

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. 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, 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.

(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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) **Subsidiaries and controlled enterprises** *(Continued)*

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (note 1(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.

(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 1(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 (note 1(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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. 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 (note 1(k)).
- (iv) Other fixed assets are carried in the balance sheets at cost less accumulated depreciation and impairment losses (note 1(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.
- (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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(q).

(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.

(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 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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 1(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.

(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 (ie 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(m) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(n) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits *(Continued)*

- (iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received on exercise of share options.
- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) 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.

(p) 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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 tax 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) 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.

(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.

(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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Segment reporting (Continued)

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.

2. TURNOVER

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

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

	2002 \$'000	2001 \$'000
Sales of goods		
— Live and fresh foodstuffs distribution	977,642	1,260,672
— Feed production and livestock farming	141,474	189,556
— Foodstuffs trading	69,626	45,345
— Tinplating	565,906	44,825
— Supermarket operations	—	276,907
	1,754,648	1,817,305
Property leasing	28,372	2,045
	1,783,020	1,819,350

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3. DISCONTINUING OPERATIONS

In March 2001 and June 2001, the Group's supermarket operations were discontinued following the cessation of supermarket operations in Guangzhou, the People's Republic of China (the "PRC") and Hong Kong respectively. The net gain on liquidation of these companies amounted to \$4,828,000.

The results of the Group's operations for the previous year were analysed as follows:

	Year ended 31 December 2001		
	Continuing operations \$'000	Discontinuing operations \$'000	Total \$'000
Turnover	1,542,443	276,907	1,819,350
Cost of sales	(1,444,732)	(219,328)	(1,664,060)
	97,711	57,579	155,290
Other revenue	19,157	15,210	34,367
Other net income	1,840	—	1,840
Distribution costs	(49,233)	(65,304)	(114,537)
Administrative expenses	(52,124)	(21,565)	(73,689)
Other operating expenses	(6,784)	(2,550)	(9,334)
Profit/(loss) from operations	10,567	(16,630)	(6,063)
Non-operating income	92,811	13,757	106,568
Non-operating expenses	(61,501)	(13,076)	(74,577)
Finance costs	(1,283)	10	(1,273)
Share of profits less losses of associates	(12,220)	—	(12,220)
Profit/(loss) from ordinary activities before taxation	28,374	(15,939)	12,435
Taxation	(3,239)	420	(2,819)
Profit/(loss) from ordinary activities after taxation	25,135	(15,519)	9,616
Minority interests	41,944	(42)	41,902
Profit/(loss) attributable to shareholders	67,079	(15,561)	51,518

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3. DISCONTINUING OPERATIONS *(Continued)*

The net liabilities of the supermarket operations as at the date of discontinuance were as follows:

	<i>\$'000</i>
Total assets	184,370
Total liabilities	<u>(190,988)</u>
Net liabilities	<u><u>(6,618)</u></u>

The cash flows of the discontinuing operations for the year ended 31 December 2001 were as follows:

	<i>\$'000</i>
Cash flows used in operating activities	(52,531)
Cash flows used in investing activities	(1,502)
Cash flows from financing activities	<u>49,386</u>

4. OTHER REVENUE

	2002	2001
	<i>\$'000</i>	<i>\$'000</i>
Subsidy received	5,712	—
Interest income	4,785	6,217
Write-back of provision for bad debts	2,467	—
Management income	1,630	3,831
Dividends from listed securities	659	2,760
Rental income	521	1,730
Dividends from unlisted securities	124	450
Advertising and promotion income	—	6,813
Concession sale income	—	4,563
Others	6,175	8,003
	<u>22,073</u>	<u>34,367</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5. OTHER NET (EXPENSES)/INCOME

	2002 \$'000	2001 \$'000
Net gain on disposal of associates	427	—
Net exchange gain	199	—
Net realised and unrealised gains on other securities carried at fair value	150	1,840
Net loss on sale of fixed assets	(1,378)	—
	(602)	1,840

6. NON-OPERATING INCOME

	Notes	2002 \$'000	2001 \$'000
Write-back of long outstanding payables	(i)	9,891	15,124
Recovery of bad debts	(ii)	26,098	8,765
Net gain on disposal of associates	(iii)	—	14,699
Write-back of inventory provisions	(iv)	—	14,716
Net gain on the Restructuring	(v)	—	48,436
Net gain on liquidation of subsidiaries (note 3)		—	4,828
		35,989	106,568

Notes:

- (i) 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.
- (ii) The amounts mainly represent the recovery of bad debts previously provided for or written off to the profit and loss account as the recoverability was in doubt. During the year, certain bad debts were recovered and the related provisions of \$16,143,000 and the write-off amounts of \$9,955,000 were written back to the profit and loss account accordingly.
- (iii) 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.
- (iv) 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 PRC. For the year ended 31 December 2001, 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6. NON-OPERATING INCOME *(Continued)*

Notes: (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.

7. NON-OPERATING EXPENSES

	<i>Notes</i>	2002 \$'000	2001 \$'000
Provisions for impairment losses on fixed assets	<i>(i)</i>	18,812	12,183
Losses on disposal of fixed assets	<i>(ii)</i>	—	28,127
Provisions for the amounts due from minority shareholders	<i>(iii)</i>	—	20,985
Provision for impairment loss on cessation of operation of an associate	<i>(iv)</i>	—	8,198
Provisions for certain payments to suppliers	<i>(v)</i>	—	5,084
		18,812	74,577

Notes:

- (i) Provisions for the year ended 31 December 2002 mainly represent impairment losses on land and buildings as the recoverable amounts of these assets were lower than their respective net book values.
- (ii) 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.
- (iii) The Directors are of the opinion that the recoverability of the amounts due from minority shareholders was in doubt and thus full provisions were made in the financial statements.
- (iv) Provision for the year ended 31 December 2001 represent impairment loss against the amount due from an associate as a result of the cessation of its operation in Guangzhou, the PRC.
- (v) These relate to provisions for certain payments to suppliers following the Executive Directors' review of the business arrangements with the suppliers for the year ended 31 December 2001.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2002 \$'000	2001 \$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	4,200	634
Interest on convertible notes	6,345	639
Interest incurred in settling a claim	1,500	—
	<u>12,045</u>	<u>1,273</u>
(b) Staff costs:		
Net contributions paid to/(refunded from) defined contribution plan	533	(683)
Salaries, wages and other benefits	51,766	50,707
	<u>52,299</u>	<u>50,024</u>
(c) Other items:		
Cost of inventories	1,571,001	1,664,060
Impairment losses on fixed assets	18,812	12,183
Auditors' remuneration	2,297	2,166
Depreciation	12,362	17,198
Operating lease charges in respect of property rentals	1,125	34,093
Amortisation of negative goodwill	(1,557)	—
Rentals receivable from investment properties less direct outgoings of \$3,591,000 (2001: \$Nil)	(21,488)	(2,045)

Cost of inventories includes \$21,470,000 (2001: \$9,018,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses. The provision against inventories of \$6,920,000 (2001: \$Nil) has been included in cost of inventories.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9. TAXATION

Taxation in the consolidated profit and loss account represents:

	2002	2001
	\$'000	\$'000
Provision for Hong Kong Profits Tax at 16% (2001: 16%) on the estimated assessable profits for the year	—	2,378
Over-provision in respect of prior years	(355)	(420)
	(355)	1,958
PRC income tax	10,755	714
Deferred taxation (note 19(a))	(807)	—
	9,593	2,672
Share of associates' taxation	154	147
	9,747	2,819

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)

10. DIRECTORS' REMUNERATION

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

	2002	2001
	\$'000	\$'000
Fees	24	23
Salaries and other emoluments	3,218	2,663
Discretionary bonuses	815	240
Retirement scheme contributions	455	74
	4,512	3,000

Included in the Directors' remuneration were fees and other emoluments of \$9,000 and \$900,000 (2001: \$7,500 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:

\$	2002	2001
	Number of	Number of
	Directors	Directors
Nil - 1,000,000	12	13
1,000,000 - 1,500,000	1	—
	13	13

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included three Directors of the Company (2001: four), details of whose remuneration are set out in note 10 above. The remuneration of the other two (2001: one) individuals are as follows:

	2002	2001
	\$'000	\$'000
Salaries and other emoluments	1,015	607
Discretionary bonuses	316	15
Retirement scheme contributions	157	31
	1,488	653

The remunerations of the two (2001: one) individuals are within the band of \$Nil to \$1,000,000.

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of \$60,799,000 (2001: loss of \$101,470,000) which has been dealt with in the financial statements of the Company.

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$115,509,000 (2001: \$51,518,000) and the weighted average of 8,996,826,000 (2001: 8,426,517,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to ordinary shareholders of \$121,854,000 and the weighted average number of 9,908,402,000 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares for the year ended 31 December 2002.

The exercise of the subscription rights conferred by the share options and convertible notes would not have any dilutive effect on the earnings per share for the year ended 31 December 2001 as certain non-operating income and non-operating expense items would not be taken into account in calculating the diluted earnings per share.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13. EARNINGS PER SHARE (Continued)

(c) Reconciliations

	2002 Number of shares (thousand)
Weighted average number of ordinary shares used in calculating basic earnings per share	8,996,826
Deemed issue of ordinary shares for no consideration	<u>911,576</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>9,908,402</u>
	2002 Earnings \$'000
Profit attributable to shareholders	115,509
Interest saved as the convertible notes converted	<u>6,345</u>
Adjusted profit attributable to shareholders used in calculating diluted earnings per share	<u>121,854</u>

14. 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
Feed production and livestock farming	:	Production and trading of feeds, pig rearing and distribution
Foodstuffs trading	:	Purchase and sale of foodstuffs
Property leasing	:	Leasing of properties to generate rental income

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

	2002							Consolidated \$'000
	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Foodstuffs trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	Unallocated \$'000	
Revenue from external customers	565,906	977,642	141,474	69,626	28,372	—	—	1,783,020
Inter-segment revenue	910	—	—	—	—	(910)	—	—
Other revenue from external customers	—	—	—	—	—	—	16,505	16,505
Total	566,816	977,642	141,474	69,626	28,372	(910)	16,505	1,799,525
Segment result	90,537	14,433	(5,314)	1,190	19,202			120,048
Unallocated operating income and expenses								(8,817)
Profit from operations								111,231
Finance costs								(12,045)
Share of profits less losses of associates	—	(134)	—	107	—		10,603	10,576
Non-operating income								35,989
Non-operating expenses								(18,812)
Taxation								(9,747)
Minority interests								(1,683)
Profit attributable to shareholders								115,509
Depreciation for the year	5,897	158	4,513	4	577			
Impairment loss for the year	—	—	16,466	—	—			

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

	2001								
	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Foodstuffs trading \$'000	Property leasing \$'000	Discontinued -supermarket operations \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Consolidated \$'000
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
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)

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

	2002						Consolidated \$'000
	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Foodstuffs trading \$'000	Property leasing \$'000	Inter- segment elimination \$'000	
Segment assets	456,199	38,078	94,509	13,699	207,763	(43,883)	766,365
Interest in associates	—	516	—	—	—	—	516
Unallocated assets							196,172
Total assets							<u>963,053</u>
Segment liabilities	151,265	41,755	21,594	10,076	49,235	(43,883)	230,042
Interest-bearing borrowings							59,012
Convertible notes							80,000
Unallocated liabilities							79,012
Total liabilities							<u>448,066</u>
Capital expenditure incurred during the year	2,041	69	604	88	9,241		

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)

Business segments (Continued)

	2001							Consolidated \$'000
	Tinplating \$'000	Live and fresh foodstuffs distribution \$'000	Feed production and livestock farming \$'000	Foodstuffs trading \$'000	Property leasing \$'000	Discontinued -supermarket operations \$'000 (Note 3)	Inter- segment elimination \$'000	
Segment assets	411,389	42,404	122,664	13,926	120,363	6,698	(49,785)	667,659
Interest in associates	—	652	—	275	—	—	—	927
Unallocated assets								289,738
Total assets								958,324
Segment liabilities	112,414	59,343	29,465	12,337	52,080	13,205	(49,785)	229,059
Interest-bearing borrowings								105,877
Convertible notes								185,000
Unallocated liabilities								65,019
Total liabilities								584,955
Capital expenditure incurred during the year	31	248	4,538	—	1,597	1,676		

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14. 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 PRC (other than Hong Kong) is a major market for most of the Group's other businesses.

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.

	2002		
	The PRC \$'000	Hong Kong \$'000	Others \$'000
Revenue from external customers	734,553	1,027,324	21,143
Segment assets	703,395	106,853	—
Capital expenditure	11,886	157	—
	2001		
	The PRC \$'000	Hong Kong \$'000	Others \$'000
Revenue from external customers	249,814	1,554,762	14,774
Segment assets	632,179	85,265	—
Capital expenditure	6,168	1,922	—

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15. 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 2002	335,799	5,140	144,839	5,055	490,833	104,044	594,877
Exchange adjustments	(69)	—	(67)	(62)	(198)	(43)	(241)
Additions	474	743	2,344	—	3,561	8,748	12,309
Disposals	(2,244)	(2,053)	(504)	—	(4,801)	—	(4,801)
Transfer	(125,154)	—	—	—	(125,154)	48,085	(77,069)
Surplus on revaluation	—	—	—	—	—	17,214	17,214
At 31 December 2002	208,806	3,830	146,612	4,993	364,241	178,048	542,289
Representing:							
Cost	208,806	3,830	146,612	4,993	364,241	—	364,241
Valuation — 2002	—	—	—	—	—	178,048	178,048
	208,806	3,830	146,612	4,993	364,241	178,048	542,289
Accumulated depreciation:							
At 1 January 2002	119,753	5,126	69,424	2,728	197,031	—	197,031
Exchange adjustments	(38)	—	(46)	(61)	(145)	—	(145)
Charge for the year	4,818	288	6,810	446	12,362	—	12,362
Impairment loss	14,955	—	3,468	389	18,812	—	18,812
Written back on disposal	(1,047)	(1,914)	(451)	—	(3,412)	—	(3,412)
Transfer	(77,069)	—	—	—	(77,069)	—	(77,069)
At 31 December 2002	61,372	3,500	79,205	3,502	147,579	—	147,579
Net book value:							
At 31 December 2002	147,434	330	67,407	1,491	216,662	178,048	394,710
At 31 December 2001	216,046	14	75,415	2,327	293,802	104,044	397,846

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15. 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
<i>Cost or valuation:</i>							
At 1 January 2002	104,129	5,127	2,468	1,869	113,593	13,200	126,793
Additions	—	209	57	—	266	—	266
Disposals	—	(2,039)	(83)	—	(2,122)	—	(2,122)
Transfer	(104,129)	—	—	—	(104,129)	36,963	(67,166)
Deficit on revaluation	—	—	—	—	—	(263)	(263)
At 31 December 2002	—	3,297	2,442	1,869	7,608	49,900	57,508
<i>Representing:</i>							
Cost	—	3,297	2,442	1,869	7,608	—	7,608
Valuation — 2002	—	—	—	—	—	49,900	49,900
	—	3,297	2,442	1,869	7,608	49,900	57,508
<i>Accumulated depreciation:</i>							
At 1 January 2002	64,153	4,587	960	1,858	71,558	—	71,558
Charge for the year	667	285	248	11	1,211	—	1,211
Impairment loss	2,346	—	—	—	2,346	—	2,346
Written back on disposal	—	(1,905)	(70)	—	(1,975)	—	(1,975)
Transfer	(67,166)	—	—	—	(67,166)	—	(67,166)
At 31 December 2002	—	2,967	1,138	1,869	5,974	—	5,974
<i>Net book value:</i>							
At 31 December 2002	—	330	1,304	—	1,634	49,900	51,534
At 31 December 2001	39,976	540	1,508	11	42,035	13,200	55,235

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15. FIXED ASSETS (Continued)

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

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
In Hong Kong on long-term leases	49,900	53,176	49,900	53,176
Elsewhere in the PRC on medium-term leases	275,582	266,914	—	—
	325,482	320,090	49,900	53,176

(d) Investment properties of the Group and the Company situated in Hong Kong amounting to \$49,900,000 (2001: \$13,200,000) were revalued by RHL Appraisal Limited who have among their Members of Hong Kong Institute of Surveyors, on an open market value basis at 31 December 2002. Investment properties of the Group situated in the PRC amounting to \$128,148,000 (2001: \$90,844,000) were revalued by an independent firm of surveyors in the PRC, 廣州中天衡房地產評估有限公司 — 中國註冊房地產估價師, on an open market value basis at 31 December 2002.

On the Group level, the revaluation surplus after minority interests of \$16,339,000 (2001: \$263,000) has been transferred to the investment properties revaluation reserve (note 29(a)). On the Company level, the revaluation deficit of \$263,000 (2001: revaluation surplus of \$263,000 has been transferred to the investment properties revaluation reserve) has been set off against the investment properties revaluation reserve (note 29(b)).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15. FIXED ASSETS *(Continued)*

- (e) The Group leases out investment properties, certain pig farms and a number of items of machinery 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 \$178,048,000 (2001: \$104,044,000) and \$49,900,000 (2001: \$13,200,000) respectively. The gross carrying amounts of pig farms and machinery of the Group held for use in operating leases were \$13,170,000 (2001: \$13,175,000) and \$26,481,000 (2001: \$Nil) respectively. The related accumulated depreciation and impairment losses were \$13,170,000 (2001: \$10,443,000) and \$21,607,000 (2001: \$Nil) respectively.

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

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Within 1 year	21,732	19,333	1,969	419
After 1 year but within 5 years	61,171	42,449	3,051	106
After 5 years	37,716	33,321	—	—
	120,619	95,103	5,020	525

- (f) During the year, properties of the Group and the Company with carrying value less impairment losses amounted to \$48,085,000 (2001: \$12,937,000) and \$36,963,000 (2001: \$12,937,000) respectively were transferred to investment properties because the Group and the Company have changed their intention to lease out the properties to third parties.
- (g) Certain land and buildings of \$10,369,000 (2001: \$10,373,000) of the Group have been pledged to a bank for a loan of \$8,476,000 (2001: \$8,480,000) granted to a minority shareholder. A provision of \$10,369,000 (2001: \$10,373,000) has been made in the previous years' financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16. INTEREST IN SUBSIDIARIES

	The Company	
	2002 \$'000	2001 \$'000
Unlisted shares, at cost	281,610	281,610
Amounts due from subsidiaries	649,541	671,588
	931,151	953,198
Less: impairment loss	(617,047)	(620,198)
	314,104	333,000

Details of the subsidiaries, which are incorporated in Hong Kong unless otherwise stated, are set out in note 36. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements. Details of the companies under liquidation which have not been consolidated in the financial statements are set out in note 37.

17. INTEREST IN ASSOCIATES

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Unlisted shares, at cost	—	—	245,530	245,785
Share of net assets	124,837	114,836	—	—
Amounts due from associates	26,427	37,402	26,419	37,394
	151,264	152,238	271,949	283,179
Less: impairment loss	—	—	(122,568)	(131,876)
	151,264	152,238	149,381	151,303

The amounts due from associates included a loan to Yellow Dragon Food Industry Company Limited of \$25,507,000 (2001: \$35,990,000), details of which are disclosed in note 33(c).

Details of the associates, which are incorporated in Hong Kong unless otherwise stated, are set out in note 38.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18. SECURITIES

(a) Investment securities

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Unlisted equity securities, at cost	1,079	1,079	1,000	1,000

(b) Other securities

Equity securities listed in Hong Kong, at market value	2,813	14,240	2,813	14,240
--	--------------	--------	--------------	--------

19. DEFERRED TAX ASSETS

(a) Movements on deferred tax assets comprise:

	The Group	
	2002 \$'000	2001 \$'000
At 1 January	4,957	—
Additions through acquisition of subsidiaries	—	4,957
Transfer from the profit and loss account (note 9)	807	—
At 31 December	5,764	4,957

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19. DEFERRED TAX ASSETS (Continued)

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

	2002		2001	
	Recognised \$'000	Potential assets unrecognised \$'000	Recognised \$'000	Potential assets unrecognised \$'000
Provisions	5,764	—	4,957	—
Tax losses	—	399,663	—	398,000
	5,764	399,663	4,957	398,000

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

	2002		2001	
	Recognised \$'000	Potential assets unrecognised \$'000	Recognised \$'000	Potential assets unrecognised \$'000
Tax losses	—	382,424	—	389,398

(d) No provision for deferred taxation has been made in respect of the revaluation surpluses arising on investment properties as the disposal of these assets at their carrying value would result in capital gains which the Directors consider are not subject to any tax liability.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20. NEGATIVE GOODWILL

	The Group \$'000
Cost:	
At 1 January 2002	20,250
Amortisation for the year (note 8(c))	(1,557)
	18,693
At 31 December 2002	18,693

Negative goodwill is recognised as income on a straight-line basis over 14 years. The amortisation of negative goodwill for the year is included in "Other operating expenses" in the consolidated profit and loss account.

21. INVENTORIES

	The Group	
	2002	2001
	\$'000	\$'000
Raw materials	39,746	47,146
Work-in-progress	—	24
Finished goods	26,566	29,898
Spare parts and consumables	371	269
	66,683	77,337
	66,683	77,337

Included in finished goods are inventories of \$6,235,000 (2001: \$Nil), stated net of a provision, made in order to state these inventories at the lower of their cost and estimated net realisable value. The amount of reversal of a write-down of inventories to estimated net realisable value, amounted to \$Nil (2001: \$15,738,000). During the year ended 31 December 2001, the provision for inventories were written back to the consolidated profit and loss account as most of these inventories were disposed of above the carrying value.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Trade debtors	39,736	43,834	—	—
Bills receivable	61,610	39,402	—	—
Other receivables, deposits and prepayments	13,798	16,870	2,635	10,351
Amounts due from minority shareholders less provision	909	1,698	—	—
Amounts due from fellow subsidiaries	347	140	163	1
Amounts due from related companies less provision	23	932	—	—
	116,423	102,876	2,798	10,352

Included in the trade and other receivables are balances of \$639,000 (2001: \$1,301,000) expected to be recovered after one year.

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	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Within 1 month	40,931	42,174	—	—
1 to 3 months	37,712	20,427	—	—
More than 3 months but less than 12 months	22,599	19,332	—	—
More than 1 year but less than 2 years	104	1,303	—	—
	101,346	83,236	—	—

The Group maintains a defined policy with credit periods ranging from advance payment to not more than 180 days (2001: 90 days).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Deposits with banks	173,338	46,093	23,005	31,435
Cash at bank and in hand	69,672	181,908	819	19,372
	243,010	228,001	23,824	50,807

24. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Unsecured bank loan	3,898	4,240	—	—
Unsecured other loans	55,114	101,637	—	—
	59,012	105,877	—	—

At 31 December 2002, the Group's borrowings included \$3,898,000 (2001: \$4,240,000) which were guaranteed by a minority shareholder of the Group. Other loans are unsecured, repayable on demand and bear interest at a range of 6.5% to 7.6% (2001: 1% to 7.5%).

At 31 December 2002, the interest-bearing borrowings were repayable as follows:

	The Group		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Within 1 year or on demand	59,012	105,877	—	—

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Trade creditors	61,172	74,524	3,359	3,525
Other payables and accrued charges	174,790	177,026	34,698	37,018
Amounts due to associates	1,702	4,049	—	—
Amounts due to minority shareholders	3,993	3,474	—	—
Amounts due to holding company and fellow subsidiaries	46,676	18,256	201	202
Amounts due to related companies	391	264	464	260
	288,724	277,593	38,722	41,005

The amount of trade and other payables expected to be settled after more than one year is \$2,149,000 (2001: \$608,000).

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

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Due within 1 month or on demand	61,092	74,524	3,359	3,525
Due after 3 months but within 12 months	10	—	—	—
Over 2 years	70	—	—	—
	61,172	74,524	3,359	3,525

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26. 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 the acquisition of Zhongyue Industry Material Limited. 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.

During the year, convertible notes totalling \$105,000,000 were redeemed for cash at their nominal value.

27. EQUITY COMPENSATION BENEFITS

On 21 November 1994, in order to align the interests of Directors and employees with those of the shareholders, the Company adopted a share option scheme (the "1994 Share Option Scheme") pursuant to which the Directors are authorised, at their discretion, to invite Directors or employees of the Company and its subsidiaries to take up options to subscribe for shares of the Company. Offers of options under the 1994 Share Option Scheme may be accepted in writing within 21 days from the date of making such offer. Options granted under the 1994 Share Option Scheme is exercisable within a period commencing twelve months after the date of acceptance of options and expiring on the last day of a four year period from such acceptance date or 20 November 2004, whichever is earlier. The 1994 Share Option Scheme shall expire on 20 November 2004.

On 24 August 2001, for the purpose of having a new share option scheme with terms compatible with modern practice and providing greater flexibility to the Directors, the Company adopted a new share option scheme (the "2001 Share Options Scheme"). Pursuant to the 2001 Share Option Scheme, the Directors are authorised, at their discretion, to invite full-time employees of the Company and its subsidiaries, including Executive Directors but excluding Non-executive Directors to take up options to subscribe for shares of the Company. A grant of options under the 2001 Share Option Scheme may be accepted in writing and upon payment of a consideration of \$10 in total by the grantee to the Company within 21 days from the date of grant. The options vest after 3 months from the date of grant and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one share. The 2001 Share Option Scheme shall expire on 23 August 2011.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27. EQUITY COMPENSATION BENEFITS (Continued)

(a) Movements in share options

	2002 Number	2001 Number
At 1 January	302,200,000	77,235,000
Granted	—	291,500,000
Exercised	(55,000,000)	(3,000,000)
Lapsed	(71,200,000)	(63,535,000)
	<u>176,000,000</u>	<u>302,200,000</u>
At 31 December	<u>176,000,000</u>	302,200,000
Options vested at 31 December	<u>176,000,000</u>	<u>302,200,000</u>

(b) Terms of unexpired and unexercised share options at balance sheet date

Date of option granted	Period during which options exercisable	Exercise price per share	2002 Number	2001 Number
24/08/2001	26/11/2001 to 25/11/2006	\$0.1495	176,000,000	287,000,000
11/02/1998	12/02/1999 to 10/02/2002	\$0.4295	—	15,200,000
			<u>176,000,000</u>	<u>302,200,000</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28. SHARE CAPITAL

	2002		2001	
	Number of shares (thousand)	\$'000	Number of shares (thousand)	\$'000
<i>Authorised:</i>				
Ordinary shares of \$0.1 each	15,000,000	1,500,000	15,000,000	1,500,000
<i>Issued and fully paid:</i>				
At 1 January	8,943,333	894,333	909,509	90,951
Shares issued under share option scheme (note (a))	55,000	5,500	3,000	300
Shares issued under the Open Offer (note (b))	—	—	7,730,824	773,082
Shares issued under the Placement (note (c))	—	—	300,000	30,000
At 31 December	8,998,333	899,833	8,943,333	894,333

Notes:

- (a) In January 2002, options were exercised to subscribe for 55,000,000 ordinary shares of \$0.1 each in the Company at a consideration of \$8,223,000; of which \$5,500,000 was credited to share capital and the remaining balance of \$2,723,000 was credited to the share premium account.
- (b) As part of the Restructuring (note 6(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 \$773,000,000 provided by the immediate holding company, GDH Limited.
- (c) On 8 August 2001, GDH Limited entered into a placing and subscription agreement, pursuant to which GDH Limited placed 300,000,000 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 300,000,000 new shares of par value \$0.1 each, which ranked pari passu in all material respects with the existing issued shares (the "Placement"). The Placement was complete in August 2001.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29. RESERVES

(a) The Group

	Share premium \$'000	Capital redemption reserve \$'000	Capital reserve \$'000	Exchange fluctuation reserve \$'000	Investment properties revaluation reserve \$'000	Other reserves \$'000	Accumulated losses \$'000	Total \$'000
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 (note 15(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	1,743,509	971	49,050	858	263	1,319	(2,335,329)	(539,359)
At 1 January 2002	1,743,509	971	49,050	858	263	1,319	(2,335,329)	(539,359)
Exchange differences arising on consolidation	—	—	—	(128)	—	—	—	(128)
Profit for the year	—	—	—	—	—	—	115,509	115,509
Revaluation surplus (note 15(d))	—	—	—	—	16,339	—	—	16,339
Shares issued under share option scheme	2,723	—	—	—	—	—	—	2,723
Share of associates' reserves	—	—	—	(53)	—	—	—	(53)
Transfer to statutory reserve	—	—	—	—	—	1,844	(1,844)	—
At 31 December 2002	1,746,232	971	49,050	677	16,602	3,163	(2,221,664)	(404,969)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29. RESERVES *(Continued)*

(a) The Group *(Continued)*

Included in the accumulated losses as at 31 December 2002 is a loss of \$48,431,000 attributable to associates (2001: \$58,753,000).

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 reserve, 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 (note 1). Other reserves represent statutory reserves of entities established in the PRC.

(b) The Company

	Share premium \$'000	Capital redemption reserve \$'000	Capital reserve \$'000	Investment properties revaluation reserve \$'000	Accumulated losses \$'000	Total \$'000
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 (note 15(d))	—	—	—	263	—	263
Loss for the year	—	—	—	—	(101,470)	(101,470)
At 31 December 2001	1,743,509	971	48,157	263	(2,331,847)	(538,947)
At 1 January 2002	1,743,509	971	48,157	263	(2,331,847)	(538,947)
Shares issued under share option scheme	2,723	—	—	—	—	2,723
Revaluation deficit (note 15(d))	—	—	—	(263)	—	(263)
Profit for the year	—	—	—	—	60,799	60,799
At 31 December 2002	1,746,232	971	48,157	—	(2,271,048)	(475,688)

At 31 December 2001 and 2002, there was no reserve available for distribution to the shareholders of the Company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Purchase of subsidiaries

	2001 \$'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 interests	(14,942)
	<u>262,554</u>
Negative goodwill arising on consolidation	(20,250)
	<u>242,304</u>
Satisfied by:	
— Cash paid	55,000
— Acquisition costs payable	2,304
— Issue of convertible notes	185,000
	<u>242,304</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

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

	2001 \$'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	61,692

(c) Subsidiaries liquidated

	2001 \$'000
Net liabilities liquidated:	
Fixed assets	61,698
Inventories	60,653
Debtors, bills receivables, deposits and prepayments	29,539
Amounts due from minority shareholders	18,348
Cash and cash equivalents	14,132
Creditors and accrued charges	(164,164)
Loans from minority shareholders	(8,700)
Amounts due to ultimate holding company and fellow subsidiaries	(62)
Minority interests	(18,062)
	(6,618)
Release of reserves	1,790
	(4,828)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Major non-cash transaction

During the year, an interest-bearing borrowing was assigned to a fellow subsidiary, Richway Resources Limited, by the Group's lender, amounting to \$46,500,000.

31. CONTINGENT LIABILITIES

At 31 December 2002, there were contingent liabilities in respect of the following:

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Guarantees given to banks in respect of banking facilities granted to an associate	—	2,340	—	2,340

32. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2002 not provided for in the financial statements were as follows:

	The Group	
	2002 \$'000	2001 \$'000
Contracted for	1,348	35,447
Authorised but not contracted for	2,825	10,474
	4,173	45,921

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32. COMMITMENTS (Continued)

- (b) At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	The Group	
	2002 \$'000	2001 \$'000
Within 1 year	707	442
After 1 year but within 5 years	915	65
	<u>1,622</u>	<u>507</u>

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 2002, the Company had committed to provide finance of \$6,489,000 (2001: \$6,489,000) to an associate of the Group.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33. MATERIAL RELATED PARTY TRANSACTIONS

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

	Note	2002 \$'000	2001 \$'000
Sales of goods to related companies	(b)	7,712	44,207
Purchases of goods from related companies	(b)	24,525	24,952
Interest income from an associate	(c)	2,340	3,095
Net gain on disposal of associates		427	—
Convertible notes issued to a fellow subsidiary	26	—	185,000
Cash paid to a fellow subsidiary for early redemption of convertible notes	26	105,000	—
Cash paid to a fellow subsidiary for acquisition of subsidiaries		—	55,000
Management fee income from related companies		1,010	3,498
Reimbursement of expenses to the immediate holding company		833	1,786
Interest on convertible notes payable to a fellow subsidiary		6,345	639
Subsidy received from the immediate holding company		5,712	—
Provision of electricity/water and leasing services to a fellow subsidiary		3,187	266

Notes:

- 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.
- Related companies to/from which goods were sold and purchased included associates and minority shareholders of partly-owned subsidiaries.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

- (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 shall be payable twice annually. At the balance sheet date, the outstanding loan and interest receivable from the associate amounted to \$25,507,000 (2001: \$35,990,000) and \$920,000 (2001: \$1,400,000) respectively.

34. 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's 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.

Employees engaged by the Group outside Hong Kong are covered by appropriate local defined contribution scheme pursuant to the local labour rules and regulations.

The Group's pension cost charged to the profit and loss account for the year ended 31 December 2002 was \$2,572,000 (2001: \$2,251,000). The forfeited contribution refunded for the year amounted to \$2,039,000 (2001: \$2,934,000).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2002 to be Guangdong Yue Gang Investment Holdings Company Limited, which is established in the PRC.

36. LIST OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2002 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	\$24,720,000	51%	—	Pig rearing and distribution
東莞金皇食品有限公司#	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
廣州經濟技術開發區 廣之杰倉儲有限公司*	The PRC	N/A	US\$6,500,000	—	80%	Dormant
Gain First Investments Limited (Incorporated in the British Virgin Islands)	Hong Kong	Ordinary	US\$1	100%	—	Investment holding
Guangnan Distribution Company Limited	Hong Kong	Ordinary	\$10,000,000	—	100%	Investment holding
Guangnan Fresh and Live Foodstuffs Limited	Hong Kong	Ordinary	\$1,000,000	100%	—	Distribution of live and fresh foodstuffs
Guangnan Supermarket (China) Limited	Hong Kong	Ordinary	\$2	100%	—	Dormant

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36. 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	
Guangnan Supermarket Development Limited	Hong Kong	Ordinary	\$135,742,220	100%	—	Investment holding
Guangnan Trading Development Limited	Hong Kong	Ordinary	\$73,916,728	100%	—	Trading of foodstuffs
Guangnan (Zhan Jiang) Jiafeng Feed Co., Ltd.*	The PRC	N/A	\$5,000,000	100%	—	Manufacturing and trading of feed
Hinloon International Limited	Hong Kong	Ordinary	\$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	\$1,000,000	100%	—	Investment holding
Jin Huang Food Industry Investment Ltd.	Hong Kong	Ordinary	\$1,000,000	—	100%	Investment holding
Southern Chain (Hong Kong) Limited	Hong Kong	Ordinary	\$7,000,000	100%	—	Dormant
Zhongyue Industry Material Limited	Hong Kong	Ordinary	\$10	—	100%	Trading of raw materials for production of tinplate products
		Non-voting deferred	\$230,000,000	—	—	

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36. 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\$26,906,200	—	95%	Production and sales of tinplate products

* an equity joint venture established in the PRC

a wholly foreign-owned enterprise established in the PRC

37. 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	
				the Company	Subsidiary
Guangnan (KK) Supermarket Limited*	Hong Kong	Ordinary	\$20,000,000	—	70%
Cheung Hong Supermarket Limited**	Hong Kong	Ordinary	\$2,000,000	—	100%
Health and Beauty Trading Limited**	Hong Kong	Ordinary	\$4,500,000	—	100%

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37. LIST OF COMPANIES UNDER LIQUIDATION *(Continued)*

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 the	
				Company	Subsidiary
Regal Prosper Limited***	Hong Kong	Ordinary	\$100	—	100%
Guangdong Guangnan Tianmei Food Development Company Limited**	The PRC	N/A	RMB34,820,000	—	55%

* *company commenced liquidation in June 2001*

** *final meeting of members and creditors held in October 2002*

*** *final meeting of members and creditors held in January 2003*

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)

38. LIST OF ASSOCIATES

Particulars of the associates at 31 December 2002 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 the Company		Principal activities
Fruit and Vegetable Wharf (H.K.) Limited	Hong Kong	Ordinary	20%	—	Fruit and vegetable 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