

# NOTES TO FINANCIAL STATEMENTS

---

31 December 2004

## 1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The subsidiaries of the Group are primarily engaged in the extraction, refining, blending, bottling, packaging and distribution of edible oils and ancillary activities.

## 2. CORPORATE UPDATE

The Group sustained a consolidated net loss attributable to shareholders of approximately HK\$12 million for the year ended 31 December 2004. As at the year end date, the Group had a net asset value of approximately HK\$410 million and net current assets of approximately HK\$18 million. Of the Group's total bank borrowings of HK\$282 million, HK\$59 million is classified as current liabilities and repayable within one year. Further details of bank borrowings are set out in notes 21 and 23 to the financial statements.

Subsequent to the balance sheet date, the Group has taken various measures to reduce its indebtedness and improve its financial position, including realising certain of its non-current assets and reducing its bank borrowings (the "Debt Reduction").

On the basis of the progress made to date, the management is optimistic that the Debt Reduction will be successful and the Group will be able to reduce its indebtedness accordingly.

## 3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKAS"), hereinafter collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004, except for the following standards:

- HKFRS 3 Business Combinations;
- HKAS 36 Impairment of Assets; and
- HKAS 38 Intangible Assets.

Changes in the accounting policies have been made in accordance with the provisions of HKFRS 3, HKAS 36 and HKAS 38, which were prospectively applied from 1 January 2004.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

- (i) The early adoption of HKFRS 3 and HKAS 36 has resulted in a change in the accounting policy for goodwill and excess of the fair values of the identifiable assets, liabilities and contingent liabilities acquired over cost ("Negative Goodwill").

Prior to the adoption of HKFRS 3 and HKAS 36:

- goodwill arising from acquisitions after 1 January 2001 was amortised on the straight-line basis over a period of not exceeding 20 years;
- goodwill was assessed for impairment if there was any indication of impairment of such; and
- on disposal of subsidiaries, jointly-controlled entities or associates, any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition was written back and included in the calculation of the gain or loss on disposal.

In accordance with the provisions of HKFRS 3 and HKAS 36:

- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment;
  - Negative Goodwill is recognised immediately in the consolidated profit and loss account;
  - on disposal of subsidiaries, jointly-controlled entities or associates, any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition is transferred to retained profits as a movement in reserves and not included in the calculation of the gain or loss on disposal; and
  - reversals of impairment losses for goodwill is prohibited.
- (ii) The early adoption of HKAS 38 has had no significant impact on these financial statements in respect of the accounting policy for intangible assets.

# NOTES TO FINANCIAL STATEMENTS

---

31 December 2004

## **3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS** *(Continued)*

The Group has already commenced an assessment of the impact of other new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005, but is not yet in a position to state whether these new HKFRSs would have a significant impact on its result of operations and financial position.

## **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of accounting**

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 certain land and buildings and an investment property, 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 2004. 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.

### **Subsidiaries**

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses. Details of the principal subsidiaries are set out in note 15 to the financial statements.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Associates**

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

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

### **Jointly 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.

# NOTES TO FINANCIAL STATEMENTS

---

31 December 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Jointly-controlled entity**

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 of the jointly-controlled entity is calculated based on the audited results after making appropriate adjustments to conform to the Group's accounting policies and is included in the consolidated profit and loss account. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets of the joint venture company less any impairment losses.

Unrealised gains arising from transactions with a jointly-controlled entity are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### **Goodwill**

Goodwill on acquisition of subsidiaries, jointly-controlled entities and associates is initially measured at cost, being the excess of the cost of the business combination over the acquiree's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill arising on the acquisition of subsidiaries is recognised in the consolidated balance sheet as an asset and in the case of jointly-controlled entities and associates, any unamortised goodwill was included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions after 1 January 2004 is not amortised and goodwill already carried in the consolidated balance sheet before 1 January 2004 is not amortised after 1 January 2004. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the synergy of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Goodwill** *(Continued)*

Goodwill arising on acquisitions before 1 January 2001 was eliminated against the consolidated capital reserve in the year of acquisition. The Group applied the transitional provision of HKFRS 3 that permitted such goodwill to remain eliminated against the consolidated capital reserve and required such goodwill not to be recognised in the consolidated profit and loss account when the Group disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates become impaired.

### **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 fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss for an asset other than goodwill 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 an investment property, 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 including borrowing costs. 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 asset, the expenditure is capitalised as an additional cost of that asset.

# NOTES TO FINANCIAL STATEMENTS

---

31 December 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Fixed assets and depreciation** *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining terms of the leases
Buildings	2% to 2.5% or over the terms of the leases if shorter
Barges, vehicles, leasehold improvements, machinery and equipment	5% to 20%

The transitional provisions set out in paragraph 80 of SSAP 17 "Property, plant and equipment" have been adopted for fixed assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for the year ended 31 December 1993 have not been revalued by class at the balance sheet date.

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 sale proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

### **Investment property**

Investment property is an interest in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such property is stated at its open market value on the basis of annual professional valuation and is not depreciated except where the unexpired term of the lease is 20 years or less, in which case the then carrying amount is depreciated on the straight-line basis over the remaining lease term.

Changes in the value of the investment property are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Trademarks**

Trademarks with indefinite useful life are stated at cost less impairment losses and are not amortised.

### **Stocks**

Stocks are stated at the lower of cost, on the weighted average method, and net realisable value. Cost comprises direct materials and the related purchase costs. In the case of finished goods and work in progress, cost also includes direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less all 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.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability 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 interests in subsidiaries, associates and a jointly-controlled entity, 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 the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and



# NOTES TO FINANCIAL STATEMENTS

---

31 December 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Income tax** *(Continued)*

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and a jointly-controlled entity, 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 are dealt with in the profit and loss account.

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Recognition of revenue**

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:

- (i) from the sale of goods, on delivery of the goods to the customers;
- (ii) revenue from management, marketing, bottling, packaging and testing services, in the period in which the services are rendered;
- (iii) rental income, on the straight-line basis over the lease terms;
- (iv) royalties, in the period in which the related products are sold; and
- (v) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

### **Employee benefits**

#### *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

#### *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 (the "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.

# NOTES TO FINANCIAL STATEMENTS

---

31 December 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Employee benefits** *(Continued)*

#### *Employment Ordinance long service payments (Continued)*

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such future payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

#### *Retirement benefits schemes*

The Group operates defined contribution retirement benefits schemes, namely, the Mandatory Provident Fund Scheme (the "MPF Scheme") and the scheme registered under the Occupational Retirement Scheme Ordinance which has been exempted under the MPF Schemes Ordinance (the "Exempted Scheme") for those employees who are eligible to participate. Contributions are made based on a percentage of the employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the respective schemes. The assets of the respective schemes are held separately from those of the Group in independently administered funds. In accordance with the MPF Schemes Ordinance, when an employee leaves the Exempted Scheme prior to his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. For the MPF Scheme, the employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 11% of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

#### *Share option schemes*

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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.

### **Operating leases**

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

### **Related parties**

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

### **Cash 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 bank balances comprise cash on hand and at banks, including term deposits, which are not restricted to use.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 5. SEGMENT INFORMATION

The Group's primary segment is the edible oils and food related business segment. Since this is the only business segment of the Group, no further analysis thereof is presented.

Segment information is presented below in respect of the Group's geographical segment, which is regarded as the secondary segment. In determining the Group's geographical segments, revenue 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.

	Mainland China		Hong Kong		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue from external customers	<b>309,787</b>	271,252	<b>128,539</b>	156,137	<b>438,326</b>	427,389
Segment assets	<b>350,045</b>	405,373	<b>349,301</b>	367,043	<b>699,346</b>	772,416
Unallocated assets					<b>67,983</b>	65,853
					<b>767,329</b>	838,269
Capital expenditure incurred during the year	<b>548</b>	645	<b>2,012</b>	4,431	<b>2,560</b>	5,076

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 6. TURNOVER

Turnover represents the aggregate of the net invoiced value of goods sold, services rendered, rental, royalties and laboratory and testing fees income, but excludes intra-group transactions.

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Sale of goods and services	<b>416,017</b>	397,620
Royalties	<b>10,783</b>	15,629
Rental and other income	<b>11,526</b>	14,140
	<b>438,326</b>	427,389

## 7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
The Group's profit/(loss) from operating activities is arrived at after crediting:		
Rental income	<b>9,133</b>	11,129
Less: Outgoings	<b>(3,040)</b>	(2,848)
Net rental income	<b>6,093</b>	8,281
Gain on disposal of fixed assets	<b>37</b>	614
and after charging:		
Cost of stocks sold	<b>344,339</b>	327,735
Staff costs (including directors' emoluments in note 8):		
Wages and salaries	<b>28,715</b>	37,404
Pension scheme contributions	<b>1,022</b>	1,141
Less: Unvested contributions forfeited*	<b>(178)</b>	(82)
	<b>844</b>	1,059
	<b>29,559</b>	38,463
Depreciation	<b>25,172</b>	25,464
Minimum lease payments under operating leases in respect of land and buildings	<b>902</b>	853
Auditors' remuneration	<b>988</b>	838

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES *(Continued)*

\* At 31 December 2004, the Group had forfeited contributions available to reduce its future contributions to the Exempted Scheme amounted to \$276,000 (2003: Nil) as defined in note 4 to the financial statements.

## 8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

### (a) Directors' emoluments

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Non-executive directors	60	60
Independent non-executive directors	500	500
Salaries and allowances*	5,404	7,777
Retirement fund contributions	223	331
	<b>6,187</b>	8,668

\* Including fees paid to a management company in which a director is indirectly interested.

There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

### (a) Directors' emoluments *(Continued)*

The directors' emoluments are analysed as follows:

<b>Band</b>	<b>Group</b>	
	<b>2004 Number of directors</b>	<b>2003 Number of directors</b>
Nil to HK\$1,000,000	<b>7</b>	6
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	3
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	–
HK\$4,000,001 to HK\$4,500,000	<b>–</b>	1

As at the balance sheet date, certain directors held share options of the Company, which were granted in 2000, the details of which are set out in note 27 to the financial statements. No value in respect of the share options granted in prior years had been charged to the profit and loss account or included in the disclosure of directors' emoluments.

### (b) Senior executives' emoluments

The five highest paid individuals' (including three (2003: four) directors whose emoluments have been included in "Directors' emoluments" above) aggregate emoluments for the year are as follows:

	<b>Group</b>	
	<b>2004 HK\$'000</b>	<b>2003 HK\$'000</b>
Salaries and allowances	<b>5,973</b>	8,082
Retirement fund contributions	<b>288</b>	398
	<b>6,261</b>	8,480



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

### (b) Senior executives' emoluments *(Continued)*

The above emoluments are analysed as follows:

<b>Band</b>	<b>Group</b>	
	<b>2004</b> <b>Number of</b> <b>individuals</b>	2003 Number of individuals
Nil to HK\$1,000,000	<b>2</b>	1
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	3
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	–
HK\$4,000,001 to HK\$4,500,000	<b>–</b>	1

## 9. FINANCE COSTS, NET

	<b>Group</b>	
	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Interest on bank borrowings	<b>14,720</b>	16,232
Interest on other loans wholly repayable within five years	<b>134</b>	111
Total finance costs	<b>14,854</b>	16,343
Less: Interest income	<b>(272)</b>	(354)
	<b>14,582</b>	15,989

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Overseas taxes have been provided for at the applicable tax rates, if required.

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Group		
Current – Hong Kong		
Charge for the year	<b>1,624</b>	6,386
Overprovision in prior years	<b>(1,572)</b>	–
Current – elsewhere	–	133
Deferred – Note 25	<b>888</b>	(5,126)
	<b>940</b>	1,393
Share of tax attributable to a jointly-controlled entity		
– Hong Kong	<b>465</b>	407
Total tax charge for the year	<b>1,405</b>	1,800

*Note:* The Group received notices of assessment from the Inland Revenue Department in Hong Kong in respect of the Group's assessable profits arising from royalty income, which is under objection.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 10. TAX (Continued)

A reconciliation of the tax expense applicable to loss before tax using the statutory rate for the country in which the Company and the majority of its subsidiaries, associates and a jointly-controlled entity are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Loss before tax	<b>(10,355)</b>	(24,432)
Tax at the statutory tax rate	<b>(1,812)</b>	(4,276)
Effect of different tax rates in other jurisdictions	<b>764</b>	670
Effect of increase in rates on opening deferred tax	–	(68)
Income not subject to tax	<b>(5)</b>	(218)
Expenses not deductible for tax	<b>346</b>	235
Tax losses not recognised	<b>4,858</b>	5,871
Overprovision in respect of prior years	<b>(1,572)</b>	–
Utilisation of tax losses brought forward from previous periods	<b>(1,335)</b>	(414)
Others	<b>161</b>	–
Tax charge at the Group's effective rate	<b>1,405</b>	1,800

For certain subsidiaries incorporated in the British Virgin Islands, income tax has been provided at nil tax rate (2003: Nil) on the estimated profits arising in the British Virgin Islands for the year ended 31 December 2004.

Under 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 the coastal open economic zones of the PRC and the relevant tax authorities have granted the enterprises a preferential tax rate of 27%. CIT is payable based on the taxable income as reported in the statutory accounts which are prepared in accordance with PRC accounting regulations.

## 11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$11,794,000 (2003: HK\$57,948,000) (note 28(b)).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 12. LOSS PER SHARE

### (a) Basic loss per share

Basic loss per share is calculated based on the net loss attributable to shareholders of HK\$11,952,000 (2003: HK\$27,676,000), and the weighted average of 409,199,822 (2003: 409,139,450) shares in issue during the year.

### (b) Diluted loss per share

Diluted loss per share for both years have not been presented as the share options and warrants outstanding during the years had anti-dilutive effects on the basic loss per share for these years.

## 13. FIXED ASSETS

### Group

	Investment property HK\$'000	Leasehold land and buildings HK\$'000	Barges, vehicles, leasehold improvements, machinery and equipment HK\$'000	Total HK\$'000
Cost or valuation:				
At 1 January 2004	58,400	324,642	327,369	710,411
Additions	–	246	2,132	2,378
Disposals	–	–	(1,286)	(1,286)
<b>At 31 December 2004</b>	<b>58,400</b>	<b>324,888</b>	<b>328,215</b>	<b>711,503</b>
Accumulated depreciation and impairment:				
At 1 January 2004	–	84,118	161,784	245,902
Provided during the year	–	6,757	18,415	25,172
Disposals	–	–	(960)	(960)
<b>At 31 December 2004</b>	<b>–</b>	<b>90,875</b>	<b>179,239</b>	<b>270,114</b>
Net book value:				
<b>At 31 December 2004</b>	<b>58,400</b>	<b>234,013</b>	<b>148,976</b>	<b>441,389</b>
At 31 December 2003	58,400	240,524	165,585	464,509

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 13. FIXED ASSETS (Continued)

### Group (Continued)

The Group's investment property, which is situated at Lot 2024 in D.D. 121, Tong Yan San Tsuen, Yuen Long, New Territories, Hong Kong, is stated on the basis of a professional valuation performed by DTZ Debenham Tie Leung Limited, Chartered Surveyors, using an open market, existing use basis at 31 December 2004. The investment property is currently used for industrial purposes.

The revaluations of certain leasehold land and buildings situated in Hong Kong in 1993 were performed by Chesterton Petty Limited, Chartered Surveyors, on an open market, existing use basis as at 31 December 1993.

The leasehold land and buildings included above are held on the following lease terms:

	<b>Hong Kong, professional valuation at 31 December 1993 less accumulated depreciation and impairment losses</b>	<b>Hong Kong, at cost less accumulated depreciation</b>	<b>Elsewhere, at cost less accumulated depreciation</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term leases	1,124	–	4,717	5,841
Medium term leases	28,175	52,381	147,616	228,172
	<u>29,299</u>	<u>52,381</u>	<u>152,333</u>	<u>234,013</u>

Had the Group's land and buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$226,801,000 (2003: HK\$233,152,000).

Certain of the Group's land and buildings with an aggregate net book value of HK\$30,088,000 as at 31 December 2004 are let out under operating leases, further summary details of which are included in note 30(a) to the financial statements.

At 31 December 2004, investment property, certain leasehold land and buildings and certain plant and machinery of the Group with an aggregate carrying value of approximately HK\$294,047,000 (2003: HK\$309,409,000) were pledged to banks to secured bank facilities granted to the Group (note 21).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 14. TRADEMARKS

	Group	
	2004 HK\$'000	2003 HK\$'000
Cost:		
At 1 January 2004	<b>122,477</b>	122,235
Additions	<b>182</b>	242
At 31 December 2004	<b>122,659</b>	122,477

The directors are in the opinion that the Group's trademarks have indefinite useful life due to the following reasons:

- (i) The trademarks, which were acquired by the Group in 1988, have been in use for a very long time, some of them since the 1930s, and will continue to be used for the long term; and
- (ii) The Group has incurred and intends to continue to incur significant advertising and promotion expenses, which are charged to the profit and loss account when incurred, to maintain and increase the market value of its trademarks and brands.

Sallmanns (Far East) Limited, a firm of independent professionally qualified valuers, has confirmed, in their valuation of the Group's trademarks, that the market value of the trademarks exceeded the carrying value as at 31 December 2004. Based on that, the directors considered that no impairment provision is necessary.

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	<b>260,476</b>	260,476
Amounts due from subsidiaries	<b>258,317</b>	257,727
Provision for impairment	<b>518,793</b> <b>(109,000)</b>	518,203 (97,000)
	<b>409,793</b>	421,203

The amounts due from subsidiaries are unsecured, interest-free and not expected to be repaid in the next twelve months.

## NOTES TO FINANCIAL STATEMENTS

31 December 2004

### 15. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries of the Company at the balance sheet date were as follows:

<b>Name of company</b>	<b>Place of incorporation/ registration and operations</b>	<b>Issued/ registered and fully paid share capital</b>	<b>Percentage of equity interest attributable to the Company</b>	<b>Principal activities</b>
Hop Hing General Foods Limited	Hong Kong	HK\$2	100	Distribution of edible oils
Hop Hing International Limited	British Virgin Islands	US\$1,000	100	Investment holding
Hop Hing Management (China) Limited	Hong Kong	HK\$2	100	Distribution of edible oils
Hop Hing Oil Factory Limited	Hong Kong	HK\$24,000,010	100	Bottling, packaging and distribution of edible oils
Hop Hing Oil (Holdings) Limited	Hong Kong	HK\$88,241,505	100	Investment holding
Hop Hing Oil Trading (2000) Limited	Hong Kong	HK\$2	100	Distribution of edible oils
Hop Hing Oil Refinery Limited	Hong Kong	HK\$10,000,000	100	Edible oils refinery
Knight Investment Limited	Hong Kong	HK\$22	100	Property holding
Lapidus (1985) Limited	Hong Kong	HK\$12	100	Barge ownership
Monitor Ltd.	British Virgin Islands	US\$1	100	Trademark holding
Panyu Hop Hing Oils & Fats Co. Ltd.**	People's Republic of China/ Mainland China	HK\$75,000,000	100	Edible oils production

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 15. INTERESTS IN SUBSIDIARIES (Continued)

<b>Name of company</b>	<b>Place of incorporation/ registration and operations</b>	<b>Issued/ registered and fully paid share capital</b>	<b>Percentage of equity interest attributable to the Company</b>	<b>Principal activities</b>
Panyu Kwong Hing Packaging Company, Limited**	People's Republic of China/ Mainland China	HK\$50,000,000	100	Blending and distribution of edible oils
Pinghu Hop Hing Vegetable Oils Company, Limited*	People's Republic of China/ Mainland China	US\$1,400,000	51	Edible oils refinery
Sino Food Products Company (Holdings) Limited	Hong Kong	HK\$10	100	Distribution of edible oils
Wytak Limited	Hong Kong	HK\$10,090,000	100	Distribution of edible oils and property holding
Zhejiang Hop Hing Oils & Fats Company, Limited*	People's Republic of China/ Mainland China	US\$1,400,000	61	Edible oil refinery

\* Registered as equity joint ventures under PRC law.

\*\* Registered as wholly-foreign-owned enterprises under PRC law.

Except for Hop Hing International Limited, all subsidiaries are indirectly held by the Company.

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



# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 16. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	24,646	24,646
Due to associates	(26,071)	(26,071)
	<b>(1,425)</b>	(1,425)

The amounts due to associates are unsecured, interest-free and have no fixed terms of repayment.

Details of the associates of the Group at the balance sheet date were as follows:

Name of company	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
Omeron Profits Limited	Corporate	British Virgin Islands	50	Dormant
Tepac Profits Limited	Corporate	British Virgin Islands	50	Dormant

## 17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	57,220	55,090

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 17. INTEREST IN A JOINTLY-CONTROLLED ENTITY (Continued)

Details of the jointly-controlled entity at the balance sheet date were as follows:

Name of company	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
Evergreen Oils & Fats Limited ("Evergreen")	Corporate	Cayman Islands/ Hong Kong	50	Blending and distribution of edible oils, fats and shortenings

The state of affairs and income and profit of Evergreen are summarised as follows:

	2004 HK\$'000	2003 HK\$'000
<i>State of affairs</i>		
Current assets	231,270	247,965
Non-current assets	19,237	20,845
Current liabilities	(134,763)	(157,141)
Long term liabilities	(1,378)	(1,343)
Net assets attributable to venturers	<b>114,366</b>	110,326
<i>Income and profit</i>		
Turnover	<b>621,040</b>	587,278
Net profit for the year	<b>4,040</b>	3,218

## 18. STOCKS

	Group	
	2004 HK\$'000	2003 HK\$'000
Finished goods	7,110	13,282
Work in progress	652	400
Raw materials	35,729	29,914
	<b>43,491</b>	43,596

At the balance sheet date, certain stocks with carrying value of approximately HK\$2,293,000 (2003: HK\$2,293,000) were pledged to secure certain other loans (note 22).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 19. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable as at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current and less than 60 days	18,396	23,148
Over 60 days	1,772	1,166
	<b>20,168</b>	24,314

The Group's products are sold either on a cash on delivery basis, or on an open account basis ranging from 30 to 50 days of credit. Each customer has a maximum credit limit and overdue balances are regularly reviewed by senior management.

Accounts receivable of the Group include a trading balance due from a jointly-controlled entity of HK\$11,370,000 (2003: HK\$10,830,000), which is unsecured and interest-free.

## 20. PLEDGED CASH DEPOSITS

The pledged cash deposits were pledged to banks as securities for certain bills payable and bank loans (notes 21 and 23).

## 21. INTEREST-BEARING BANK LOANS

	Group	
	2004 HK\$'000	2003 HK\$'000
Secured	267,732	291,730
Unsecured	2,808	5,288
	<b>270,540</b>	297,018
Portion due within one year included under current liabilities	<b>(47,582)</b>	(41,060)
Long term portion	<b>222,958</b>	255,958

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 21. INTEREST-BEARING BANK LOANS (Continued)

	Group	
	2004 HK\$'000	2003 HK\$'000
The bank loans are repayable in various instalments within a period of:		
Less than one year or on demand	47,582	41,060
More than one year but less than two years	222,958	33,000
More than two years but not exceeding five years	–	222,958
	<b>270,540</b>	<b>297,018</b>

The secured bank loans were secured by certain cash deposits (note 20) and legal charges over certain properties and plant and machinery of the Group (note 13).

## 22. OTHER LOANS

	Group	
	2004 HK\$'000	2003 HK\$'000
Due to minority shareholders of subsidiaries:		
Secured	2,293	2,293
Unsecured	2,884	2,884
	<b>5,177</b>	<b>5,177</b>

The amounts due to the minority shareholders of subsidiaries bear interest at 5% to 6% per annum. During the year, certain minority shareholders waived interest totalling HK\$173,000 (2003: HK\$160,000) on the loans due to them by the Group.

The secured other loans are secured by floating charges over certain stocks of the Group (note 18).

## NOTES TO FINANCIAL STATEMENTS

---

31 December 2004

### 23. BILLS PAYABLE

Bills payable are secured by cash deposits of HK\$3,444,000 (2003: HK\$3,649,000) of the Group.

### 24. ACCOUNTS PAYABLE

An aged analysis of accounts payable as at the balance sheet date is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current and less than 60 days	18,791	20,595
Over 60 days	4,074	7,476
	<b>22,865</b>	28,071

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 25. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year is as follows:

### Deferred tax liabilities

#### Group

	<b>Accelerated tax depreciation</b> HK\$'000	<b>Revaluation of properties</b> HK\$'000	<b>Total</b> HK\$'000
At 1 January 2003	9,120	9,002	18,122
Deferred tax credited to equity during the year, including a debit of HK\$843,000 due to the effect of a change in tax rates	–	(5,420)	(5,420)
Deferred tax credited to the profit and loss account during the year, including a charge of HK\$855,000 due to the effect of a change in tax rates ( <i>note 10</i> )	(4,203)	–	(4,203)
At 31 December 2003 and 1 January 2004	4,917	3,582	8,499
Deferred tax charged to the profit and loss account during the year ( <i>note 10</i> )	888	–	888
Deferred tax liabilities at 31 December 2004	5,805	3,582	9,387

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 25. DEFERRED TAX (Continued)

### Deferred tax assets

#### Group

	<b>Losses available for offsetting against future taxable profit</b>
	HK\$'000
At 1 January 2003	9,840
Deferred tax credited to the profit and loss account during the year due to the effect of a change in tax rates (note 10)	<u>923</u>
Deferred tax assets at 31 December 2003, 1 January 2004 and 31 December 2004	<u>10,763</u>

Deferred tax assets has been recognised in respect of HK\$61,500,000 (2003: HK\$61,500,000) of such losses based on the expected future profit streams.

The Group has tax losses of HK\$119,873,000 (2003: HK\$126,717,000) arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK\$57,269,000 (2003: HK\$45,629,000) that are available for offsetting against future taxable profits of the companies in which the losses arose for a maximum of five years. 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 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries, associates or a jointly-controlled entity.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 26. SHARE CAPITAL

### Shares

	Group and Company	
	2004 HK\$'000	2003 HK\$'000
Authorised:		
800,000,000 (2003: 800,000,000) ordinary shares of HK\$0.10 each (2003: HK\$0.10 each)	80,000	80,000
120,000 (2003: 120,000) ordinary shares of US\$0.10 each (2003: US\$0.10 each)	93	93
	<b>80,093</b>	80,093
Issued and fully paid:		
409,252,938 (2003: 409,152,938) ordinary shares of HK\$0.10 each (2003: HK\$0.10 each)	40,925	40,915

During the year, 100,000 (2003: 27,200) shares of HK\$0.10 each were issued for cash at a subscription price of HK\$0.27 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of approximately HK\$27,000 (2003: HK\$7,000).

### Share options

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

### Warrants

During the year, 100,000 warrants were exercised for 100,000 shares of HK\$0.10 each at a price of HK\$0.27 per share. At the balance sheet date, the Company had 81,682,687 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 81,682,687 additional shares of HK\$0.10 each and cash proceeds, before the related issue expenses, of approximately HK\$22,054,000.



# NOTES TO FINANCIAL STATEMENTS

---

31 December 2004

## **27. SHARE OPTIONS**

On 25 June 2004, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 30 June 2000 (the "2000 Share Option Scheme") and the adoption of a new share option scheme (the "2004 Share Option Scheme") with rules complying with the new requirements of Chapter 17 of the Listing Rules. Upon termination of the 2000 Share Option Scheme, no further share options can be granted thereunder but in all other respects the provisions of the 2000 Share Option Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

### **(a) 2000 Share Option Scheme**

The purpose of this scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of this scheme include any full-time employee in the service of the Company or its subsidiaries. This scheme became effective on 30 June 2000 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares of HK\$0.10 each in the Company in respect of which share options may be granted will not exceed 10% of the issued shares of the Company (excluding any shares issued upon the exercise of options granted pursuant to this scheme) from time to time. The maximum entitlement of each participant under this scheme is limited to 25% of the shares issued and issuable under this scheme from time to time.

The offer of a grant of share options may be accepted within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors and shall in any event not less than 3 years or more than 10 years from the date on which it commences.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (a) 80% of the average the Stock Exchange closing price of the Company's shares for the 5 business days immediately preceding the date of grant of the options and (b) the nominal value of the shares.

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

### **(b) 2004 Share Option Scheme**

The purpose of this scheme is to provide incentives and rewards to the participants and to enhance their contribution to the success of the Group's operations. The participants of this scheme include any full-time employee and any director of the Company and its subsidiaries, and any person approved by the shareholders of the Company. This scheme became effective on 25 June 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

## 27. SHARE OPTIONS *(Continued)*

### (b) 2004 Share Option Scheme *(Continued)*

The maximum aggregate number of shares of HK\$0.10 each in the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under this scheme and any other schemes of the Company must not exceed in aggregate 10% of the shares in issue from time to time (the "Overall Scheme Limit"). No options may be granted under any scheme of the Company if such grant will result in the Overall Scheme Limit being exceeded.

The total number of shares which may be issued upon exercise of all options to be granted under this scheme and any other scheme must not in aggregate exceed 10% of the shares in issue as at the date of approval of this scheme (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of this scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Subject to the Overall Scheme Limit, the Company may seek approval from its shareholders in a general meeting for refreshing the Scheme Mandate Limit. However, the total number of Shares which may be issued upon exercise of all options to be granted under the refreshed limit must not exceed 10% of the Shares in issue as at the date of approval of the shareholders of the Company of the refreshing of the Scheme Mandate Limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options may be exercised in accordance with the terms of this scheme, shall: (i) be determined by the Directors; (ii) commence on the expiration of 12 months (or such shorter period as may be determined by the Directors) from the date of offer of options; and (iii) in any event not less than 3 years or more than 10 years from the date on which it commences.

The offer of a grant of options must be accepted within 21 days from the date of the offer. The exercise price of an option to subscribe for shares granted pursuant to this scheme shall not be less than whichever is the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made to a participant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date on which an offer is made; and (iii) the nominal value of the shares of the Company.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 27. SHARE OPTIONS (Continued)

At the balance sheet date, certain directors held share options granted to them under the 2000 Share Option Scheme entitling them to subscribe for shares of HK\$0.10 each in the Company upon the exercise of their subscription rights as follows:

Name of participant	Number of shares constituting the share options	Exercise period of share options	Exercise price of share options* HK\$	Price of the Company's shares at the date of grant of the options** HK\$
Hung Hak Hip	4,752,105	17 November 2000 to 16 November 2010	0.1834	0.227
Wong Yu Hong, Philip	2,045,565	30 November 2000 to 29 November 2005	0.2112	0.280
Sze Tsai To, Robert	2,045,565	22 November 2001 to 21 November 2006	0.1834	0.230
Cheung Wing Yui, Edward	2,045,565	17 November 2000 to 16 November 2005	0.1834	0.227
Hung Chiu Yee	2,045,565	17 November 2000 to 16 November 2010	0.1834	0.227
Lee Pak Wing	2,376,052	17 November 2000 to 16 November 2010	0.1834	0.227
Wong Kwok Ying	4,091,130	17 November 2000 to 16 November 2010	0.1834	0.227

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

\*\* 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 options.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 27. SHARE OPTIONS *(Continued)*

All the above share options were granted pursuant to a board resolution on 17 November 2000 and none of them were exercised during the year. Share options granted to Mr. Liu Chi Keung, Ricky under the 2000 Share Option Scheme with the right to subscribe for 4,091,130 shares of HK\$0.10 each of the Company lapsed upon his resignation as a director of the Company.

At the balance sheet date, the Company had 19,401,547 share options outstanding under the 2000 Share Option Scheme, which represented approximately 4.7% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 19,401,547 additional ordinary shares of the Company and additional share capital of approximately HK\$1,940,000 and share premium of approximately HK\$1,675,000 (before issue expenses).

During the year, no share options were granted or exercised under the 2004 Share Option Scheme.

## 28. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 28. RESERVES (Continued)

### (b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2003	231,504	231,383	(25,187)	437,700
Issue of shares (note 26)	5	–	–	5
Bonus warrants issue expenses	(57)	–	–	(57)
Net loss for the year	–	–	(57,948)	(57,948)
Balance at 31 December 2003 and 1 January 2004	231,452	231,383	(83,135)	379,700
Issue of shares (note 26)	17	–	–	17
Net loss for the year	–	–	(11,794)	(11,794)
Balance at 31 December 2004	231,469	231,383	(94,929)	367,923

The Company's contributed surplus arose in 1990 as a result of the Group reorganisation and represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiaries, net of the subsequent distribution therefrom.

Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders in certain circumstances. As at 31 December 2004, the total amount of reserves distributable to shareholders, including the Company's accumulated losses, amounted to HK\$136,454,000 (2003: HK\$148,248,000).

## 29. PLEDGE OF ASSETS

At the balance sheet date, investment property, certain leasehold land and buildings and certain plant and machinery of the Group with an aggregate carrying value of approximately HK\$294,047,000 (2003: HK\$309,409,000) (note 13), and cash deposits of the Group of approximately HK\$5,944,000 (2003: HK\$6,149,000) (note 20) were pledged to banks to secure banking facilities granted to the Group (note 21). In addition, certain stocks with carrying value of approximately HK\$2,293,000 (2003: HK\$2,293,000) were pledged to secure certain other loans (notes 18 and 22).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 30. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from two to eight years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>8,554</b>	8,064
In the second to fifth years, inclusive	<b>23,493</b>	21,808
After five years	–	2,822
	<b>32,047</b>	32,694

### (b) As lessee

The Group leases certain of its offices under operating lease arrangements. Leases for properties are negotiated for terms ranging between one to twenty-five years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>643</b>	529
In the second to fifth years, inclusive	<b>683</b>	619
After five years	<b>3,105</b>	3,243
	<b>4,431</b>	4,391

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following commitments at the balance sheet date:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Capital commitments for the acquisition of property, plant and equipment:		
Contracted for	<b>1,434</b>	1,902
Authorised, but not contracted for	<b>1,097</b>	2,878

The Company had no significant commitments at the balance sheet date (2003: Nil).

## 32. CONTINGENT LIABILITIES

### Group

- (a) At the balance sheet date, 33 (2003: 35) employees had completed the required number of years of service under the Employment Ordinance to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Employment Ordinance. If the termination of all these employees met the circumstances required by the Employment Ordinance, the Group's liability at the balance sheet date would be approximately HK\$396,000 (2003: HK\$444,000). No provision has been made for this amount in the financial statements as it is not considered probable that there will be an outflow of resources in respect thereof.
- (b) At the balance sheet date, the contingent liabilities in respect of guarantees given to banks to secure banking facilities utilised by the jointly-controlled entity of the Group amounted to HK\$21,697,000 (2003: HK\$45,544,000).

### Company

At the balance sheet date, the contingent liabilities of the Company in respect of guarantees given to banks to secure banking facilities utilised by a subsidiary and the jointly-controlled entity amounted to HK\$174,697,000 (2003: HK\$218,544,000).

# NOTES TO FINANCIAL STATEMENTS

31 December 2004

## 33. RELATED PARTY TRANSACTIONS

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

	Notes	2004 HK\$'000	2003 HK\$'000
Transactions with the jointly-controlled entity:			
Sale of goods	a	<b>35,853</b>	55,884
Purchases of goods/services	b	<b>52</b>	924
Production and oil refinement income	c	<b>32,753</b>	41,075
Royalty income	d	<b>10,783</b>	15,629
Property rental and tank farm income	e	<b>8,288</b>	10,228
Other property related income	f	<b>2,393</b>	2,939
Management and marketing fee income	g	<b>2,000</b>	2,000
Transactions with companies associated with the controlling shareholders of the Company:			
Sale of goods	a	<b>997</b>	–
Rental income	h	<b>2,076</b>	1,886
Transactions with companies in which a director of the Company has an indirect interest:			
Management fee expense	i	<b>540</b>	540

*Notes:*

- a. The sale of goods were at prices comparable to those offered to other unrelated customers of the Group.
- b. The purchases of goods/services were at prices comparable to those offered by other unrelated suppliers/providers.
- c. The production and oil refinement income was charged basing on agreements entered into with the jointly-controlled entity after an arm's length negotiation and was at rates comparable to those offered to other unrelated customers of the Group.
- d. Pursuant to a trademark licence agreement entered into between the Group and the jointly-controlled entity, the royalties received for the use of the trademarks are calculated based on a percentage, as agreed between the parties from time to time, on the gross sales value of licensed products sold by the jointly-controlled entity within Hong Kong and Macau.
- e. The property rental income related to the properties and barges included in fixed assets. The property rental income and tank farm income were charged by reference to the open market rentals and was subject to review on a regular basis.



# NOTES TO FINANCIAL STATEMENTS

---

31 December 2004

## **33. RELATED PARTY TRANSACTIONS** *(Continued)*

*Notes: (Continued)*

- f. The other property related income included air-conditioning charges and property management fee and were charged based on the cost incurred in managing the properties and providing air-conditioning services.
- g. The management fee income was charged based on the cost incurred for providing such services.
- h. The property rental income was charged by reference to open market rentals as advised by the independent property valuer.
- i. The management fee expenses represented the payment of remuneration to a director of the Company through a company in which he has an indirect interest therein.

The transactions with companies associated with the controlling shareholders of the Company constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## **34. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 28 April 2005.