

NOTES TO CONDENSED INTERIM ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim accounts (the “Interim Accounts”) of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“HKSSAP”) No. 25 “Interim Financial Reporting” and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that comparative figures for the condensed consolidated cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Listing Rules.

The accounting policies and basis of preparation used in the preparation of the Interim Accounts are the same as those used in the annual financial statements for the year ended 31 December 2000, except that the following new/revised HKSSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

- (a) According to the HKSSAP No. 30 “Business Combinations”, goodwill (negative goodwill) arising on the consolidation of subsidiaries and on acquisition of associates represents the excess (deficits) of the purchase consideration paid over the fair values ascribed to the net underlying assets acquired and should be amortized (recognised as income) on a systematic basis over its useful life. On disposal of subsidiaries and associates, the relevant portion of attributable goodwill (negative goodwill), net of accumulated amortisation and any impairment losses (net of accumulated amount recognised as income) is included in the calculation of the gain or loss on disposal.

In prior years, such goodwill (negative goodwill) is eliminated against (taken to) reserves in the year in which it arises.

The Group has complied with the HKSSAP prospectively for the first time in this interim reporting period, as the Group has taken advantage of the transitional provisions set out in the Statement.

In respect of the goodwill arising on acquisitions by a listed associate during the current period, it has been included in the interest in associate and has been amortised on a straight-line basis over its estimated useful life of 20 years.

- (b) The Group has adopted HKSSAP No. 31 "Impairment of assets" for the first time in this interim reporting period in accordance with its requirements. According to the HKSSAP, at each balance sheet date an assessment is made 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 impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

In prior years, prior to HKSSAP No. 31 becoming effective, the Group has not adopted a policy of recognising impairment losses in respect of goodwill written off against reserves. At 31 December 1999, there was indication that an impairment loss with an amount of HK\$167,549,000 should have been recognised in relation to goodwill arising on acquisitions of a number of subsidiaries. On adoption of the HKSSAP, a prior year adjustment is made in the Interim Accounts to recognise the impairment loss against the retained earnings balance as at 1 January 2000.

As a result of adoption of HKSSAP No.1 "Presentation of Financial Statements", the presentation of the unaudited consolidated profit and loss account for the six months ended 30 June 2000 have been revised to conform with the current period's presentation.

2. SEGMENTAL INFORMATION

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period. An analysis of the Group's turnover and contribution to (loss)/profit from operating activities by principal activity and geographical area of operations for the period is as follows:

	For the six months ended 30 June 2001		For the six months ended 30 June 2000	
	Turnover HK\$'000 (Unaudited)	Contribution to (loss)/profit from operating activities HK\$'000 (Unaudited)	Turnover HK\$'000 (Unaudited)	Contribution to (loss)/profit from operating activities HK\$'000 (Unaudited)
By activity:				
Continuing operations				
Property Investment and development	74,197	22,090	212,180	64,350
Hotel operation	107,376	23,124	109,735	27,426
	<u>181,573</u>	<u>45,214</u>	<u>321,915</u>	<u>91,776</u>
Discontinued operations				
Food processing and related business	677,357	11,965	717,722	(10,268)
	<u>858,930</u>	<u>57,179</u>	<u>1,039,637</u>	<u>81,508</u>
Dividend and interest income				
Continuing operations		1,454		2,321
Discontinued operation		3,905		29,828
Corporate and others				
Continuing operations		(24,297)		(14,336)
Discontinued operations		22,777		15,759
Loss on dilution of interest in a listed subsidiary		(160,169)		—
Provision for impairment loss of jointly controlled entities		(211,659)		—
Provision for impairment loss of fixed assets		(21,516)		—
Provision for impairment loss of properties under development		(283,091)		—
Deficit on revaluation of hotel properties		(54,546)		—
		<u>(669,963)</u>		<u>115,080</u>
By Geographical area:				
People's Republic of China:				
Hong Kong				
Continuing operations	28,799	(158,125)	29,425	15,383
Discontinued operations	486,239	23,161	479,392	38,315
Elsewhere				
Continuing operations	152,774	(550,485)	292,490	64,378
Discontinued operations	191,118	15,486	238,330	(2,996)
	<u>858,930</u>	<u>(669,963)</u>	<u>1,039,637</u>	<u>115,080</u>

3. DISCONTINUATION OF OPERATIONS

On 30 January 2001, the Company's then subsidiary, COFCO International Limited (then known as "China Foods Holdings Limited") ("COFCO International") entered into a sale and purchase agreement with China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO") and COFCO (Hong Kong) Limited ("COFCO (HK)") to purchase from COFCO (HK) the entire issued share capital of each of COFCO Oils & Fats Holdings Limited ("COFCO Oils & Fats") and COFCO Wines & Spirits Holdings Limited (the "Acquisitions").

On the same date, COFCO International entered into another sale and purchase agreement with COFCO and COFCO (HK) to procure COFCO Oils & Fats to purchase from COFCO (HK) the entire issued share capital of COFCO (BVI) No. 36 Limited (the "Great Ocean Acquisitions"). Details of the Acquisitions and the Great Ocean Acquisition are set out in the Company's circular dated 22 February 2001.

On 16 May 2001, COFCO International completed the Acquisitions and 692,656,250 new shares of COFCO International were issued as consideration. Following the completion of the Acquisitions, the Group's interests in COFCO International was diluted from 51.13% to 24.95% and the Company ceased to be the controlling shareholder of COFCO International.

On 18 May and 7 June 2001, COFCO International entered into two placing and subscription arrangements pursuant to which a total of 192,000,000 shares of COFCO International were placed to independent investors (the "Placings"). Following the completion of the Placings, 192,000,000 new shares of COFCO International were issued and the Group's interests in COFCO International was further diluted to 21.85%, which was also the Group's shareholding interests in COFCO International as at 30 June 2001. The dilution of the Group's interests in COFCO International resulted in a loss of HK\$160,169,000 on deemed disposal of the Group's interests in COFCO International.

Following the completion of the Great Ocean Acquisition on 4 September 2001, the Group's interests in COFCO International was further diluted to 21.52% after 24,202,697 new shares of COFCO International were issued as consideration.

During the period from 1 January 2001 to 16 May 2001, being the completion date of the Acquisitions, COFCO International contributed HK\$677,357,000 (six month ended 30 June 2000: HK\$717,722,000) to the Group's turnover and accounted for a profit of HK\$38,647,000 (six months ended 30 June 2000: HK\$35,319,000) to the Group's profit before tax.

4. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	For the Six months ended 30 June 2001 HK\$'000 (Unaudited)	For the Six months ended 30 June 2000 HK\$'000 (Unaudited)
Cost of inventories sold	679,507	723,213
Depreciation	20,224	25,929
and after crediting:		
Write back of provision for impairment in value of long term investments	–	(10,176)
Interest income	(25,808)	(26,504)

5. FINANCE COSTS

	For the six months ended 30 June 2001 HK\$'000 (Unaudited)	For the six months ended 30 June 2000 HK\$'000 (Unaudited)
Interest on:		
Bank loans wholly repayable within five years	31,072	5,599
Bank loans not wholly repayable within five years	–	31,747
Loan from a holding company	–	3,564
Amounts due to fellow subsidiaries	2,143	609
Loan from a minority shareholder of a subsidiary	376	376
Total finance costs charge for the period	33,591	41,895

6. TAX

Hong Kong profits tax has been provided at the rate of 16 per cent. (2000: 16 per cent.) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the Six months ended 30 June 2001 <i>HK\$'000</i> (Unaudited)	For the Six months ended 30 June 2000 <i>HK\$'000</i> (Unaudited)
The charge comprises:		
The Group:		
Hong Kong	1,880	1,780
Outside Hong Kong	3,143	19,887
	<u>5,023</u>	<u>21,667</u>
Share of tax attributable to associates	5,424	4,952
Share of tax attributable to jointly controlled entities	(264)	273
	<u>10,183</u>	<u>26,892</u>

7. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the net loss attributable to shareholders for the period of HK\$688,912,000, (2000: profit HK\$45,457,000) and 2,675,136,092 (2000: 2,675,136,092) ordinary shares in issue during the period.

No diluted (loss)/earnings per share has been presented as the exercise of the Company's outstanding exercisable share options would be anti-dilutive.

8. TRADE DEBTORS

The aging analysis of trade debtors balance is as follows:

	The Group	
	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Audited)
Outstanding balances with ages:		
Within 6 months	81,030	57,656
Between 7 to 12 months	8,857	6,762
Between 1 to 2 years	3,771	29,895
Over 2 years	258	27
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	93,916	94,340
Prepayment and other debts	31,268	81,539
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	125,184	175,879
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9. ACCOUNTS PAYABLE

The aging analysis of accounts payable balance is as follows:

	The Group	
	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Audited)
Outstanding balances with ages:		
Within 6 months	88,471	45,491
Between 7 to 12 months	5,878	8,958
Between 1 to 2 years	7,191	39,508
Over 2 years	85	8,860
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	101,625	102,817
Accrual and other liabilities	134,989	174,323
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	236,614	277,140
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10. SHARE CAPITAL

	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Audited)
Ordinary shares		
<i>Authorised:</i>		
5,000,000,000 ordinary shares of HK\$1.00 each	<u>5,000,000</u>	<u>5,000,000</u>
<i>Issued and fully paid:</i>		
2,675,136,092 ordinary shares of HK\$1.00 each	<u>2,675,136</u>	<u>2,675,136</u>

There were no changes in the authorised ordinary share capital of the Company during the period/year.

11. RESERVES

GROUP

	Share premium account HK\$'000 (Unaudited)	(Goodwill)/ Capital reserve HK\$'000 (Unaudited)	Investment property revaluation reserve HK\$'000 (Unaudited)	Hotel property revaluation reserve HK\$'000 (Unaudited)	Other property revaluation reserve HK\$'000 (Unaudited)	Exchange fluctuation reserve HK\$'000 (Unaudited)	Legal reserve HK\$'000 (Unaudited)	Capital redemption reserve HK\$'000 (Unaudited)	Retained profits HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2001	946,454	(121,471)	59,125	56,011	41,164	3,894	10,239	1,948	1,624,450	2,621,814
Prior year adjustment on impairment of goodwill (note 1)	-	167,549	-	-	-	-	-	-	(167,549)	-
Deficit on revaluation of hotel properties	-	-	-	(4,931)	-	-	-	-	-	(4,931)
Realisation of reserve upon deemed disposal of a subsidiary	-	48,161	-	-	-	-	-	-	-	48,161
Release of retained earnings upon deemed disposal of a subsidiary	-	177,230	-	-	-	-	-	-	(177,230)	-
Loss for the year attributable to shareholders	-	-	-	-	-	-	-	-	(688,912)	(688,912)
At 30 June 2001	<u>946,454</u>	<u>271,469</u>	<u>59,125</u>	<u>51,080</u>	<u>41,164</u>	<u>3,894</u>	<u>10,239</u>	<u>1,948</u>	<u>590,759</u>	<u>1,976,132</u>

12. COMMITMENTS

	The Group	
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Capital commitments contracted for in respect of property and plant	<u>26,620</u>	<u>72,924</u>

13. CONTINGENT LIABILITIES

	The Group	
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Guarantees given to banks in connection with facilities granted to an investee company	–	8,900
an associate	<u>–</u>	<u>270,550</u>

14. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with related parties during the period:

		For the six month ended 30 June 2001 HK\$'000 (Unaudited)	For the six month ended 30 June 2000 HK\$'000 (Unaudited)
	<i>Notes</i>		
Transactions with fellow subsidiaries:			
Rental income	(i)	2,872	3,724
Hotel management fee expense	(ii)	3,826	4,317
Building management fee	(i)	1,248	1,157
Purchase of goods and raw materials	(i)	60,121	462,738
Freight charges paid	(i)	5,431	5,217
Interest expenses paid	(v)	2,143	609
Transactions with a holding company:			
Interest expense	(iii)	–	3,564
Transactions with minority shareholders:			
Interest expenses paid	(i)	376	376
Transactions with ultimate holding company:			
Sale of goods	(i)	105,489	–

Notes:

- (i) These transactions were carried out at market price or, where no market price was available, at cost plus a percentage of the profit mark-up.
- (ii) The hotel management fee was charged at certain percentages of the gross operating profit and turnover of the relevant companies.
- (iii) The interest expense was charged on outstanding principal at HIBOR plus a specified margin.
- (iv) In addition to the above, COFCO granted a guarantee in favour of a bank in Mainland China for banking facilities granted to a non wholly-owned subsidiary of the Group at nil consideration. The outstanding bank loan amounted to approximately HK\$46,279,000 at the balance sheet date.
- (v) The interest expenses arose from the amounts due to certain fellow subsidiaries which are unsecured, bear interest at 3.5 per cent. – 6 per cent. per annum and were fully repaid during the current period under review.

15. SUBSEQUENT EVENTS

On 25 September 2001, the Company proposed an adjustment of the nominal value of the shares of the Company from HK\$1.00 to HK\$0.10 each by way of a reduction of capital. It is further proposed that conditional upon such reduction of capital become effective, the authorised share capital of the Company will immediately be restored to the original amount of HK\$5,000,000,000 by the creation of 45,000,000,000 new shares with nominal value of HK\$0.10 each. Upon the reduction of capital involved in the adjustment becoming effective, the credit arising from the reduction will be transferred to a special reserve account of the Company subject to such conditions as the High Court of Hong Kong may impose.

16. APPROVAL OF THE INTERIM ACCOUNTS

The Interim Accounts were approved by the board of Directors on 25 September 2001.