

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1. CORPORATE INFORMATION

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

The Company is a subsidiary of COFCO (Hong Kong) Limited ("COFCO (HK)"), a company incorporated in Hong Kong. In the opinion of the Directors, the ultimate holding company is China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), which is registered in the People's Republic of China (the "PRC").

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

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

SSAP 1 (Revised):	"Presentation of financial statements"
SSAP 11 (Revised):	"Foreign currency translation"
SSAP 15 (Revised):	"Cash flow statements"
SSAP 34:	"Employee benefits"

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 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 34 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2002

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (cont'd)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain investments and investment properties as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

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

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill

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

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

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

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

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

Negative goodwill

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

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

Notes to the Financial Statements

For the year ended 31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Negative goodwill (cont'd)

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

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use 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.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset, other than investment properties and construction in progress, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Buildings	2.8% to 16.2%
Plant, machinery and equipment	4.5% to 25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Long term investments

Long term investments are investments which are intended to be held on a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose. Long term investments are included in the balance sheet at cost less amortisation or any impairment losses, assessed by the Directors on an individual basis.

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

The profit or loss on disposal of long term investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the investments.

Other investments

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

The profit or loss on disposal of other investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the investment. Where the investee company was previously a subsidiary or an associate of the Company and previously-arising reserves attributable to this investee company remain, the reserves attributable to such investee company are also released to the profit and loss account on disposal.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Trade debtors

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at original invoiced amount less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Provisions

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

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences 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.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, in the period in which the properties are leased and on the straight-line basis over the lease terms;
- (c) agency commission and reimbursement of advertising expenses, on an accrual basis;
- (d) from the rendering of services, in the period in which the services are rendered;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (f) dividend income, when the shareholders' right to receive payment is established;
- (g) proceeds from the sale of other investments, on the transaction dates when the relevant contract notes are exchanged;
- (h) tax refunds, when the acknowledgement of refunds from the tax bureau is received;
- (i) government subsidies, when there is reasonable assurance that the Group will comply with the conditions attaching thereto and the subsidies will be received.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Dividends

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

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

Foreign currencies

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP15 has resulted in no material effect on the amounts of the previously-reported cash flows of the prior year.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Employee benefits

Retirement benefits scheme

Retirement benefits are provided to certain staff employed by the Group. In accordance with the Mandatory Provident Fund Schemes Ordinance, the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO Scheme, or the newly set-up Mandatory Provident Fund Scheme (operating since 1 December 2000) under which employer contributions have to be made. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to both schemes are at a maximum of 10% of the monthly salaries of the employees. When an employee leaves the Mandatory Provident Fund Exempted ORSO Scheme prior to his or her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of the forfeited contributions. However, in respect of the Mandatory Provident Fund Scheme, only employer voluntary contribution amounts are refundable to the Group when the members leave employment prior to their vesting. The Group's mandatory contributions vest fully with the employees when the employees leave the scheme.

In addition, the employees of the Group's subsidiaries which operate in the PRC are required to participate in the central pension scheme which is operated by the relevant authorities of the provinces or municipalities in the PRC in which the Group's subsidiaries are located. The Group contributes to these schemes in respect of its employees in the PRC and such costs are charged to the profit and loss account as incurred.

Employment Ordinance long service payments

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

Share option scheme

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

Related parties

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

Notes to the Financial Statements

For the year ended 31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturing of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

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

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

- (a) the edible oils, soyabean meal and related products segment engages in the extraction, refining and trading of edible oils and the related businesses;
- (b) the wineries segment engages in the production, sales and trading of grape wine and other relevant beverage products;
- (c) the confectionery segment engages in the production and distribution of chocolate and other related products;
- (d) the trading segment engages in the trading of food commodities, animal feedstock, agricultural and aquatic products;
- (e) the flour milling segment engages in the flour milling and related businesses; and
- (f) the corporate and others segment comprises the Group's management services business, which provides management services relating to import and export, together with corporate income and expense items. In the prior year, segment information for the management service business was included in the trading segment. The comparative amounts have been reclassified to conform with the current year's presentation.

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

Notes to the Financial Statements

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4. SEGMENT INFORMATION (cont'd)

(a) Business segments

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

	Edible oils, soyabean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	6,831,379	3,246,134	477,422	248,920	247,744	43,241	3,043,793	2,340,632	510,194	326,503	-	-	-	-	11,110,532	6,205,430
Segment results	213,014	194,436	107,591	51,029	25,655	576	74,513	39,047	10,338	9,097	(4,704)	(20,005)	-	-	426,407	274,180
Interest and dividend income															43,006	59,063
Unallocated gains and expenses, net															89,733	5,353
Profit from operating activities															559,146	338,596
Finance costs															(46,754)	(32,657)
Share of profits less losses of associates	47,555	31,177	13,653	(5,589)	-	-	-	-	-	-	-	-	-	-	61,208	25,588
Profit before tax															573,600	331,527
Tax															(70,308)	(34,027)
Profit before minority interests															503,292	297,500
Minority interests															(97,689)	(86,734)
Net profit from ordinary activities attributable to shareholders															405,603	211,766

	Edible oils, soyabean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	3,700,705	2,360,557	663,920	542,228	267,440	183,835	921,874	796,377	172,624	184,743	242,566	212,806	(42,093)	-	5,927,036	4,280,546
Interests in associates	314,746	248,324	74,566	73,531	-	-	-	-	-	-	-	-	-	-	389,312	321,855
Unallocated assets															1,139,781	1,301,530
Total assets	4,015,451	2,608,881	738,486	615,759	267,440	183,835	921,874	796,377	172,624	184,743	242,566	212,806	(42,093)	-	7,456,129	5,903,931
Segment liabilities	887,324	655,566	217,087	125,053	125,563	46,062	427,514	406,418	132,297	138,758	158,976	32,757	(769,025)	(575,567)	1,179,736	829,047
Unallocated liabilities															1,975,509	1,171,300
Total liabilities	887,324	655,566	217,087	125,053	125,563	46,062	427,514	406,418	132,297	138,758	158,976	32,757	(769,025)	(575,567)	3,155,245	2,000,347
Other segment information:																
Depreciation and amortisation	91,057	47,664	15,098	8,658	4,558	176	7,679	1,392	5,565	5,541	21,184	4,908	-	-	145,141	68,339
Other non-cash expenses	3,287	500	250	286	-	482	1	2,306	26	941	350	11,229	-	-	3,914	15,744
Capital expenditure	437,984	170,710	49,888	28,830	40,029	148	727	770	5,846	4,089	888	560	-	-	535,362	205,107

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4. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

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

Group	Hong Kong		Elsewhere in the PRC		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>1,810,657</u>	<u>1,978,874</u>	<u>9,299,875</u>	<u>4,226,556</u>	<u>-</u>	<u>-</u>	<u>11,110,532</u>	<u>6,205,430</u>
Other segment information:								
Segment assets	<u>1,993,055</u>	<u>1,747,318</u>	<u>6,530,560</u>	<u>4,973,903</u>	<u>(1,067,486)</u>	<u>(817,290)</u>	<u>7,456,129</u>	<u>5,903,931</u>
Capital expenditure	<u>299</u>	<u>1,024</u>	<u>535,063</u>	<u>204,083</u>	<u>-</u>	<u>-</u>	<u>535,362</u>	<u>205,107</u>

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5. TURNOVER AND REVENUE

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

An analysis of other revenue is as follows:

	2002 HK\$'000	2001 HK\$'000
Other revenue		
Sales of by-products and scrap items	13,696	15,115
Gross rental income	7,855	2,476
Agency commission	13,910	2,713
Management fee income from COFCO	30,320	3,620
Interest income	41,507	57,629
Dividends from an unlisted long term investment and listed equity securities	1,499	1,434
Tax refunds	–	5,486
Reimbursement of advertising expenses	22,547	14,092
Government subsidies	2,339	1,520
Rental of oil drums	4,085	6,297
Others	11,870	3,711
	149,628	114,093

To accord with the presentation adopted in the current year, which in the opinion of the Directors, better reflects the underlying nature of the transactions, gain on the hedged commodity future contracts amounting to HK\$12,564,000 in the prior year has been reclassified from "Other revenue" to "Cost of sales" in the profit and loss account.

Notes to the Financial Statements

For the year ended 31 December 2002

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
Cost of inventories sold		10,077,286	5,678,208
Auditors' remuneration		2,750	2,275
Depreciation	14	111,088	57,276
Loss on disposal of fixed assets		357	694
Loss on disposal of long term investments		–	283
Amortisation of a long term investment	18	1,400	1,400
Minimum lease payments under operating leases in respect of land and buildings		14,281	5,746
Deficit/(surplus) on revaluation of investment properties		(274)	319
Staff costs (including Directors' remuneration – note 8):			
Wages and salaries		119,327	74,253
Retirement benefits scheme contributions		6,432	3,494
		125,759	77,747
Other operating expenses/(income), net, including:			
Amortisation of goodwill	15, 17	36,054	10,229
Negative goodwill recognised as income	15	(3,401)	(566)
Loss on disposal of a subsidiary		–	1,739
Loss on disposal of an associate		–	8,910
Gain on disposal of a long term investment	18(a)	(65,900)	–
Gain on disposal of other investments		(7,547)	–
Provision for doubtful debts		1,098	2,878
Unrealised holding losses on listed equity securities		350	581
Unrealised holding gains on listed debt securities		(18,035)	(2,637)
Write back of provision for impairment in value of long term investments		–	(6,753)
Provision/(write back of provision) against inventories		(2,216)	345
Exchange gains, net		(1,300)	(1,555)
Net rental income		(7,093)	(2,476)

Notes to the Financial Statements

For the year ended 31 December 2002

7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank loans wholly repayable within five years	36,792	26,689
Loans from the ultimate holding company and a fellow subsidiary	3,630	1,840
Convertible notes	6,036	1,089
Loan from a minority shareholder of a subsidiary	-	759
Amounts due to fellow subsidiaries	-	2,280
Others	296	-
	<u>46,754</u>	<u>32,657</u>

8. DIRECTORS' REMUNERATION

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

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive Directors	1,400	1,600
Independent non-executive Directors	400	400
	<u>1,800</u>	<u>2,000</u>
Other emoluments to Executive Directors:		
Salaries, allowances and benefits in kind	3,641	2,370
Retirement benefits scheme contributions	188	121
	<u>3,829</u>	<u>2,491</u>
	<u>5,629</u>	<u>4,491</u>

Notes to the Financial Statements

For the year ended 31 December 2002

8. DIRECTORS' REMUNERATION (cont'd)

The remuneration of the directors fell within the following bands:

	Number of Directors	
	2002	2001
Nil – HK\$1,000,000	8	9
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	1
	<u>10</u>	<u>10</u>

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2001: two) Directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2001: three) non-Director, highest paid employee are as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	731	1,610
Retirement benefits scheme contributions	50	76
	<u>781</u>	<u>1,686</u>

The remuneration of the non-Director, highest paid employees for the year ended 31 December 2002 and 2001 fell within the band of HK\$1,000,000.

Notes to the Financial Statements

For the year ended 31 December 2002

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2002	2001
	HK\$'000	HK\$'000
Group:		
Hong Kong	3,181	3,950
Elsewhere in the PRC	60,680	24,174
	63,861	28,124
Share of tax attributable to associates:		
Elsewhere in the PRC	6,447	5,903
Tax charge for the year	70,308	34,027

There was no material unprovided deferred tax for the year (2001: Nil).

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$164,900,000 (2001: HK\$219,966,000).

12. DIVIDENDS

	2002	2001
	HK\$'000	HK\$'000
Interim – 3 HK cents (2001: 4 HK cents) per share	47,077	62,769
Proposed final – 6 HK cents (2001: 5 HK cents) per share	94,950	78,461
	142,027	141,230

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

Notes to the Financial Statements

For the year ended 31 December 2002

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$405,603,000 (2001: HK\$211,766,000) and the weighted average number of 1,569,229,974 (2001: 1,210,154,749) shares in issue during the year.

The calculation of diluted earnings per share is based on (i) the adjusted net profit attributable to shareholders of HK\$410,660,000 (2001: HK\$212,680,000) after taking into account the saving in finance costs of HK\$5,057,000 (2001: HK\$914,000) on the convertible notes; and (ii) the adjusted weighted average of 1,719,376,348 (2001: 1,235,469,817) shares after taking into account the weighted average number of shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 140,000,000 (2001: 25,315,068) shares assumed to have been issued on the deemed conversion of the convertible notes at the date of issue of such convertible notes; and the weighted average of 10,146,374 (2001: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Notes to the Financial Statements

For the year ended 31 December 2002

14. FIXED ASSETS

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Group Plant, machinery and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000	Company Plant and equipment HK\$'000
Cost or valuation:						
At 1 January 2002	63,774	687,903	883,893	191,133	1,826,703	921
Additions	–	19,975	82,922	432,465	535,362	16
Disposals	–	(3,690)	(10,502)	–	(14,192)	–
Surplus on revaluation	2,637	–	–	–	2,637	–
Transfer	476	202,551	274,524	(477,851)	(300)	–
At 31 December 2002	<u>66,887</u>	<u>906,739</u>	<u>1,230,837</u>	<u>145,747</u>	<u>2,350,210</u>	<u>937</u>
Analysis of cost or valuation:						
At cost	–	906,739	1,230,837	145,747	2,283,323	937
At 31 December 2002 valuation	<u>66,887</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>66,887</u>	<u>–</u>
	<u>66,887</u>	<u>906,739</u>	<u>1,230,837</u>	<u>145,747</u>	<u>2,350,210</u>	<u>937</u>
Accumulated depreciation and impairment:						
At 1 January 2002	–	49,819	111,917	–	161,736	285
Provided during the year	–	26,381	84,707	–	111,088	187
Disposals	–	(679)	(5,588)	–	(6,267)	–
Transfer	–	(300)	–	–	(300)	–
At 31 December 2002	<u>–</u>	<u>75,221</u>	<u>191,036</u>	<u>–</u>	<u>266,257</u>	<u>472</u>
Net book value:						
At 31 December 2002	<u>66,887</u>	<u>831,518</u>	<u>1,039,801</u>	<u>145,747</u>	<u>2,083,953</u>	<u>465</u>
At 31 December 2001	<u>63,774</u>	<u>638,084</u>	<u>771,976</u>	<u>191,133</u>	<u>1,664,967</u>	<u>636</u>

Notes to the Financial Statements

For the year ended 31 December 2002

14. FIXED ASSETS (cont'd)

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

The Group's investment properties were revalued on 31 December 2002 by Chesterton Petty Limited, independent professionally qualified valuers, at HK\$66,887,000 (2001: HK\$63,774,000) on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the financial statements.

At 31 December 2002, certain of the Group's investment properties with a value of HK\$31,709,000 (2001: HK\$60,962,000), and certain of the Group's fixed assets with a net book value of approximately HK\$98,463,000 (2001: HK\$112,515,000), were pledged to secure banking facilities granted to the Group (note 23).

15. GOODWILL AND NEGATIVE GOODWILL

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

	Group	
	Goodwill HK\$'000	Negative goodwill HK\$'000
Cost:		
At beginning of year and 31 December 2002	519,422	(23,798)
Accumulated amortisation:		
At beginning of year	10,229	(566)
Amortisation provided during the year	35,628	(3,401)
At 31 December 2002	45,857	(3,967)
Net book value:		
At 31 December 2002	473,565	(19,831)
At 31 December 2001	509,193	(23,232)

Notes to the Financial Statements

For the year ended 31 December 2002

15. GOODWILL AND NEGATIVE GOODWILL (cont'd)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against or credited to the capital reserve, respectively. The amounts of the goodwill and negative goodwill remaining in the consolidated capital reserve as at 31 December 2002, arising from the acquisition of subsidiaries and associates prior to 1 January 2001, are as follows:

	Goodwill eliminated against capital reserve	Group Negative goodwill credited to capital reserve
	HK\$'000	HK\$'000
Cost:		
At beginning of year and 31 December 2002	261,897	(741)
Accumulated impairment:		
At beginning of year and 31 December 2002	(172,357)	–
Net amount:		
At 31 December 2002	<u>89,540</u>	<u>(741)</u>
At 31 December 2001	<u>89,540</u>	<u>(741)</u>

Notes to the Financial Statements

For the year ended 31 December 2002

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	2,359,796	2,359,796
Amounts due from subsidiaries	1,358,697	1,322,296
Amounts due to subsidiaries	(532,717)	(683,487)
	<u>3,185,776</u>	<u>2,998,605</u>
Provision for impairment	(122,400)	(170,000)
	<u><u>3,063,376</u></u>	<u><u>2,828,605</u></u>

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

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

Particulars of the Company's principal subsidiaries as at 31 December 2002 are set out in note 35 to the financial statements.

17. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	234,035	134,931
Amounts due from associates	2,025	2,244
Amounts due to associates	–	(111)
Loans to associates	136,610	184,791
Goodwill	16,642	–
	<u>389,312</u>	<u>321,855</u>

Notes to the Financial Statements

For the year ended 31 December 2002

17. INTERESTS IN ASSOCIATES (cont'd)

The amount of goodwill arising from additional capital injection in an associate is as follows:

	Group Goodwill
	HK\$'000
Cost:	
Addition during the year	17,068
Accumulated amortisation	
Amortisation provided during the year	(426)
Net book value	
At 31 December 2002	<u>16,642</u>

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

The loans to associates are capital in nature. The balances are unsecured, interest-free (2001: HK\$26,117,000 bearing interest at 8.5% per annum) and have no fixed terms of repayment.

The Group's accounts receivable balance with an associate is disclosed in note 20 to the financial statements.

Particulars of the Group's principal associates at 31 December 2002 are set out in note 36 to the financial statements.

18. INVESTMENTS

(a) Long term investments

	Group	
	2002	2001
	HK\$'000	HK\$'000
Long term investments:		
Unlisted equity investments, at cost	44,701	122,001
Amortisation of investment cost	(20,165)	(18,765)
Provision for impairment	-	(47,026)
	<u>24,536</u>	<u>56,210</u>

Notes to the Financial Statements

For the year ended 31 December 2002

18. INVESTMENTS (cont'd)

(a) Long term investments (cont'd)

Particulars of the long term unlisted equity investment as at 31 December 2002 are as follows:

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

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

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

During the year, the Group disposed of its entire equity interest in Jiangsu Jiangshan Pharmaceutical Company Limited, a long term investment, to an independent third party. A gain on disposal of HK\$65,900,000 was resulted in current year as disclosed in note 6 to the financial statements.

(b) Other investments

	Group	
	2002 HK\$'000	2001 HK\$'000
Listed equity securities in Hong Kong, at market value	1,329	1,679
Listed debt securities elsewhere than Hong Kong, at market value	214,221	196,186
	<u>215,550</u>	<u>197,865</u>

Notes to the Financial Statements

For the year ended 31 December 2002

19. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	797,299	275,181
Work in progress	12,277	18,775
Finished goods	674,115	418,511
	<u>1,483,691</u>	<u>712,467</u>

The carrying amount of inventories carried at net realisable value included in the above is HK\$298,000 (2001: HK\$298,000).

20. ACCOUNTS RECEIVABLE

The accounts receivable of the Group include trading balances due from an associate of HK\$120,059,000 (2001: due from an associate and a fellow subsidiary of HK\$44,349,000).

Analysis of the accounts receivable as at 31 December 2002 is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Outstanding balances with ages:		
Within 6 months	596,773	316,886
Between 7 to 12 months	14,097	2,111
Between 1 to 2 years	6,627	3,300
Over 2 years	5,411	11,556
	<u>622,908</u>	<u>333,853</u>
Less: Provision for doubtful debts	<u>(8,649)</u>	<u>(11,146)</u>
	<u>614,259</u>	<u>322,707</u>

Notes to the Financial Statements

For the year ended 31 December 2002

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	535,516	709,582	6,856	5,257
Time deposits	898,799	1,034,704	581,857	777,772
	1,434,315	1,744,286	588,713	783,029
Less: Pledged bank deposits	–	(5,442)	–	–
Cash and cash equivalents	1,434,315	1,738,844	588,713	783,029

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$683,431,000 (2001: HK\$780,276,000). The RMB is not freely convertible into other currencies, however, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

22. ACCOUNTS PAYABLE

The accounts payable of the Group include trading balances due to fellow subsidiaries of HK\$12,290,000 (2001: HK\$6,879,000).

Analysis of the accounts payable as at 31 December 2002 is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Outstanding balances with ages:		
Within 6 months	290,133	217,402
Between 7 to 12 months	3,653	1,869
Between 1 to 2 years	3,980	1,993
Over 2 years	10,938	8,788
	308,704	230,052

Notes to the Financial Statements

For the year ended 31 December 2002

23. INTEREST-BEARING BANK LOANS AND OTHER LOANS

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans:		
Secured	106,806	49,756
Unsecured	1,474,217	714,705
	<u>1,581,023</u>	<u>764,461</u>
Other loans:		
Unsecured	79,481	81,368
	<u>1,660,504</u>	<u>845,829</u>
Bank loans repayable:		
Within one year or on demand	1,559,325	758,414
In the second year	–	1,728
In the third to fifth years, inclusive	21,698	4,319
	<u>1,581,023</u>	<u>764,461</u>
Other loans repayable:		
Within one year or on demand	2,830	–
In the second year	30,614	4,717
In the third to fifth years, inclusive	–	–
Beyond five years	46,037	76,651
	<u>79,481</u>	<u>81,368</u>
	<u>1,660,504</u>	<u>845,829</u>
Portion classified as current liabilities	<u>(1,562,155)</u>	<u>(758,414)</u>
Non-current portion	<u>98,349</u>	<u>87,415</u>

Notes to the Financial Statements

For the year ended 31 December 2002

23. INTEREST-BEARING BANK LOANS AND OTHER LOANS (cont'd)

The Group's bank loans are secured by:

- (a) a charge over part of the Group's investment properties held outside Hong Kong with a carrying value at the balance sheet date of approximately HK\$31,709,000 (2001: HK\$60,962,000) (note 14); and
- (b) a charge over certain fixed assets of the Group with a net book value of approximately HK\$98,463,000 (2001: HK\$112,515,000) (note 14).

In addition, the ultimate holding company and an associate of the Group had guaranteed certain of the Group's unsecured bank loans up to HK\$88,283,000 (2001: HK\$268,868,000) as at the balance sheet date.

Other loans represented loans from COFCO and a financial institution in the COFCO Group. Except for certain loans amounting to HK\$44,340,000 which bear interest at rates 5.04% and 5.85% per annum, the remaining balances are unsecured, interest-free and have no fixed terms of repayment.

24. CONVERTIBLE NOTES

The convertible notes are payable to COFCO (HK) and were issued in connection with the acquisition of certain subsidiaries in 2001. There are a total of 14 convertible notes of a principal amount of HK\$21.5 million each. The notes bear interest at 2% per annum and will mature on 26 October 2004. The note holders have the right to convert the notes into ordinary shares of the Company at a conversion price of HK\$2.15 per share.

25. MINORITY INTERESTS

	2002 HK\$'000	2001 HK\$'000
Share of net assets attributable to minority shareholders	640,389	538,096
Advances from minority shareholders	117,209	103,769
	<u>757,598</u>	<u>641,865</u>

The advances from minority shareholders are capital in nature. The balances are unsecured, interest-free (2001: HK\$11,792,000 bearing interest at 6.4% per annum) and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31 December 2002

26. SHARE CAPITAL

Shares

	2002 HK\$'000	2001 HK\$'000
Authorised:		
2,500,000,000 ordinary shares of HK\$0.10 each	<u>250,000</u>	<u>250,000</u>
Issued and fully paid:		
1,569,229,974 ordinary shares of HK\$0.10 each	<u>156,923</u>	<u>156,923</u>

In prior year, 52,000,000 and 140,000,000 shares were placed to independent investors at HK\$1.65 and HK\$1.975 per share, respectively. In addition, an aggregate of 716,858,947 shares were issued to COFCO (HK) at HK\$1.60 per share. The total gross proceeds from the issue of shares was approximately HK\$1,509,274,000.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

27. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme became effective on 23 June 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. During the year, on 13 May 2002, the Scheme was amended to comply with certain amendments to the Listing Rules which came into effect on 1 September 2001.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2002, the number of shares issuable under share options granted under the Scheme was 49,770,000, which represented approximately 3% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Notes to the Financial Statements

For the year ended 31 December 2002

27. SHARE OPTION SCHEME (cont'd)

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2002

27. SHARE OPTION SCHEME (cont'd)

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

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 January 2002	Lapsed during the year	At 31 December 2002			
Directors						
Mr. Zhou Mingchen	5,000,000	—	5,000,000	5.3.2001	5.3.2002 – 4.3.2006	1.368
Mr. Liu Fuchun	4,500,000	—	4,500,000	5.3.2001	5.3.2002 – 4.3.2006	1.368
Mr. Xue Guoping	5,000,000	—	5,000,000	5.8.1997	13.2.1998 – 12.2.2003	2.156
	3,000,000	—	3,000,000	5.3.2001	5.3.2002 – 4.3.2006	1.368
	8,000,000	—	8,000,000			
Mr. Ma Lishan	5,000,000	—	5,000,000	5.8.1997	13.2.1998 – 12.2.2003	2.156
	3,000,000	—	3,000,000	5.3.2001	5.3.2002 – 4.3.2006	1.368
	8,000,000	—	8,000,000			
Mr. Liu Yongfu	3,000,000	—	3,000,000	5.3.2001	5.3.2002 – 4.3.2006	1.368
Mr. Ng Eng Leong	2,000,000	—	2,000,000	5.8.1997	7.2.1998 – 6.2.2003	2.156
	1,000,000	—	1,000,000	5.3.2001	5.3.2002 – 4.3.2006	1.368
	3,000,000	—	3,000,000			
Mr. Qu Zhe	350,000	—	350,000	5.3.2001	5.3.2002 – 4.3.2006	1.368
Other employees						
In aggregate	400,000	—	400,000	5.8.1997	5.2.1998 – 4.2.2003	2.156
	800,000	—	800,000	5.3.2001	5.3.2002 – 4.3.2006	1.368
	16,000,000	(280,000)	15,720,000	23.3.2001	23.3.2002 – 22.3.2006	1.368
	1,000,000	—	1,000,000	3.10.2001	3.10.2002 – 2.10.2006	1.370
	18,200,000	(280,000)	17,920,000			
	50,050,000	(280,000)	49,770,000			

Notes to the Financial Statements

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27. SHARE OPTION SCHEME (cont'd)

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the balance sheet date, the Company had 49,770,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 49,770,000 additional ordinary shares of the Company and additional share capital of HK\$4,977,000 and share premium of HK\$72,882,000 (before issue expenses).

28. RESERVES

Group	Share premium account HK\$'000	Capital reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Reserve funds* HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	1,004,011	(54,358)	222	55	16,102	2,122	386,876	1,355,030
Issue of shares	1,418,388	-	-	-	-	-	-	1,418,388
Share issue expenses	(8,611)	-	-	-	-	-	-	(8,611)
Exchange realignment	-	-	-	-	-	892	-	892
Goodwill written back on disposal of								
A subsidiary	-	1,739	-	-	-	-	-	1,739
An associate	-	188,361	-	-	-	-	-	188,361
Transfer from retained profits	-	-	-	-	4,012	-	(4,012)	-
Profit for the year	-	-	-	-	-	-	211,766	211,766
Dividends (note 12)	-	-	-	-	-	-	(141,230)	(141,230)
At 31 December 2001 and beginning of year	2,413,788	135,742	222	55	20,114	3,014	453,400	3,026,335
Revaluation of investment properties	-	-	1,994	-	-	-	-	1,994
Exchange realignment	-	-	-	-	-	(492)	-	(492)
Transfer from retained profits	-	-	-	-	27,299	-	(27,299)	-
Profit for the year	-	-	-	-	-	-	405,603	405,603
Dividends (note 12)	-	-	-	-	-	-	(142,027)	(142,027)
At 31 December 2002	2,413,788	135,742	2,216	55	47,413	2,522	689,677	3,291,413

Notes to the Financial Statements

For the year ended 31 December 2002

28. RESERVES (cont'd)

Group	Share	Investment	Other	Reserve	Exchange	Retained	Total	
	premium	properties	properties		fluctuation			profits
	account	Capital	revaluation	revaluation	reserve	profits		
	HK\$'000	reserve	reserve	reserve	funds*	HK\$'000	HK\$'000	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Reserves retained by:								
Company and subsidiaries	2,413,788	138,251	1,994	-	41,700	2,874	638,545	3,237,152
Associates	-	(2,509)	222	55	5,713	(352)	51,132	54,261
At 31 December 2002	<u>2,413,788</u>	<u>135,742</u>	<u>2,216</u>	<u>55</u>	<u>47,413</u>	<u>2,522</u>	<u>689,677</u>	<u>3,291,413</u>
Company and subsidiaries	2,413,788	138,251	-	-	14,985	3,366	456,445	3,026,835
Associates	-	(2,509)	222	55	5,129	(352)	(3,045)	(500)
At 31 December 2001	<u>2,413,788</u>	<u>135,742</u>	<u>222</u>	<u>55</u>	<u>20,114</u>	<u>3,014</u>	<u>453,400</u>	<u>3,026,335</u>

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

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

Company

	Share	Contributed	Retained	Total
	premium	surplus	profits	
	account	surplus	profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	1,004,011	498,184	80,848	1,583,043
Issue of shares	1,418,388	-	-	1,418,388
Share issue expenses	(8,611)	-	-	(8,611)
Profit for the year	-	-	219,966	219,966
Dividends (note 12)	-	-	(141,230)	(141,230)
At 31 December 2001 and 1 January 2002	<u>2,413,788</u>	<u>498,184</u>	<u>159,584</u>	<u>3,071,556</u>
Profit for the year	-	-	164,900	164,900
Dividends (note 12)	-	-	(142,027)	(142,027)
At 31 December 2002	<u>2,413,788</u>	<u>498,184</u>	<u>182,457</u>	<u>3,094,429</u>

Notes to the Financial Statements

For the year ended 31 December 2002

28. RESERVES (cont'd)

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

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

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

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, a loan to an associate of approximately HK\$41,653,000 was capitalised as an investment in that associate.

30. CONTINGENT LIABILITIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	-	-	705,900	856,300
A minority shareholder of a subsidiary	-	15,566	-	-
	<u>-</u>	<u>15,566</u>	<u>705,900</u>	<u>856,300</u>

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

Notes to the Financial Statements

For the year ended 31 December 2002

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	316	506
In the second to fifth years, inclusive	189	732
After five years	66	71
	<u>571</u>	<u>1,309</u>

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 6 months to 29 years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	10,545	9,264
In the second to fifth years, inclusive	10,703	17,738
After five years	43,051	44,960
	<u>64,299</u>	<u>71,962</u>

Notes to the Financial Statements

For the year ended 31 December 2002

32. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following commitments as at the balance sheet date:

	Group	
	2002 HK\$'000	2001 HK\$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	–	734
Contracted for	114,094	104,071
	114,094	104,805
Capital commitments in respect of increase in investment in an associate	–	41,264
	114,094	146,069

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

33. POST BALANCE SHEET EVENT

On 16 March 2003, COFCO (BVI) No. 31 Limited, a wholly-owned subsidiary of the Company, entered into a share transfer agreement with an independent third party to acquire a further 50% equity interest in China Great Wall Wine Co. Ltd. ("China Great Wall"), an existing 50% owned associate, for a consideration of RMB185,000,000 (equivalent to HK\$174,528,000), the approval of which was granted by the relevant government authorities in the PRC on 19 March 2003. China Great Wall became a wholly owned subsidiary of the Group.

Notes to the Financial Statements

For the year ended 31 December 2002

34. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Transactions with fellow subsidiaries:			
Sales of goods *	(i)	227,590	82,235
Purchases of goods *	(i)	242,713	178,580
Freight charges and commission paid *	(i)	2,319	5,822
Operating lease rentals paid *	(i)	1,543	1,547
Interest expenses paid	(ii)	314	2,280
Reimbursement of advertising expenses	(iii)	15,566	9,729
Transactions with the ultimate holding company:			
Sales of goods *	(i)	564,005	977,734
Purchases of goods *	(i)	415,944	21,179
Operating lease rentals paid **	(i)	4,664	1,079
Royalty paid	(i)	4,730	634
Management fee income *	(i)	30,320	3,620
Management fee paid **	(i)	8,160	1,132
Interest expenses paid **	(ii)	3,316	1,840
Reimbursement of advertising expenses	(iii)	6,981	4,363
Transactions with associates:			
Sales of goods **	(i)	339,329	121,773
Purchases of goods **	(i)	349,497	3,893
Management fee income		–	1,019
Interest income received	(iv)	144	1,320
Transaction with the immediate holding company:			
Interest expenses on convertible notes	24	6,036	1,089
Transactions with minority shareholders of subsidiaries and their fellow subsidiaries:			
Sales of goods *	(i)	174,985	78,981
Purchases of goods *	(i)	3,235,689	1,969,923
Interest expenses paid		–	759
Transaction with a related company:			
Purchases of goods *	(i)	2,518,951	–

Notes to the Financial Statements

For the year ended 31 December 2002

34. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)

Notes:

- (i) These transactions were carried out with reference to the prevailing market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
- (ii) The interest expenses, which arose from the loans from the ultimate holding company and a financial institution in the COFCO Group, are unsecured, bear interest at rates 5.04% and 5.85% per annum and are not repayable within one year.
- (iii) The reimbursement of advertising expenses was calculated with reference to the actual advertising expenses incurred for the year ended 31 December 2000.
- (iv) The interest income arose from a loan to an associate of HK\$26,117,000 which was unsecured, bore interest at 6% (2001: 8.5% per annum) and was repaid during the year.

In addition to the above connected transactions, sales and purchases of HK\$53,748,000 and HK\$61,160,000 respectively were made by certain subsidiaries of the Company to/from Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd, a company indirectly owned as to 84% by the Company and as to 10% by a connected party. These transactions have been eliminated on consolidation but constitute connected transactions under the Listing Rules.

* *These related party transactions also constituted connected transactions disclosable in accordance with the Listing Rules.*

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

Except for the loans of HK\$44,340,000 from the ultimate holding company and a financial institution in the COFCO Group, as detailed in note 23 to the financial statements, the remaining balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group's subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

During the year, pursuant to certain licensing agreements entered into between the Group and related parties, the Group is granted the exclusive right to use certain trademarks for its edible oils, soyabean meal and related products businesses for no consideration.

Notes to the Financial Statements

For the year ended 31 December 2002

35. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2002 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Blissea Consortium Company Limited	Hong Kong	Ordinary HK\$1,000	100	100	Investment holding
China Foods Trading Limited	Hong Kong	Ordinary HK\$10,000,000	100	100	Trading of food products
東州油脂工業(廣州) 有限公司 Eastbay Oils and Fats Industries (Guangzhou) Co., Ltd.**	PRC	RMB55,000,000	84	84	Processing and refining of edible oils and fats
Oriental Rainbow Trading Limited	Western Samoa	Ordinary US\$100	84	84	Trading of edible oils and fats
Seabase International (B.V.I.) Limited #	British Virgin Islands/ Hong Kong	Ordinary HK\$1,000	100	100	Investment holding
鵬源投資顧問(深圳) 有限公司 Top Spring Investment Consultancy (Shenzhen) Co., Ltd.*	PRC	HK\$5,000,000	100	100	Provision of Management and consultancy services
廈門海嘉麵粉有限公司 Xiamen Haijia Flour Mills Co., Ltd.**	PRC	RMB71,325,000	60	60	Manufacture of flour products
COFCO International Trading Services Limited	Hong Kong	HK\$2	100	100	Provision of trading management services

Notes to the Financial Statements

For the year ended 31 December 2002

35. PRINCIPAL SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
中糧國際(北京)有限公司 COFCO International (Beijing) Limited*	PRC	RMB60,000,000	100	100	Trading of rice, cereals, oils feedstuffs, fruits, vegetables and aquatic products
中糧酒業公司 China Wines and Spirits Company*	PRC	RMB3,000,000	100	100	Provision of management services
華夏葡萄釀酒有限公司 Huaxia Winery Co., Ltd.*	PRC	RMB28,000,000	100	100	Production and sale of grape wine
深圳市華夏紅酒業有限公司 Shenzhen Huaxiahong Wines and Spirits Co. Ltd.**	PRC	RMB3,000,000	80	80	Wholesale of grape wine
深圳金帝食品有限公司 Shenzhen Le Conte Foodstuff Co., Ltd.**	PRC	US\$15,000,000	86	86	Production and distribution of chocolate products
深圳金帝營銷有限公司 Shenzhen Le Conte Marketing Services Co., Ltd.**	PRC	RMB15,000,000	77.4	77.4	Distribution of chocolate products
煙台中糧葡萄釀酒有限公司 Yantai COFCO Winery Co., Ltd.**	PRC	RMB64,000,000	60	60	Production and sale of grape wine

Notes to the Financial Statements

For the year ended 31 December 2002

35. PRINCIPAL SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
黃海糧油工業(山東) 有限公司 Yellowsea Oils and Grains Industries (Shandong) Co., Ltd.*	PRC	US\$14,433,629	72.94	72.94	Production and sale of edible oils
東海糧油工業(張家港) 有限公司 Eastocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.*	PRC	US\$98,000,000	54	54	Production and sale of edible oils, and trading of soyabean and rapeseed
鄭州海嘉食品有限公司 Zhengzhou Haijia Food Co., Ltd.**	PRC	RMB30,000,000	55	55	Manufacture of flour products

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

* Wholly foreign-owned enterprise

** Sino-foreign equity joint venture

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

Notes to the Financial Statements

For the year ended 31 December 2002

36. PRINCIPAL ASSOCIATES

Particulars of the Company's principal associates as at 31 December 2002 are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interests attributable to the Group		Principal activities
			2002	2001	
中國長城葡萄酒有限公司 China Great Wall Wine Co., Ltd.	Corporate	PRC	50	50	Production of wine and beverage products
萊陽魯花濃香花生油有限公司 Laiyang Luhua Fragrant Peanut Oil Co., Ltd.*	Corporate	PRC	24	24	Production and sale of peanut oil
北海糧油工業(天津)有限公司 Northsea Oils and Grains Industries (Tianjin) Co., Ltd.	Corporate	PRC	50	43	Production and sale of edible oils
大海糧油工業(防城港)有限公司 Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co., Ltd.	Corporate	PRC	40	40	Soyabean oil extraction, refining and packaging, and production of soyabean meal

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

* 萊陽魯花濃香花生油有限公司(Laiyang Luhua Fragrant Peanut Oil Co., Ltd.) ("Laiyang Fragrant") and 萊陽魯花特香純正花生油有限公司 (Laiyang Luhua Special Fragrant and Pure Peanut Oil Co., Ltd.) ("Laiyang Special") were both associates of the Company. Pursuant to the approval granted by the relevant government authority in the PRC on 28 November 2001, Laiyang Fragrant merged with Laiyang Special to become a legal entity in the same name of Laiyang Fragrant.

37. COMPARATIVE AMOUNTS

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 7 April 2003.