-	784	-	-	-
Contributions from operations	4,932	17,623	(1,190)	1,296	1,480	(16,850)	-	-	7,291
Unallocated operating income and expenses	-	-	-	-	-	-	-	-	(13,354)
Loss from operations	-	-	-	-	-	-	-	-	(6,063)
Finance costs	-	-	-	-	-	-	-	-	(1,273)
Share of profits less losses of associates	-	142	-	364	-	-	-	(12,726)	(12,220)
Non-operating income	-	-	-	-	-	-	-	-	106,568
Non-operating expenses	-	-	-	-	-	-	-	-	(74,577)
Taxation	-	-	-	-	-	-	-	-	(2,819)
Minority interests	-	-	-	-	-	-	-	-	41,902
Profit attributable to shareholders	-	-	-	-	-	-	-	-	51,518
Depreciation for the year	506	215	7,990	-	94	6,086	-	-	-
Impairment loss for the year	-	235	11,948	-	-	-	-	-	-

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 SEGMENT REPORTING (Continued)

Business segments (Continued)

	Live and fresh foodstuffs distribution	Livestock farming and feed production	Trading of foodstuffs	Property leasing	Dis- continued – supermarket operations	Inter- segment elimination	Unallocated	Consolidated
	\$'000 (Note 4)	\$'000	\$'000	\$'000	\$'000 (Note 4)	\$'000 (Note 4)	\$'000	\$'000
For the year ended 31 December 2000								
Revenue from external customers	374,575	1,444,350	167,095	46,910	22,481	708,787	-	2,764,198
Inter-segment revenue	-	8,175	-	3,151	-	-	(11,326)	-
Other revenue from external customers	-	-	-	-	-	20,040	-	21,642
Total	374,575	1,452,525	167,095	50,061	22,481	728,827	(11,326)	2,785,840
Segment result	16,659	19,106	3,861	527	17,115	(136,860)	-	(79,592)
Inter-segment transactions	-	(8,175)	-	(3,151)	-	11,326	-	-
Contributions from operations	16,659	10,931	3,861	(2,624)	17,115	(125,534)	-	(79,592)
Unallocated operating income and expenses	-	-	-	-	-	-	-	1,984
Loss from operations	-	-	-	-	-	-	-	(77,608)
Finance costs	-	-	-	-	-	-	-	(169,441)
Share of profits less losses of associates	-	(471)	831	876	-	(2,098)	-	7,952
Non-operating income	-	-	-	-	-	-	-	1,447,070
Non-operating expenses	-	-	-	-	-	-	-	(336,783)
Taxation	-	-	-	-	-	-	-	(6,018)
Minority interests	-	-	-	-	-	-	-	885
Profit attributable to shareholders	-	-	-	-	-	-	-	866,057
Depreciation for the year	15,921	288	4,963	686	4,874	18,759	-	-
Impairment loss for the year	-	-	13,992	-	-	4,947	-	-

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 SEGMENT REPORTING (Continued)

Business segments (Continued)

	Tinplating	Live and fresh foodstuffs distribution	Livestock farming and feed production	Trading of foodstuffs	Property leasing	Discontinued - supermarket operations	Inter-segment elimination	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 December 2001								
Segment assets	411,389	72,404	122,664	18,472	120,363	6,698	(84,331)	667,659
Interest in associates	-	652	-	275	-	-	-	927
Unallocated assets								289,738
Total assets								<u>958,324</u>
Segment liabilities	112,414	78,619	144,461	15,807	52,080	142,960	(317,282)	229,059
Interest-bearing borrowings								105,877
Convertible notes								185,000
Unallocated liabilities								65,019
Total liabilities								<u>584,955</u>
Capital expenditure incurred during the year	<u>31</u>	<u>248</u>	<u>4,538</u>	<u>-</u>	<u>1,597</u>	<u>1,676</u>		

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 SEGMENT REPORTING (Continued)

Business segments (Continued)

	Tinplating	Live and fresh foodstuffs distribution	Livestock farming and feed production	Trading of foodstuffs	Property leasing	Discontinued - supermarket operations	Inter-segment elimination	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	(Note 4)				(Note 4)	(Note 4)		
At 31 December 2000								
Segment assets	-	76,381	159,586	17,831	-	186,181	(30,394)	409,585
Interest in associates	-	4,492	-	209	-	-	-	4,701
Unallocated assets								315,298
Total assets								<u>729,584</u>
Segment liabilities	-	52,836	101,119	88,874	-	620,833	(576,235)	287,427
Interest-bearing borrowings								8,429
Loan from intermediate holding company								773,000
Unallocated liabilities								123,717
Total liabilities								<u>1,192,573</u>
Capital expenditure incurred during the year	<u>-</u>	<u>45</u>	<u>2,588</u>	<u>-</u>	<u>-</u>	<u>16,895</u>		

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 SEGMENT REPORTING (Continued)

Geographical segments

The Group's business participates in two principal economic environments. Hong Kong is the major market for live and fresh foodstuffs distribution, whereas the People's Republic of China (other than Hong Kong) (the "PRC") is a major market for most of the Group's other business.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	The PRC		Hong Kong		Others	
	2001	2000	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	249,814	633,213	1,554,762	2,081,233	14,774	49,752
Segment assets	632,179	195,142	119,811	244,837	-	-
Capital expenditure	6,168	9,376	1,922	10,152	-	-

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 FIXED ASSETS

(a) The Group

	Land and buildings held for own use \$'000	Leasehold improvements \$'000	Plant and machinery, furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
Cost or valuation:							
At 1 January 2001	244,466	48,411	131,858	11,598	436,333	–	436,333
Exchange adjustments	1,690	205	607	76	2,578	–	2,578
Additions							
– through acquisition of subsidiaries	147,786	14	124,326	1,446	273,572	89,249	362,821
– others	4,505	165	2,385	–	7,055	1,595	8,650
Disposals							
– Liquidation of subsidiaries	–	(39,329)	(102,636)	(4,343)	(146,308)	–	(146,308)
– Others	(32,667)	(4,326)	(8,689)	(3,016)	(48,698)	–	(48,698)
Reclassifications	3,718	–	(3,012)	(706)	–	–	–
Transfer	(33,699)	–	–	–	(33,699)	12,937	(20,762)
Surplus on revaluation	–	–	–	–	–	263	263
At 31 December 2001	335,799	5,140	144,839	5,055	490,833	104,044	594,877
Representing:							
Cost	335,799	5,140	144,839	5,055	490,833	–	490,833
Valuation – 2001	–	–	–	–	–	104,044	104,044
	<u>335,799</u>	<u>5,140</u>	<u>144,839</u>	<u>5,055</u>	<u>490,833</u>	<u>104,044</u>	<u>594,877</u>
Accumulated depreciation:							
At 1 January 2001	103,277	30,371	61,019	7,477	202,144	–	202,144
Exchange adjustments	88	11	169	30	298	–	298
Through acquisition of subsidiaries	18,654	6	61,430	–	80,090	–	80,090
Charge for the year	6,804	533	9,090	771	17,198	–	17,198
Written back on liquidation of subsidiaries	–	(21,469)	(59,278)	(3,863)	(84,610)	–	(84,610)
Written back on disposal	(550)	(4,326)	(2,851)	(1,783)	(9,510)	–	(9,510)
Reclassifications	294	–	(390)	96	–	–	–
Transfer	(20,762)	–	–	–	(20,762)	–	(20,762)
Impairment loss (see note 8(v))	11,948	–	235	–	12,183	–	12,183
At 31 December 2001	119,753	5,126	69,424	2,728	197,031	–	197,031
Net book value:							
At 31 December 2001	<u>216,046</u>	<u>14</u>	<u>75,415</u>	<u>2,327</u>	<u>293,802</u>	<u>104,044</u>	<u>397,846</u>
At 31 December 2000	<u>141,189</u>	<u>18,040</u>	<u>70,839</u>	<u>4,121</u>	<u>234,189</u>	<u>–</u>	<u>234,189</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 FIXED ASSETS (Continued)

(b) The Company

	Land and buildings held for own use \$'000	Leasehold improvements \$'000	Plant and machinery, furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
Cost or valuation:							
At 1 January 2001	137,828	9,041	4,473	3,646	154,988	–	154,988
Additions	–	165	395	–	560	–	560
Disposals	–	(4,079)	(2,400)	(1,777)	(8,256)	–	(8,256)
Transfer	(33,699)	–	–	–	(33,699)	12,937	(20,762)
Surplus on revaluation	–	–	–	–	–	263	263
At 31 December 2001	104,129	5,127	2,468	1,869	113,593	13,200	126,793
Representing:							
Cost	104,129	5,127	2,468	1,869	113,593	–	113,593
Valuation – 2001	–	–	–	–	–	13,200	13,200
	<u>104,129</u>	<u>5,127</u>	<u>2,468</u>	<u>1,869</u>	<u>113,593</u>	<u>13,200</u>	<u>126,793</u>
Accumulated depreciation:							
At 1 January 2001	83,712	7,352	2,126	3,443	96,633	–	96,633
Charge for the year	1,203	506	409	192	2,310	–	2,310
Transfer	(20,762)	–	–	–	(20,762)	–	(20,762)
Written back on disposal	–	(3,271)	(1,575)	(1,777)	(6,623)	–	(6,623)
At 31 December 2001	64,153	4,587	960	1,858	71,558	–	71,558
Net book value:							
At 31 December 2001	<u>39,976</u>	<u>540</u>	<u>1,508</u>	<u>11</u>	<u>42,035</u>	<u>13,200</u>	<u>55,235</u>
At 31 December 2000	<u>54,116</u>	<u>1,689</u>	<u>2,347</u>	<u>203</u>	<u>58,355</u>	<u>–</u>	<u>58,355</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 FIXED ASSETS (Continued)

(c) An analysis of the net book value of properties is as follows:

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
In Hong Kong on long-term leases	53,176	54,116	53,176	54,116
Elsewhere in the PRC on medium-term leases	266,914	87,073	—	—
	320,090	141,189	53,176	54,116

(d) Investment properties of the Group and the Company situated in Hong Kong amounting to \$13,200,000 were revalued at 31 December 2001 by an independent firm of surveyors, Centaline Surveyors Limited who have among their staff Associates of the Hong Kong Institute of Surveyors, on an open market value basis. The revaluation surplus of \$263,000 has been transferred to the investment properties revaluation reserve (see note 29).

Investment properties of the Group situated in the PRC amounting to \$89,249,000 were acquired through acquisition of subsidiaries on 3 December 2001. The value of the investment properties acquired was based on a valuation performed by Vigers Hong Kong Limited, a firm of professional valuers, at 31 August 2001. The Directors consider that there is no significant changes to the value of the investment properties at 31 December 2001 as the cost of the investment properties acquired on 3 December 2001 together with subsequent additions of \$1,595,000 approximates the market value at 31 December 2001.

(e) The investment properties of the Group situated in the PRC represent land use rights together with the factory premises thereon situated in Zhongshan, the PRC. The applications for the property ownership certificates of certain of these factory premises with net book value totalling \$32,089,000 are still in progress and these property ownership certificates have not yet been issued to the Group by the relevant offices of the State-owned Land Bureau in the PRC as at the balance sheet date. Notwithstanding this, the Directors are of the opinion that the Group has acquired beneficial title to these properties as at 31 December 2001 and the ownership certificates can be obtained.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 FIXED ASSETS (Continued)

- (f) The Group leases out investment properties and certain pig farms under operating leases. The leases run for an initial period of one to twenty eight years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were \$104,044,000 (2000: \$Nil) and \$13,200,000 (2000: \$Nil) respectively. The gross carrying amounts of pig farms of the Group held for use in operating leases were \$13,175,000 (2000: \$13,175,000) and the related accumulated depreciation and impairment losses were \$10,443,000 (2000: \$10,443,000).

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Within 1 year	19,333	193	419	–
After 1 year but within 5 years	42,449	547	106	–
After 5 years	33,321	1,321	–	–
	<u>95,103</u>	<u>2,061</u>	<u>525</u>	<u>–</u>

- (g) Certain land and buildings of \$10,373,000 of the Group have been pledged to a bank for a loan of \$8,480,000 granted to a minority shareholder. A provision of \$10,373,000 has been made in the financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 INTEREST IN SUBSIDIARIES

	The Company	
	2001	2000
	\$'000	\$'000
Unlisted shares, at cost	281,610	112,413
Amounts due from subsidiaries	671,588	590,754
	953,198	703,167
Less: impairment loss	(620,198)	(511,670)
	333,000	191,497

Details of the subsidiaries, which are incorporated in Hong Kong unless otherwise stated, are set out in note 38. All of these are controlled subsidiaries as defined under note 2(c) and have been consolidated into the Group's financial statements. Details of companies under liquidation which have not been consolidated in the financial statements are set out in note 39.

On 3 December 2001, the Group acquired a 100% interest in ZIML for \$242 million, which was satisfied by \$55 million in cash, \$185 million by the issuance of convertible notes and \$2 million being acquisition costs payable. As a result of the acquisition, the Group's profit for the year and the net assets as at the year end have been increased by \$5,493,000 and \$5,777,000 respectively.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 INTEREST IN ASSOCIATES

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Unlisted shares, at cost	–	–	245,785	246,784
Share of net assets	114,836	114,393	–	–
Amounts due from associates	37,402	56,767	37,394	55,989
	152,238	171,160	283,179	302,773
Less: impairment loss	–	–	(131,876)	(121,408)
	152,238	171,160	151,303	181,365

The amounts due from associates included a loan to Yellow Dragon Food Industry Company Limited of \$35,990,000 (2000: \$52,416,000), details of which are disclosed in note 34(c).

Details of the associates, which are incorporated in Hong Kong unless otherwise stated, are set out in note 40.

19 SECURITIES

(a) Investment securities

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Unlisted equity securities, at cost	1,079	51,487	1,000	–
Less: provision	–	(51,487)	–	–
	1,079	–	1,000	–
(b) Other securities				
Equity securities listed in Hong Kong, at market value	14,240	16,373	14,240	16,373

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 DEFERRED TAX ASSETS

(a) Movements on deferred tax assets comprise:

	The Group	
	2001 \$'000	2000 \$'000
At 1 January	–	–
Additions through acquisition of subsidiaries	4,957	–
At 31 December	<u>4,957</u>	<u>–</u>

(b) Major components of deferred tax assets of the Group are set out below:

	2001		2000	
	Potential assets		Potential assets	
	Recognised \$'000	unrecognised \$'000	Recognised \$'000	unrecognised \$'000
Provisions	4,957	–	–	–
Tax losses	–	398,000	–	398,000
	<u>4,957</u>	<u>398,000</u>	<u>–</u>	<u>398,000</u>

(c) Major components of deferred tax assets of the Company are set out below:

	2001		2000	
	Potential assets		Potential assets	
	Recognised \$'000	unrecognised \$'000	Recognised \$'000	unrecognised \$'000
Tax losses	–	389,398	–	389,398
	<u>–</u>	<u>389,398</u>	<u>–</u>	<u>389,398</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21 NEGATIVE GOODWILL

	The Group
	\$'000
Cost:	
At 1 January 2001	–
Addition arising on acquisition of a subsidiary	20,250
	<hr/>
At 31 December 2001	20,250
	<hr/> <hr/>

Negative goodwill is to be recognised as income on a straight-line basis over 14 years. No amortisation of negative goodwill for the year has been credited to the consolidated profit and loss account since the subsidiaries were acquired on 3 December 2001 and the Directors consider the amount of amortisation not material to the Group.

22 INVENTORIES

	The Group	
	2001	2000
	\$'000	\$'000
Raw materials	47,146	14,616
Work-in-progress	24	–
Finished goods	29,898	25,553
Merchandise held for resale	–	65,845
Spare parts and consumables	269	198
	<hr/>	<hr/>
	77,337	106,212
Less: provision	–	(3,949)
	<hr/>	<hr/>
	77,337	102,263
	<hr/> <hr/>	<hr/> <hr/>

None of the inventories included above are carried at net realisable value (2000: \$17,924,000). The amount of reversal of a write-down of inventories to estimated net realisable value amounted to \$15,738,000 (2000: \$Nil). The provisions for inventories were written back to the profit and loss account as most of these inventories were disposed above the carrying value.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Trade debtors	43,834	10,895	–	2
Bills receivable	39,402	–	–	–
Other debtors, deposits and prepayments	16,870	46,582	10,351	15,798
Amounts due from minority shareholders of partly owned subsidiaries less provision	1,698	25,625	–	–
Amounts due from fellow subsidiaries	140	–	1	–
Amounts due from other related companies less provision	932	8,777	–	–
	102,876	91,879	10,352	15,800

Included in the trade and other receivables are balances of \$1,301,000 (2000: \$13,355,000) expected to be recovered after one year.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23 TRADE AND OTHER RECEIVABLES (Continued)

Included in trade and other receivables are trade debtors and bills receivable (net of provision for bad and doubtful debts), based on invoice date, with the following ageing analysis:

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Within 1 month	42,174	6,881	–	–
1 to 3 months	20,427	4,014	–	–
More than 3 months but less than 12 months	19,332	–	–	2
More than 1 year but less than 2 years	1,303	–	–	–
	<u>83,236</u>	<u>10,895</u>	<u>–</u>	<u>2</u>

The Group maintains a defined policy with credit periods ranging from advance payment to not more than 90 days.

24 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Deposits with banks	46,093	–	31,435	–
Cash at bank and in hand	181,908	113,720	19,372	31,896
	<u>228,001</u>	<u>113,720</u>	<u>50,807</u>	<u>31,896</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25 INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Unsecured bank loans and overdrafts	4,240	8,429	-	616
Unsecured other loans	101,637	-	-	-
	<u>105,877</u>	<u>8,429</u>	<u>-</u>	<u>616</u>

At 31 December 2001, the Group's borrowings of \$4,240,000 (2000: \$4,638,000) were guaranteed by a minority shareholder of the Group. Other loans are unsecured, repayable on demand and bear interest at a range of 1% to 7.5%.

At 31 December 2001, the interest-bearing borrowings were repayable as follows:

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Within 1 year or on demand	<u>105,877</u>	<u>8,429</u>	<u>-</u>	<u>616</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Creditors and accrued charges	251,550	383,880	40,543	52,628
Amounts due to associates	4,049	–	–	–
Amounts due to minority shareholders	3,474	–	–	–
Amounts due to holding company and fellow subsidiaries	18,256	–	202	–
Amounts due to related companies	264	816	260	–
	277,593	384,696	41,005	52,628

The amount of trade and other payables expected to be settled after more than one year is \$608,000 (2000: \$Nil).

Included in trade and other payables are trade creditors with the following ageing analysis:

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Due within 1 month or on demand	74,524	198,453	3,525	12,925
Due after 1 month but within 3 months	–	39,849	–	–
Due after 3 months but within 12 months	–	5,325	–	–
	74,524	243,627	3,525	12,925

27 CONVERTIBLE NOTES

On 3 December 2001, the Company issued convertible notes of \$185,000,000 to Richway Resources Limited as part of the consideration for acquisition of Zhongyue Industrial Material Limited (see note 1). The notes bear interest at a fixed rate of 4.5% per annum and are convertible into ordinary shares of the Company on any business day other than the period in which the register of members of the Company is closed or ten business days prior to the maturity date on 3 December 2006 at an initial conversion price of \$0.155 per share, subject to adjustments in certain events.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 SHARE CAPITAL

	2001		2000	
	Number of shares (thousand)	\$'000	Number of shares (thousand)	\$'000
Authorised:				
Ordinary shares of \$0.1 each	<u>15,000,000</u>	<u>1,500,000</u>	<u>15,000,000</u>	<u>1,500,000</u>
Issued and fully paid:				
At 1 January	909,509	90,951	909,509	90,951
Shares issued under the Open Offer (note (a))	7,730,824	773,082	–	–
Shares issued under the Placement (note (b))	300,000	30,000	–	–
Shares issued under share option schemes (note (c))	3,000	300	–	–
At 31 December	<u>8,943,333</u>	<u>894,333</u>	<u>909,509</u>	<u>90,951</u>

Notes:

- (a) As part of the Restructuring (see note 7(v)), the Company conducted an open offer to its shareholders, excluding overseas shareholders, on the basis of 17 shares for every 2 existing shares held (the "Open Offer"). The number of shares issued at par under the Open Offer was 7,730,824,137. The proceeds of the Open Offer were used for repayment of the bridging loan of \$773 million provided by GDH Limited.
- (b) On 8 August 2001, GDH Limited, the intermediate holding company, entered into a placing and subscription agreement, pursuant to which GDH Limited placed 300 million existing shares in the capital of the Company to independent investors at the price of \$0.17 per share and GDH Limited subscribed at the same price for 300 million new shares of par value of \$0.1 each, which ranked pari passu in all respects with the existing issued shares (the "Placement"). The Placement was complete in August 2001.

28 SHARE CAPITAL (Continued)

(c) Share option schemes

In accordance with the terms of share option scheme adopted on 21 November 1994, the number and exercise price of outstanding options have been adjusted following the completion of the Open Offer. The adjusted number of unexercised share options granted prior to the Open Offer as at 31 December 2001 was 15,200,000.

On 24 August 2001, a new share option scheme for the Executive Directors and employees of the Group was approved and adopted by the shareholders pursuant to which the Directors are authorised to grant options to Executive Directors and employees of the Group to subscribe for shares of the Company. On the same date, the Directors granted options to Executive Directors and employees of the Group to acquire a total of 291,500,000 shares in the capital of the Company at an exercise price of \$0.1495 per share.

During the year, options to subscribe for 43,795,000 shares at a price of \$0.7436, 15,200,000 shares at a price of \$1.0105, 3,040,000 shares at a price of \$0.9827 each and 1,500,000 shares at a price of \$0.1495 each under the share option schemes were lapsed and unexercised. In November and December 2001, options to subscribe for a total of 3,000,000 shares were exercised at a price of \$0.1495 each.

At 31 December 2001, the outstanding options were as follows:

Date of option granted	Period during which options exercisable	Exercise price per share	Number of options outstanding at the year end
11 February 1998	12/02/1999 to 10/02/2002	\$0.4295	15,200,000
24 August 2001	26/11/2001 to 25/11/2006	\$0.1495	287,000,000
			<u>302,200,000</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 RESERVES

(a) The Group

	Share premium	Capital redemption reserve	Capital reserve	Exchange fluctuation reserve	Revaluation reserve Land and buildings	Investment properties	Other reserves	Accumulated losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2000	1,723,840	971	41,267	(107)	1,534	-	14,165	(3,266,846)	(1,485,176)
Exchange differences arising on consolidation	-	-	-	(4,328)	-	-	-	-	(4,328)
Profit for the year	-	-	-	-	-	-	-	866,057	866,057
Reserves realised upon disposal of subsidiaries	-	-	6,890	1,977	-	-	-	-	8,867
Release of revaluation and other reserves	-	-	-	-	(1,534)	-	(18,947)	20,481	-
Transfer to statutory reserve	-	-	-	-	-	-	5,979	(5,979)	-
At 31 December 2000	<u>1,723,840</u>	<u>971</u>	<u>48,157</u>	<u>(2,458)</u>	<u>-</u>	<u>-</u>	<u>1,197</u>	<u>(2,386,287)</u>	<u>(614,580)</u>
At 1 January 2001	1,723,840	971	48,157	(2,458)	-	-	1,197	(2,386,287)	(614,580)
Exchange differences arising on consolidation	-	-	2	(328)	-	-	4	-	(322)
Profit for the year	-	-	-	-	-	-	-	51,518	51,518
Revaluation surplus (see note 16(d))	-	-	-	-	-	263	-	-	263
Shares issued under the Placement	19,520	-	-	-	-	-	-	-	19,520
Shares issued under share option scheme	149	-	-	-	-	-	-	-	149
Share of associates' reserves	-	-	424	1,854	-	-	25	-	2,303
Reserve realised upon liquidation of subsidiaries	-	-	-	1,790	-	-	-	-	1,790
Reclassifications	-	-	230	-	-	-	(230)	-	-
Transfer to statutory reserve	-	-	237	-	-	-	323	(560)	-
At 31 December 2001	<u>1,743,509</u>	<u>971</u>	<u>49,050</u>	<u>858</u>	<u>-</u>	<u>263</u>	<u>1,319</u>	<u>(2,335,329)</u>	<u>(539,359)</u>

Included in the accumulated losses as at 31 December 2001 is a loss of \$58,753,000 attributable to associates (2000: \$43,265,000).

The application of the share premium and capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

The capital reserves, exchange fluctuation reserve and revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill/capital reserve arising on acquisition of subsidiaries and associates prior to 1 January 2001, foreign currency translation and the revaluation of properties (see note 2). Other reserves represent statutory reserves of entities established in the PRC.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 RESERVES (Continued)

(b) The Company

	Share premium \$'000	Capital redemption reserve \$'000	Capital reserve \$'000	Revaluation reserve		Accumulated losses \$'000	Total \$'000
				Land and buildings \$'000	Investment properties \$'000		
At 1 January 2000	1,723,840	971	48,157	512	-	(3,059,049)	(1,285,569)
Profit for the year	-	-	-	-	-	828,160	828,160
Realised upon disposal of property	-	-	-	(512)	-	512	-
At 31 December 2000	<u>1,723,840</u>	<u>971</u>	<u>48,157</u>	<u>-</u>	<u>-</u>	<u>(2,230,377)</u>	<u>(457,409)</u>
At 1 January 2001	1,723,840	971	48,157	-	-	(2,230,377)	(457,409)
Shares issued under the Placement	19,520	-	-	-	-	-	19,520
Shares issued under share option scheme	149	-	-	-	-	-	149
Revaluation surplus (see note 16(d))	-	-	-	-	263	-	263
Loss for the year	-	-	-	-	-	(101,470)	(101,470)
At 31 December 2001	<u>1,743,509</u>	<u>971</u>	<u>48,157</u>	<u>-</u>	<u>263</u>	<u>(2,331,847)</u>	<u>(538,947)</u>

At 31 December 2000 and 2001, there was no reserve available for distribution to shareholders of the Company.

30 LOAN FROM INTERMEDIATE HOLDING COMPANY

In March 2001, the bridging loan from intermediate holding company, GDH Limited, was fully repaid from the proceeds of the Open Offer. Details of the Open Offer are disclosed in note 28(a).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 \$'000	2000 \$'000
Profit from ordinary activities before taxation	12,435	871,190
Finance costs	1,273	169,441
Interest income	(6,217)	(16,409)
Dividend income from listed securities	(2,760)	(21,832)
Dividend income from unlisted securities	(450)	(188)
Net realised and unrealised (gain)/loss on other securities carried at fair value	(1,840)	795
Net gain on disposal of associates	(14,699)	(13,805)
Write back of long outstanding payables	(15,124)	-
Net gain on the Restructuring	(48,436)	(1,433,265)
Net (gain)/loss on liquidation of subsidiaries	(4,828)	16,527
Losses on disposal of fixed assets	28,127	32,296
Provisions for the amounts due from minority shareholders	20,985	-
Provisions for impairment losses on cessation of operations of a subsidiary and an associate	8,198	18,533
Provisions for certain payment to suppliers	5,084	-
Provisions for impairment losses of fixed assets	12,183	88,314
Provision for compensation arising from a claim received	-	35,060
Provision for diminution in value of investment securities	-	21,744
Write-off of pre-operating expenses and prepayments	-	24,240
Loss on disposal of an associate	-	2,215
Provisions for diminution in value of listed securities	-	49,241
Depreciation	17,198	50,075
Amortisation of pre-operating expenses	-	2,403
Share of profits less losses of associates	12,220	(7,952)
Decrease in inventories	22,596	4,523
(Increase)/decrease in trade debtors, bills receivable, other debtors, deposits and prepayments	(12,163)	68,957
Increase in amounts due from fellow subsidiaries	(140)	-
(Increase)/decrease in amounts due from minority shareholders	(1,589)	4,797
Increase in amounts due from related companies	(353)	(859)
Decrease in amounts due from associates	20,777	-
(Decrease)/increase in trade and other payables	(36,735)	136,364
Decrease in amounts due to related companies	(812)	-
Increase in amounts due to holding company and fellow subsidiaries	18,318	-
Increase/(decrease) in amounts due to associates	4,049	(4,376)
Net cash inflow from operating activities	37,297	98,029

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Purchase of subsidiaries

	2001	2000
	\$'000	\$'000
Net assets acquired:		
Fixed assets	282,731	–
Deferred tax assets	4,957	–
Inventories	58,323	–
Trade and other receivables	61,089	–
Cash at bank and in hand	116,692	–
Interest-bearing borrowings	(117,391)	–
Trade and other payables	(125,686)	–
Taxation	(3,219)	–
Minority interest	(14,942)	–
	262,554	–
Negative goodwill arising on consolidation	(20,250)	–
	242,304	–
Satisfied by:		
– Cash paid	55,000	–
– Acquisition costs payable	2,304	–
– Issue of convertible note	185,000	–
	242,304	–

Subsidiaries acquired during the year contributed \$19,048,000 to the Group's net operating cash flows, utilised \$1,628,000 in investing activities and paid \$15,754,000 in respect of financing activities.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Analysis of net inflow of cash and cash equivalents in respect of the purchase of subsidiaries

	2001 \$'000	2000 \$'000
Cash consideration	(55,000)	—
Cash at bank and in hand acquired	116,692	—
Net inflow of cash and cash equivalents in respect of the purchase of subsidiaries	<u>61,692</u>	<u>—</u>

(d) Analysis of changes in financing during the year

	Shareholders' loans to subsidiaries contributed by minority shareholders \$'000	Bank borrowings \$'000	Other loans \$'000	Convertible notes \$'000	Loan from intermediate holding company \$'000	Share capital (including premium) \$'000	Total \$'000
At 1 January 2000	33,561	2,085,552	75,211	862,187	—	1,814,791	4,871,302
New bank loans	—	4,638	—	—	—	—	4,638
Repayment of loans	—	(17,412)	—	—	—	—	(17,412)
Loan from intermediate holding company	—	—	—	—	773,000	—	773,000
Amortisation of bond premium	—	—	—	20,383	—	—	20,383
Exclusion of loans pursuant to the Restructuring	(13,304)	(1,949,540)	(75,211)	(882,570)	—	—	(2,920,625)
Exclusion of loans of a subsidiary upon disposal	—	(118,600)	—	—	—	—	(118,600)
At 31 December 2000	<u>20,257</u>	<u>4,638</u>	<u>—</u>	<u>—</u>	<u>773,000</u>	<u>1,814,791</u>	<u>2,612,686</u>
At 1 January 2001	20,257	4,638	—	—	773,000	1,814,791	2,612,686
Effect of foreign exchange	(208)	73	—	—	—	—	(135)
Repayment of loans	—	(471)	(15,754)	—	(19,157)	—	(35,382)
Capitalisation of loans (see note 31(f))	—	—	—	—	(753,843)	753,843	—
Proceeds from issue of shares	—	—	—	—	—	69,208	69,208
Liquidation of subsidiaries	(8,700)	—	—	—	—	—	(8,700)
Purchase of subsidiaries	—	—	117,391	—	—	—	117,391
New issue of convertible notes for purchase of subsidiaries	—	—	—	185,000	—	—	185,000
At 31 December 2001	<u>11,349</u>	<u>4,240</u>	<u>101,637</u>	<u>185,000</u>	<u>—</u>	<u>2,637,842</u>	<u>2,940,068</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(e) Subsidiaries disposed/liquidated

	Subsidiaries disposed		Subsidiaries liquidated	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Net (liabilities)/assets disposed/liquidated:				
Fixed assets	-	299,196	61,698	15,964
Pre-operating expenses	-	-	-	8,850
Inventories	-	88,804	60,653	6,422
Properties held for sale	-	45,609	-	-
Debtors, bills receivables, deposits and prepayments	-	167,455	29,539	15,899
Other securities	-	5,967	-	-
Amounts due from minority shareholders	-	-	18,348	-
Amounts due from holding companies and fellow subsidiaries	-	124,114	-	-
Cash and cash equivalents	-	123,201	14,132	1,519
Interest-bearing borrowings	-	(118,600)	-	-
Creditors and accrued charges	-	(171,837)	(164,164)	(31,104)
Tax payable	-	(348)	-	(322)
Loans from minority shareholders	-	-	(8,700)	-
Amounts due to ultimate holding company and fellow subsidiaries	-	(2,276,041)	(62)	-
Minority interests	-	(17,045)	(18,062)	(701)
	-	(1,729,525)	(6,618)	16,527
Release of reserves	-	6,890	1,790	-
	-	<u>(1,722,635)</u>	<u>(4,828)</u>	<u>16,527</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(f) Non-cash transactions

- (i) During the year, the proceeds from the shares underwritten and taken up by GDH Limited issued under the Open Offer amounting to \$754 million was settled by capitalising the loan from intermediate holding company.
- (ii) Assets and liabilities transferred pursuant to the Restructuring

	2001	2000
	\$'000	\$'000
Fixed assets	–	28,891
Properties held for sale	–	6,291
Investment securities	–	91,726
Inter-company payables and receivables	–	2,571,631
Loan from intermediate holding company	–	773,000
Bank loans and other borrowings	–	(2,920,625)
Creditors and accrued charges	–	(221,188)
Advances due to related companies	–	(40,356)
	<u>–</u>	<u>289,370</u>

(g) Cash and cash equivalents

	2001	2000
	\$'000	\$'000
Deposit with banks	46,093	–
Cash at bank and in hand	181,908	113,720
Bank overdrafts	–	(3,791)
	<u>228,001</u>	<u>109,929</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 CONTINGENT LIABILITIES

At 31 December 2001, there were material contingent liabilities in respect of the following:

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Guarantees given to banks in respect of banking facilities granted to an associate	2,340	21,840	2,340	21,840

33 COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2001 not provided for in the financial statements were as follows:

	The Group	
	2001 \$'000	2000 \$'000
Contracted for	35,447	34,777
Authorised but not contracted for	10,474	7,631
	45,921	42,408

Subsequent to the balance sheet date, the Board has resolved that a subsidiary of the Company will not commit to increase its capital contribution to an investee company of \$34,476,000.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 COMMITMENTS (Continued)

- (b) At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	The Group	
	2001	2000
	\$'000	\$'000
Within 1 year	442	64,163
After 1 year but within 5 years	65	54,991
After 5 years	—	3,007
	<u>507</u>	<u>122,161</u>

Following the liquidation of a subsidiary in June 2001, the Group was not required to continue to undertake the rental leases entered into by the subsidiary.

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

- (c) At 31 December 2001, the Company has committed to provide finance of \$6,489,000 to an associate of the Group.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 MATERIAL RELATED PARTY TRANSACTIONS

Related party transactions, which the Directors consider material to the Group during the year, are summarised as follows:

	Note	2001 \$'000	2000 \$'000
Sales of goods to related companies	34(b)	44,207	264,664
Purchases of goods from related companies	34(b)	24,952	33,523
Interest income from an associate	34(c)	3,095	9,499
Convertible notes issued to a fellow subsidiary	1 & 27	185,000	–
Cash paid to a fellow subsidiary for acquisition of subsidiaries	1	55,000	–
Management fee income from related companies		3,498	–
Reimbursement of expenses to an intermediate holding company		1,786	–
Interest on convertible notes payable to a fellow subsidiary		639	–
Loan from an intermediate holding company	30	–	773,000
Subsidy received from a related company		–	8,109

Notes:

- (a) Balances with related parties at 31 December are included in amounts due from/to the respective parties in the balance sheets. These balances are interest free and have no fixed terms of repayment, except those disclosed in note (c) below.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

- (b) Related companies to/from which goods were sold and purchased included associates and minority shareholders of partly-owned subsidiaries.
- (c) In 1999, the Company entered into an unsecured shareholders' loan agreement with an associate, Yellow Dragon Food Industry Company Limited. Pursuant to the agreement the Company advanced US\$6,700,000 to the associate at an interest rate of 7.8% per annum. The amount is repayable in full in 5 years commencing from 1 January 2000 and the principal and interest are payable twice annually. At the balance sheet date, the outstanding loan and interest receivable from the associate amounted to \$35,990,000 (2000: \$52,416,000) and \$1,400,000 (2000: \$3,000,000) respectively.

35 RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the Group and administered by an independent trustee. Under the MPF Scheme, the Group and its employees are each required to make a contribution to the Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000 (the "Cap"). The amounts in excess of the Cap are contributed to the MPF Scheme by both employers and employees as voluntary contributions. Mandatory contributions to the MPF Scheme are vested to the employees. Any unvested balance from voluntary contributions is refunded to the Group.

In addition to the MPF Scheme, the Group also maintains a defined contribution retirement scheme which was frozen on 1 December 2000 (the "ORSO Scheme"). The assets of the ORSO Scheme are held separately from those of the Group in an independently administered fund. No contributions have been made to the ORSO Scheme after the introduction of the MPF Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the employer's contributions becoming fully vested, the amount is forfeited and is recognised in the profit and loss account when refunded.

Employees engaged by the Group outside Hong Kong are covered by appropriate local arrangements.

The Group's pension cost charged to the profit and loss account for the year ended 31 December 2001 was \$2,251,000 (2000: \$2,772,000). The forfeited contribution refunded for the year amounted to \$2,934,000 (2000: \$3,677,000).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36 POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, share options to subscribe for 55 million shares of the Company were exercised at a price of \$0.1495 each.

37 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2001 to be Guangdong Yue Gang Investment Holdings Company Limited, which is established in the PRC.

38 LIST OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2001 are as follows:

Name of subsidiary	Principal country/ place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company	Subsidiary	
Dongguan Guangnan Stock Development Co., Ltd.*	The PRC	N/A	HK\$24,720,000	51%	–	Pig rearing and distribution
Dongguan Jinhuang Food Co., Ltd. #	The PRC	N/A	RMB40,000,000	–	100%	Pig rearing and distribution
高要廣南畜牧 發展有限公司 *	The PRC	N/A	US\$3,759,000	51%	–	Pig rearing and distribution
GETDD Inchape Guangnan Distribution Co., Ltd.*	The PRC	N/A	US\$6,500,000	–	80%	Dormant

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38 LIST OF SUBSIDIARIES (Continued)

Name of subsidiary	Principal country/ place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				Company	Subsidiary	
Gain First Investments Limited (Incorporated in the British Virgin Islands)	Hong Kong	N/A	US\$1	100%	–	Investment holding
Guangnan Distribution Company Limited	Hong Kong	Ordinary	HK\$10,000,000	–	100%	Investment holding
Guangnan Fresh and Live Foodstuffs Limited	Hong Kong	Ordinary	HK\$1,000,000	100%	–	Distribution of live and fresh foodstuffs
Guangnan Supermarket (China) Limited	Hong Kong	Ordinary	HK\$2	100%	–	Dormant
Guangnan Supermarket Development Limited	Hong Kong	Ordinary	HK\$135,742,220	100%	–	Investment holding
Guangnan Trading Development Limited	Hong Kong	Ordinary	HK\$73,916,728	100%	–	Trading of foodstuff
Guangnan (Zhan Jiang) Jiafeng Feed Co., Ltd.#	The PRC	N/A	HK\$5,000,000	100%	–	Manufacturing and trading of feed

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38 LIST OF SUBSIDIARIES (Continued)

Name of subsidiary	Principal country/ place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company	Subsidiary	
Hinloon International Limited	Hong Kong	Ordinary	HK\$100,000	100%	–	Trading of processed corn food and feed products
Jin Huang Food Industry Investment Limited (Incorporated in the British Virgin Islands)	Hong Kong	Ordinary	HK\$1,000,000	100%	–	Investment holding
Jin Huang Food Industry Investment Limited	Hong Kong	Ordinary	HK\$1,000,000	–	100%	Investment holding
Southern Chain (Hong Kong) Limited	Hong Kong	Ordinary	HK\$7,000,000	100%	–	Dormant
Zhongyue Industry Material Limited	Hong Kong	Ordinary	HK\$10	–	100%	Trading of raw materials for production of tinplate products
		Non-voting deferred	HK\$230,000,000			

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38 LIST OF SUBSIDIARIES (Continued)

Name of subsidiary	Principal country/ place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by		Principal activities
				the Company	Subsidiary	
Zhongshan Shan Hai Industrial Co., Ltd.*	The PRC	N/A	RMB45,600,000	–	95%	Property development and leasing
Zhongshan Zhongyue Tinplate Industrial Co., Ltd.*	The PRC	N/A	US\$25,946,200	–	95%	Production and sales of tinplate products

* an equity joint venture established in the PRC

a wholly foreign-owned enterprise established in the PRC

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

39 LIST OF COMPANIES UNDER LIQUIDATION

Particulars of the companies under liquidation or petitioned to court for liquidation are as follows:

Name of company	Principal country/ place of operations	Class of shares held	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by	
				Company	Subsidiary
Guangnan (KK) Supermarket Limited*	Hong Kong	Ordinary	HK\$20,000,000	–	70%
Cheung Hong Supermarket Limited**	Hong Kong	Ordinary	HK\$2,000,000	–	100%
Health and Beauty Trading Limited**	Hong Kong	Ordinary	HK\$4,500,000	–	100%
Regal Prosper Limited**	Hong Kong	Ordinary	HK\$100	–	100%
Guangdong Guangnan Tianmei Food Development Company Limited ##	The PRC	N/A	RMB34,820,000	–	55%

* company commenced liquidation in June 2001.

** company commenced liquidation in April 2002.

an equity joint venture established in the PRC and was petitioned to court for liquidation in July 2001.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40 LIST OF ASSOCIATES

Particulars of the associates at 31 December 2001 are as follows:

Name of associate	Principal country/ place of operations	Class of shares held	Proportion of nominal value of issued capital/ capital registered held by		Principal activities
			the Company	Subsidiary	
Fordex International Limited	Hong Kong	Ordinary	25%	–	Rice wholesaling
Fruit and Vegetable Wharf (H.K.) Limited	Hong Kong	Ordinary	20%	–	Fruit and vegetable wholesaling
Tung Hing Poultry Wholesaler Limited	Hong Kong	Ordinary	40%	–	Poultry wholesaling
Yellow Dragon Food Industry Company Limited*	The PRC	N/A	40%	–	Processing and sale of corn food and feed products
Zhongshan Baoli Food Co., Ltd.*	The PRC	N/A	30%	–	Processing of canned food

* an equity joint venture established in the PRC