



# Notes to the Financial Statements

31 December 2001

(Expressed in Renminbi unless otherwise stated)

## 1. Status of the Company

### a) The Company

The Company was incorporated in Bermuda on 27 July 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda under the name of First China Natural Foods Holdings Limited. On 10 August 2001, the name of the Company was changed to First Natural Foods Holdings Limited.

During the period from 27 July 2001 (date of incorporation) to 31 December 2001, the Company has not carried out any business save for the incurring of expenses related to the Reorganization as defined in note 1(b) below.

As the Company was incorporated on 27 July 2001, no comparative figures are presented.

### b) Group Reorganization

Pursuant to a group reorganization (the "Reorganization") to rationalise the Group's structure in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company became the holding company of the subsidiaries now comprising the Group upon the completion of the Reorganization on 17 January 2002, the details of the Reorganization are set out in the prospectus issued by the Company dated 30 January 2002 (the "Prospectus"). Details of the Company's subsidiaries comprising the Group as from 17 January 2002 are set out in note 28 to the proforma financial information.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited with effect from 11 February 2002.

### c) Basis of Preparation

The effect of the Reorganization is not reflected in the Company's financial statements for the period ended 31 December 2001 as the Reorganization took place on 17 January 2002.

However, since all entities which took part in the Reorganization were wholly owned by a common ultimate shareholder before and immediately after the Reorganization and, consequently, there was a continuation of the risks and benefits to the ultimate shareholder that existed prior to the Reorganization, additional proforma financial information, prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice No. 27 ("SSAP 27") ("Accounting for group reconstructions") issued by the Hong Kong Society of Accountants, has been presented on pages 37 to 64, as if the Group had always been in existence. Further details concerning the basis of presentation of the proforma financial information is set out on page 36.



# Notes to the Financial Statements *(continued)*

## 2. Principal Accounting Policies

### a) Statement of Compliance

These financial statements 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 financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Company is set out below.

### b) Basis of Measurement

The financial statements have been prepared on historical cost basis.

### c) Translation of Foreign Currencies

The financial statements are prepared in Renminbi.

Foreign currency transactions are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

### d) Related Parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company 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 Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

## 3. Turnover

The Company has not yet commenced its business and did not earn any income during the period from the date of incorporation to 31 December 2001.

## 4. Loss from Ordinary Activities before Taxation

During the period ended 31 December 2001, certain expenses of the Company, including auditors' remuneration of RMB10,000, have been borne by First China Technology Limited, a related company, which has waived its right of recovery thereof.

## 5. Taxation

No provision for taxation has been made as no income assessable to Hong Kong or other jurisdiction was earned during the period ended 31 December 2001.



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# Notes to the Financial Statements *(continued)*

## 6. Directors' Remuneration

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

	2001 RMB'000
Fees	—
Salaries and other emoluments	—
Discretionary bonuses	—
Retirement scheme contributions	—
	—
	—

## 7. Loss Per Share

### a) Basic loss per share

The calculation of the loss per share is based on the loss attributable to shareholders for the period ended 31 December 2001 and on the 100,000 ordinary shares of the Company in issue during the period ended 31 December 2001.

### b) Diluted loss per share

Diluted loss per share is not presented because there was no diluted potential ordinary shares in existence during the period.

## 8. Deposits and Prepayments

All of the deposits and prepayments are expected to be recovered within one year.

## 9. Due to a Director and a Related Company

The amounts due to a director and a related company are unsecured, non-interest bearing and have no fixed terms of repayment.

The related company is First China Technology Limited which is a company beneficially owned by Mr. Yeung Chung Lung, a director of the Company. Pursuant to the Reorganization, First China Technology Limited has become a wholly owned subsidiary of the Company on 17 January 2002.



## Notes to the Financial Statements *(continued)*

### 10. Issued Capital

	Number of shares	Amount
Authorized:		
On incorporation and at 31 December 2001, ordinary shares of HK\$1.00 (equivalent to RMB1.06) each	<u>100,000</u>	<u>RMB106,000</u>
Issued and fully paid:		
Shares issued upon incorporation and at 31 December 2001	<u>100,000</u>	<u>RMB nil</u>

The Company was incorporated on 27 July 2001 with an authorized share capital of HK\$100,000 (equivalent to RMB106,000) divided into 100,000 ordinary shares of HK\$1.00 each. All these 100,000 ordinary shares of HK\$1.00 each, nil paid, were allotted and issued.

On 17 January 2002, by means of a sub-division of share capital, the par value of the ordinary shares of the Company was reduced from HK\$1.00 each to HK\$0.05 each, and every issued and unissued ordinary share of HK\$1.00 was subdivided into 20 ordinary shares ("Subdivision"). Immediately after the Subdivision, the authorized share capital of the Company became HK\$100,000 (equivalent to RMB106,000) comprising 2,000,000 ordinary shares of HK\$0.05 each of which all ordinary shares were in issue.

On 17 January 2002, the authorized share capital of the Company was increased from HK\$100,000 (equivalent to RMB106,000) to HK\$100,000,000 (equivalent to RMB106,000,000) by the creation of an additional 1,998,000,000 ordinary shares of HK\$0.05 each ranking *pari passu* with the then existing ordinary shares of the Company in all respects.

On 17 January 2002, the Company acquired the entire issued share capital of First China Technology Limited ("First China") in consideration for (i) the transfer of 2,000,000 nil paid ordinary shares of HK\$0.05 each in the Company held by the shareholders of the Company and (ii) the issue and allotment of 156,000 ordinary shares, to the shareholders of First China. The Company became the holding company of the Group with effect from 17 January 2002.

Pursuant to the listing of the shares of the Company on 11 February 2002, 200,000,000 ordinary shares of the Company were issued by way of the public offer.

On 11 February 2002, share premium of HK\$29,892,200 (equivalent to approximately RMB31,686,000) was capitalized for the issuance of 597,844,000 ordinary shares on a pro-rata basis to the Company's shareholders on the register of members of the Company at the close of business on 17 January 2002.

All shares authorized or issued since incorporation rank *pari passu* with each other in all respects.



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# Notes to the Financial Statements *(continued)*

## 11. Reserves

Loss for the period ended 31 December 2001  
and at 31 December 2001

**2001**  
**RMB'000**

**(43)**

## 12. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of loss from ordinary activities before taxation to net cash outflow from operating activities:

Loss from ordinary activities before taxation  
Increase in deposits and prepayments  
Increase in accruals and other payables

**2001**  
**RMB'000**

**(43)**  
**(2,294)**  
**1,558**

Net cash outflow from operating activities

**(779)**

(b) Analysis of changes in financing:

Balance as at 27 July 2001  
Increase in amount due to a director  
Increase in amount due to a related company

	<b>Due to a director</b> RMB'000	<b>Due to a related company</b> RMB'000
Balance as at 27 July 2001	—	—
Increase in amount due to a director	331	—
Increase in amount due to a related company	—	453
Balance as at 31 December 2001	<u>331</u>	<u>453</u>



# Notes to the Financial Statements *(continued)*

31 December 2001

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## 13. Post Balance Sheet Events

The following events took place subsequent to 31 December 2001:

- (a) Subsequent to the year end date, there were movements in share capital as set out in note 10 to the financial statements.
- (b) On 17 January 2002, the Company completed the Reorganization in preparation for the listing of its shares on The Stock Exchange of Hong Kong Limited. As a result of the Reorganization, the Company has become the holding company of the Group. Further details of the Reorganization are set out in the Prospectus.
- (c) Pursuant to the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited on 11 February 2002, 200,000,000 ordinary shares of the Company were issued by way of the public offer for cash of HK\$0.73 per share.