1. CORPORATE INFORMATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business of the Company is located at Unit 1104, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong.

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of corn refined products and corn based biochemical products. There were no changes in the nature of the Group's principal activities during the year.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The following revised SSAP is effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): Income taxes

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP is that a deferred tax liability has been recognised on the revaluation of the Group's leasehold land and buildings which is detailed in note 25 to the financial statements. Moreover, the related note disclosures are now more extensive than previously required. These disclosures are presented in note 9 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets 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 2003. 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 intercompany 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

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

Employee benefits

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.

Retirement benefits scheme

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

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in the retirement benefits schemes (the "PRC RB Schemes") operated by the respective local municipal government in provinces of the PRC that the group companies operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC RB Schemes to fund the benefits. The only obligation of the Group with respect to the PRC RB Schemes is to pay the ongoing required contributions under the PRC RB Schemes. Contributions under the PRC RB Schemes are charged to the profit and loss account as they become payable in accordance with the rules of the PRC RB Schemes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share option scheme

The Company operates a share option scheme (the "SO 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 SO Scheme is not recorded in the Company's or the Group's balance sheet until such time as the share 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. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

Research and development costs

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

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

Dividends

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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.

Fixed assets and depreciation

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

Changes in the values of fixed assets are dealt with as movements in the fixed assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed assets revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Subsidiaries

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

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

Joint venture companies

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

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

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries 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.

On disposal of subsidiaries, 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.

The carrying amount of goodwill 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.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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 on borrowings relating to the development of qualifying assets are capitalised during the development period. All other exchange differences are dealt with in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling 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 ruling 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.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

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.

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 maturity 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. TURNOVER

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

5. 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 they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the corn refined products segment comprises the manufacture and sale of corn starch, corn gluten, corn oil and feed; and

(b) the corn based biochemical products segment comprises the manufacture and sale of modified starch, corn sweeteners and amino acids.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. However, as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC, no detailed analysis on the Group's geographical segment information is presented.

Intersegment sales and transfers are transacted with reference to either the selling prices used for sales made to third parties at the then prevailing market prices or at cost plus mark-up basis which is determined by the management.

5. SEGMENT INFORMATION (continued)

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2003 and 2002.

Group

	Corn refined products		Corn based biochemical products		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**1,330,771**	818,135	**999,048**	839,177	**—**	—	**2,329,819**	1,657,312
Intersegment sales	**369,479**	275,537	**63,088**	3,374	**(432,567)**	(278,911)	**—**	—
Total revenue	**1,700,250**	1,093,672	**1,062,136**	842,551	**(432,567)**	(278,911)	**2,329,819**	1,657,312
Segment results	**302,338**	187,079	**350,570**	333,487	**—**	—	**652,908**	520,566
Unallocated revenue							**15,809**	8,343
Unallocated expenses							**(6,346)**	(16,845)
Profit from operating activities							**662,371**	512,064
Finance costs							**(23,873)**	(14,556)
Share of losses of jointly-controlled entities							**(2,244)**	(1,691)
Profit before tax							**636,254**	495,817
Tax							**(42,914)**	(35,615)
Profit before minority interests							**593,340**	460,202
Minority interests							**(72,568)**	(55,107)
Net profit from ordinary activities attributable to shareholders							**520,772**	405,095
Segment assets	**2,338,274**	1,661,406	**1,723,430**	954,756	**—**	—	**4,061,704**	2,616,162
Interests in jointly-controlled entities							**46,312**	42,585
Unallocated assets							**120,427**	74,351
Total assets							**4,228,443**	2,733,098
Segment liabilities	**158,975**	127,365	**93,998**	38,385	**—**	—	**252,973**	165,750
Unallocated liabilities							**1,161,981**	512,561
Total liabilities							**1,414,954**	678,311
Other segment information:								
Capital expenditure	**174,927**	203,050	**540,469**	286,728	**—**	—	**715,396**	489,778
Depreciation	**54,013**	38,925	**34,754**	24,562	**—**	—	**88,767**	63,487
Amortisation of goodwill	**338**	—	**—**	—	**—**	—	**338**	—

6. PROFIT FROM OPERATING ACTIVITIES

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

	2003 HK$'000	2002 HK$'000
Cost of inventories sold	**1,425,671**	1,083,119
Depreciation *(note 13)*	**88,767**	63,487
Amortisation of goodwill *(note 14)**	**338**	—
Amortisation of fees incurred for the granting of banking facilities *(note 17)***	**1,205**	—
Staff costs (excluding directors' remuneration — *note 7*):		
Wages and salaries	**43,164**	29,738
Performance related bonuses	**6,750**	—
Retirement benefits scheme contributions	**246**	112
Auditors' remuneration	**2,150**	1,650
Research and development costs	**20,408**	22,792
Provision for bad and doubtful debts	**—**	3,210
Gain on disposal of fixed assets	**(424)**	—
Interest income	**(1,720)**	(4,049)

* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

** The amortisation of fees incurred for the granting of banking facilities for the year is included in "Finance costs" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2003 HK$'000	2002 HK$'000
Fees	**600**	600
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**11,097**	11,497
Performance related bonuses	**10,600**	8,000
Retirement benefits scheme contributions	**48**	40
	21,745	19,537
	22,345	20,137

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Fees of HK$600,000 (2002: HK$600,000) were payable to the independent non-executive directors of the Company. There were no other emoluments payable to the independent non-executive directors of the Company during the year (2002: Nil).

According to the directors' service contracts, each of the executive directors, on completion of every 12 months of service, is entitled to a management bonus. The aggregate amount of the bonuses payable to all the executive directors for any financial year may not exceed 5% of the consolidated net profit from ordinary activities attributable to shareholders in respect of that financial year. For the year ended 31 December 2003, the aggregate amount of the bonuses payable to the executive directors is equivalent to 2.0% (2002: 2.0%) of the net profit from ordinary activities attributable to shareholders.

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

	2003 Number of directors	2002 Number of directors
Nil–HK$1,000,000	**4**	5
HK$4,500,001–HK$5,000,000	**—**	1
HK$5,000,001–HK$5,500,000	**2**	3
HK$5,500,001–HK$6,000,000	**2**	—
	8	9

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

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

Details of the share options exercised by the directors and employees are disclosed in note 27 to the financial statements.

The five highest paid employees during the year include four (2002: four) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining one (2002: one) non-director, highest paid employee for the year, are as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Basic salary, housing benefits, other allowances and benefits in kind	**884**	1,200
Performance related bonuses	**1,350**	—
Retirement benefits scheme contributions	**12**	12
	2,246	1,212

8. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest on bank loans:		
Wholly repayable within five years	**34,798**	25,293
Repayable beyond five years	**358**	491
Interest on trust receipt loans, secured	**5**	3
	35,161	25,787
Amortisation of fees incurred for the granting of banking facilities	**1,205**	—
	36,366	25,787
Less: Interest capitalised	**(12,493)**	(11,231)
	23,873	14,556

The interest capitalised during the year was calculated at a rate of approximately 4% (2002: 5%) per annum.

9. TAX

	Group	
	2003	2002
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**—**	—
Elsewhere	**42,879**	35,615
Under-provision in the prior year:		
Hong Kong	**35**	—
Tax charge for the year	**42,914**	35,615

During the year, the increase in Hong Kong profits tax rate from 16% to 17.5% became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. However, no provision for Hong Kong profits tax has been made during the year as the Group did not generate any assessable profits arising in Hong Kong. In the prior year, no provision for Hong Kong profits tax had been made as the assessable profits arising in Hong Kong, after offsetting the available tax losses brought forward, were not significant. The under-provision in the prior year was charged as a tax expense in the current year's profit and loss account.

Taxes on profits assessable elsewhere are 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.

9. TAX (continued)

All of the Group's subsidiaries operating in the PRC are exempt from PRC income tax for two years starting from the first profitable year of their operations and are entitled to a 50% relief from the PRC income tax for the following three years. Under certain circumstances, with the approval from the respective tax authority in the PRC, the 50% relief is granted to the Group's subsidiaries for an additional year.

During the year, two of the Group's PRC subsidiaries were granted an extension of the 50% relief from income tax for one more year up to 31 December 2003. Accordingly, taxes on the assessable profits of these two PRC subsidiaries had been calculated at 50% of the applicable rates of tax prevailing in the PRC during the year.

Taxes on the assessable profits of another three of the Group's PRC subsidiaries had been calculated at 50% of the applicable rates of tax prevailing in the PRC during the year, as their periods of exemption from income tax have not yet expired.

No provision for income tax has been made for one of the Group's PRC subsidiaries as it remains exempt from income tax for the second profitable year of its operations.

The remaining five PRC subsidiaries of the Group have not made any provision for income tax as they did not generate any assessable profits for the year.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2003

	Hong Kong #		**The PRC**		**Total**	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(56,507)		692,761		636,254	
Tax at the statutory tax rate	(9,888)	17.5	228,611	33.0	218,723	34.4
Preferential statutory tax rate offered*	—	—	(121,262)	(17.5)	(121,262)	(19.1)
Lower tax rate for tax relief granted	—	—	(61,554)	(8.9)	(61,554)	(9.7)
Income not subject to tax	(136)	0.2	(4,123)	(0.6)	(4,259)	(0.7)
Expenses not deductible for tax	9,546	(16.9)	1,320	0.2	10,866	1.7
Under-provision in the prior year	35	(0.1)	—	—	35	—
Increase in tax losses carried forward	322	(0.5)	—	—	322	0.1
Others	156	(0.3)	(113)	—	43	—
Tax charge at the Group's effective rate	35	(0.1)	42,879	6.2	42,914	6.7

31 December 2003

9. TAX (continued)

Group — 2002

	Hong Kong #		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(32,468)		528,285		495,817	
Tax at the statutory tax rate	(5,195)	16.0	174,334	33.0	169,139	34.1
Preferential statutory tax rate offered*	—	—	(91,642)	(17.3)	(91,642)	(18.5)
Lower tax rate for tax relief granted	—	—	(47,265)	(9.0)	(47,265)	(9.5)
Income not subject to tax	(82)	0.2	—	—	(82)	—
Expenses not deductible for tax	5,233	(16.1)	—	—	5,233	1.1
Others	44	(0.1)	188	—	232	—
Tax charge at the Group's effective rate	—	—	35,615	6.7	35,615	7.2

\# No provision for Hong Kong profits tax is made as the operation in Hong Kong did not generate assessable taxable income for the year.

* Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, certain of the Group's PRC subsidiaries are operating in specific development zones of the PRC, and the relevant tax authorities have granted the enterprises a preferential CIT rate of 15%. CIT is payable based on the taxable income as reported in the statutory accounts which are prepared in accordance with PRC accounting regulations.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was approximately HK$126,474,000 (2002: HK$84,884,000) (note 28).

11. DIVIDENDS

	2003	2002
	HK$'000	HK$'000
Interim — HK2.0 cents (2002: HK1.5 cents) per ordinary share	**40,510**	28,892
Proposed final — HK2.5 cents (2002: HK2.0 cents) per ordinary share	**50,255**	38,634
	90,765	67,526

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and is calculated based on the number of shares issued by the Company at the balance sheet date. The subsequent issuance of shares by the Company up to the close of the registered date for the entitlement of final dividend, if any, has therefore not been taken into account for the above appropriation of final dividend.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK$520,772,000 (2002: HK$405,095,000), and the weighted average number of 1,963,138,555 (2002: 1,904,442,862) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK$520,772,000 (2002: HK$405,095,000) and on 2,038,370,758 (2002: 1,994,570,304) ordinary shares, being the weighted average number of 1,963,138,555 (2002: 1,904,442,862) ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average of 75,232,203 (2002: 90,127,442) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

31 December 2003

13. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At 1 January 2003	421,095	247,191	1,007,550	25,731	1,701,567
Additions	3,715	576,319	121,037	14,325	715,396
Acquisition of a subsidiary *(note 29(a))*	44,238	98,554	—	—	142,792
Disposals	(2,944)	(4,343)	—	(839)	(8,126)
Surplus on revaluation	91,426	—	—	—	91,426
Transfers	91,570	(172,058)	80,484	4	—
At 31 December 2003	649,100	745,663	1,209,071	39,221	2,643,055
Analysis of cost or valuation:					
At cost	—	745,663	1,209,071	39,221	1,993,955
At 2003 valuation	649,100	—	—	—	649,100
	649,100	745,663	1,209,071	39,221	2,643,055
Accumulated depreciation:					
At 1 January 2003	6,528	—	147,696	16,889	171,113
Provided during the year	10,798	—	72,237	5,732	88,767
Written back on revaluation	(17,326)	—	—	—	(17,326)
Disposals	—	—	—	(766)	(766)
At 31 December 2003	—	—	219,933	21,855	241,788
Net book value:					
At 31 December 2003	649,100	745,663	989,138	17,366	2,401,267
At 31 December 2002	414,567	247,191	859,854	8,842	1,530,454

13. FIXED ASSETS (continued)

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

	Group	
	2003	2002
	HK$'000	HK$'000
At cost or valuation:		
Medium term leases in Hong Kong	**25,000**	24,500
Medium term leases outside Hong Kong	**624,100**	396,595
	649,100	421,095

At 31 December 2003, the Group's leasehold land and buildings in Hong Kong were revalued on an open market basis by Chesterton Petty Limited, an independent firm of professionally qualified valuers, at approximately HK$25,000,000. A surplus on revaluation of approximately HK$1,480,000 (2002: Nil) arising from the above valuation has been credited to the fixed assets revaluation reserve (note 28).

At 31 December 2003, the Group's leasehold land and buildings outside Hong Kong were revalued on a depreciated replacement cost basis, by Chesterton Petty Limited, at approximately HK$624,100,000. A surplus on revaluation of approximately HK$107,272,000 (2002: Nil) arising from the above valuation has been credited to the fixed assets revaluation reserve (note 28).

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$23,371,000 (2002: HK$23,869,000).

Had the Group's leasehold land and buildings held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$507,023,000 (2002: HK$377,189,000).

Prior to its transfer to other categories of fixed assets, the carrying amount of construction in progress included capitalised interest of approximately HK$12,493,000 (2002: HK$11,231,000).

At 31 December 2003, certain leasehold land and buildings of the Group with a carrying value of approximately HK$141,971,000 (2002: HK$72,789,000) and certain plant and machinery of the Group with an aggregate net book value of approximately HK$138,190,000 (2002: HK$153,230,000) were pledged to secure banking facilities granted to the Group (note 23).

14. GOODWILL

The amounts of the goodwill capitalised as an asset arising from the acquisition of a subsidiary, are as follows:

	Group HK$'000
Cost:	
At 1 January 2003	—
Acquisition of a subsidiary *(note 29(a))*	13,538
At 31 December 2003	13,538
Accumulated amortisation:	
At 1 January 2003	—
Provided during the year	338
At 31 December 2003	338
Net book value:	
At 31 December 2003	13,200
At 31 December 2002	—

Pursuant to the sale and purchase agreement dated 21 May 2003, the Group acquired 70% equity interest in Jinzhou Yuancheng Bio-chem Technology Co., Ltd. ("Jinzhou Yuancheng") for a consideration of approximately HK$74,949,000, which was satisfied by a cash payment of HK$48,710,000 and the issue and allotment of 13,294,000 new shares in the Company at an issue price of HK$1.973 per share at that date. By reference to the prevailing market prices of the Company's shares on the date of completion when the Group obtain control over this subsidiary, in June 2003, the cost of acquisition was adjusted to approximately HK$82,277,000, being a cash payment of HK$48,710,000 and issue of shares at fair value of HK$33,567,000. The adjustment to the purchase consideration is in accordance with the requirements under SSAP 30 "Business combinations". Further details of the acquisition are set out in notes 16, 29(a) and 33(d) to the financial statements.

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003	2002
	HK$'000	HK$'000
Share of net assets/(liabilities)	**(2,100)**	144
Long term loan advanced to jointly-controlled entities	**40,000**	40,000
	37,900	40,144
Amounts due from jointly-controlled entities	**8,412**	2,441
	46,312	42,585

The long term loan of HK$40 million advanced to the jointly-controlled entities is equity in nature and is regarded as an investment made thereto. This long term loan was unsecured, interest-free and will be repayable in 2101 or upon the liquidation, winding-up or dissolution of the jointly-controlled entities, whenever is earlier.

The amounts due from the jointly-controlled entities are unsecured, interest-free and are not repayable before 31 December 2004.

Particulars of the jointly-controlled entities are as follows:

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

All of the above investments in jointly-controlled entities are indirectly held by the Company.

31 December 2003

16. INVESTMENTS IN SUBSIDIARIES

	Company 2003 HK$'000	Company 2002 HK$'000
Unlisted shares, at cost	**287,937**	287,937

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

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Bio-chem Technology (HK) Limited	Hong Kong	Ordinary HK$2	100%	Trading of corn refined products and corn based biochemical products
Datex Investment Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
Global Polyol Investments Limited @	Hong Kong	Ordinary HK$1,000	75%	Investment holding
Changchun Baocheng Bio-chem Development Co., Ltd.*/#/@	PRC	US$12,000,000	73%	Manufacture and sale of corn based biochemical products
Changchun Dacheng Bio-chem Engineering Development Co., Ltd.*/#	PRC	RMB154,645,600	90%	Manufacture and sale of corn based biochemical products
Changchun Decheng Bio-chemical Feed Development Co., Ltd.**/#	PRC	US$846,400	100%	Manufacture and sale of corn based biochemical products
Changchun Dacheng Corn Development Co., Ltd.*/#	PRC	RMB153,940,000	80%	Manufacture sale of corn refined products
Changchun Dacheng Special Corn & Modified Starch Development Co., Ltd.*/#	PRC	RMB99,250,000	90%	Manufacture and sale of corn based biochemical products
Changchun Dacheng Starch Development Co., Ltd.*/#	PRC	RMB54,400,000	90%	Manufacture and sale of corn refined products
Changchun Dahe Bio Technology Development Co., Ltd.*/#/@ *(Note (a))*	PRC	US$11,672,000	100%	Manufacture and sale of corn based biochemical products
Changchun Jincheng Corn Development Co., Ltd.*/#	PRC	RMB98,700,000	90%	Manufacture and sale of corn refined products

16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Dacheng Glutamic Acid (Jinzhou) Development Co., Ltd.**/#/@	PRC	US$12,000,000	100%	Manufacture and sale of corn based biochemical products
Jinzhou Yuancheng Bio-chem Technology Co., Ltd.*/#/@ *(Note (b))*	PRC	US$12,659,400	70%	Manufacture and sale of corn refined products
Shanghai Hao Cheng Food Development Co., Ltd.**/#	PRC	US$2,668,000	100%	Manufacture and sale of corn sweeteners

All of the above investments in subsidiaries are indirectly held by the Company.

* Registered as cooperative joint venture enterprises under the PRC laws.

** Registered as wholly foreign owned enterprises under the PRC laws.

\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

@ Acquired/incorporated/established during the year.

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:

(a) The 100% interest in Changchun Dahe Bio Technology Development Co., Ltd. was held by one British Virgin Islands joint venture partner (75%) and one PRC joint venture partner (25%) on trust for the Group pursuant to the trust agreements dated 12 September 2003 entered into between the Group and the two joint venture partners. As advised by the PRC legal advisers to the Group, the above trust agreements did not contravene any PRC laws and were enforceable by the relevant parties to the agreements. In order to formalise and rationalise the shareholding structure of Changchun Dahe Bio Technology Development Co., Ltd., subsequent to the balance sheet date on 1 February 2004, the Group entered into agreements with the two joint venture partners for the transfer of their 100% interests in Changchun Dahe Bio Technology Development Co., Ltd. back to the Group.

(b) As detailed in note 14 to the financial statements, on 21 May 2003, the Group entered into an agreement to acquire 70% equity interest in Jinzhou Yuancheng. Jinzhou Yuancheng is a cooperative joint ventures established in the PRC, which is principally engaged in the manufacture and sale of corn refined products.

Further details of the above are set out in a circular of the Company dated 9 June 2003.

17. LONG TERM PREPAYMENT

The balance represented related fees paid in advance in respect of the syndicated loan (see note 22) granted to the Group and the Company. Amortisation of these payments in advance is provided on a straight-line basis over the remaining term of the syndicated loan.

	Group and Company HK$'000
Cost:	
At 1 January 2003	—
Additions during the year	10,850
At 31 December 2003	10,850
Accumulated amortisation:	
At 1 January 2003	—
Provided during the year	1,205
At 31 December 2003	1,205
Net book value:	
At 31 December 2003	9,645
At 31 December 2002	—

18. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**343,819**	213,675
Finished goods	**23,062**	44,728
	366,881	258,403

19. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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

	Group	
	2003	2002
	HK$'000	HK$'000
1–30 days	**246,978**	155,596
31–60 days	**62,701**	56,756
61–90 days	**45,072**	31,248
Over 90 days	**106,335**	139,686
	461,086	383,286

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**658,481**	242,090	**99,131**	1,332
Time deposits	**77,590**	190,877	**—**	70,306
Cash and cash equivalents	**736,071**	432,967	**99,131**	71,638

At the balance sheet date, a significant amount of cash and bank balances of the Group was denominated in Renminbi ("RMB"). The RMB is not freely convertible into other currencies, however, under 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.

21. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers, except for the purchase of corn kernels from farmers, which are normally settled on cash basis.

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

	Group	
	2003	2002
	HK$'000	HK$'000
1–30 days	**67,862**	24,308
31–60 days	**4,284**	5,464
61–90 days	**2,574**	5,002
Over 90 days	**17,674**	25,375
	92,394	60,149

22. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trust receipt loans, secured	**264**	3,053	**—**	—
Bank loans, secured and repayable:				
Within one year	**489,698**	341,731	**—**	—
In the second year	**227,355**	69,475	**193,750**	—
In the third to fifth years, inclusive	**375,896**	54,803	**193,750**	—
Beyond five years	**15,046**	6,611	**—**	—
	1,107,995	472,620	**387,500**	—
Other loans, unsecured and repayable within one year	**24,587**	—	**—**	—
	1,132,846	475,673	**387,500**	—
Portion classified as current liabilities	**(514,549)**	(344,784)	**—**	—
Long term portion	**618,297**	130,889	**387,500**	—

22. INTEREST-BEARING BANK AND OTHER LOANS (continued)

On 22 September 2003, the Company accepted an offer under the loan facilities offered by a syndicate of banks and financial institutions for a term loan facility of the sum of US$80,000,000 and a revolving loan facility up to the aggregate principal amount of US$20,000,000 for a term of 36 and 35 months, respectively, both with interest rate of London Interbank Offered Rate plus 1.5% per annum. As at 31 December 2003, US$50,000,000 (equivalent to HK$387,500,000) of the syndicated loan has been utilised. A termination event would occur if Mr. Au Chun Fat, one of the founders and is currently a senior counsellor of the Group, and certain existing executive directors of the Company, cease to own beneficially, directly or indirectly, at least 40% of the shares in the Company's issued share capital. The whole amount of the loan balance was classified as non-current liabilities as the first instalment of the syndicated loan will be due in 30 March 2005.

The Group's other loans are advanced by two former shareholders of Jinzhou Yuancheng (see note 16(b)) which are unsecured, interest-free and are repayable on demand.

23. BANKING FACILITIES

At 31 December 2003, the Group's banking facilities, including term loans, mortgage loan and other general facilities, were secured by the following:

(i) fixed charges on certain leasehold land and buildings amounted to approximately HK$141,971,000 (2002: HK$72,789,000), and plant and machinery of the Group amounted to approximately HK$138,190,000 (2002: 153,230,000) (note 13);

(ii) corporate guarantees of approximately HK$1,375,772,000 (2002: HK$386,186,000) and approximately HK$199,066,000 (2002: HK$82,751,000) given by the Company and the subsidiaries of the Company, respectively; and

(iii) a corporate guarantee of approximately HK$46,729,000 (2002: Nil) given by a third party.

24. MINORITY INTERESTS

	Group	
	2003	2002
	HK$'000	HK$'000
Minority interests	**316,829**	200,703
Due to a minority shareholder	**8,395**	9,770

The balance due to a minority shareholder as at 31 December 2003 is unsecured, interest-free and has no fixed terms of repayment.

25. DEFERRED TAX

At the balance sheet date, the Group has provided for deferred tax liabilities of approximately HK$16,348,000 (2002: Nil). As the deferred tax arose from the revaluation of the Group's leasehold land and buildings (see note 13), the deferred tax liability has been debited directly to the Group's revaluation reserve (see note 28). SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements, and the change of accounting policy has no significant impact on the opening balances. Accordingly, no prior year adjustment has been made.

The movement in deferred tax liability during the year is as follows:

	Group HK$'000
Deferred tax liability arising from revaluation of assets:	
At 1 January 2003	—
Provided during the year — *note 28*	16,348
At 31 December 2003	16,348

The Group has tax losses arising in Hong Kong of approximately HK$1,840,000 (2002: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26. SHARE CAPITAL

Shares

	Group and Company	
	2003 **HK$'000**	2002 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each (2002: 10,000,000,000 ordinary shares of HK$0.10 each)	**1,000,000**	1,000,000
Issued and fully paid:		
2,010,185,200 ordinary shares of HK$0.10 each (2002: 1,931,705,600 ordinary shares of HK$0.10 each)	**201,019**	193,171

26. SHARE CAPITAL (continued)

Shares (continued)

During the year, the movements in share capital were as follows:

(a) On 3 September 2003, 13,294,000 ordinary shares of HK$0.10 each were issued to a third party as part of the consideration for the acquisition of a subsidiary, as further detailed in notes 16, 29(a) and 33(d) to the financial statements.

(b) The subscription rights attaching to 8,294,400, 33,091,200 and 23,800,000 share options were exercised at the subscription prices of HK$0.816, HK$1.316 and HK$1.590 per share, respectively, resulting in the issue of 65,185,600 ordinary shares of HK$0.10 each for a total cash consideration, before expenses, of approximately HK$88,158,000.

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

	Notes	**Number of shares in issue** '000	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
Issued share capital as at 1 January 2002		1,543,296	154,330	878,685	1,033,015
Bonus issue of shares		316,486	31,649	(31,649)	—
Shares issued on exercise of share options		71,923	7,192	77,538	84,730
Issued share capital as at 31 December 2002 and 1 January 2003		1,931,705	193,171	924,574	1,117,745
Shares issued for acquisition of a subsidiary	*(a)*	13,294	1,329	32,238	33,567
Shares issued on exercise of share options	*(b)*	65,186	6,519	81,639	88,158
Issued share capital as at 31 December 2003		2,010,185	201,019	1,038,451	1,239,470

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.

26. SHARE CAPITAL (continued)

Warrants

Subsequent to the balance sheet date, on 30 March 2004, the Company proposed to grant one bonus warrant for every eight ordinary shares of HK$0.10 each in the share capital of the Company, to the shareholders whose names appear on the register of members of the Company on 4 May 2004. Based on the issued share capital of the Company as at the date of this report, 251,273,150 bonus warrants will be issued.

Each of the bonus warrants will entitle the holder thereof to subscribe for one ordinary share of the Company at an initial subscription price of HK$9.80 per share, subject to adjustment, from 28 May 2004 up to and until 4:00 p.m. on 31 May 2007 (both dates inclusive). Any ordinary shares falling to be issued upon the exercise of the subscription rights attaching to the bonus warrants will rank pari passu in all respects with the existing fully-paid ordinary shares in issue of the Company on the relevant subscription date.

The exercise in full of the subscription rights attaching to the bonus warrants at the subscription price of HK$9.80 per share would, based on the present capital structure of the Company, result in the issue of 251,273,150 additional ordinary shares and the receipt by the Company of approximately HK$2,462,477,000 before any related issue expenses.

The issue of the bonus warrants is conditional upon: (i) the approval by the shareholders for the creation and issue of bonus warrants and the allotment and issue of the corresponding new shares falling to be issued upon the exercise of the subscription rights attaching to the warrants; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the bonus warrants and the corresponding new shares falling to be issued upon the exercise of the subscription rights attaching to the warrants. Application will be made to the Listing Committee of the Stock Exchange in respect of such listing.

27. SHARE OPTION SCHEME

The Company operates the share option scheme (the "SO 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 SO Scheme include any full-time employee of the Company and its subsidiaries, including any executive director of its subsidiaries, but not any non-executive director. The SO Scheme became effective on 12 March 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 2.5% 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.

27. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 21 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 10 years from the date of the offer of the share options or the expiry date of the SO 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) 80% of the average closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the offer date; and (ii) the nominal value of the ordinary shares.

In the opinion of the directors, after seeking relevant advice, the existing SO Scheme does not fully comply with the new requirements as set out in Chapter 17 of the Listing Rules on 23 August 2001, and therefore further new options may not be issued under the existing SO Scheme. However, the share options already granted by the Company to the grantees under the existing SO Scheme are not affected by the Listing Rules changes.

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

During the year, no additional share options were granted.

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

	Number of share options						Price of Company's shares****	
Category or name of participant	At 1 January 2003*	Exercised during the year	At 31 December 2003	Date of grant of share options**	Exercise period of share options	Exercise price of share options*** HK$	At grant date of options HK$	At exercise date of options HK$
Directors								
Mr. Liu Xiaoming	14,745,600	—	14,745,600	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	—
Mr. Xu Zhouwen	23,040,000	—	23,040,000	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	—
Mr. Kong Zhanpeng	14,745,600	—	14,745,600	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	—
Mr. Wang Tieguang	14,745,600	—	14,745,600	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	—
	67,276,800	—	67,276,800					

27. SHARE OPTION SCHEME (continued)

Category or name of participant	Number of share options: At 1 January 2003*	Exercised during the year	At 31 December 2003	Date of grant of share options**	Exercise period of share options	Exercise price of share options*** HK$	Price of Company's shares****: At grant date of options HK$	At exercise date of options HK$
Other employees								
In aggregate	8,294,400	(8,294,400)	—	14 May 2001	14 May 2001 to 13 May 2011	0.816	1.00	2.725
	40,243,200	(33,091,200)	7,152,000	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	2.81
	48,537,600	(41,385,600)	7,152,000					
	115,814,400	(41,385,600)	74,428,800					

* The aggregate number of shares to be subscribed for was adjusted for the bonus issue made by the Company on 23 April 2002.

** 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 was adjusted for the bonus issue made on 23 April 2002 from HK$0.98 and HK$1.58 to HK$0.816 and HK$1.316, respectively.

**** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options and was adjusted for the bonus issue made on 23 April 2002 from HK$1.20 and HK$2.00 to HK$1.00 and HK$1.66, respectively. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of share options within the disclosure line.

The 41,385,600 share options exercised during the year resulted in the issue of 41,385,600 ordinary shares of the Company and new share capital of HK$4,138,560 and share premium of approximately HK$46,178,000 (before issue expenses), as detailed in note 26 to the financial statements.

The movements in the number of share options to subscribe for ordinary shares in the Company during the year were as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share of HK$0.816# '000	HK$1.316# '000	Total '000
At beginning of year	8,294	107,520	115,814
Exercised during the year	(8,294)	(33,091)	(41,385)
At the end of year	—	74,429	74,429

\# Adjusted to take into account the one for five bonus issue of the issued share capital of the Company on 23 April 2002.

27. SHARE OPTION SCHEME (continued)

At the balance sheet date, the Company had 74,428,800 share options outstanding under the SO Scheme which were exercisable at a subscription price of HK$1.316, after the adjustment for the one for five bonus issue during the year ended 31 December 2002, and will expire on 20 August 2011. The outstanding share options represented approximately 3.7% of the Company's shares in issue as at the balance sheet date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 74,428,800 additional ordinary shares and cash proceeds to the Company of approximately HK$97,948,000 before the related share issue expenses.

Other than the SO Scheme disclosed above, the Company has also granted share options to Cargill International Trading Pte Ltd. ("Cargill International") as follows:

On 25 September 2001, the Company granted 23,800,000, 36,800,000 and 47,420,000 share options to Cargill International, which entitled Cargill International to subscribe for the Company's ordinary shares of HK$0.10 each at exercise prices of HK$1.91, HK$2.19 and HK$2.65 per share, respectively. After the adjustment for the one for five bonus issue during the year ended 31 December 2002, the exercise price for the three lots of share options became HK$1.59, HK$1.83 and HK$2.21, respectively. The three lots of share options are exercisable during the periods from 25 March 2003 to 23 April 2003, from 25 March 2004 to 23 April 2004, and from 25 March 2005 to 25 April 2005, both dates inclusive, respectively. The price of the Company's shares as at the date of the grant of the share options was HK$1.65, which was the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options and was adjusted for the bonus issue made on 23 April 2002 from HK$1.98.

During the year, 23,800,000 share options were exercised at a subscription prices of HK$1.59 per share, resulting in the issue of 23,800,000 new ordinary shares in the Company at a total consideration of HK$37,842,000. The price of the Company's shares as at the preceding date of the exercise of the share options was HK$1.92.

The remaining 84,220,000 share options remained outstanding as at 31 December 2003 and at date of this report. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 84,220,000 additional ordinary shares and cash proceeds to the Company of approximately HK$172,142,000 before the related share issue expenses.

28. RESERVES

Group

	Share premium account HK$'000	Fixed assets revaluation reserve HK$'000	Statutory reserve fund HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002	590,950	7,204	5,656	635,011	1,238,821
Issue of shares — *note 26*	77,538	—	—	—	77,538
Bonus issue of shares — *note 26*	(31,649)	—	—	—	(31,649)
Net profit for the year	—	—	—	405,095	405,095
Interim dividend paid — *note 11*	—	—	—	(28,892)	(28,892)
Proposed final dividend — *note 11*	—	—	—	(38,634)	(38,634)
Transfer to retained profits upon winding-up of a subsidiary	—	—	(5,656)	5,656	—
At 31 December 2002 and 1 January 2003	636,839	7,204	—	978,236	1,622,279
Issue of shares — *note 26*	113,877	—	—	—	113,877
Net profit for the year	—	—	—	520,772	520,772
Interim dividend paid — *note 11*	—	—	—	(40,510)	(40,510)
Proposed final dividend — *note 11*	—	—	—	(50,255)	(50,255)
Transfer from retained profits	—	—	2,369	(2,369)	—
Surplus on revaluation — *note 13*	—	108,752	—	—	108,752
Surplus on revaluation shared by minority shareholders	—	(13,181)	—	—	(13,181)
Deferred tax liability — *note 25*	—	(16,348)	—	—	(16,348)
At 31 December 2003	750,716	86,427	2,369	1,405,874	2,245,386
Reserves retained by:					
Company and subsidiaries	750,716	86,427	2,369	1,410,315	2,249,827
Jointly-controlled entities	—	—	—	(4,441)	(4,441)
31 December 2003	750,716	86,427	2,369	1,405,874	2,245,386
Company and subsidiaries	636,839	7,204	—	980,433	1,624,476
Jointly-controlled entities	—	—	—	(2,197)	(2,197)
31 December 2002	636,839	7,204	—	978,236	1,622,279

28. RESERVES (continued)

Company

	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002	878,685	10,342	889,027
Issue of shares — *note 26*	77,538	—	77,538
Bonus issue of shares — *note 26*	(31,649)	—	(31,649)
Net profit for the year — *note 10*	—	84,884	84,884
Interim dividend — *note 11*	—	(28,892)	(28,892)
Proposed final dividend — *note 11*	—	(38,634)	(38,634)
At 31 December 2002 and 1 January 2003	924,574	27,700	952,274
Issue of shares — *note 26*	113,877	—	113,877
Net profit for the year — *note 10*	—	126,474	126,474
Interim dividend — *note 11*	—	(40,510)	(40,510)
Proposed final dividend — *note 11*	—	(50,255)	(50,255)
At 31 December 2003	1,038,451	63,409	1,101,860

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation for the public listing of the Company's shares on the Main Board of the Stock Exchange in prior years, over the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the new issue during the year; (iii) the premium arising from the capitalisation issue in prior years; and (iv) the premium arising from the placing and subscriptions of new ordinary shares in prior years.

The share premium account of the Company includes: (i) the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group reorganisation for the public listing of the Company's shares on the Main Board of the Stock Exchange in prior years, over the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the new issue during the year; (iii) the premium arising from the capitalisation issue in prior years; and (iv) the premium arising from the placing and subscriptions of new ordinary shares in prior years.

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

28. RESERVES (continued)

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

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	Notes	**2003 HK$'000**	2002 HK$'000
Net assets acquired:			
Fixed assets	*13*	**142,792**	—
Deposits paid for acquisition of fixed assets		**91,119**	—
Prepayments, deposits and other receivables		**2,432**	—
Cash and bank balances		**2,204**	—
Other payables and accruals		**(13,575)**	—
Interest-bearing bank loans		**(65,621)**	—
Other loans		**(55,990)**	—
Due to a minority shareholder		**(5,162)**	—
Minority interests		**(29,460)**	—
		68,739	—
Goodwill on acquisition	*14*	**13,538**	—
		82,277	—
Satisfied by:			
Cash		**48,710**	—
Issue of shares	*26*	**33,567**	—
		82,277	—

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

(a) Acquisition of a subsidiary (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2003	2002
	HK$'000	HK$'000
Cash consideration	**(48,710)**	—
Cash and bank balances acquired	**2,204**	—
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**(46,506)**	—

During the year, the Group acquired 70% equity interest in Jinzhou Yuancheng (as detailed in notes 16 and 33(d) to the financial statements). The purchase consideration of approximately HK$82,277,000 was satisfied by a cash payment of HK$48,710,000 and the issue and allotment of 13,294,000 new shares in the Company at an issue price of HK$2.525 per share, by reference to the prevailing market prices of the Company's shares on the date of completion of the acquisition.

As Jinzhou Yuancheng has not yet commenced its operation, this newly acquired subsidiary did not have any contribution to the Group's turnover and contributed a loss of approximately HK$3,837,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

(b) Major non-cash transaction

During the year, 13,294,000 ordinary shares at an issue price of HK$2.525 per share were issued to a third party as part of the consideration for the acquisition of a subsidiary, Jinzhou Yuancheng, as further detailed in notes 16, 29(a) and 33(d) to the financial statements.

30. LITIGATION

A subsidiary of the Group is currently a defendant in a lawsuit brought by an existing customer for an alleged breach of certain sales contracts. The directors of the Company, based on the advice from the Group's legal counsel, consider that adequate provisions have been made in the financial statements for the potential liabilities including the related legal and other costs arising from the litigation.

31. CONTINGENT LIABILITIES

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

At 31 December 2003, the banking facilities granted to the Company's subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$343,800,000 (2002: HK$214,550,000).

32. COMMITMENTS

At 31 December 2003, the Group had capital commitments as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Contracted, but not provided for:		
Leasehold land and buildings	**354,673**	158,825
Plant and machinery	**23,121**	—
	377,794	158,825
Authorised, but not contracted for:		
Capital contributions payable to subsidiaries	**162,429**	—
	540,223	158,825

The Company did not have any significant commitments as at 31 December 2003.

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) During the year, the Group disposed of a parcel of land to a jointly-controlled entity at a consideration of approximately HK$7,287,000, which approximated to its open market value as estimated by directors. No gain or loss arose from such disposal.

(b) During the year, the Group sold goods and charged utility costs to a jointly-controlled entity amounting to approximately HK$18,526,000 (2002: HK$980,000) and HK$3,365,000 (2002: HK$213,000), respectively. The sales were made at prices which are comparable to the prices offered to other customers of the Group. The utility costs were charged based on the actual costs incurred.

(c) At 31 December 2003, the Company has issued guarantee to secure certain of the jointly-controlled entity's bank loans aggregating HK$15,113,000 (2002: Nil). At the balance sheet date, no bank loans were utilised by this jointly-controlled entity (2002: Nil).

33. RELATED PARTY TRANSACTIONS (continued)

(d) As further detailed in notes 14, 16 and 29(a) to the financial statements, on 21 May 2003, the Group acquired 21% equity interest in Jinzhou Yuancheng from Changchun Dacheng Industrial Group Co., Ltd. ("Dacheng Industrial"), the minority shareholder of certain subsidiaries of the Group, for a cash consideration of approximately HK$22,482,000.

This transaction constituted a connected transaction as defined under the Listing Rules and a resolution was passed by the independent shareholders at the extraordinary general meeting held on 28 June 2003 to approve this transaction. Further details of the above transaction have been set out in the circular of the Company dated 9 June 2003.

(e) Pursuant to an agreement entered into by the Group and Dacheng Industrial on 17 July 2003, Changchun Baocheng Bio-chem Development Co., Ltd., a joint venture company in which the Group effectively owns 73% equity interest was established to be engaged in the production of certain new corn based biochemical products. The total investment cost and registered capital of the joint venture company amounted to US$29.90 million and US$12 million, respectively.

This transaction also constituted a connected transaction as defined under the Listing Rules and a resolution was passed by the independent shareholders at the extraordinary general meeting held on 19 August 2003 to approve this transaction. Further details of the above transaction have been set out in the circular of the Company dated 31 July 2003.

34. POST BALANCE SHEET EVENTS

(a) On 9 February 2004, the Group entered into agreements with Mitsui & Co., Ltd., Mitsui & Co., (H.K.) Ltd. and Nikken Fine Chemicals Co., Ltd. to establish certain joint venture companies in which the Group held 51% equity interest. The total investment cost for these joint venture companies amounted to US$15 million. The investment cost of these joint venture companies will be injected by the joint venture partners in cash according to their respective equity interest holding percentage. These joint venture companies will be engaged in the production of sorbitol products, certain new corn based biochemical products. These joint venture companies agreed to purchase a piece of land from Dacheng Industrial at a consideration of approximately HK$13,745,000 for the construction of the sorbitol plant.

(b) On 30 March 2004, the Company proposed to declare a final dividend of HK2.5 cents per ordinary share in respect of the year, to shareholders whose names appear on the register of members on 4 May 2004, as detailed in note 11 to the financial statements.

(c) On 30 March 2004, the Company proposed grant of one bonus warrant for every eight ordinary shares held, to shareholders whose names appear on the register of members on 4 May 2004.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2004.