1. GENERAL

The Company was incorporated on 23 September 1998 as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 29 December 1998. Its ultimate holding Company is Feng Lin Holdings Limited ("Feng Lin"), a company which is incorporated in the British Virgin Islands. The principal activities of the Company's subsidiaries are set out in note 31 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

On disposal of a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

Investment in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in value of the subsidiary that is other than temporary.

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year, less returns and allowances.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Sale of goods is recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	2% or over the remaining period of the leases, if shorter
Leasehold buildings	Over the estimated useful lives of 50 years or the period of the leases, if shorter
Leasehold improvements	20%
Plant and machinery	12%
Furniture, fixtures and equipment	20%
Motor vehicles	20 – 25%

Technical know-how

Technical know-how is stated at cost less amortisation and impairment loss that is other than temporary. The cost of technical know-how is amortised on a straight line basis over its expected useful life of five years.

Trademarks

Trademarks are stated at cost less amortisation and provision for permanent diminution in value, if necessary. Amortisation is calculated to write off the cost of trademarks over a period of five years, using the straight line method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents 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.

Pension scheme

The amount of contributions payable to the state-managed pension schemes in the mainland People's Republic of China (the "PRC") are charged to the income statement when they become payable.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks which are repayable within three months from the dates of the advances.

3. OTHER OPERATING EXPENSES

Other operating expenses comprise the followings:

	2000 HK$'000	1999 HK$'000
Loss on disposal of property, plant and equipment	**3,393**	794
Provision for doubtful debts	**2,997**	–
	6,390	794

4. (LOSS) PROFIT FROM OPERATIONS

	2000 HK$'000	1999 HK$'000
(Loss) profit from operations has been arrived at after charging:		
Amortisation of intangible assets	**395**	–
Auditors' remuneration		
– Current year	**504**	458
– Underprovision in prior years	**29**	72
Staff costs, including directors' emoluments	**9,120**	14,708
Depreciation and amortisation of property, plant and equipment	**9,565**	8,412
Loss on disposal of property, plant and equipment	**3,393**	794
Operating lease rentals payable in respect of land and buildings	**1,302**	1,379
Research and development expenditure	**3,887**	–
and after crediting:		
Interest income from bank deposits	**3,188**	2,354

5. DIRECTORS' EMOLUMENTS

	2000 HK$'000	1999 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**156**	240
Other emoluments of executive directors:		
Basic salaries and allowances	**2,613**	2,438
	2,769	2,678

The emoluments of each of the Company's directors were below HK$1,000,000 for each of the two years ended 31 December 2000.

6. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, all (1999: four) were executive directors of the Company whose emoluments are included in note 5 above. The emoluments of the remaining one highest paid individual in 1999 were as follows:

	2000	1999
	HK$'000	HK$'000
Basic salaries and allowances	**–**	418

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during the year.

7. TAXATION

	2000	1999
	HK$'000	HK$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit	**–**	215
PRC enterprise income tax	**–**	4,253
	–	4,468

A substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

Pursuant to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for two years commencing from its first profit-making year of operation, followed by a 50 per cent reduction in PRC enterprise income tax for the next three years. No provision for PRC enterprise income tax has been made in the financial statements as the Company's PRC subsidiaries had no assessable profit for the current year. The charge for the year ended 31 December 1999 represented provision for PRC enterprise income tax at the reduced rate of 12% on a PRC subsidiary's estimated assessable profit.

The Group and the Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

8. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's (loss) profit attributable to shareholders for the year, a loss of approximately HK$1,100,000 (1999: profit of HK$17,900,000) has been dealt with in the financial statements of the Company.

9. DIVIDEND

The dividend in 1999 represented a proposed final dividend of HK8 cents per share calculated by reference to 200,000,000 ordinary shares in issue.

10. (LOSS) EARNINGS PER SHARE

The calculation of the (loss) earnings per share is based on the loss attributable to shareholders of HK$13,601,000 (1999: profit of HK$27,514,000) and on 200,000,000 (1999: 200,000,000) shares in issue during the year.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP						
COST						
At 1 January 2000	51,692	851	56,972	3,863	3,151	116,529
Additions	3,017	–	36,451	638	2	40,108
Disposals	–	–	(7,614)	(52)	–	(7,666)
At 31 December 2000	**54,709**	**851**	**85,809**	**4,449**	**3,153**	**148,971**
DEPRECIATION AND AMORTISATION						
At 1 January 2000	3,923	658	21,686	2,548	2,158	30,973
Provided for the year	1,084	93	7,600	646	142	9,565
Eliminated on disposals	–	–	(4,148)	–	–	(4,148)
At 31 December 2000	**5,007**	**751**	**25,138**	**3,194**	**2,300**	**36,390**
NET BOOK VALUE						
At 31 December 2000	**49,702**	**100**	**60,671**	**1,255**	**853**	**112,581**
At 31 December 1999	47,769	193	35,286	1,315	993	85,556

The leasehold land and buildings of the Group are situated in the PRC and are held under medium term leases.

12. DEPOSITS PAID FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were paid in 1999 by the Group in connection with the establishment of the production facilities for snack food in the PRC. The deposits were transferred to property, plant and equipment during the year.

13. INVESTMENTS IN SUBSIDIARIES

	2000	1999
	HK$'000	HK$'000
Unlisted shares	**75,274**	75,274
Amounts due from subsidiaries	**43,820**	39,445
	119,094	114,719

The carrying value of the unlisted shares is based on the directors' estimate of the underlying net assets of the subsidiaries at the time these subsidiaries were acquired by the Company.

Particulars of the Company's subsidiaries at 31 December 2000 are set out in note 31.

The amounts due from subsidiaries are unsecured, non-interest bearing and are repayable after one year.

14. INTANGIBLE ASSETS

	Technical know-how	**Trademarks**	**Total**
	HK$'000	HK$'000	HK$'000
THE GROUP			
COST			
Acquired during the year and at 31 December 2000	1,877	101	1,978
AMORTISATION			
Provided for the year and at 31 December 2000	375	20	395
NET BOOK VALUE			
At 31 December 2000	1,502	81	1,583

15. INVENTORIES

	THE GROUP	
	2000	1999
	HK$'000	HK$'000
Raw materials	**6,327**	16,115
Work in progress	**3,372**	829
Finished goods	**6,629**	880
	16,328	17,824

At 31 December, 2000, all inventories were carried at cost. At 31 December 1999, included in the above are raw materials of HK$1,260,000 and finished goods of HK$442,000 which were carried at net realisable value.