

Notes to the Financial Statements

For the year ended 31 December 2003

1. CORPORATE INFORMATION

During the year, the Group was engaged in food processing and related businesses which include edible oils, soyabean meal and related products, wineries, confectionery, trading and flour milling.

The Company is a subsidiary of COFCO (Hong Kong) Limited ("COFCO (HK)"), a company incorporated in Hong Kong. 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 and Interpretation are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"
- Interpretation 20: "Income taxes - Recovery of revalued non-depreciable assets"

These SSAPs and Interpretation prescribe new accounting measurement and disclosure practices. The major effect on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretation are summarised as follows:

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

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax asset has been recognised for the elimination of unrealised profits arising from intragroup transactions; and
- a deferred tax asset has been recognised for general provisions.

Notes to the Financial Statements

For the year ended 31 December 2003

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 24 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 24 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in notes 3 and 5 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain investments and investment 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 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company 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

For the year ended 31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

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

Associates

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

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years or management contract period of 10 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combination" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, 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

For the year ended 31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill not exceeding the fair values of the acquired non-monetary assets is recognised in the consolidated profit and loss account on a systematic basis over the remaining weighted average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Prior to the adoption of SSAP 30 "Business combination" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, 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 over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Buildings	2.8% to 16.2%
Plant, machinery and equipment	4.5% to 25%

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

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

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Leased assets

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

Long term investments

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

Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

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

Notes to the Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other investments

Other investments are those which are not classified as long term investments, and are stated at fair value on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unrealised holding gains or losses arising from changes in fair value are dealt with in the profit and loss account in the period in which they arise.

The profit or loss on disposal of other investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the investment. Where the investee company was previously a subsidiary or an associate of the Company and previously-arising reserves attributable to this investee company remain, the reserves attributable to such investee companies are also released to the profit and loss account on disposal/write off.

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.

Trade debtors

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at original invoiced amount less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

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.

Income tax

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, in the period in which the properties are leased and on the straight-line basis over the lease terms;
- (c) agency commission and reimbursement of advertising expenses, on an accrual basis;
- (d) from the rendering of services, in the period in which the services are rendered;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (f) dividend income, when the shareholders' right to receive payment is established;
- (g) proceeds from the sale of other investments, on the transaction dates when the relevant contract notes are exchanged; and
- (h) tax refunds, when the acknowledgement of refunds from the tax bureau is received.

Dividends

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Employee benefits

Retirement benefits scheme

Retirement benefits are provided to certain staff employed by the Group. In accordance with the Mandatory Provident Fund Schemes Ordinance, the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO Scheme, or the Mandatory Provident Fund Scheme under which employer contributions have to be made. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to both schemes are at a maximum of 10% of the monthly salaries of the employees. When an employee leaves the Mandatory Provident Fund Exempted ORSO Scheme prior to his or her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of the forfeited contribution. However, in respect of the Mandatory Provident Fund Scheme, only the employer voluntary contribution amounts are refundable to the Group when the members leave employment prior to their vesting. The Group's mandatory contribution vest fully with the employees when the employees leave the scheme.

In addition, the employees of the Group's subsidiaries which operate in the PRC are required to participate in the central pension scheme which is operated by the relevant authorities of the provinces or municipalities in the PRC in which the Group's subsidiaries are located. The Group contributes to these schemes in respect of its employees in the PRC and such costs are charged to the profit and loss account as incurred.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share option 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.

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 cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to the Financial Statements

For the year ended 31 December 2003

4. 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 edible oils, soyabean meal and related products segment engages in the extraction, refining and trading of edible oils and the related businesses;
- (b) the wineries segment engages in the production, sale and trading of grape wine and other relevant beverage products;
- (c) the confectionery segment engages in the production and distribution of chocolate and other related products;
- (d) the trading segment engages in the trading of food commodities, animal feedstock, agricultural and aquatic products;
- (e) the flour milling segment engages in the flour milling and related businesses; and
- (f) the corporate and others segment comprises the Group's management services business, which provides management services relating to imports and exports, together with corporate income and expense items.

In determining the Group's geographical segments, revenues and assets are attributed to the segments based on the location of the production or service facilities.

Notes to the Financial Statements

For the year ended 31 December 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Edible oils, soyabean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Elimination		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	8,974,607	6,831,379	890,960	477,422	293,526	247,744	2,923,391	3,043,793	611,978	510,194	-	-	-	-	13,694,462	11,110,532
Segment results	266,124	213,014	136,182	107,591	41,794	25,655	60,710	74,513	21,194	10,338	3,186	(4,704)	-	-	529,190	426,407
Interest and dividend income															31,627	43,006
Unallocated gains and expenses, net															2,134	89,733
Profit from operating activities															562,951	559,146
Finance costs															(53,797)	(46,754)
Share of profits less losses of associates	91,941	47,555	13,355	13,653	-	-	-	-	-	-	-	-	-	-	105,296	61,208
Profit before tax															614,450	573,600
Tax															(93,963)	(74,221)
Profit before minority interests															520,487	499,379
Minority interests															(110,578)	(97,680)
Net profit from ordinary activities attributable to shareholders															409,909	401,699

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Edible oils, soyabean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Elimination		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	HK\$'000	HK\$'000
	(Restated)															
Segment assets	5,336,314	3,700,705	1,378,112	663,920	386,608	267,440	1,122,853	921,874	185,032	172,624	170,215	242,566	(133,842)	(42,093)	8,445,292	5,927,036
Interests in associates	397,601	314,746	-	74,566	-	-	-	-	-	-	-	-	-	-	397,601	389,312
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	828,388	1,144,730
Total assets	5,733,915	4,015,451	1,378,112	738,486	386,608	267,440	1,122,853	921,874	185,032	172,624	170,215	242,566	(133,842)	(42,093)	9,671,281	7,461,078
Segment liabilities	1,477,775	887,324	543,690	217,087	212,346	125,563	528,899	427,514	39,035	132,297	134,342	158,976	(1,134,707)	(769,025)	1,801,380	1,179,736
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,907,686	1,990,734
Total liabilities	1,477,775	887,324	543,690	217,087	212,346	125,563	528,899	427,514	39,035	132,297	134,342	158,976	(1,134,707)	(769,025)	4,709,066	3,170,470
Other segment information:																
Depreciation and amortisation	117,172	91,057	40,080	15,098	8,380	4,558	7,277	7,679	5,916	5,565	21,319	21,184	-	-	200,144	145,141
Other non-cash expenses	1,732	3,287	491	250	84	-	-	1	133	26	1,486	350	-	-	3,926	3,914
Capital expenditure	715,655	437,984	48,015	49,888	58,501	40,029	931	727	1,907	5,846	1,001	888	-	-	826,010	535,362

(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		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)							
Segment revenue:								
Sales to external customers	1,197,080	1,810,657	12,497,382	9,299,875	-	-	13,694,462	11,110,532
Other segment information:								
Segment assets	2,056,403	1,993,055	8,761,942	6,535,509	(1,147,064)	(1,067,486)	9,671,281	7,461,078
Capital expenditure	1,011	299	824,999	535,063	-	-	826,010	535,362

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5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of other revenue is as follows:

	2003	2002
	HK\$'000	HK\$'000
Sales of by-products and scrap items	50,406	13,696
Gross rental income	6,974	7,855
Agency commission	7,821	13,910
Management fee income from COFCO	40,031	30,320
Interest income	29,311	41,507
Dividends from an unlisted long term investment and listed equity securities	2,316	1,499
Government grants*	13,461	2,339
Rental of containers	3,169	4,085
Reimbursement of advertising expenses	-	22,547
Others	21,340	11,870
	174,829	149,628

* Various government grants have been received for investments in certain provinces in the PRC and for generating revenue in foreign currencies. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to the Financial Statements

For the year ended 31 December 2003

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Cost of inventories sold		12,515,358	10,077,286
Write back of provision against inventories		(3,074)	(2,216)
Cost of sales		12,512,284	10,075,070
Auditors' remuneration		2,362	2,750
Depreciation	14	161,705	111,088
Loss on disposal of fixed assets		1,240	357
Amortisation of a long term investment	18(a)	1,400	1,400
Minimum lease payments under operating leases in respect of land and buildings		18,754	14,281
Surplus on revaluation of investment properties		-	(274)
Staff costs (including Directors' remuneration - note 8):			
Wages and salaries		159,130	119,327
Retirement benefits scheme contributions		9,012	6,432
		168,142	125,759
Other operating expenses/(income), net, including:			
Amortisation of goodwill	15, 17	40,438	36,054
Negative goodwill recognised as income	15	(3,399)	(3,401)
Gain on disposal of subsidiaries	30(c)	(721)	-
Gain on trading of investments		(1,055)	-
Provision/(write back of provision) for doubtful debts		(434)	1,098
Unrealised holding losses/(gains) on listed equity securities		(148)	350
Unrealised holding gains on listed debt securities		(1,610)	(18,035)
Gain on disposal of a long term investment		-	(65,900)
Gain on disposal of an other investment		-	(7,547)
Write off of other investments		655	-
Release of reserves upon write off of other investment*		(1,752)	-
		(1,097)	-
Exchange gains, net		(2,996)	(1,300)
Net rental income		(6,156)	(7,093)

* The investment was previously an associate of the Group and the previously-arising reserves attributable to this investment was released to the profit and loss account upon write off.

Notes to the Financial Statements

For the year ended 31 December 2003

7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank loans wholly repayable within five years	40,576	36,792
Loan from the ultimate holding company and a fellow subsidiary	8,726	3,630
Convertible notes	4,288	6,036
Others	207	296
	<hr/>	<hr/>
	53,797	46,754

8. DIRECTORS' REMUNERATION

The Directors' remuneration for the year, 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 Hong Kong Companies Ordinance, is as follows:

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive Directors	1,400	1,400
Independent non-executive Directors	400	400
	<hr/>	<hr/>
	1,800	1,800
Other emoluments to Executive Directors:		
Salaries, allowances and benefits in kind	3,791	3,641
Retirement benefits scheme contributions	171	188
	<hr/>	<hr/>
	3,962	3,829
	<hr/>	<hr/>
	5,762	5,629

The remuneration of the directors fell within the following bands:

	Number of Directors	
	2003	2002
Nil - HK\$1,000,000	8	8
HK\$1,000,001 - HK\$1,500,000	1	1
HK\$1,500,001 - HK\$2,000,000	1	1
	<hr/>	<hr/>
	10	10

Notes to the Financial Statements

For the year ended 31 December 2003

8. DIRECTORS' REMUNERATION (continued)

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

During the year, 17,870,000 share options were granted to the Directors in respect of their services to the Group, further details of which are set out in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: four) Directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2002: one) non-Director, highest paid employee for the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	786	731
Retirement benefits scheme contributions	51	50
	837	781

The remuneration of the non-Director, highest paid employee for the year ended 31 December 2003 and 2002 fell within the band of HK\$1,000,000.

During the year, 360,000 share options were granted to the non-Director, highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employee's remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Notes to the Financial Statements

For the year ended 31 December 2003

10. TAX (continued)

	2003 HK\$'000	2002 HK\$'000 (Restated)
Group:		
Current - Hong Kong		
Charge for the year	2,261	3,181
Current - Elsewhere in the PRC		
Charge for the year	90,301	60,680
Underprovision in prior year	356	-
Deferred (note 24)	(8,004)	3,913
	84,914	67,774
Share of tax attributable to associates:		
Elsewhere in the PRC	9,049	6,447
Tax charge for the year	93,963	74,221

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

Group – 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	21,991		592,459		614,450	
Tax at the statutory tax rate	3,848	17.5	195,511	33.0	199,359	32.4
Lower tax rate for specific provinces or local authority	-	-	(65,731)	(11.1)	(65,731)	(10.7)
Profit not subject to tax, due to concession	-	-	(26,982)	(4.6)	(26,982)	(4.4)
Adjustments in respect of current tax of previous periods	-	-	356	0.1	356	0.1
Income not subject to tax	(12,660)	(57.6)	(12,009)	(2.0)	(24,669)	(4.0)
Expenses not deductible for tax	7,906	36.0	8,450	1.4	16,356	2.7
Tax losses utilised from previous periods	(32)	(0.1)	(7,950)	(1.3)	(7,982)	(1.3)
Tax losses not recognised	3,264	14.8	307	-	3,571	0.6
Others	(65)	(0.3)	(250)	-	(315)	(0.1)
Tax charge at the Group's effective rate	2,261	10.3	91,702	15.5	93,963	15.3

Notes to the Financial Statements

For the year ended 31 December 2003

10. TAX (continued)

Group – 2002

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	121,300		452,300		573,600	
Tax at the statutory tax rate	19,408	16.0	149,259	33.0	168,667	29.4
Lower tax rate for specific provinces or local authority	–	–	(58,378)	(12.9)	(58,378)	(10.2)
Profit not subject to tax, due to concessions	–	–	(29,776)	(6.6)	(29,776)	(5.2)
Income not subject to tax	(24,704)	(20.4)	(14,719)	(3.3)	(39,423)	(6.9)
Expenses not deductible for tax	5,989	4.9	21,293	4.7	27,282	4.8
Tax losses utilised from previous periods	–	–	73	–	73	–
Tax losses not recognised	2,517	2.1	2,299	0.5	4,816	0.8
Others	(29)	–	989	0.2	960	0.2
Tax charge at the Group's effective rate	3,181	2.6	71,040	15.6	74,221	12.9

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$34,432,000 (2002: HK\$164,900,000).

12. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim - 4.5 HK cents (2002: 3 HK cents) per share	78,619	47,077
Proposed final - 5 HK cents (2002: 6 HK cents) per share	87,371	94,950
	165,990	142,027

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to the Financial Statements

For the year ended 31 December 2003

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$409,909,000 (2002 (restated): HK\$401,699,000) and the weighted average number of 1,630,482,912 (2002: 1,569,229,974) shares in issue during the year.

The calculation of diluted earnings per share is based on (i) the adjusted net profit attributable to shareholders of HK\$413,446,000 (2002 (restated): HK\$406,756,000) after taking into account the deemed saving in finance costs of HK\$3,537,000 (2002: HK\$5,057,000) on the convertible notes; and (ii) the adjusted weighted average of 1,751,639,115 (2002: 1,719,376,348) shares comprising the weighted average number of shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 99,726,027 (2002: 140,000,000) shares assumed to have been issued on the deemed conversion of the convertible notes at the date of issue of such convertible notes; and the weighted average of 21,430,176 (2002: 10,146,374) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all exercisable share options during the year.

Notes to the Financial Statements

For the year ended 31 December 2003

14. FIXED ASSETS

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Group Plant, machinery and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000	Company Plant and equipment HK\$'000
Cost or valuation:						
At 1 January 2003	66,887	906,739	1,230,837	145,747	2,350,210	937
Additions	-	30,407	142,097	653,506	826,010	877
Acquisition of a subsidiary (note 30(b))	-	102,076	124,600	3,273	229,949	-
Disposal of subsidiaries (note 30(c))	-	(19,516)	(15,520)	-	(35,036)	-
Disposals	-	(6,494)	(13,265)	(346)	(20,105)	-
Surplus on revaluation	189	-	-	-	189	-
Transfers	(11,038)	302,891	346,957	(638,810)	-	-
At 31 December 2003	56,038	1,316,103	1,815,706	163,370	3,351,217	1,814
Analysis of cost or valuation:						
At cost	-	1,316,103	1,815,706	163,370	3,295,179	1,814
At 31 December 2003 valuation	56,038	-	-	-	56,038	-
	56,038	1,316,103	1,815,706	163,370	3,351,217	1,814
Accumulated depreciation and impairment:						
At 1 January 2003	-	75,221	191,036	-	266,257	472
Provided during the year	-	38,706	122,999	-	161,705	303
Disposal of subsidiaries (note 30(c))	-	(10,082)	(15,520)	-	(25,602)	-
Disposals	-	(652)	(7,726)	-	(8,378)	-
At 31 December 2003	-	103,193	290,789	-	393,982	775
Net book value:						
At 31 December 2003	56,038	1,212,910	1,524,917	163,370	2,957,235	1,039
At 31 December 2002	66,887	831,518	1,039,801	145,747	2,083,953	465

All of the Group's investment properties and leasehold land and buildings are held outside Hong Kong under medium term leases.

Notes to the Financial Statements

For the year ended 31 December 2003

14. FIXED ASSETS (continued)

The Group's investment properties were revalued on 31 December 2003 by Chesterton Petty Limited, independent professionally qualified valuers, at HK\$56,038,000 (2002: HK\$66,887,000) on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32(a) to the financial statements.

At 31 December 2003, certain of the Group's investment properties with a value of HK\$56,038,000 (2002: HK\$31,709,000), and certain of the Group's fixed assets with a net book value of approximately HK\$120,619,000 (2002: HK\$98,463,000), were pledged to secure banking facilities granted to the Group (note 23).

15. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year	519,422	(23,798)
Acquisition of a subsidiary (note 30 (b))	99,588	–
Acquisition of additional interest in an existing subsidiary	13,525	–
	<hr/>	<hr/>
At 31 December 2003	632,535	(23,798)
	<hr/>	<hr/>
Accumulated amortisation/(recognition as income):		
At beginning of year	45,857	(3,967)
Amortisation provided/(recognised as income) during the year	39,585	(3,399)
	<hr/>	<hr/>
At 31 December 2003	85,442	(7,366)
	<hr/>	<hr/>
Net book value:		
At 31 December 2003	547,093	(16,432)
	<hr/>	<hr/>
At 31 December 2002	473,565	(19,831)
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 December 2003

15. GOODWILL AND NEGATIVE GOODWILL (continued)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against or credited to the capital reserve, respectively. The amounts of the goodwill and negative goodwill remaining in the consolidated capital reserve as at 31 December 2003, arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 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	261,897	(741)
Release upon write off of investment	–	92
At 31 December 2003	261,897	(649)
Accumulated impairment:		
At beginning of year and 31 December 2003	(172,357)	–
Net amount:		
At 31 December 2003	89,540	(649)
At 31 December 2002	89,540	(741)

Notes to the Financial Statements

For the year ended 31 December 2003

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	2,359,796	2,359,796
Amounts due from subsidiaries	1,443,325	1,358,697
Amounts due to subsidiaries	(338,980)	(532,717)
	3,464,141	3,185,776
Provision for impairment	(128,100)	(122,400)
	3,336,041	3,063,376

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date when the Company became the holding company of the Group pursuant to the group reorganisation in 1991 and the cost of acquisitions of certain subsidiaries in 2001.

Particulars of the Company's principal subsidiaries as at 31 December 2003 are set out in note 35 to the financial statements.

17. INTERESTS IN ASSOCIATES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	266,954	234,035
Amounts due from associates	–	2,025
Amounts due to associates	(2,191)	–
Loans to associates	117,049	136,610
Goodwill	15,789	16,642
	397,601	389,312

During the year, the Group acquired the remaining 50% equity interest in China Great Wall Wine Co. Ltd. ("China Great Wall") from an independent third party. China Great Wall then ceased to be an associate of the Group and became a subsidiary of the Group. Further details of this acquisition are included in note 30(b) to the financial statement.

Notes to the Financial Statements

For the year ended 31 December 2003

17. INTERESTS IN ASSOCIATES (continued)

In addition, a loan to an associate of HK\$19,561,000 was capitalised as an additional capital injection during the year.

The amount of goodwill arising from additional capital injection in an associate in the prior year is as follows:

	Group Goodwill HK\$'000
Cost:	
At beginning of year and 31 December 2003	17,068
Accumulated amortisation:	
At beginning of year	426
Provided during the year	853
	1,279
Net book value:	
At 31 December 2003	15,789
At 31 December 2002	16,642

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

The loans to associates are capital in nature. The balances are unsecured, interest-free and have no fixed terms of repayment.

The Group's accounts receivable balance with an associate is disclosed in note 20 to the financial statements.

Particulars of the Group's principal associates at 31 December 2003 are set out in note 36 to the financial statements.

18. INVESTMENTS

(a) Long term investments

	Group	
	2003	2002
	HK\$'000	HK\$'000
Long term investments:		
Unlisted equity investments, at cost	54,133	44,701
Amortisation of investment cost	(21,565)	(20,165)
Amount due from an investee company	3,623	–
	36,191	24,536

Notes to the Financial Statements

For the year ended 31 December 2003

18. INVESTMENTS (continued)

(a) Long term investments (continued)

Particulars of the principal long term unlisted equity investment as at 31 December 2003 are as follows:

Name of company	Place of registration	Percentage of equity interest attributable to the Group	Principal activity
江蘇江源熱電有限公司 Jiangsu Jiangyuan Thermal Power Company Limited ("JJYTP")	PRC	50	Thermal power plant operator

JJYTP is a co-operative joint venture with a term of 25 years. The sharing of the profits during the joint venture period and the sharing of the net assets at the expiration of the joint venture period are governed by the joint venture contract and are not in proportion to the joint venture partners' equity ratio. In the opinion of the Directors, the Group is not in a position to exercise significant influence over the financial and operating policy decisions of JJYTP. Accordingly, JJYTP is regarded as a long term investment rather than an associate of the Group.

In the opinion of the Directors, the value of the above investment is at least equal to its carrying amount.

(b) Other investments

	Group	
	2003	2002
	HK\$'000	HK\$'000
Listed equity securities in Hong Kong, at market value	822	1,329
Listed debt securities elsewhere than Hong Kong, at market value	220,548	214,221
	221,370	215,550

Notes to the Financial Statements

For the year ended 31 December 2003

19. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	1,191,670	797,299
Work in progress	215,475	12,277
Finished goods	1,098,612	674,115
	<hr/>	<hr/>
	2,505,757	1,483,691
	<hr/>	<hr/>

No inventory was carried at net realisable value as at 31 December 2003 (2002: HK\$298,000).

20. ACCOUNTS RECEIVABLE

The accounts receivable of the Group include trading balances due from associates of HK\$41,797,000 (2002: HK\$120,059,000) and due from the ultimate holding company of HK\$37,358,000 (2002: Nil).

Analysis of the accounts receivable as at 31 December 2003 is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 6 months	709,622	596,773
Between 7 to 12 months	45,498	14,097
Between 1 to 2 years	4,602	6,627
Over 2 years	19,228	5,411
	<hr/>	<hr/>
	778,950	622,908
Less: Provision for doubtful debts	(22,762)	(8,649)
	<hr/>	<hr/>
	756,188	614,259
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Notes to the Financial Statements

For the year ended 31 December 2003

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	557,741	535,516	5,699	6,856
Time deposits	556,059	898,799	231,320	581,857
	1,113,800	1,434,315	237,019	588,713

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$507,244,000 (2002: HK\$683,431,000). The RMB is not freely convertible into other currencies, however, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

22. ACCOUNTS PAYABLE

The accounts payable of the Group include trading balances due to the ultimate holding company of HK\$1,916,000 (2002: Nil) and due to fellow subsidiaries of HK\$114,000 (2002: HK\$12,290,000).

Analysis of the accounts payable as at 31 December 2003 is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Outstanding balances with ages:		
Within 6 months	460,207	290,133
Between 7 to 12 months	3,761	3,653
Between 1 to 2 years	4,862	3,980
Over 2 years	2,504	10,938
	471,334	308,704

Notes to the Financial Statements

For the year ended 31 December 2003

23. INTEREST-BEARING BANK LOANS AND OTHER LOANS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loans:		
Secured	172,925	106,806
Unsecured	2,295,372	1,474,217
	2,468,297	1,581,023
Other loans:		
Unsecured	396,851	79,481
	2,865,148	1,660,504
Bank loans repayable:		
Within one year or on demand	2,418,297	1,559,325
In the second year	28,302	–
In the third to fifth years, inclusive	21,698	21,698
	2,468,297	1,581,023
Other loans repayable:		
Within one year or on demand	388,879	2,830
In the second year	–	30,614
In the third to fifth years, inclusive	–	–
Beyond five years	7,972	46,037
	396,851	79,481
	2,865,148	1,660,504
Portion classified as current liabilities	(2,807,176)	(1,562,155)
Non-current portion	57,972	98,349

The Group's bank loans are secured by:

- (a) a charge over the Group's investment properties held outside Hong Kong with a carrying value at the balance sheet date of HK\$56,038,000 (2002: HK\$31,709,000) (note 14); and
- (b) a charge over certain fixed assets of the Group with a net book value of approximately HK\$120,619,000 (2002: HK\$98,463,000) (note 14).

Notes to the Financial Statements

For the year ended 31 December 2003

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

In addition, the ultimate holding company and an associate of the Group had guaranteed certain of the Group's unsecured bank loans up to HK\$327,490,000 (2002: HK\$88,283,000) as at the balance sheet date.

The other loans represented loans from COFCO and a financial institution in the COFCO group. These balances are unsecured and bear interest at rates ranging from 2.38% to 5.31% per annum.

24. DEFERRED TAX

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

Deferred tax liabilities

Group	2003 HK\$'000
At 1 January 2003	
As previously reported	–
Prior year adjustment:	
SSAP 12 - restatement of deferred tax	15,225
As restated	15,225
Deferred tax credited to the profit and loss account during the year (note 10)	(6,773)
Deferred tax liabilities at 31 December 2003	8,452

Deferred tax assets

Group	2003 HK\$'000
At 1 January 2003	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	4,949
Acquisition of a subsidiary (note 30 (b))	2,593
As restated	7,542
Deferred tax credited to the profit and loss account during the year (note 10)	1,231
Deferred tax assets at 31 December 2003	8,773

Notes to the Financial Statements

For the year ended 31 December 2003

24. DEFERRED TAX (continued)

Deferred tax liabilities

Group	2002 HK\$'000
At 1 January 2002	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	9,299
As restated	9,299
Deferred tax charged to the profit and loss account during the year (note 10)	5,926
Deferred tax liabilities at 31 December 2002	15,225

Deferred tax assets

Group	2002 HK\$'000
At 1 January 2002	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	2,936
As restated	2,936
Deferred tax credited to the profit and loss account during the year (note 10)	2,013
Deferred tax assets at 31 December 2002	4,949

The Group has tax losses arising in Hong Kong and Mainland China of HK\$53,599,000 (2002: HK\$36,096,000) and HK\$61,131,000 (2002: HK\$87,791,000) respectively that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

24. DEFERRED TAX (continued)

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by HK\$8,452,000 and HK\$15,225,000, respectively and an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by HK\$8,773,000 and HK\$4,949,000, respectively. As a consequence, the profits before minority interests for the years ended 31 December 2003 and 2002 have been increased and decreased by HK\$8,004,000 and HK\$3,913,000, respectively. After taking into account the increase and decrease in minority interests of HK\$120,000 and HK\$9,000, the net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been increased and decreased by HK\$7,884,000 and HK\$3,904,000 respectively. The consolidated retained profits at 1 January 2003 and 2002 have been reduced by HK\$10,140,000 and HK\$6,236,000, respectively, as detailed in the consolidated statement of changes in equity.

25. CONVERTIBLE NOTES

The convertible notes were payable to COFCO (HK) and were issued in connection with the acquisition of certain subsidiaries in 2001. There were a total of 14 convertible notes of a principal amount of HK\$21.5 million each. The notes bore interest at 2% per annum and would have matured on 26 October 2004. During the year, COFCO (HK) exercised the right to convert the notes into 140,000,000 ordinary shares of the Company at a conversion price of HK\$2.15 per share, as further detailed in note 27 to the financial statements.

26. MINORITY INTERESTS

	2003 HK\$'000	2002 HK\$'000 (Restated)
Share of net assets attributable to minority shareholders	717,387	640,253
Advances from minority shareholders	114,366	117,209
	<hr/> 831,753	<hr/> 757,462

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

Notes to the Financial Statements

For the year ended 31 December 2003

27. SHARE CAPITAL

Shares

	2003	2002
	HK\$'000	HK\$'000
Authorised:		
2,500,000,000 ordinary shares of HK\$0.10 each	250,000	250,000
Issued and fully paid:		
1,747,088,974 (2002: 1,569,229,974) ordinary shares of HK\$0.10 each	174,709	156,923

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

- (a) The subscription rights attaching to 12,400,000 and 25,459,000 share options were exercised at subscription prices of HK\$2.156 and HK\$1.368 per share, respectively (note 28), resulting in the issue of 37,859,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$61,562,000.
- (b) As detailed in note 25 to the financial statements, 140,000,000 shares of HK\$0.10 each were issued to COFCO (HK) at a price of HK\$2.15 per share upon conversion of the Company's convertible notes of HK\$301,000,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
		HK\$'000	HK\$'000	HK\$'000
At 1 January 2002 and 1 January 2003	1,569,229,974	156,923	2,413,788	2,570,711
Share options exercised (a)	37,859,000	3,786	57,776	61,562
Conversion of the convertible notes (b)	140,000,000	14,000	287,000	301,000
At 31 December 2003	1,747,088,974	174,709	2,758,564	2,933,273

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2003

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "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 Scheme include the Company's Directors and other employees of the Group. The Scheme became effective on 23 June 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. In 2002, the Scheme was amended to comply with certain amendments to the Listing Rules which came into effect on 1 September 2001.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the 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 (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, 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 consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer 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 offer.

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

Notes to the Financial Statements

For the year ended 31 December 2003

28. SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2003				At grant date of options HK\$	At exercise date of options HK\$
Directors										
Mr. Zhou Mingchen	5,000,000	-	(3,500,000)	-	1,500,000	5.3.2001	5.3.2002-4.3.2006	1.368	-	3.575
	-	4,500,000	-	-	4,500,000	10.9.2003	10.9.2004-9.9.2008	3.644	3.575	-
	5,000,000	4,500,000	(3,500,000)	-	6,000,000					
Mr. Liu Fuchun	4,500,000	-	(3,150,000)	-	1,350,000	5.3.2001	5.3.2002-4.3.2006	1.368	-	3.575
	-	4,050,000	-	-	4,050,000	10.9.2003	10.9.2004-9.9.2008	3.644	3.575	-
	4,500,000	4,050,000	(3,150,000)	-	5,400,000					
Mr. Yu Guangquan (appointed on 16 June 2003)	390,000	-	(273,000)	-	117,000	23.3.2001	23.3.2002-22.3.2006	1.368	-	3.575
	-	2,700,000	-	-	2,700,000	10.9.2003	10.9.2004-9.9.2008	3.644	3.575	-
	390,000	2,700,000	(273,000)	-	2,817,000					
Mr. Xue Guoping	5,000,000	-	(5,000,000)	-	-	5.8.1997	13.2.1998-12.2.2003	2.156	-	2.300
	3,000,000	-	(2,100,000)	-	900,000	5.3.2001	5.3.2002-4.3.2006	1.368	-	3.575
	-	2,700,000	-	-	2,700,000	10.9.2003	10.9.2004-9.9.2008	3.644	3.575	-
	8,000,000	2,700,000	(7,100,000)	-	3,600,000					
Mr. Liu Yongfu	3,000,000	-	(2,100,000)	-	900,000	5.3.2001	5.3.2002-4.3.2006	1.368	-	3.575
	-	2,700,000	-	-	2,700,000	10.9.2003	10.9.2004-9.9.2008	3.644	3.575	-
	3,000,000	2,700,000	(2,100,000)	-	3,600,000					

Notes to the Financial Statements

For the year ended 31 December 2003

28. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year (continued):

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2003				At grant date of options HK\$	At exercise date of options HK\$
Directors (continued)										
Mr. Ng Eng Leong	2,000,000	-	(2,000,000)	-	-	5.8.1997	7.2.1998 – 6.2.2003	2.156	-	2.338
	1,000,000	-	(700,000)	-	300,000	5.3.2001	5.3.2002 – 4.3.2006	1.368	-	2.850
	-	900,000	-	-	900,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	3.575	-
	3,000,000	900,000	(2,700,000)	-	1,200,000					
Mr. Qu Zhe	350,000	-	(245,000)	-	105,000	5.3.2001	5.3.2002 – 4.3.2006	1.368	-	3.575
	-	320,000	-	-	320,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	3.575	-
	350,000	320,000	(245,000)	-	425,000					
Mr. Ma Lishan (resigned on 16 June 2003)	5,000,000	-	(5,000,000)	-	-	5.8.1997	13.2.1998 – 12.2.2003	2.156	-	2.300
	3,000,000	-	(2,100,000)#	(900,000)#	-	5.3.2001	5.3.2002 – 4.3.2006	1.368	-	3.125
	8,000,000	-	(7,100,000)	(900,000)	-					
Other employees										
In aggregate	400,000	-	(400,000)	-	-	5.8.1997	5.2.1998 – 4.2.2003	2.156	-	2.100
	800,000	-	(560,000)	-	240,000	5.3.2001	5.3.2002 – 4.3.2006	1.368	-	2.675
	15,330,000	-	(10,731,000)	-	4,599,000	23.3.2001	23.3.2002 – 22.3.2006	1.368	-	3.548
	1,000,000	-	-	-	1,000,000	3.10.2001	3.10.2002 – 2.10.2006	1.370	-	-
	-	14,704,000	-	-	14,704,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	3.575	-
	17,530,000	14,704,000	(11,691,000)	-	20,543,000					
	49,770,000	32,574,000	(37,859,000)	(900,000)	43,585,000					

Notes to the Financial Statements

For the year ended 31 December 2003

28. SHARE OPTION SCHEME (continued)

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.
- # 70% of the share options granted to Mr. Ma Lishan on 5 March, 2001 were exercised within one month following the date of his resignation as a Director on 16 June, 2003 and the balance lapsed one month after the date of resignation.

At the balance sheet date, the Company had 43,585,000 share options outstanding under the Scheme, which represented approximately 2.5% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 43,585,000 additional ordinary shares of the Company and additional share capital of HK\$4,358,500 and share premium of HK\$129,406,000 (before issue expenses).

Notes to the Financial Statements

For the year ended 31 December 2003

29. RESERVES

Group	Notes	Share	Investment	Other	Reserve	Exchange	Retained	Total	
		premium	properties	properties		fluctuation			profits
		account	Capital	revaluation	revaluation	Reserve	profits		
		HK\$'000	reserve	reserve	reserve	funds*	reserve	HK\$'000	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2002		2,413,788	135,742	222	55	20,114	3,014	453,400	3,026,335
Prior year adjustment:									
SSAP 12 – restatement of deferred tax	24	-	-	-	-	-	-	(6,236)	(6,236)
As restated		2,413,788	135,742	222	55	20,114	3,014	447,164	3,020,099
Revaluation of investment properties		-	-	1,994	-	-	-	-	1,994
Exchange realignment		-	-	-	-	-	(492)	-	(492)
Transfer from retained profits		-	-	-	-	27,299	-	(27,299)	-
Profit for the year (as restated)		-	-	-	-	-	-	401,699	401,699
Dividends	12	-	-	-	-	-	-	(142,027)	(142,027)
At 31 December 2002		2,413,788	135,742	2,216	55	47,413	2,522	679,537	3,281,273
At 1 January 2003		2,413,788	135,742	2,216	55	47,413	2,522	689,677	3,291,413
Prior year adjustment:									
SSAP 12 – restatement of deferred tax	24	-	-	-	-	-	-	(10,140)	(10,140)
As restated		2,413,788	135,742	2,216	55	47,413	2,522	679,537	3,281,273
Issue of shares	27	344,776	-	-	-	-	-	-	344,776
Release upon write off of investment		-	(1,475)	(222)	(55)	-	-	-	(1,752)
Revaluation of investment properties		-	-	189	-	-	-	-	189
Exchange realignment		-	-	-	-	-	(23)	-	(23)
Transfer from retained profits		-	-	-	-	16,625	-	(16,625)	-
Profit for the year		-	-	-	-	-	-	409,909	409,909
Dividends	12	-	-	-	-	-	-	(165,990)	(165,990)
At 31 December 2003		2,758,564	134,267	2,183	-	64,038	2,499	906,831	3,868,382

Notes to the Financial Statements

For the year ended 31 December 2003

29. RESERVES (continued)

Group	Share	Investment	Other	Exchange		Retained	Total	
	premium	properties	properties	Reserve	fluctuation			
	account	Capital	revaluation	revaluation	funds*	profits		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Reserves retained by:								
Company and subsidiaries	2,758,564	134,267	2,183	–	55,407	2,499	807,446	3,760,366
Associates	–	–	–	–	8,631	–	99,385	108,016
At 31 December 2003	2,758,564	134,267	2,183	–	64,038	2,499	906,831	3,868,382
Company and subsidiaries (as restated)	2,413,788	138,251	1,994	–	41,700	2,874	628,405	3,227,012
Associates	–	(2,509)	222	55	5,713	(352)	51,132	54,261
At 31 December 2002 (as restated)	2,413,788	135,742	2,216	55	47,413	2,522	679,537	3,281,273

* Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of certain of the Company's subsidiaries and associates in the PRC has been transferred to reserve funds which are restricted as to use.

The Group's capital reserve includes the contributed surplus which represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor under the group reorganisation in 1991, less the goodwill arising on the acquisition of subsidiaries and associates which remains eliminated against the capital reserve, as explained in note 15 to the financial statements.

Company

	Share	Contributed	Retained	Total
Notes	premium	surplus	profits	
	account			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	2,413,788	498,184	159,584	3,071,556
Profit for the year	–	–	164,900	164,900
Dividends	12	–	(142,027)	(142,027)
At 31 December 2002 and 1 January 2003	2,413,788	498,184	182,457	3,094,429
Issue of shares	27	344,776	–	344,776
Profit for the year	–	–	34,432	34,432
Dividends	12	–	(165,990)	(165,990)
At 31 December 2003	2,758,564	498,184	50,899	3,307,647

Notes to the Financial Statements

For the year ended 31 December 2003

29. RESERVES (continued)

The contributed surplus of the Company represents the difference between the underlying net assets of Seabase International (B.V.I.) Limited and its subsidiaries and the nominal value of the Company's shares issued in exchange therefor under the group reorganisation in 1991.

In addition to the retained profits of the Company, under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is also available for distribution to its shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of its contributed surplus, if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

- (i) During the year, a loan to an associate of HK\$19,561,000 was capitalised as an additional capital injection (note 17).
- (ii) As detailed in notes 25 and 27(b) to the financial statements, 140,000,000 shares of HK\$0.10 each were issued to COFCO (HK) at a price of HK\$2.15 per share upon conversion of the Company's convertible notes of HK\$301,000,000.

Notes to the Financial Statements

For the year ended 31 December 2003

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

(b) Acquisition of a subsidiary

	Notes	2003 HK\$'000
Net assets acquired:		
Fixed assets	14	229,949
Long term investments		8,112
Deferred tax assets	24	2,593
Inventories		192,658
Cash and bank balances		51,862
Accounts receivable		102,697
Other debtors, prepayments and deposits		9,382
Accounts payable		(2,355)
Other payables and accruals		(78,915)
Due to fellow subsidiaries		(11,009)
Due to immediate holding company		(6,840)
Due to minority shareholder		(12,795)
Tax payable		(3,953)
Interest-bearing bank loans and other loans		<u>(330,566)</u>
		150,820
Goodwill on acquisition	15	<u>99,588</u>
		<u>250,408</u>
Satisfied by:		
Cash		122,170
Increase in other payable		52,358
Reclassification to interests in subsidiaries from interests in associates		<u>75,880</u>
		<u>250,408</u>

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

	2003 HK\$'000
Cash consideration	(122,170)
Cash and bank balances acquired	<u>51,862</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>(70,308)</u>

Notes to the Financial Statements

For the year ended 31 December 2003

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

(b) Acquisition of a subsidiary (continued)

During the year, the Group acquired the remaining 50% equity interest in China Great Wall from an independent third party. China Great Wall then ceased to be an associate of the Group and became a wholly-owned subsidiary of the Group. China Great Wall is engaged in the production and sales of wine and beverages products. The 70% of purchase consideration of HK\$122,170,000 was paid in the form of cash during the year, and the balance of HK\$52,358,000 will be settled within one year after the first payment.

Since its acquisition, China Great Wall has contributed HK\$237,830,000 to the Group's turnover and HK\$40,919,000 to the net profit for the year ended 31 December 2003.

(c) Disposal of subsidiaries

	Note	2003 HK\$'000
Net assets disposed of:		
Fixed assets		9,434
Inventories		298
Cash and bank balances		148
Accounts payable		(8,921)
Other payables and accruals		(1,587)
Tax payable		(93)
		<hr/>
		(721)
Gain on disposal of subsidiaries	6	<hr/>
		721
		<hr/>
		-
		<hr/>

Notes to the Financial Statements

For the year ended 31 December 2003

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

(c) Disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003
	HK\$'000
Cash consideration	-
Cash and bank balances disposed of	<u>(148)</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>(148)</u>

The results of the subsidiary disposed of in the year ended 31 December 2003 had no significant impact on the Group's consolidated turnover or net profit for that year.

31. CONTINGENT LIABILITIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to: Subsidiaries	<u>432,900</u>	705,900

As at the balance sheet date, none of the above facilities were utilised by the subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2003

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 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 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	769	316
In the second to fifth years, inclusive	1,108	189
After five years	21	66
	1,898	571

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 30 years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	7,356	10,545
In the second to fifth years, inclusive	18,795	10,703
After five years	45,150	43,051
	71,301	64,299

Notes to the Financial Statements

For the year ended 31 December 2003

33. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments as at the balance sheet date:

(a) Capital commitments

	Group	
	2003	2002
	HK\$'000	HK\$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	45,419	114,094

(b) Commitments under forward foreign exchange contracts

	Group	
	2003	2002
	HK\$'000	HK\$'000
Sale of US dollar	16,131	–
Sale of EURO dollar	16,899	–

(c) Other commitments

	Group	
	2003	2002
	HK\$'000	HK\$'000
Commitments under futures contracts:		
Purchase of soyabean meal	81,349	–
Sale of soyabean meal	140,251	–

The unrealised gains and losses in respect of the above future contracts at the balance sheet date are not significant and have not been recorded in these financial statements.

Other than as disclosed above, neither the Group, nor the Company, had any significant capital or other commitments as at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2003

34. CONNECTED AND RELATED PARTY TRANSACTIONS

Apart from the transactions and the balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2003	2002
	Notes	HK\$'000	HK\$'000
Transactions with fellow subsidiaries:			
Sales of goods*	(i)	420,888	227,590
Purchases of goods**	(i)	141,623	242,713
Freight charges and commission paid**	(i)	–	2,319
Operating lease rentals paid*	(i)	1,698	1,543
Interest expenses paid	(ii)	8,237	314
Reimbursement of advertising expenses	(iii)	–	15,566
Transactions with the ultimate holding company:			
Sales of goods*	(i)	232,994	564,005
Purchases of goods**	(i)	91,542	415,944
Operating lease rentals paid**	(i)	4,794	4,664
Royalty paid	(i)	15,197	4,730
Management fee income*	(i)	40,031	30,320
Management fee paid**	(i)	8,679	8,160
Interest expenses paid*	(ii)	489	3,316
Reimbursement of advertising expenses	(iii)	–	6,981
Transactions with associates:			
Sales of goods*	(i)	164,011	339,329
Purchases of goods**	(i)	34,161	349,497
Management fee income	(v)	6,330	–
Interest income received	(iv)	–	144
Processing fee expenses	(i)	6,637	–
Transaction with the immediate holding company:			
Interest expenses on convertible notes	25	4,288	6,036
Transactions with minority shareholders of subsidiaries and their fellow subsidiaries:			
Sales of goods*	(i)	267,225	174,985
Purchases of goods*	(i)	2,307,773	3,235,689

Notes to the Financial Statements

For the year ended 31 December 2003

34. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

		Group	
		2003	2002
	Note	HK\$'000	HK\$'000
Transaction with a related company:			
Purchases of goods*	(i)	5,523,977	2,518,951
Storage and processing expenses*		805	–

* These related party transactions also constitute connected transactions disclosable in accordance with the Listing Rules.

** Certain amounts of these related party transactions also constituted connected transactions disclosable in accordance with the Listing Rules.

Notes:

- (i) These transactions were carried out with reference to the prevailing market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
- (ii) Interest expenses arose from the loans from the ultimate holding company and a financial institution in the COFCO Group are unsecured, bear interest at rates ranging from 2.38% to 5.31% per annum and of which HK\$388,879,000 are repayable within one year.
- (iii) The reimbursement of advertising expenses was calculated with reference to the actual advertising expenses incurred for the year ended 31 December 2000.
- (iv) No interest income was received in current year (2002: 6% per annum) as the loan to an associate was fully repaid in 2002.
- (v) The management fee income was calculated with reference to the actual management services expenses incurred for the year ended 31 December 2003.

In addition to the above connected transactions, sales and purchases of HK\$68,333,000 (2002: HK\$53,748,000) and HK\$22,250,000 (2002: HK\$61,160,000), respectively, were made by certain subsidiaries of the Company to/from Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd, a company indirectly owned as to 84% by the Company and as to 10% by a connected party. These transactions have been eliminated on consolidation but constitute connected transactions under the Listing Rules.

During the year, the Group acquired an additional 14% equity interest of an existing subsidiary from the immediate holding company at an aggregate consideration of HK\$33,000,000. A goodwill of HK\$13,525,000 was resulted from the acquisition (note 15).

Except for the loans of HK\$396,851,000 from the ultimate holding company and a financial institution in the COFCO Group, the terms of which are detailed in note 23 to the financial statements, the remaining balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group's subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Pursuant to certain licensing agreements entered into between the Group and a related party, the Group is granted the exclusive right to use certain trademarks for its edible oils, soyabean meal and related products businesses. During the year, the licensing fee was waived by the related party.

Notes to the Financial Statements

For the year ended 31 December 2003

35. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2003 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Blissea Consortium Company Limited	Hong Kong	Ordinary HK\$1,000	100	100	Investment holding
China Foods Trading Limited	Hong Kong	Ordinary HK\$10,000,000	100	100	Trading of food products
東州油脂工業(廣州) 有限公司 Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd.**	PRC	RMB55,000,000	84	84	Processing and refining of edible oils and fats
Oriental Rainbow Trading Limited	Samoa	Ordinary US\$100	84	84	Trading of edible oils and fats
Seabase International (B.V.I.) Limited#	British Virgin Islands/ Hong Kong	Ordinary HK\$1,000	100	100	Investment holding
鵬源投資顧問(深圳) 有限公司 Top Spring Investment Consultancy (Shenzhen) Co., Ltd.*	PRC	HK\$5,000,000	100	100	Provision of management and consultancy services
廈門海嘉麵粉有限公司 Xiamen Haijia Flour Mills Co., Ltd.**	PRC	RMB71,325,000	60	60	Manufacture of flour products
COFCO International Trading Services Limited	Hong Kong	HK\$2	100	100	Provision of trading management services

Notes to the Financial Statements

For the year ended 31 December 2003

35. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
中糧國際(北京)有限公司 COFCO International (Beijing) Co., Ltd.*	PRC	RMB60,000,000	100	100	Trading of rice, cereals, oils feedstuffs, fruits vegetables and aquatic products
中糧酒業有限公司 COFCO Wines and Spirits Co., Ltd.*	PRC	RMB11,760,000	100	100	Provision of management services
中國長城葡萄酒 有限公司 China Great Wall Wine Co., Ltd.	PRC	RMB110,000,000	100	50	Production and sale of wine and beverage products
華夏葡萄釀酒 有限公司 Huaxia Winery Co., Ltd.*	PRC	RMB80,000,000	100	100	Production and sale of grape wine
深圳市華夏紅酒業 有限公司 Shenzhen Huaxiahong Wines and Spirits Co., Ltd.**	PRC	RMB3,000,000	80	80	Wholesale of grape wine
秦皇島華夏長城 酒業有限公司	PRC	RMB1,000,000	100	–	Wholesale of grape wine
煙台長城酒業 有限公司	PRC	RMB1,000,000	60	–	Wholesale of grape wine
深圳金帝食品有限公司 Shenzhen Le Conte Foodstuff Co., Ltd.**	PRC	US\$15,000,000	100	86	Production and distribution of chocolate products

Notes to the Financial Statements

For the year ended 31 December 2003

35. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
深圳金帝營銷有限公司 Shenzhen Le Conte Marketing Services Co., Ltd.**	PRC	RMB15,000,000	90	77.4	Distribution of chocolate products
煙台中糧葡萄釀酒 有限公司 Yantai COFCO Winery Co., Ltd.**	PRC	RMB64,000,000	60	60	Production and sale of grape wine
黃海糧油工業(山東) 有限公司 Yellowsea Oils and Grains Industries (Shandong) Co., Ltd.*	PRC	US\$22,773,770	72.94	72.94	Production and sale of edible oils
東海糧油工業(張家港) 有限公司 East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.*	PRC	US\$98,000,000	54	54	Production and sale of edible oils, and trading of soyabean and rapeseed
鄭州海嘉食品有限公司 Zhengzhou Haijia Food Co., Ltd.**	PRC	RMB30,000,000	55	55	Manufacture of flour products

Except for Seabase International (B.V.I.) Limited, all of the above principal subsidiaries are indirectly held by the Company.

* Wholly foreign-owned enterprise

** Sino-foreign equity 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

For the year ended 31 December 2003

36. ASSOCIATES

Particulars of the Company's principal associates as at 31 December 2003 are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2003	2002	
萊陽魯花濃香花生油有限公司 Laiyang Luhua Fragrant Peanut Oil Co., Ltd.*	Corporate	PRC	24	24	Production and sale of peanut oil
北海糧油工業(天津)有限公司 Northsea Oils and Grains Industries (Tianjin) Co., Ltd.	Corporate	PRC	50	50	Production and sale of edible oils
大海糧油工業(防城港)有限公司 Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co., Ltd.	Corporate	PRC	40	40	Soyabean oil extraction, refining and packaging, and production of soyabean meal

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

37. 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 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.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 31 March 2004.