

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 1 *BASIS OF PRESENTATION*

The Company was incorporated as an exempted company with limited liability in Bermuda on 2 November 1999 under the Companies Acts 1981 of Bermuda and through a reorganisation became the holding company of the Group on 10 November 1999. The Group has been treated as a continuing entity and accordingly the combined profit and loss account for the year ended 31 December 1999 has been prepared on the basis that the Company was the holding company of the Group throughout the year ended 31 December 1999, rather than from 10 November 1999. Accordingly, the results of the Group for the year ended 31 December 1999 included the results of the Company and its subsidiaries with the effect from 1 January 1999 or since their respective dates of incorporation, where this was a shorter period. In the opinion of the directors, the resulting combined profit and loss account gives a more meaningful view of the results of the Group as a whole for the year ended 31 December 1999.

The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 9 February 2000.

## 2 *SIGNIFICANT ACCOUNTING POLICIES*

### (a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost.

### (c) Basis of consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December each year. The results of subsidiaries acquired and disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions are eliminated on consolidation.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 2 SIGNIFICANT ACCOUNTING POLICIES(continued)

### (c) Basis of consolidation (continued)

Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is amortised on a straight-line basis to the profit and loss account over its estimated useful economic life. The excess of the Group's share of the fair value of the separable net assets of subsidiaries acquired over the cost is credited to capital reserve.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

### (d) Investments in subsidiaries

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

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

### (e) Fixed assets

#### (i) Fixed assets are stated at cost less accumulated depreciation.

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 2 SIGNIFICANT ACCOUNTING POLICIES(continued)

### (e) Fixed assets (continued)

- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

### (f) Amortisation and depreciation

- (i) Land use rights are amortised on a straight-line basis over the period of the grant.
- (ii) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values, as follows:

Buildings	15 to 30 years
Machinery and equipment	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 to 8 years

### (g) Construction in progress

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as interest expenses capitalised during the periods of construction and installation.

No depreciation is provided in respect of construction in progress.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Intangible asset

Intangible asset comprises cost for the acquisition of an exclusive right to use certain trademarks which is amortised annually on a straight-line basis over its estimated economic life of 20 years. The carrying value of the intangible asset is reviewed at each balance sheet date and where the estimated recoverable amount is less than the carrying value, the carrying value is reduced to the recoverable amount. The impairment loss arising therefrom is recognised as an expense in the profit and loss account. Where an impairment loss recognised in prior years no longer exists or has decreased, a reversal of the impairment loss is recognised as income in the profit and loss account.

### (i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (j) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than Renminbi are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The accounts of the Company and its subsidiaries expressed in non-Renminbi currencies are translated into Renminbi at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

### (l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

#### (i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales tax and is after deduction of any trade discounts.

#### (ii) Interest income

Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

### (m) Operating leases

Rental payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (n) Product development costs

Product development costs are charged to the profit and loss account as incurred, except insofar as they relate to clearly defined projects and the benefits therefrom can reasonably be regarded as assured. Costs so deferred are limited to the value of future benefits and are amortised on a systematic basis over the period expected to benefit from the projects.

### (o) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (p) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (q) Cash equivalents

Cash equivalents are short-term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 3 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 15.

Turnover represents the sales value of goods supplied to customers, less goods returned, trade discounts and value added tax, after eliminating inter-company transactions. The amount of revenue recognised in turnover during the year is as follows:

	2000 RMB'000	1999 RMB'000
Sale of instant food	<u>147,831</u>	<u>201,897</u>

The sale of instant food is substantially carried out in the People's Republic of China ("PRC").

## 4 OTHER REVENUE

	2000 RMB'000	1999 RMB'000
Licence fee	5,240	6,601
Technology transfer fee	–	1,890
Profit on sale of raw materials	89	347
Compensation receivable for illegal use of trademarks	118	210
Interest income	697	196
Others	370	188
	<u>6,514</u>	<u>9,432</u>

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	2000	1999
	RMB'000	RMB'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	1,553	517
(b) Other items:		
Auditors' remuneration	920	911
Cost of inventories*	95,194	128,210
Depreciation	5,473	5,312
Amortisation of intangible asset	1,900	950
Operating lease charges in respect of properties	851	459
Loss on disposal of fixed assets	126	272
Product development costs	171	969
Provision for bad debts	3,000	1,045
Write off of obsolete stocks	910	-
Staff costs (including retirement costs of RMB1,325,000 (1999: RMB1,307,000))	11,703	9,248

\* Cost of inventories includes RMB7,158,000 (1999: RMB8,858,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.



# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 6 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2000	1999
	RMB'000	RMB'000
Provision for PRC income tax for the year	4,565	11,581
Overprovision in respect of prior years	-	(2,877)
	<hr/>	<hr/>
	4,565	8,704
Deferred taxation ( <i>note 23(a)</i> )	(310)	(2,553)
	<hr/>	<hr/>
	4,255	6,151

No provision for Hong Kong profits tax has been made in the accounts as the Group did not derive any income subject to Hong Kong profits tax during the year.

PRC income tax is provided for at the applicable rates of taxation for each year on the estimated assessable profits arising in PRC, other than in Hong Kong, pursuant to PRC income tax rules and regulations applicable to enterprises with foreign investment.

Pursuant to an approval document dated 5 February 1996 issued by the relevant tax authorities, Guangxi Baixing Nanfang Food Co., Ltd ("Guangxi Baixing"), the Company's principal subsidiary, has been granted certain PRC tax reliefs, under which it was subject to PRC income tax at a reduced tax rate of 18% for the three years ended 31 December 1999.

Pursuant to an approval document dated 20 November 1999 issued by the relevant tax authorities, the above tax reliefs have been extended for another three years up to 31 December 2002.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 6 TAXATION (continued)

(b) Taxation in the consolidated balance sheet represents:

	2000 RMB'000	1999 RMB'000
Provision for PRC income tax for the year	4,565	11,581
Balance of PRC income tax provision relating to prior years	10,471	–
	<u>15,036</u>	<u>11,581</u>

## 7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2000 RMB'000	1999 RMB'000
Fees	500	–
Salaries and other emoluments	4,894	2,003
	<u>5,394</u>	<u>2,003</u>

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme, as disclosed in the directors' report.

Included in the directors' remuneration were fees of RMB329,000 (1999: RMBNil) payable to the independent non-executive directors.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 7 DIRECTORS' REMUNERATION (continued)

The remuneration of the directors is within the following bands:

	Number of directors	
	2000	1999
RMBNil - RMB1,070,000 (approximately equivalent to HK\$Nil - HK\$1,000,000)	9	9
RMB1,070,001 - RMB1,605,000 (approximately equivalent to HK\$1,000,001 - HK\$1,500,000)	1	-
	<hr/>	<hr/>
	10	9

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (1999: three) of them are directors whose emoluments are disclosed in note 7. The emoluments in respect of the other one (1999: two) individual are as follows:

	2000	1999
	RMB'000	RMB'000
Salaries and other emoluments	<hr/> <b>696</b>	<hr/> 639

The emoluments of the one (1999: two) individual with the highest emoluments are within the following band:

	Number of individuals	
	2000	1999
RMBNil - RMB1,070,000 (approximately equivalent HK\$Nil - HK\$1,000,000)	<hr/> <b>1</b>	<hr/> 2

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of RMB4,172,000 (1999: RMBNil) which has been dealt with in the accounts of the Company.

## 10 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation on 2 November 1999.

## 11 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB1,768,000 (1999: RMB41,275,000) and the weighted average of 244,691,781 shares (1999: 187,500,000 shares after adjusting for the capitalisation issue in 2000) in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of RMB1,768,000 and the weighted average number of 252,014,583 shares after adjusting for the effects of all potential dilutive shares arising from share options granted during the year (note 24(e)). There were no potential dilutive shares in existence during 1999.

### (c) Reconciliations

	No of shares 2000
Weighted average number of shares used in calculating basic earnings per share	244,691,781
Deemed issue of shares for no consideration	7,322,802
	<hr/>
Weighted average number of shares used in calculating diluted earnings per share	252,014,583
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# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 12 FIXED ASSETS

### The Group

	Land use rights RMB'000	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>Cost:</b>						
At 1 January 2000	7,720	19,630	21,975	11,788	6,110	67,223
Additions	-	-	18	1,534	2,286	3,838
Transfer from construction in progress (note 13)	-	115	302	250	-	667
Disposals	-	-	-	(851)	(1,132)	(1,983)
<b>At 31 December 2000</b>	<b>7,720</b>	<b>19,745</b>	<b>22,295</b>	<b>12,721</b>	<b>7,264</b>	<b>69,745</b>
<b>Aggregate depreciation:</b>						
At 1 January 2000	1,097	3,217	7,641	4,581	4,093	20,629
Charge for the year	187	710	1,987	1,888	701	5,473
Written back on disposals	-	-	-	(662)	(917)	(1,579)
<b>At 31 December 2000</b>	<b>1,284</b>	<b>3,927</b>	<b>9,628</b>	<b>5,807</b>	<b>3,877</b>	<b>24,523</b>
<b>Net book value:</b>						
<b>At 31 December 2000</b>	<b>6,436</b>	<b>15,818</b>	<b>12,667</b>	<b>6,914</b>	<b>3,387</b>	<b>45,222</b>
At 31 December 1999	6,623	16,413	14,334	7,207	2,017	46,594

The Group has been granted the right to use the land, on which the principal factories and office buildings are situated, by the relevant PRC authorities for a period of 50 years, which expires in December 2047.

All of the Group's buildings are located in the PRC.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 12 *FIXED ASSETS*(continued)

The property interests of the Group have been valued by Sallmanns (Far East) Limited ("Sallmanns"), an independent property valuer in Hong Kong, at approximately RMB23,690,000 at 31 October 1999. The valuation has not been incorporated in the accounts as the valuation approximated the carrying value of the properties at the date of valuation.

## 13 *CONSTRUCTION IN PROGRESS*

	The Group	
	2000 RMB'000	1999 RMB'000
At 1 January	321	3,876
Additions	677	324
Transfer to fixed assets ( <i>note 12</i> )	(667)	(3,879)
	<hr/>	<hr/>
At 31 December	331	321

## 14 *INTANGIBLE ASSET*

	The Group	
	2000 RMB'000	1999 RMB'000
<b>Cost:</b>		
At 1 January and 31 December	38,000	38,000
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Aggregate amortisation:</b>		
At 1 January	950	-
Charge for the year	1,900	950
	<hr/>	<hr/>
At 31 December	2,850	950
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Net book value:</b>		
At 31 December	35,150	37,050

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 14 INTANGIBLE ASSET(continued)

Intangible asset represents cost for the acquisition of an exclusive right to use certain trademarks. In the opinion of the directors, the estimated recoverable amount exceeds the carrying value at 31 December 2000.

## 15 INVESTMENT IN SUBSIDIARIES

	2000 RMB'000	1999 RMB'000
Unlisted shares, at cost	<u>86,823</u>	<u>86,823</u>

The following list contains the particulars of subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of Incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Nam Fong Food Holding Limited	British Virgin Islands/ Hong Kong	US\$690	100	100	-	Investment holding
Amersham Investment Limited	Hong Kong	HK\$750,020	100	-	100	Investment holding
Brilliant Creation Limited	Hong Kong	HK\$2	100	-	100	Investment holding
Guangxi Baixing Nanfang Food Co., Ltd *	PRC	RMB52,000,000	94.83	-	94.83	Instant food manufacturing
Guangxi Nanfang Food Sales Co., Ltd	PRC	RMB3,000,000	97	-	97	Sale of food products

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 15 INVESTMENT IN SUBSIDIARIES(continued)

Name of company	Place of Incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Peony Overseas Co., Ltd.	British Virgin Islands/ Hong Kong	US\$1,000	100	-	100	Dormant
Power Max Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	-	100	Dormant
Fortune Town Co., Ltd	British Virgin Islands/ Hong Kong	US\$1,000	100	-	100	Dormant
Stonehouse Global Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	-	100	Dormant

\* This is a sino-foreign equity joint venture company established on 23 March 1993 in the PRC. The PRC statutory auditors of the company are Guangxi Xingrui United Certified Public Accountants, a firm of certified public accountants registered in the PRC.

## 16 INVENTORIES

	The Group	
	2000 RMB'000	1999 RMB'000
Raw materials	6,685	6,780
Work in progress	546	891
Finished goods	5,763	1,007
Spare parts and consumables	196	297
	<b>13,190</b>	<b>8,975</b>

The above inventories were carried at cost at 31 December 2000 and 1999.



# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 17 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Trade debtors	64,886	45,254	-	-
Prepayments, deposits and other receivables	56,048	16,002	340	3,174
	<b>120,934</b>	61,256	<b>340</b>	3,174

All the trade debtors and other receivables are expected to be recovered within one year.

The ageing analysis of trade debtors (net of provisions for bad and doubtful debts) is as follows:

	The Group	
	2000	1999
	RMB'000	RMB'000
Current - aged less than 6 months	51,051	38,838
Overdue - aged 7 to 12 months	13,835	6,416
	<b>64,886</b>	45,254

Debts are due within three to six months from the date of billing. Debtors with balances that are overdue are requested to settle all outstanding balances before any further credit is granted.

## 18 AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The balances are unsecured, interest free and repayable on demand.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 19 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Deposits with banks	5,538	–	–	–
Cash at bank and in hand	15,539	10,835	135	–
	<b>21,077</b>	<b>10,835</b>	<b>135</b>	<b>–</b>

## 20 BANK LOANS AND OVERDRAFTS

At 31 December 2000, the bank loans and overdrafts of the Group were repayable as follows:

	The Group	
	2000 RMB'000	1999 RMB'000
Within 1 year or on demand	<b>33,168</b>	10,832

At 31 December 2000, the bank loans and overdrafts of the Group were secured as follows:

	The Group	
	2000 RMB'000	1999 RMB'000
Bank overdrafts ( <i>note (a)</i> )	3,168	–
Bank loans secured by		
– corporate guarantee issued by a related company ( <i>note (b)</i> )	–	832
– fixed assets ( <i>note (c)</i> )	20,930	–
– Others	–	10,000
Unsecured	9,070	–
	<b>33,168</b>	<b>10,832</b>

Notes:

- The banking facilities of a subsidiary are secured by a pledge of a fixed deposit of RMB5,350,000. Such banking facilities, amounting to RMB8,560,000, were utilised to the extent of RMB3,168,000 at 31 December 2000. Subsequent to the balance sheet date the overdrafts were fully repaid and the banking facilities were cancelled.
- The corporate guarantee issued by a related company was released upon the repayment of the corresponding bank loan in April 2000.
- The bank loans of a subsidiary are secured by mortgages over the land use rights with a carrying value of RMB6,436,000 and buildings with an aggregate carrying value of RMB13,868,000.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Trade creditors	21,708	32,627	-	-
Receipts in advance	4,155	2,632	-	-
Accrued expenses and other payables	15,441	13,060	10,720	-
	<b>41,304</b>	<b>48,319</b>	<b>10,720</b>	<b>-</b>

All the trade and other payables are expected to be settled within one year.

The ageing analysis of trade creditors is as follows:

	The Group	
	2000	1999
	RMB'000	RMB'000
Due within 3 months or on demand	15,118	28,307
Due after 3 months	6,590	4,320
	<b>21,708</b>	<b>32,627</b>

## 22 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

Amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 23 DEFERRED TAXATION

(a) Movements on deferred tax assets of the Group comprise:

	The Group	
	2000	1999
	RMB'000	RMB'000
At 1 January	2,888	335
Transfer from the profit and loss account ( <i>note 6 (a)</i> )	310	2,553
	3,198	2,888
At 31 December	3,198	2,888

(b) Major components of deferred tax assets provided for by the Group are set out below:

	The Group	
	2000	1999
	RMB'000	RMB'000
General provision for receivables and inventories	2,302	2,463
Others	896	425
	3,198	2,888
	3,198	2,888

## 24 SHARE CAPITAL

	2000		1999	
	No of shares '000	Amount RMB'000	No of shares '000	Amount RMB'000
<b>Authorised:</b>				
Shares of HK\$0.10 each	1,000,000	197,000	2,000	214
<b>Issued and fully paid:</b>				
Shares of HK\$0.10 each	250,000	26,750	2,000	214

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 24 SHARE CAPITAL (continued)

- (a) The Company was incorporated in Bermuda under the Companies Act 1981 as an exempted company on 2 November 1999. As at the date of incorporation of the Company, its initial authorised share capital was divided into 1,000,000 shares of HK\$0.10 each, which were allotted and issued to Kindhearted Holdings Limited on 3 November 1999.
- (b) Pursuant to a written resolution passed by the sole shareholder on 10 November 1999, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of an additional 1,000,000 shares, which were on that date issued and credited as fully paid.
- (c) On 6 January 2000, written resolutions of the then shareholders of the Company were passed pursuant to which, inter alia:
- (i) the authorised share capital of the Company was increased from HK\$200,000 to HK\$100,000,000 by the creation of an additional 998,000,000 shares; and
  - (ii) conditional on the share premium account of the Company being credited as a result of the new issue of shares, details of which are set out in note 24(d), HK\$18,550,000 of such amount was directed to be capitalised and applied in paying up in full 185,500,000 shares for allotment and issue to holders of shares on the register of shareholders at the close of business on 6 January 2000 (or as they may direct) in proportion as nearly as may be to their then existing holdings.
- (d) On 1 February 2000, a further 62,500,000 shares (including 50,000,000 shares to independent investors by way of a placement) of HK\$0.10 each were issued and offered for subscription at a price of HK\$0.80 per share upon the listing of the Company's shares on the Stock Exchange. The Group raised approximately HK\$38,000,000 (including interest income) net of related expenses from the issue.
- (e) Share option scheme

Pursuant to a written resolution passed on 6 January 2000, a share option scheme was approved and the directors may, at their discretion, within the period of ten years from the date on which it is adopted by the Company to invite any employee or director of the Group, to take up options to subscribe for shares of the Company at a price to be determined by the Board which will not be less than 80% of the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is higher.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 24 SHARE CAPITAL (continued)

### (e) Share option scheme (continued)

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company may not (when aggregated with shares subject to any other employee share option scheme) exceed in nominal amount 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of any options granted under the share option scheme (or any other employee share option scheme).

At 31 December 2000, the Company had the following outstanding options granted to directors and employees for nominal consideration to subscribe for shares of the Company:

Date of grant	Number of options outstanding at the year end	Exercise price per share	Exercisable period
4 August 2000	25,000,000	HK\$0.84	4 August 2000 to 3 August 2005

Each option gives the holder the right to subscribe for one share of the Company. During the year, no share options were exercised.

### (f) A summary of the movements in the issued share capital of the Company is as follows:

	2000		1999	
	No of shares '000	Amount RMB'000	No of shares '000	Amount RMB'000
At 1 January	2,000	214	–	–
Issue of shares on 2 and 10 November 1999	–	–	2,000	214
Capitalisation issue	185,500	19,849	–	–
New issue of shares on initial public offering	62,500	6,687	–	–
At 31 December	250,000	26,750	2,000	214

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 25 RESERVES

### (a) The Group

	Share premium <i>RMB'000</i>	Contributed surplus <i>RMB'000</i>	General reserve <i>RMB'000</i>	Enterprise expansion reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 1999	-	36,124	9,262	4,631	23,701	73,718
Dividends paid by subsidiaries to their former equity owners	-	-	-	-	(23,993)	(23,993)
Transfer between reserves	-	-	5,004	2,502	(7,506)	-
Profit for the year	-	-	-	-	41,275	41,275
Contributed surplus arising on shares issued upon group restructuring	-	7,597	-	-	-	7,597
<b>At 31 December 1999</b>	<b>-</b>	<b>43,721</b>	<b>14,266</b>	<b>7,133</b>	<b>33,477</b>	<b>98,597</b>
At 1 January 2000	-	43,721	14,266	7,133	33,477	98,597
Issue of shares	46,813	-	-	-	-	46,813
Share issue expenses	(12,306)	-	-	-	-	(12,306)
Transfer between reserves	-	-	2,071	1,036	(3,107)	-
Capitalisation issue of shares	(19,849)	-	-	-	-	(19,849)
Profit for the year	-	-	-	-	1,768	1,768
<b>At 31 December 2000</b>	<b>14,658</b>	<b>43,721</b>	<b>16,337</b>	<b>8,169</b>	<b>32,138</b>	<b>115,023</b>

In accordance with the relevant PRC laws applicable to sino-foreign equity joint venture enterprises, Guangxi Baixing may make, at the discretion of its board of directors, appropriations of its annual profits determined in accordance with PRC accounting rules and regulations to the general reserve and enterprise expansion reserve. The general reserve can be used to make good losses and to convert into paid-up capital. The enterprise expansion reserve can be used to convert into paid-up capital.

## NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

### 25 RESERVES(continued)

#### (b) The Company

	Share premium <i>RMB'000</i>	Contributed surplus <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 1999	–	–	–	–
Issue of shares upon restructuring	–	86,716	–	86,716
At 31 December 1999	–	86,716	–	86,716
At 1 January 2000	–	86,716	–	86,716
Issue of shares	46,813	–	–	46,813
Share issue expenses	(12,306)	–	–	(12,306)
Capitalisation issue of shares	(19,849)	–	–	(19,849)
Net loss for the year ( <i>note 9</i> )	–	–	(4,172)	(4,172)
At 31 December 2000	14,658	86,716	(4,172)	97,202

The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of subsidiaries being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders. At the Group level, the contributed surplus is reclassified into the components of reserves of the underlying subsidiaries.



# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 26 COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2000 not provided for in the accounts of the Group were as follows:

	2000 RMB'000	1999 RMB'000
Contracted for	5,126	240

- (b) At 31 December 2000, the Group had commitments under operating leases of office premises to make payments in the next year as follows:

	2000 RMB'000	1999 RMB'000
<b>Leases expiring:</b>		
Within 1 year	255	11
After 1 year but within 5 years	92	482
	<b>347</b>	<b>493</b>

## 27 MATERIAL RELATED PARTY TRANSACTIONS

The owners of Guangxi Havle Foodstuff Group ("Guangxi Havle Group") who are a group of individuals comprising the founding shareholders of the Group, have been collectively holding a controlling equity interest in all of the companies within the Group since their respective dates of establishment up to 31 December 2000.

Details of material transactions between the Group and Guangxi Havle Group, and its subsidiary and associated companies during the year are as follows:

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 27 MATERIAL RELATED PARTY TRANSACTIONS(continued)

### (a) Recurring transactions

	2000	1999
	RMB'000	RMB'000
Purchase of packaging materials (note (i))	6,681	6,252
Purchase of instant food products (note (ii))	2,836	3,926
Hotel charges (note (iii))	635	160
Rental charges (note (iv))	37	126
Licence fee income (note (b)(i))	323	192

#### Notes:

- (i) Purchase of packaging materials represents packaging materials supplied to Guangxi Baixing by certain subsidiaries of Guangxi Havle Group. The purchase prices charged to Guangxi Baixing are similar to those charged by independent third party suppliers.
- (ii) Purchase of instant food products represents instant food products supplied to Guangxi Baixing by associated companies of Guangxi Havle Group. The purchase prices paid to these companies are similar to those paid to unrelated suppliers.
- (iii) Hotel charges represent charges paid by Guangxi Baixing to a hotel owned by Guangxi Havle Group for the use of the hotel services. The rates charged to Guangxi Baixing are similar to those offered to unrelated hotel guests.
- (iv) Rental charges represent full reimbursement of rental expenses incurred by Guangxi Havle Group in respect of premises leased by it and occupied by the Group. The lessors are independent third parties.
- (v) The Group had non-interest bearing balances due from certain subsidiary and associated companies of Guangxi Havle Group, which represent purchase deposits placed with such parties in connection with the procurement of the goods and services mentioned in (i) to (iv) above and prepayment of advertising charges. Such balances in aggregate amounted to RMB3,677,000 as at 31 December 2000 (1999: RMB4,351,000).
- (vi) The group had non-interest bearing balances due to certain subsidiary and associated companies of Guangxi Havle Group arising from the procurement of goods and services mentioned in (i) to (iv) above. Such balances in aggregate amounted to RMB4,604,000 as at 31 December 2000 (1999: RMBNil).

In the opinion of the directors, the related party transactions as described above were carried out in the ordinary course of business on normal commercial terms.

# NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

## 27 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (b) Non-recurring transactions

	2000	1999
	RMB'000	RMB'000
Acquisition of trademark use right ( <i>note</i> )	–	38,000
Interest receivable	–	155

*Note:* Pursuant to a trademark licence agreement dated 30 June 1999, Guangxi Baixing acquired from Guangxi Havle Group an exclusive right to use certain trademarks, subject to Guangxi Havle Group's rights to licence such trademarks to its subsidiaries and certain third parties, at a consideration of RMB38,000,000, for a period of 20 years beginning on 30 June 1999.

Subsequently in July 1999, Guangxi Baixing entered into agreements to sub-licence the use of the above mentioned trademarks to eight sub-licensees in return for an annual licence fee. These trademark sub-licensing agreements were valued as at 30 June 1999 by Sallmanns and the value of the Group's attributable interest in these agreements according to the valuation was approximately RMB38,000,000.

Two of the above sub-licensees are associated companies of Guangxi Havle Group and the terms of the sub-licensing arrangements effected with the related sub-licensees do not differ materially from those effected with independent third parties.

## 28 POST BALANCE SHEET EVENTS

- (a) On 28 November 2000, the Company entered into a subscription agreement with Total China Investments Limited ("the Subscriber"), a Company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of San Jiu Enterprise Group, whereby the Company agreed to issue and the Subscriber agreed to subscribe for 23,750,000 subscription shares at a price of HK\$3.80 per subscription share. The subscription shares will be subject to a 24 months lock-up period pursuant to the subscription agreement. On 5 March 2001, 23,750,000 shares of HK\$0.10 each of the Company were allotted and issued to the Subscriber for a total consideration of approximately HK\$90,000,000 net of related expenses from the issue.
- (b) On 12 February 2001, the Group entered into an agreement with Mr Le Xian Feng, Mr Pun Wai Hak and Ms Zhang Di ("the Vendors") to acquire the entire issued share capital of Bamber Resources Limited ("Bamber"), a company incorporated in the British Virgin Islands with limited liability, and the shareholders' loans owed by Bamber to the Vendors in the aggregate amount of RMB45,448,480 as at 31 December 2000 for a total consideration of HK\$43,265,000. The sole operating asset of Bamber is a 80% owned subsidiary, Xinjiang Xingmei Oil Pipeline Company Limited, a sino-foreign equity joint venture established in the PRC, which engages in the operation of transportation and storage facilities for crude oil exploited from the Ta He oil field in Xinjiang Province, the PRC. The sale and purchase agreement was completed on 6 March 2001.

## NOTES TO THE ACCOUNTS

(Expressed in Renminbi)

### 29 *ULTIMATE HOLDING COMPANY*

At 31 December 2000, Kindhearted Holdings Limited ("Kindhearted"), a company incorporated in the British Virgin Islands, was interested in 166,279,565 shares of the Company of HK\$0.10 each, representing approximately 66.51% of the issued shares of the Company at that date. The directors considered that Kindhearted was the ultimate holding company of the Company as at 31 December 2000.

Subsequent to the balance sheet date on 6 March 2001, China GeoMaxima Company Limited ("CGCL"), a company incorporated in the British Virgin Islands with limited liability, entered into a sales and purchase agreement to acquire from Kindhearted 166,279,565 shares of the Company, representing Kindhearted's entire equity interest in the Company and approximately 60.67% of the issued share capital of the Company as at 6 March 2001 at a consideration of HK\$166,279,565, or HK\$1.00 per share. Following the completion of the sale and purchase agreement on 12 March 2001, Kindhearted ceased to be and CGCL became the ultimate holding company of the Company. Mr Sun Tian Gang, a director of the Company, is the sole beneficial shareholder of CGCL.