

**1. CORPORATE INFORMATION**

During the year, the Group was principally engaged in property investment and development, hotel ownership and operations, and food processing and related businesses which include edible oils refining, wine-making, food trading and flour milling. As further detailed in note 38(i) to the financial statements, subsequent to the balance sheet date, the Group's interest in China Foods Holdings Limited ("China Foods") will be diluted from 51.13% to 24.5% and the Company will cease to be the controlling shareholder of China Foods. Accordingly at that time, the Group will then cease to be directly engaged in food processing and related businesses through its subsidiaries.

In the opinion of the Directors, the ultimate holding company is China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), which is registered in the People's Republic of China ("the PRC").

**2. 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 Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment and hotel properties, and other investments 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 2000. 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.

**Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share/registered capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the Directors, there have been permanent diminutions in values, when they are written down to values determined by the Directors.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Associates**

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

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

**Joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

**Jointly controlled entities**

Joint venture arrangements which involve the establishment of separate entities in which each venturer has an interest are referred to as jointly controlled entities.

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

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except where unrealised losses provided evidence of an impairment of the asset transferred.

**Other joint venture arrangements**

Investments made by means of joint venture structures which do not result in the Group having joint control with the other venturer are accounted for as subsidiaries (where the Group has unilateral control over the joint venture or controls the composition of its board of directors or equivalent governing body), associates (where the Group is in a position to exercise significant influence) or investments (where the Group exercises neither control nor significant influence).

Where the Group exercises neither control, nor significant influence over a joint venture, the investment in such joint venture is accounted for as a long term investment which is stated at cost less amortisation and/or provision for any other-than-temporary impairment in value, if necessary. Amortisation is provided to write off the cost in proportion to the expected return over the life of a joint venture.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Goodwill and capital reserve**

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates and jointly controlled entities represents the excess of purchase consideration paid for such entities over the fair values ascribed to the net underlying assets at the date of acquisition and is eliminated against reserves in the year in which it arises.

Capital reserve on consolidation represents the excess of the fair values ascribed to the net underlying assets of the acquired subsidiaries, associates or jointly controlled entities at the date of acquisition over the purchase consideration paid for such entities.

Upon the disposal of an interest in a subsidiary, an associate or a jointly controlled entity, the relevant portion of attributable goodwill or capital reserve previously eliminated against or taken to reserves is realised and taken into account in arriving at the gain or loss on disposal of the investment.

**Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length. Investment properties are stated at their open market values based on professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of the reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, the surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On subsequent sale of an investment property, any revaluation surplus attributable to that property is included in the determination of the profit and loss on disposal.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than 20 years.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Hotel properties**

Hotel properties are interests in land and buildings and their integral fixed plant, and are stated at annual professional valuations at the balance sheet date. Changes in the value of hotel properties are dealt with as movements in the hotel property revaluation reserve. Any surplus arising on the revaluation of a hotel property is credited to the hotel property revaluation reserve, except to the extent that it reverses a decrease in revaluation of the same hotel property previously recognised as an expense, then it is recognised as income. A decrease in net carrying amount arising on the revaluation of a hotel property is charged to the profit and loss account to the extent it exceeds the balance, if any, on the hotel property revaluation reserve relating to a previous revaluation of that hotel property. On the subsequent sale or retirement of a revalued hotel property, the attributable surplus is transferred to retained profits. No depreciation and amortisation are provided on hotel properties held on leases (including land use rights) of more than 20 years. It is the Group's practice to maintain the properties on a continual state of sound repairs and maintenance, and accordingly, the Directors consider that depreciation and amortisation are not material due to their high residual value. The related maintenance expenditure is dealt with in the profit and loss account in the year it is incurred.

**Fixed assets and depreciation**

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

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

Leasehold land	Over the remaining lease terms
Buildings	2% to 10%
Plant, machinery and equipment	2% to 25%
Other fixed assets	5% to 40%

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Fixed assets and depreciation** (cont'd)

Where, in the opinion of the Directors, the recoverable amounts of certain fixed assets have declined below their carrying amounts, provision are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

**Properties under development**

Properties under development are stated at the lower of actual cost and net realisable value. Cost comprises the cost of land together with direct costs, including interest charges, attributable to the development of the properties. Net realisable value is calculated as the estimated selling price less all further costs to completion and costs of marketing and selling.

**Capitalisation of borrowing costs**

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition or construction 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. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

**Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is calculated as the estimated selling price less all costs of marketing and selling.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**Long term investments**

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Other investments**

Other investments are those which are not classified as long term investments, and are stated at fair value, assessed by the Directors, at the balance sheet date. Unrealised holding gains or losses arising on revaluation to fair value are dealt with in the profit and loss account.

The profit or loss on disposal of other investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the investments, except in the case where the investee company was previously a subsidiary or an associate of the Company and there were reserves attributable to this investee company, in which case the relevant portion of reserves attributable to the disposal is also released to the profit and loss account.

**Inventories**

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

**Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

**Foreign currencies**

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

On consolidation, the financial statements of subsidiaries, associates and jointly controlled entities denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

**Retirement benefits scheme**

Retirement benefits are provided to certain staff employed by the Group. In accordance with the Mandatory Provident Fund Schemes Ordinance, the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO scheme, or the newly set up Mandatory Provident Fund Scheme (effective from 1 December 2000) under which employer's contributions have to be made. The assets of the schemes are held separately from those of the Group in independently administered funds. 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 Schemes. When an employee leaves the Mandatory Provident Fund Exempted ORSO scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. However, in respect of the Mandatory Provident Fund Scheme, the forfeited amount shall be refunded to the Group when the members leave employment prior to the vesting of any employer voluntary contributions. The Group's mandatory contributions are fully vested with the employees when the employees leave the scheme.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Retirement benefits scheme** (cont'd)

Prior to 1 December 2000, the Group operates a defined contribution retirement benefits scheme (i.e. the predecessor of the Mandatory Provident Fund Exempted ORSO scheme) for those employees who were eligible and had elected to participate in the scheme. The assets of the scheme were held separately from those of the Group in an independently administered fund. Contributions were made based on a percentage of the participating employees' basic salaries and were charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

**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) on the sale of goods and properties 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 and properties sold. When a property is developed for sale, income is recognised only when the property or any portion of it contracted for sale is completed and the relevant building occupation permit has been granted by the relevant authorities;
- (b) rental income, on the straight-line basis over the lease terms;
- (c) revenue from hotel operations and other ancillary services, in the period in which the services are rendered;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) dividends, when the Group's right to receive payment is established.

**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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

**3. TURNOVER AND REVENUE**

Turnover represents rental income, sales of properties, revenue from hotel ownership and operations and the net invoiced value of goods sold, after allowance for returns and trade discounts, during the year.

Revenue from the following activities has been included in turnover:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Properties investment and development		
Sales of properties	<b>265,967</b>	238,208
Rental income	<b>88,423</b>	85,141
	<b>354,390</b>	323,349
Hotel operations		
Hotel room revenue	<b>128,069</b>	123,987
Other ancillary services from hotel operations	<b>96,367</b>	92,153
	<b>224,436</b>	216,140
Food processing and related businesses		
Sales of goods	<b>1,297,922</b>	781,851
	<b>1,876,748</b>	1,321,340



#### 4. PROFIT FROM OPERATING ACTIVITIES

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

	2000 HK\$'000	1999 HK\$'000
Cost of inventories sold	1,279,380	776,671
Cost of hotel services provided	163,432	169,085
Cost of properties sold	180,220	157,537
Auditors' remuneration	2,580	2,180
Depreciation	48,761	49,751
Loss on disposal of fixed assets, net	1,065	765
Amortisation of a long term investment	1,400	3,200
Provision against inventories	–	12,617
Staff costs (including directors' remuneration – note 6):		
Wages and salaries	101,711	104,946
Retirement benefit scheme contributions	1,367	1,868
Less: Forfeited contributions	–	(100)
Net retirement benefit scheme contributions*	1,367	1,768
	103,078	106,714
Other operating expenses, net, including:		
Provision for impairment in values of fixed assets	4,855	–
Provision for impairment in values of other investments	642	1,320
Loss on disposal of subsidiaries	971	–
Provision for doubtful debts	9,223	–
Deficit on revaluation of hotel properties	6,953	–
Write-back of provision for doubtful debts	–	(15,571)
Write-back of provision for impairment in values of long term investments	(13,021)	(6,500)
Provision for diminution in value of properties under development	–	20,000
Gross rental income from investment properties	(88,423)	(85,141)
Less: Outgoings	12,468	5,485
Net rental income	(75,955)	(79,656)

**4. PROFIT FROM OPERATING ACTIVITIES** (cont'd)

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Write-back of provision against inventories	<b>(9,572)</b>	–
Write-back of provision for other expenses	–	(4,000)
Dividend from a long term investment	<b>(4,070)</b>	(12,589)
Exchange gains, net	<b>(706)</b>	(2,827)
Gain on trading of commodity future contracts	<b>(1,524)</b>	–
Gain on disposal of other investments	<b>(13,076)</b>	(471)
Interest income	<b>(68,248)</b>	(55,459)

\* The amount of forfeited contributions available at the current and prior year ends to reduce contributions in future years was not significant.

During the year, the Directors reviewed the overall presentation of the profit and loss account and considered that it would be more appropriate to classify the operating expenses in relation to the ancillary shopping mall operations under other operating expenses. Accordingly, adjustments have been made to reclassify such expenses which were previously classified under administrative expenses to other operating expenses to conform with the current year's presentation.

**5. FINANCE COSTS**

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	<b>9,643</b>	86,058
Bank loans not wholly repayable within five years	<b>60,793</b>	227
Loan from a holding company	<b>3,564</b>	3,465
Amounts due to fellow subsidiaries	<b>1,904</b>	–
Loan from a minority shareholder of a subsidiary	<b>826</b>	1,724
Total finance costs	<b>76,730</b>	91,474
Less: Interest capitalised to properties under development	–	(7,535)
Total finance costs charged for the year	<b>76,730</b>	83,939