

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

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 and beverage, food trading and flour milling.

As further detailed in note 4 to the financial statements, subsequent to the balance sheet date, the Group disposed of its 21.52% equity interest in COFCO International Limited ("COFCO International"), which represented the entire beneficial interest of COFCO International held by the Group, on 10 February, 2003. Thereafter, the Group ceased its food processing and related businesses.

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. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 28 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss account of overseas subsidiaries, jointly-controlled entities and associates are now translated into Hong Kong dollars at the weighted average exchange rate for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

Notes to the Financial Statements

31 December 2002

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (cont'd)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash and Cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinuing operations are now included in the consolidated profit and loss account, consolidated cash flow statement and note 4 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 34 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment and hotel properties, 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 2002. 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.

Notes to the Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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 at cost less any impairment losses.

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 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, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

Joint venture companies

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

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

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company 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 Company 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 the Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Jointly-controlled entities

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Notes to the Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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.

Notes to the Financial Statements

31 December 2002

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset, other than investment and hotel properties, 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.

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.

Notes to the Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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. 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 a lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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.

Notes to the Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 consolidated profit and loss account.

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

Employee benefits

Retirement benefits scheme

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

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. The Group contributes to these schemes in respect of its employees in the PRC. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Notes to the Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Employee benefits (cont'd)

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Share options scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is 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.

Revenue recognition

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

- (a) from the sale of goods 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 shareholders' right to receive payment has been established.

Notes to the Financial Statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 as to use.

4. DISCONTINUING OPERATIONS

In the prior year, on 31 January 2001, the Group granted an option to COFCO (Hong Kong) Limited ("COFCO (HK)"), the immediate holding company, to acquire or procure a transferee to acquire from the Group 337,637,002 shares in the capital of COFCO International at an exercise price of HK\$2.50 per share. Such 337,637,002 shares represented the Group's entire beneficial shareholding in COFCO International and also represented approximately 21.52% of the issued share capital of COFCO International as at the balance sheet date.

Subsequent to the balance sheet date, on 30 January 2003, the Group publicly announced that it had received notice from COFCO (HK) that COFCO (HK) had exercised the option to acquire the aforesaid 337,637,002 shares from the Group. The sale and purchase was completed on 10 February 2003. The aggregate exercise price is approximately HK\$844 million. The gain on disposal is approximately HK\$47,416,000 (note 18) based on the net asset value of COFCO International at 31 December 2002 and adjusted for the goodwill on acquisition of COFCO International previously eliminated to reserve.

Following the disposal of shares in COFCO International, the Group discontinued the operations of food processing and related businesses.

The carrying amounts of the total assets relating to the discontinuing operations at 31 December 2002 was HK\$761,380,000 (2001: HK\$701,104,000). Since the Group's interest in COFCO International is stated in the consolidated balance sheet at the Group's share of net assets under equity method of accounting, there was no liability relating to the discontinuing operations at 31 December 2002. The goodwill arising on acquisition of COFCO International remaining in the Group's capital reserve amounted to approximately HK\$35,296,000. This goodwill will be written back and included in the calculation of gain on disposal.

Notes to the Financial Statements

31 December 2002

4. DISCONTINUING OPERATIONS (cont'd)

The turnover, other revenue, expenses and results from the ordinary operations of the discontinuing operations are as follows:

	2002 HK\$'000	2001 HK\$'000
TURNOVER	–	677,357
Cost of sales	–	(663,200)
Gross profit	–	14,157
Other revenue	–	37,815
Selling and distribution costs	–	(5,154)
Administrative expenses	–	(18,638)
Other operating income, net	–	10,467
PROFIT FROM OPERATING ACTIVITIES	–	38,647
Finance costs	–	(3,288)
Share of profits and losses from associates	102,416	62,885
PROFIT BEFORE TAX	102,416	98,244
Tax	(15,130)	(12,480)
NET PROFIT BEFORE MINORITY INTERESTS	87,286	85,764
Minority interests	–	(24,325)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	87,286	61,439

Notes to the Financial Statements

31 December 2002

4. DISCONTINUING OPERATIONS (cont'd)

The net cash flows attributable to the discontinuing operations are as follows:

	2002 HK\$'000	2001 HK\$'000
Operating	-	(46,978)
Investing	27,011	44,894
Financing	-	7,413
Net cash inflows	27,011	5,329

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the hotel operations segment engages in hotel room rental and other ancillary services including foods and beverage;
- (b) the property investment and development segment engages in property development and the sale and letting of properties;
- (c) the corporate and others segment comprises the Group's management service business together with corporate income and expense items; and
- (d) the foods and food processing segment engages in food processing and related businesses including edible oils refining, wine-making and beverage, food trading and flour milling.

In determining the Group's geographical segments, revenues and results 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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to the Financial Statements

31 December 2002

5. SEGMENT INFORMATION (cont'd)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

GROUP	Hotel operations		Property investment and development		Corporate and others		Eliminations		Total continuing sector		Discontinuing - Foods and food processing		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	196,804	201,686	352,669	149,864	13,450	11,712	-	-	562,923	363,262	-	677,357	562,923	1,040,619
Intersegment sales	-	-	1,442	1,040	7,427	8,159	(8,869)	(9,199)	-	-	-	-	-	-
Other revenue	40,536	-	17,374	1,381	796	4,854	-	-	58,706	6,235	-	16,517	58,706	22,752
Total	237,340	201,686	371,485	152,285	21,673	24,725	(8,869)	(9,199)	621,629	369,497	-	693,874	621,629	1,063,371
Segment results	43,829	(12,856)	(58,994)	(478,876)	(10,854)	(186,080)	-	-	(26,019)	(677,812)	-	17,349	(26,019)	(660,463)
Interest income and unallocated gains													7,144	30,621
Unallocated expenses													(7,148)	(11,558)
Loss from operating activities													(26,023)	(641,400)
Finance costs													(33,654)	(49,522)
Share of profits and losses of:													(59,677)	(690,922)
Jointly-controlled entities	-	-	(275)	(3,502)	-	-	-	-	(275)	(3,502)	-	-	(275)	(3,502)
Associates	10,652	4,652	-	-	-	-	-	-	10,652	4,652	102,416	62,885	113,068	67,537
Profit/(loss) before tax													53,116	(626,887)
Tax													(17,008)	(24,536)
Profit/(loss) before minority interests													36,108	(651,423)
Minority interests													(31,527)	(4,692)
Net profit/(loss) from ordinary activities attributable to shareholders													4,581	(656,115)
Segment assets	1,599,714	1,661,968	3,115,629	2,965,459	10,510	11,530	-	-	4,725,853	4,638,957	6	2	4,725,859	4,638,959
Interests in associates	165,619	163,801	-	-	-	-	-	-	165,619	163,801	761,380	701,104	926,999	864,905
Interests in jointly-controlled entities	-	-	324,141	382,573	-	-	-	-	324,141	382,573	-	-	324,141	382,573
Unallocated assets													283,799	267,184
Total assets	1,765,333	1,825,769	3,439,770	3,348,032	10,510	11,530	-	-	5,215,613	5,185,331	761,386	701,106	6,260,798	6,153,621
Segment liabilities	1,474,247	1,517,382	2,003,400	1,929,202	7,227	20,978	(3,219,079)	(3,201,182)	265,795	266,380	1,510	1,510	267,305	267,890
Unallocated liabilities													909,052	1,090,305
Total liabilities													1,176,357	1,358,195
Other segment information:														
Depreciation	819	1,422	30,676	30,850	876	1,234	-	-	32,371	33,506	-	5,023	32,371	38,529
Impairment losses recognised in the profit and loss account	-	-	22,532	515,468	-	-	-	-	22,532	515,468	-	-	22,532	515,468
Deficits on revaluation recognised in the profit and loss account	46,708	55,001	97,527	-	-	-	-	-	144,235	55,001	-	-	144,235	55,001
Other non-cash expenses	576	3,943	10,102	9,969	3,334	167,771	-	-	14,012	181,683	-	-	14,012	181,683
Capital expenditure	7,708	6,323	201,325	126,619	1,595	6	-	-	210,628	132,948	-	1,726	210,628	134,674
Deficits on revaluation recognised directly in equity	30,222	11,953	48,989	48,443	-	-	-	-	79,211	60,396	-	-	79,211	60,396

Notes to the Financial Statements

31 December 2002

5. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The following tables present revenue, and certain asset and expenditure information for the Group's geographical segments.

GROUP

	Hong Kong		Elsewhere in the PRC		Corporate and others		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:										
Continuing	53,252	49,377	509,671	313,885	-	-	-	-	562,923	363,262
Discontinuing	-	486,239	-	191,118	-	-	-	-	-	677,357
Sales to external customers	<u>53,252</u>	<u>535,616</u>	<u>509,671</u>	<u>505,003</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>562,923</u>	<u>1,040,619</u>

	Hong Kong		Elsewhere in the PRC		Corporate and others		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Other segment information:										
Continuing	1,139,999	1,399,722	4,350,644	4,042,655	8,775	10,140	-	-	5,499,418	5,452,517
Discontinuing	94,514	489,510	666,866	211,594	-	-	-	-	761,380	701,104
Segment assets	<u>1,234,513</u>	<u>1,889,232</u>	<u>5,017,510</u>	<u>4,254,249</u>	<u>8,775</u>	<u>10,140</u>	<u>-</u>	<u>-</u>	<u>6,260,798</u>	<u>6,153,621</u>
Continuing	1,648	1,146	208,980	131,802	-	-	-	-	210,628	132,948
Discontinuing	-	-	-	1,726	-	-	-	-	-	1,726
Capital expenditure	<u>1,648</u>	<u>1,146</u>	<u>208,980</u>	<u>133,528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>210,628</u>	<u>134,674</u>

Notes to the Financial Statements

31 December 2002

6. TURNOVER, REVENUE AND GAINS

Turnover represents rental income, sale of properties, revenue from hotel ownership and operations, after allowances for returns and trade discounts, during the year.

An analysis of turnover, other revenue and gains is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Property investment and development:		
Sales of properties	264,704	72,869
Gross rental income from investment properties	84,184	70,525
Gross rental income from land and buildings	17,231	18,182
	<u>366,119</u>	<u>161,576</u>
Hotel operations:		
Hotel room revenue	118,144	118,870
Other ancillary services from hotel operations	78,660	82,816
	<u>196,804</u>	<u>201,686</u>
Food processing and related businesses:		
Sale of goods	–	677,357
	<u>562,923</u>	<u>1,040,619</u>
Other revenue		
Interest income	7,144	30,278
Indemnity from immediate holding company (note 40 (iv))	14,667	–
Indemnity from ultimate holding company (note 40 (v))	40,536	–
Others	3,419	9,293
	<u>65,766</u>	<u>39,571</u>
Gains		
Gain on trading of commodity future contracts	–	12,737
Gain on disposal of investment properties	–	950
Gain on disposal of fixed assets	84	115
	<u>84</u>	<u>13,802</u>
	<u>65,850</u>	<u>53,373</u>

Notes to the Financial Statements

31 December 2002

7. LOSS FROM OPERATING ACTIVITIES

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

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	–	663,200
Cost of hotel services provided	146,803	159,198
Cost of properties sold	231,602	58,901
Auditors' remuneration	1,129	1,319
Depreciation	32,371	38,529
Loss on disposal of fixed assets, net	191	1,793
Amortisation of a long term investment	–	583
Staff costs (including Directors' remuneration – note 9):		
Wages and salaries	67,763	65,349
Retirement benefits scheme contributions	3,224	2,634
Less: Forfeited contributions	(374)	–
Net retirement benefits scheme contributions*	2,850	2,634
	70,613	67,983
Other operating expenses, net, including:		
Impairment of fixed assets	14,794	21,516
Impairment of properties held for sale	7,738	–
Provision for doubtful debts	9,626	5,607
Deficit on revaluation of hotel properties (note 15)	46,708	55,001
Write back of provision for impairment of long term investments	–	(10,467)
Write back of unutilised provisions (note 16)	(5,259)	(20,000)
Others	19,848	29,619
	93,455	81,276
Gross rental income	(101,415)	(88,707)
Less: Outgoings	28,280	15,300
Net rental income	(73,135)	(73,407)
Exchange losses/(gains), net	512	(103)

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

Notes to the Financial Statements

31 December 2002

8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans wholly repayable within five years	33,654	49,545
Less: Interest capitalised to properties under development	—	(23)
Total finance costs charged for the year	<u>33,654</u>	<u>49,522</u>

9. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive Directors	400	512
Independent non-executive Directors	<u>200</u>	<u>200</u>
	600	712
Other emoluments to executive Directors:		
Salaries, allowances and benefits in kind	4,236	3,794
Retirement benefits scheme contributions	<u>208</u>	<u>210</u>
	4,444	4,004
Total Directors' remuneration	<u>5,044</u>	<u>4,716</u>

Notes to the Financial Statements

31 December 2002

9. DIRECTORS' REMUNERATION (cont'd)

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

	Number of Directors 2002	Number of Directors 2001
Nil – HK\$1,000,000	7	5
HK\$3,000,001 – HK\$3,500,000	1	1
	<u>8</u>	<u>6</u>

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2001: one) Director, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2001: four) non-Director, highest paid employees are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	3,173	4,664
Retirement benefits scheme contributions	121	186
	<u>3,294</u>	<u>4,850</u>

The remuneration of the above non-Director, highest paid employees fell within the following bands:

	Number of employees 2002	Number of employees 2001
Nil – HK\$1,000,000	4	3
HK\$2,000,001 – HK\$2,500,000	–	1
	<u>4</u>	<u>4</u>

Notes to the Financial Statements

31 December 2002

11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China and overseas countries 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.

	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	573	4,023
Mainland China and overseas taxes	(11)	8,859
Deferred tax (note 31)	(190)	(449)
	<u>372</u>	<u>12,433</u>
Share of tax attributable to:		
Associates	16,249	11,370
Jointly-controlled entities	387	733
	<u>16,636</u>	<u>12,103</u>
Tax charge for the year	<u>17,008</u>	<u>24,536</u>

There was no significant unprovided deferred tax in respect of the year (2001: Nil).

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$10,037,000 (2001: net loss of HK\$266,556,000).

13. DIVIDEND

No interim dividend was paid during the year and the Directors do not recommend the payment of any final dividend for the year (2001: Nil).

Notes to the Financial Statements

31 December 2002

14. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$4,581,000 (2001: loss of HK\$656,115,000) and the weighted average of 2,852,867,736 (2001: 2,675,136,092) ordinary shares in issue during the year. The rights issue during the year has no impact on the earnings per share for the prior year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2002 and 2001 have not been disclosed as no diluting events existed during these years.

15. FIXED ASSETS

GROUP	Hotel properties HK\$'000	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Plant, machinery and equipment HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	1,625,000	1,244,010	632,654	32,205	105,379	3,639,248
Additions	7,676	–	–	–	2,827	10,503
Transfer from properties under development (note 16)	–	181,499	–	–	12,130	193,629
Disposals	(238)	–	–	–	(5,273)	(5,511)
Deficits on revaluation, net	(76,930)	(123,734)	–	–	–	(200,664)
At 31 December 2002	1,555,508	1,301,775	632,654	32,205	115,063	3,637,205
Analysis of cost or valuation:						
At cost	–	–	632,654	32,205	115,063	779,922
At 2002 valuation	1,555,508	1,301,775	–	–	–	2,857,283
	1,555,508	1,301,775	632,654	32,205	115,063	3,637,205
Accumulated depreciation and impairment:						
At beginning of year	–	–	82,981	25,750	83,346	192,077
Provided during the year	–	–	17,135	3,221	12,015	32,371
Disposals	–	–	–	–	(5,029)	(5,029)
Impairment during the year recognised in the profit and loss account	–	–	14,794	–	–	14,794
At 31 December 2002	–	–	114,910	28,971	90,332	234,213
Net book value:						
At 31 December 2002	1,555,508	1,301,775	517,744	3,234	24,731	3,402,992
At 31 December 2001	1,625,000	1,244,010	549,673	6,455	22,033	3,447,171

Notes to the Financial Statements

31 December 2002

15. FIXED ASSETS (cont'd)

The net book values of the Group's leasehold land and buildings and investment and hotel properties are analysed as follows:

	Leasehold land and buildings		Investment properties		Hotel properties	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Long term leases in Hong Kong	198,300	218,956	834,000	919,870	–	–
Long term leases in Mainland China	–	–	459,000	314,000	528,000	556,000
Medium term leases in Mainland China	319,444	330,717	–	–	1,027,508	1,069,000
Freehold in other location	–	–	8,775	10,140	–	–
At 31 December	<u>517,744</u>	<u>549,673</u>	<u>1,301,775</u>	<u>1,244,010</u>	<u>1,555,508</u>	<u>1,625,000</u>

Certain of the Group's leasehold land and buildings in Hong Kong were reclassified from investment properties in 1998 at their then carrying value of HK\$247,876,000, as valued on 30 June 1998 by a firm of independent professionally qualified valuers, Chesterton Petty Limited, on an open market value basis.

Except for the revaluation of the Group's freehold property which was conducted by Paragon Appraisal Services, Inc., a firm of independent professionally qualified valuers, the Group's investment and hotel properties were revalued by Chesterton Petty Limited. All these properties were revalued on an open market basis, based on their existing use, at 31 December 2002. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38 to the financial statements.

Revaluation deficits of hotel properties are accounted for in these financial statements as follows:

	HK'000
Revaluation deficit	76,930
Charged to revaluation reserve (note 35)	<u>(30,222)</u>
Charged to profit and loss account (note 7)	<u>46,708</u>

Notes to the Financial Statements

31 December 2002

15. FIXED ASSETS (cont'd)

Revaluation deficits of investments properties are accounted for in these financial statements as follows:

	HK'000
Revaluation deficit, net	123,734
Minority interests' share of revaluation surplus	22,782
	<hr/>
Group's share of revaluation deficit, net	146,516
Charged to revaluation reserve (note 35)	(48,989)
	<hr/>
Charged to profit and loss account	97,527
	<hr/>

Had the leasehold land and buildings and hotel properties of the Group been carried at historical cost less accumulated depreciation, their carrying values as at 31 December 2002 would have been HK\$169,406,000 (2001: HK\$177,669,000) and HK\$1,409,081,000 (2001: HK\$1,456,163,000), respectively.

The Group's hotel properties in Beijing are situated on a piece of land with land use rights expiring in October 2006. Based on legal opinion obtained from the legal advisers on the laws of the PRC, the land use rights can be renewed for a further period of 26 years, up to October 2032 upon payment of land premium. It is the intention of the Directors to renew the land use rights in due course.

The provision for impairment of leasehold land and buildings of HK\$14,794,000 recognised during the year arose from adverse market conditions. The impairment loss was estimated by the Directors based on the recoverable amounts, which are determined by reference to the valuation on an open market basis at 31 December 2002.

Notes to the Financial Statements

31 December 2002

16. PROPERTIES UNDER DEVELOPMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
At beginning of year	953,932	1,065,938
Additions	200,125	63,901
Deposits paid	–	106,363
Interest capitalised	–	23
Transfer to fixed assets (note 15)	(12,130)	–
Transfer to investment properties (note 15)	(181,499)	–
Transfer to properties held for sale	(28,835)	–
Transfer to cost of sales	(125,502)	–
Provision for impairment	–	(282,293)
At 31 December	806,091	953,932

The Group's properties under development are analysed as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Long term leases in Hong Kong	75,363	75,309
Medium term leases in Mainland China	730,728	878,623
At 31 December	806,091	953,932

Notes to the Financial Statements

31 December 2002

16. PROPERTIES UNDER DEVELOPMENT (cont'd)

During the year, an agreement was signed with an independent third party to exchange a piece of land in Mainland China for another piece of land in Mainland China because the original land has been changed from residential use to industrial use by the local government. The relevant process for accomplishing the Group's titles and interests in the newly offered land for exchange was still in progress as at 31 December 2002. A provision for legal cost in relation to the exchange of land was made in prior years. Following the signing of the aforesaid agreement, the unutilised provision has been reversed as follows:

	HK'000
At beginning of year	5,259
Reversal of unutilised amounts (note 7)	(5,259)
	<u> </u>
At 31 December 2002	<u> </u> —

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	1,614,584	1,537,554
Due from subsidiaries	5,222,541	5,255,028
Due to subsidiaries	(840,202)	(898,446)
	<u> </u>	<u> </u>
Provision for impairment	5,996,923 (1,189,499)	5,894,136 (1,215,939)
	<u> </u> 4,807,424	<u> </u> <u>4,678,197</u>

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

Particulars of the Company's principal subsidiaries as at 31 December 2002 are set out in note 41 to the financial statements.

Notes to the Financial Statements

31 December 2002

18. INTERESTS IN ASSOCIATES

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	874,591	804,783
Due from associates	52,408	60,122
	<u>926,999</u>	<u>864,905</u>

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

Particulars of the Group's associates as at 31 December 2002 are set out in note 42 to the financial statements.

Included in the Group's share of net assets of its associates is the share of net assets of COFCO International which, in the opinion of the Directors, is material in the context of the Group's financial statements. Details of net assets of COFCO International and its subsidiaries (collectively the "COFCO International Group") and their respective results are set out below:

COFCO International Group*

	As at 31 December 2002 HK\$'000	As at 31 December 2001 HK\$'000
Non-current assets	2,951,535	2,547,186
Current assets	4,504,594	3,356,745
Current liabilities	(2,755,896)	(1,611,932)
Long term liabilities	(399,349)	(388,415)
Minority interests	(757,598)	(641,865)
	<u>3,543,286</u>	<u>3,261,719</u>

Notes to the Financial Statements

31 December 2002

18. INTERESTS IN ASSOCIATES (cont'd)

	Year ended 31 December 2002 HK\$'000	Year ended 31 December 2001 HK\$'000
Turnover	<u>11,110,532</u>	<u>6,205,430</u>
Profit before tax	573,600	331,527
Tax	<u>(70,308)</u>	<u>(34,027)</u>
Profit before minority interests	503,292	297,500
Minority interests	<u>(97,689)</u>	<u>(85,734)</u>
Net profit from ordinary activities attributable to shareholders	<u>405,603</u>	<u>211,766</u>
Contingent liabilities	<u>–</u>	<u>15,566</u>

* The above figures are extracted from the published audited financial statements of COFCO International.

Subsequent to the balance sheet date, the Group disposed of its entire shareholding in COFCO International and discontinued the operations of food processing and related businesses. The gain on disposal is approximately HK\$47,416,000 based on the net asset value of COFCO International as at 31 December 2002. Details are set out in note 4 to the financial statements.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	463,410	468,184
Due from jointly-controlled entities	<u>72,390</u>	<u>126,048</u>
	535,800	594,232
Provision for impairment	<u>(211,659)</u>	<u>(211,659)</u>
	<u>324,141</u>	<u>382,573</u>

Notes to the Financial Statements

31 December 2002

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (cont'd)

Included in the amounts due from jointly-controlled entities is an unsecured loan of HK\$40,748,000 (2001: HK\$84,112,000), which bears interest at 5.841% per annum and is repayable within one year. The remaining amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Group's jointly-controlled entities as at 31 December 2002 are set out in note 43 to the financial statements.

20. INVENTORIES

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Finished goods	2,510	3,390
Hotel inventories	9,242	11,695
	<u>11,752</u>	<u>15,085</u>

The carrying amount of inventories was stated at cost as at the balance sheet date.

21. PROPERTIES HELD FOR SALE

The carrying amount of properties carried at net realisable value included in properties held for sale was HK\$135,261,000 (2001: Nil) as at the balance sheet date.

The provision for impairment of HK\$7,738,000 recognised during the year arose from adverse market conditions. The impairment loss was estimated by the Directors based on the recoverable amounts, which are determined by reference to the valuation on an open market basis at 31 December 2002.

22. OTHER INVESTMENT

	GROUP AND COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted investment outside Hong Kong at fair value	<u>1,138</u>	<u>1,138</u>

Notes to the Financial Statements

31 December 2002

23. TRADE RECEIVABLES, PREPAYMENTS AND OTHER DEBTORS

Consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rent in respect of leased properties is payable in advance by the tenants. Other trade debtors settle their accounts according to the payment terms as stated in the contracts.

An aged analysis of trade receivables as at 31 December 2002 is as follows:

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Outstanding balances aged:		
Within 6 months	89,968	16,052
Between 7 to 12 months	62,579	1,344
Between 1 to 2 years	988	9,656
Over 2 years	5,676	9,069
	159,211	36,121
Prepayments and other debtors	21,524	40,087
	180,735	76,208

24. DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

25. DUE FROM HOLDING COMPANIES

The amounts due from holding companies are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

31 December 2002

26. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	270,616	159,470	2,151	1,518
Time deposits	13,183	96,770	13,183	96,770
	<u>283,799</u>	<u>256,240</u>	<u>15,334</u>	<u>98,288</u>

27. TRADE PAYABLES, ACCRUALS AND OTHER LIABILITIES

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Outstanding balances aged:		
Within 6 months	27,850	30,280
Between 7 to 12 months	58,305	2,592
Between 1 to 2 years	543	1,237
Over 2 years	23,669	35,651
	<u>110,367</u>	<u>69,760</u>
Accruals and other liabilities	143,608	134,018
	<u>253,975</u>	<u>203,778</u>

28. DUE TO HOLDING COMPANIES

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

29. DUE TO FELLOW SUBSIDIARIES

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

Notes to the Financial Statements

31 December 2002

30. BANK LOANS, UNSECURED

	GROUP		COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unsecured bank loans repayable:				
Within one year or on demand	321,200	441,714	321,200	441,714
In the second year	386,766	123,929	312,000	77,200
In the third to fifth years, inclusive	46,729	405,458	–	312,000
	<u>754,695</u>	<u>971,101</u>	<u>633,200</u>	<u>830,914</u>
Portion classified as current liabilities	<u>(321,200)</u>	<u>(441,714)</u>	<u>(321,200)</u>	<u>(441,714)</u>
Long term portion	<u>433,495</u>	<u>529,387</u>	<u>312,000</u>	<u>389,200</u>

Certain unsecured bank loans of HK\$121,495,000 (2001: HK\$93,458,000) are guaranteed by the ultimate holding company.

Subsequent to the balance sheet date, bank loans with an aggregate amount of HK\$633,200,000 were repaid in March 2003 by utilising the sales proceeds on disposal of COFCO International, as set out in note 44.

31. DEFERRED TAX

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Balance at beginning of year	190	639
Credit for the year (note 11)	<u>(190)</u>	<u>(449)</u>
Balance at 31 December	<u>–</u>	<u>190</u>

The surplus arising from the revaluation of the Group's properties in Hong Kong does not constitute a timing difference for deferred tax purposes as any profit realised on their subsequent disposal would not be subject to tax.

Deferred tax has not been provided on the surplus arising on the revaluation of the Group's properties in Mainland China as, in the opinion of the Directors, these properties are intended to be held for long term purposes and it is unlikely that the liability will crystallise in the foreseeable future.

Neither the Group, nor the Company had any significant unprovided deferred tax for the year or at the balance sheet date (2001: Nil).

Notes to the Financial Statements

31 December 2002

32. MINORITY INTERESTS

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets attributable to minority shareholders	173,637	119,328
Advances from minority shareholders	85,674	8,714
	<u>259,311</u>	<u>128,042</u>

The advances from minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

33. SHARE CAPITAL

Ordinary shares

	2002 HK\$'000	2001 HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.10 each	<u>5,000,000</u>	<u>5,000,000</u>
Issued and fully paid:		
3,343,920,115 (2001: 2,675,136,092) ordinary shares of HK\$0.10 each	<u>334,392</u>	<u>267,514</u>

During the year, a rights issue of one right share for every four existing shares held by members on the register of members on 5 September 2002 was made, at an issue price of HK\$0.35 per rights share, resulting in the issue of 668,784,023 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$234,074,408. Share issue expenses were approximately HK\$1,698,000.

34. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Old Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old Scheme include the Company's Directors and other employees of the Group. The Scheme became effective on 2 June 1999 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. During the year, on 13 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted to comply with certain amendments to the Listing Rules which came into effect on 1 September 2001.

Notes to the Financial Statements

31 December 2002

34. SHARE OPTION SCHEME (cont'd)

No options to subscribe for ordinary shares in the Company have been granted to any eligible participants, including Directors or their respective associates or the Group's employees, under the Old Scheme since its adoption on 2 June 1999.

The New Scheme was adopted for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme include, inter alia, the Company's Directors and other employees of the Group. The New Scheme will remain in force for 10 years from 13 May 2002 unless otherwise cancelled or amended.

The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to any Director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value. Any further grants are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal value of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and shall not exceed a period of ten years after the date of grant.

The exercise price of the share options is determined by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

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

No share options have been granted to any eligible participants, including Directors or the Group's employees under the New Scheme since its adoption on 13 May 2002.

Notes to the Financial Statements

31 December 2002

35. RESERVES

GROUP

	Special capital reserve	Share premium account	Capital reserve	Investment property revaluation reserve	Hotel property revaluation reserve	Other Exchange fluctuation reserve	Capital Legal reserve	Capital redemption reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	–	946,454	(121,471)	59,125	56,011	41,164	3,894	10,239	1,948	2,621,814
Prior year adjustment on impairment of goodwill *	–	–	167,549	–	–	–	–	–	–	–
As restated	–	946,454	46,078	59,125	56,011	41,164	3,894	10,239	1,948	2,621,814
Transfer from share capital upon reduction in nominal value	2,407,622	–	–	–	–	–	–	–	–	2,407,622
Reclassification of reserves	–	–	–	41,164	–	(41,164)	–	–	–	–
Exchange realignment	–	–	–	–	–	–	189	–	–	189
Release upon disposal of investment properties, net	–	–	–	(2,857)	–	–	–	–	–	(2,857)
Deficit on revaluation of investment properties, net	–	–	–	(48,443)	–	–	–	–	–	(48,443)
Deficit on revaluation of hotel properties, net	–	–	–	–	(7,511)	–	–	–	–	(7,511)
Share of deficit on revaluation of hotel properties by an associate	–	–	–	–	(4,442)	–	–	–	–	(4,442)
Release of goodwill upon deemed disposal of a subsidiary	–	–	48,704	–	–	–	–	–	–	48,704
Share of release of goodwill upon disposal of an associate and a subsidiary by an associate	–	–	40,909	–	–	–	–	–	–	40,909
Transfer from retained profits upon deemed disposal of a listed subsidiary	–	–	32,396	–	–	–	–	–	(32,396)	–
Loss for the year	–	–	–	–	–	–	–	–	(656,115)	(656,115)
At 31 December 2001	2,407,622	946,454	168,087	48,989	44,058	–	4,083	10,239	1,948	4,399,870

* prior year adjustment was made in 2001 in compliance with SSAP 31 "Impairment of assets", which was effective for the first time in 2001

Notes to the Financial Statements

31 December 2002

35. RESERVES (cont'd)

GROUP

	Special capital reserve HK\$'000	Share premium account HK\$'000	Investment property Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital Legal reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002	2,407,622	946,454	168,087	48,989	44,058	-	4,083	10,239	1,948	768,390	4,399,870
Rights issue of new shares	-	167,196	-	-	-	-	-	-	-	-	167,196
Share issue expenses	-	(1,698)	-	-	-	-	-	-	-	-	(1,698)
Deficit on revaluation of investment properties, net (note 15)	-	-	-	(48,989)	-	-	-	-	-	-	(48,989)
Deficit on revaluation of hotel properties, net (note 15)	-	-	-	-	(30,222)	-	-	-	-	-	(30,222)
Transfer from retained earnings	-	-	-	-	-	-	-	5,875	-	(5,875)	-
Profit for the year	-	-	-	-	-	-	-	-	-	4,581	4,581
At 31 December 2002	<u>2,407,622</u>	<u>1,111,952</u>	<u>168,087</u>	<u>-</u>	<u>13,836</u>	<u>-</u>	<u>4,083</u>	<u>16,114</u>	<u>1,948</u>	<u>767,096</u>	<u>4,490,738</u>
Reserves retained by:											
Company and subsidiaries	2,407,622	1,111,952	158,203	-	13,836	-	2,677	2,007	1,948	440,123	4,138,368
Jointly-controlled entities	-	-	-	-	-	-	-	-	-	(13,894)	(13,894)
Associates	-	-	9,884	-	-	-	1,406	14,107	-	340,867	366,264
At 31 December 2002	<u>2,407,622</u>	<u>1,111,952</u>	<u>168,087</u>	<u>-</u>	<u>13,836</u>	<u>-</u>	<u>4,083</u>	<u>16,114</u>	<u>1,948</u>	<u>767,096</u>	<u>4,490,738</u>
Reserves retained by:											
Company and subsidiaries	2,407,622	946,454	158,203	48,875	44,058	-	2,677	2,007	1,948	500,531	4,112,375
Jointly-controlled entities	-	-	-	-	-	-	-	-	-	(9,075)	(9,075)
Associates	-	-	9,884	114	-	-	1,406	8,232	-	276,934	296,570
At 31 December 2001	<u>2,407,622</u>	<u>946,454</u>	<u>168,087</u>	<u>48,989</u>	<u>44,058</u>	<u>-</u>	<u>4,083</u>	<u>10,239</u>	<u>1,948</u>	<u>768,390</u>	<u>4,399,870</u>

Notes to the Financial Statements

31 December 2002

35. RESERVES (cont'd)

COMPANY

	Special capital reserve HK\$'000	Share premium account HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	–	946,454	62,369	1,948	591,860	1,602,631
Impairment loss of investment in a subsidiary	–	–	(62,369)	–	–	(62,369)
Transfer from share capital upon reduction in nominal value	2,407,622	–	–	–	–	2,407,622
Loss for the year	–	–	–	–	(266,556)	(266,556)
At 31 December 2001 and 1 January 2002	2,407,622	946,454	–	1,948	325,304	3,681,328
Rights issue of new shares	–	167,196	–	–	–	167,196
Share issue expenses	–	(1,698)	–	–	–	(1,698)
Profit for the year	–	–	–	–	10,037	10,037
At 31 December 2002	2,407,622	1,111,952	–	1,948	335,341	3,856,863

Notes to the Financial Statements

31 December 2002

35. RESERVES (cont'd)

The amounts of goodwill and negative goodwill remaining in capital reserve, arising from the acquisition of subsidiaries and an associate prior to 1 January 2001, are as follows:

	GROUP	
	Goodwill eliminated against capital reserve HK\$'000	Negative goodwill credited to capital reserve HK\$'000
Cost:		
At beginning of year and at 31 December 2002	280,916	(203,718)
Accumulated impairment:		
At beginning of year and at 31 December 2002	167,549	–
Net amount:		
At beginning of year and at 31 December 2002	113,367	(203,718)

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a property development project:

	HK\$'000
Net assets acquired:	
Fixed assets	141
Trade receivables, prepayments and other debtors	62,419
Properties held for sale	250,849
Due from intermediate holding company	2,204
Due from fellow subsidiaries	29,412
Cash and bank balances	171,180
Tax payable	(49,789)
Bank loan	(141,509)
Accruals and other liabilities	(82,682)
Due to a minority shareholder	(77,025)
	165,200
Satisfied by:	
Cash	165,200

Notes to the Financial Statements

31 December 2002

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

An analysis of the net cash inflow in respect of the acquisition of a property development project is as follows:

Cash consideration	(165,200)
Cash and bank balances acquired	171,180
	<hr/>
Net cash inflow of cash and cash equivalent in respect of the acquisition of a property development project	5,980
	<hr/>

During the year, the Group acquired a 100% interest in Junwell Investments Limited from immediate holding company. Junwell Investments Limited is an investment holding company which holds 99% equity interest in Guangzhou Qiao Peng Estate Development Co., Ltd (the "Property Development Project"). The purchase consideration was in the form of cash and was fully paid in September 2002.

Since its acquisition, the Property Development Project contributed HK\$120,633,000 to the Group's turnover and HK\$34,183,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

37. CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks in connection with facilities granted to non wholly-owned subsidiaries	<hr/> —	<hr/> —	<hr/> 46,729	<hr/> 46,729
Guarantees given in respect of mortgage loans made by banks to the Group's purchasers of properties	<hr/> 219,610	<hr/> —	<hr/> —	<hr/> —

Notes to the Financial Statements

31 December 2002

38. OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties, and certain leasehold land and buildings and properties held for sale under operating lease arrangements, with leases negotiated for terms ranging from 2 to 15 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 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	43,777	36,426
In the second to fifth years, inclusive	45,604	62,405
	<u>89,381</u>	<u>98,831</u>

39. CAPITAL COMMITMENTS

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital commitments contracted for in respect of land, properties and plant	<u>-</u>	<u>150,917</u>

Other than disclosed above, neither the Group, nor the Company had any significant capital and operating lease commitments at the balance sheet date.

Notes to the Financial Statements

31 December 2002

40. RELATED PARTY TRANSACTIONS

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

		GROUP	
	Notes	2002 HK\$'000	2001 HK\$'000
Transactions with fellow subsidiaries:			
Rental income	(i)	5,197	3,846
Hotel management fee expense	(ii)	7,466	7,514
Building management fee	(i)	1,377	755
Purchases of goods	(i)	–	60,121
Freight charges and commission paid	(i)	–	5,431
Interest expense paid	(iii)	–	2,144
Transactions with immediate holding company			
Indemnity	(iv)	14,667	–
Transactions with ultimate holding company			
Indemnity	(v)	40,536	–
Sale of goods	(i)	–	105,489

Notes:

- (i) These transactions were carried out at prevailing market prices or, where no market prices were 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 arose from the amounts due to fellow subsidiaries which are unsecured, and interest-bearing at rates ranging from 3.5% to 6% per annum.
- (iv) This indemnity was granted pursuant to a deed between the Group and COFCO (HK). As detailed in note 36 to the financial statements, the Group acquired the entire issued capital of Junwell Investments Limited from COFCO (HK) during the year. This indemnity was granted from COFCO (HK) in relation to certain tax on sales of properties by a subsidiary of Junwell Investments Limited in Mainland China. Pursuant to the deed, the indemnity is calculated at the discrepancy between the tax levied on sales of properties under the relevant regulations, which has been properly recorded in the Group's consolidated profit and loss account, and the tax amount estimated by COFCO (HK).

In accordance with a letter issued by COFCO (HK) and confirmed by the Company, the indemnity on under-estimation of tax will be paid directly by COFCO (HK) to the related local tax authority.

- (v) This indemnity was granted pursuant to a deed between the Group and COFCO to compensate the Group for the losses arising on the waiver of interests on the shareholders' loan to two non-wholly owned subsidiaries. As detailed in note 41 to the financial statements, the Group owns 65% and 70% equity interests in Gloria Plaza Hotel Ltd. and Dalian Gloria Plaza Hotel Co., Ltd., respectively. The minority shareholder of these two non-wholly owned subsidiaries is COFCO. Interest-bearing shareholders' loans were advanced from the Group to these subsidiaries in prior years. Interest thereon had been properly accrued in their financial statements. During the year, the Group waived the accrued interests on the shareholders' loan. This waiver resulted a profit effect in these two non-wholly owned subsidiaries, which was shared by the minority shareholder, i.e. COFCO, during the year. The above indemnity is calculated based on the profits of these two non-wholly owned subsidiaries arising from the waiver shared by COFCO during the year after adjusting for any tax effect thereon.

The related party transactions set out in notes (i) and (ii) above also constituted connected transactions disclosable in the financial statements as required by the Listing Rules.

Notes to the Financial Statements

31 December 2002

41. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2002 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Bapton Company Limited	Hong Kong	Ordinary HK\$2	100	100	Property investment and development
Beijing Capital Property Development Co., Ltd.+	PRC	US\$10,000,000	85	85	Property investment
Brunton Holdings Limited	British Virgin Islands	Ordinary US\$1	*100	*100	Investment holding
Dalian Gloria Plaza Hotel Co., Ltd.+	PRC	US\$11,200,000	70	70	Hotel ownership and operations
Gloria Plaza Hotel Ltd.∞	PRC	US\$18,000,000	65	65	Hotel ownership and operations
Glory Duty Investment Limited	Hong Kong	Ordinary HK\$10,000	100	100	Property development
Great Spring Properties Limited	Hong Kong/ PRC	Ordinary HK\$2	*100	*100	Property investment and development
Guangzhou Qiao Peng Estate Development Co. Ltd.+	PRC	RMB148,000,000	99	—	Property investment and development
Sanya Gloria Resort Limited∞	PRC	US\$20,000,000	100	100	Hotel ownership and operations

Notes to the Financial Statements

31 December 2002

41. PRINCIPAL SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Shanghai Top Glory Real Estate Development Co., Ltd. [∞]	PRC	US\$25,000,000	100	100	Property development
Shenyang Gloria Plaza Co., Ltd.+	PRC	US\$14,400,000	65	65	Hotel ownership and operations
Shenyang Top Glory Square House Development Co., Ltd.++	PRC	US\$7,500,000	92.5	92.5	Property development
Top Spring Development (Xiamen) Limited	Hong Kong/ PRC	Ordinary HK\$10,000	*100	*100	Property investment and development

* Directly held by the Company

∞ Wholly foreign-owned enterprise

+ Sino-foreign equity joint venture

++ Sino-foreign co-operative joint venture

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 the Financial Statements

31 December 2002

42. ASSOCIATES

Particulars of the Group's associates at 31 December 2002 were as follows:

Name	Place of incorporation/ registration and operations	Business structure	Percentage of ownership attributable to the Group	Principal activities
Shenzhen Shangri-La Hotel Limited	PRC	Corporate	20.7	Hotel ownership and operations
COFCO International Limited	Bermuda	Corporate	21.52	Investment holding

The shareholdings in the associates are held through wholly-owned subsidiaries of the Company.

43. JOINTLY-CONTROLLED ENTITIES

Particulars of the Group's jointly-controlled entities at 31 December 2002 were as follows:

Name	Business structure	Principal place of operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Shenzhen Xin An Lake Industry Company Limited	Corporate	PRC	100	50	40-45	Property development and letting
Shenzhen Xin An Lake Properties Management Co., Ltd.	Corporate	PRC	40	50	40	Property management
Beijing Railway Culture Plaza Co. Ltd. ("BRCP")	Corporate	PRC	100	50	Note	Property letting

Note:

According to the terms of the agreement, the Group is entitled to all profits and is responsible for all losses of BRCP for the first nine years of operations commencing from 1999 after paying a fixed sum to the other joint venture partner. Thereafter, the Group has a 45% share of the operating results for the remaining joint venture period.

Notes to the Financial Statements

31 December 2002

44. POST BALANCE SHEET EVENT

As detailed in note 4 to the financial statements, subsequent to the balance sheet date, the Group disposed of its entire equity interest in COFCO International. Thereafter, the Group ceased its food processing and related businesses.

Bank loans with an aggregate amount of HK\$633,200,000 were repaid in March 2003 by utilising the sales proceeds on disposal of COFCO International.

45. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 8 April 2003.