Notes to the Proforma Financial Information

1. Group Reorganisation

a) The Company

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

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, details of which are set out in the prospectus issued by the Company dated 30 January 2002 (the "Prospectus"). The shares of the Company were listed on The Stock Exchange of Hong Kong Limited with effect from 11 February 2002.

2. Principal Accounting Policies

a) Statement of Compliance

These proforma financial information 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 proforma financial information 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 Group is set out below.

b) Basis of Measurement

The proforma financial information have been prepared on historical cost basis.

c) Subsidiaries

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

2. Principal Accounting Policies (Continued)

d) Fixed Assets and Depreciation

Fixed assets, other than construction-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses (see note 1(f)). Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalized, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimate useful life. The annual rates of depreciation are as follows:

Land	Over lease terms
Buildings	5%
Machinery	15%
Office equipment	20%
Motor vehicles	20%

Construction-in-progress represents buildings under construction and machinery pending installation. It is stated at cost, which includes construction expenditures incurred, cost of machinery and other direct costs capitalized during the construction and installation period. No depreciation is provided in respect of construction-in-progress until the construction and installation work is completed.

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 recognized in the proforma combined income statement on the date of retirement or disposal.

e) Operating Leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of the assets under operating leases, payments made under the leases are charged to the proforma combined income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in the proforma combined income statement as an integral part of the aggregate net lease payments made.

2. Principal Accounting Policies (Continued)

f) Impairment of Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the fixed assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows from continuing use that are largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the proforma combined income statement in the year in which the reversals are recognized.

g) Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost includes cost of raw materials determined using the weighted average method of costing and in the case of finished goods, also direct labour and an appropriate proportion of production overheads.

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

2. Principal Accounting Policies (Continued)

h) 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.

i) 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 crystallize in the foreseeable future.

Future deferred tax benefits are not recognized unless their realization is assured beyond reasonable doubt.

j) Provisions and Contingent Liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Contingent liabilities are not recognized in the proforma financial information. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the proforma financial information but disclosed when an inflow of economic benefits is probable.

k) Revenue Recognition

Revenue is recognized when the outcome of a transaction can be measured reliably and it is probable that the economic benefits will flow to the Group. Revenue is recognized in the proforma combined income statement as follows:

(i) Sale of goods

Revenue is recognized 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 tax and is after deduction of any goods returns and trade discounts.

(ii) Subsidy income

Subsidy income is recognized when the right to receive payment is established.

(iii) Interest income

Interest income is recognized on a time proportion basis by reference to the principal outstanding and the rate applicable.

2. Principal Accounting Policies (Continued)

l) Translation of Foreign Currencies

The proforma financial information is prepared in Renminbi ("RMB").

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 proforma combined income statement.

The financial statements of subsidiaries which are not denominated in Renminbi are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange differences arising from such translations are dealt with as movement in reserves.

m) Retirement Cost

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a state-sponsored retirement plan operated by local government in the People's Republic of China ("PRC") are charged to the proforma combined income statement when incurred.

n) Borrowing Costs

Borrowing costs are expensed in the proforma combined income statement in the period in which they are incurred, except to the extent that they are capitalized 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 capitalization 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. Capitalization 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 completed.

o) Related Parties

For the purposes of this proforma financial information, 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.

2. Principal Accounting Policies (Continued)

p) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

3. Turnover

The principal activities of the Group are manufacturing and sale of food products.

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is after deduction of any goods returns and trade discounts.

4. Other Revenue

	2001 **RMB'000**	2000 RMB'000
Subsidy income *	**263**	410
Interest income from banks	**2**	5
Interest income from others	**319**	—
Others	**1**	—
	585	415

* Subsidy income represents discretionary grants received from a PRC local government authority in respect of the development of agricultural products carried out by Fuqing Longyu Food Development Co., Ltd., a wholly owned subsidiary.

5. Profit from Ordinary Activities before Taxation

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

	2001 RMB'000	2000 RMB'000
(a) Finance costs		
Interest on borrowings wholly repayable within five years		
- bank loans	**2,725**	2,909
- other loans	**526**	406
	3,251	3,315
(b) Other items		
Cost of inventories (including provision of obsolete and slow-moving inventories of RMB130,000 (2000: RMB260,000))#	**144,960**	62,738
Staff costs (including retirement cost of RMB263,000 (2000: RMB559,000))#	**8,664**	3,122
Depreciation of fixed assets #	**7,038**	6,255
Impairment loss on fixed assets	**3,697**	—
Loss on disposal of fixed assets	**15**	—
Operating lease charges in respect of premises	**357**	1
Provision for bad and doubtful debts	**447**	1,314
Auditors' remuneration		
- in the current year	**509**	6
- in prior years	**1,535**	—

Cost of inventories includes staff costs of approximately RMB2,353,000 (2000: RMB1,859,000) and depreciation expenses of approximately RMB5,993,000 (2000: RMB5,466,000) that have also been included in the respective total amounts disclosed separately above.

6. Taxation

(a) Taxation in the proforma combined income statement represents:

	2001 RMB'000	2000 RMB'000
PRC enterprise income tax	**14,574**	6,289

Note:

(i) Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group had no estimated assessable profits arising in or derived from Hong Kong.

(ii) PRC enterprise income tax

Fuqing Longyu Food Development Co., Ltd., a wholly owned subsidiary established in the Coastal Open Economic Area of PRC, is subject to PRC enterprise income tax at a rate of 24%. However, it is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in enterprise income tax for the next three years. Fuqing Longyu Food Development Co., Ltd. became profitable after offsetting prior year losses in the year ended 31 December 1998 and, accordingly, was exempted from PRC enterprise income tax for the years ended 31 December 1998 and 1999 and was subject to PRC enterprise income tax at a rate of 12% for the two years ended 31 December 2000 and 2001.

(iii) Deferred taxation

There was no significant unprovided deferred taxation for the years ended 31 December 2000 and 2001.

(b) Taxation in the proforma combined balance sheet represents:

	2001 RMB'000	2000 RMB'000
PRC enterprise income tax	**6,531**	6,289
PRC value-added tax	**—**	1,835
PRC urban real estate tax	**2,932**	2,338
	9,463	10,462

7. Directors' Remuneration

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

	2001 **RMB'000**	2000 RMB'000
Fees	**—**	—
Salaries and other emoluments	**312**	42
Discretionary bonuses	**—**	—
Retirement scheme contributions	**3**	8
	315	50

The remuneration of the directors is within the following bands:

	2001 **Number of directors**	2000 Number of directors
Nil - RMB1,060,000 (equivalent of HK$1,000,000)	**8**	4

During the years ended 31 December 2000 and 2001, no amounts were paid or payable to the directors as an inducement to join the Group or as a compensation for loss of office and no director waived any emoluments.

During the years ended 31 December 2000 and 2001, no emoluments was paid or payable to the executive director, the non-executive director and the two independent non-executive directors.

8. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, two (2000: one) are directors whose emoluments are disclosed in note 7 above. The aggregate of the emoluments in respect of the other three (2000: four) individuals are as follows:

	2001 **RMB'000**	2000 RMB'000
Salaries and other emoluments	**288**	112
Discretionary bonuses	**—**	—
Retirement scheme contributions	**10**	21
	298	133

8. Individuals with Highest Emoluments (Continued)

The emoluments of the three (2000: four) individuals with the highest emoluments are within the following bands:

	2001 Number of individuals	2000 Number of individuals
Nil - RMB1,060,000 (equivalent of HK$1,000,000)	**3**	4

During the years ended 31 December 2000 and 2001, no emoluments was paid or payable to the five highest paid individuals (including directors and other employees) as an inducement to join the Group or as a compensation for loss of office.

9. Profit Attributable to Shareholders

The proforma combined profit attributable to shareholders includes a loss of approximately RMB43,000 (2000: Nil) which has been dealt with in the financial statements of the Company.

10. Dividends

	2001 RMB'000	2000 RMB'000
Interim dividend declared and paid by First China Technology Limited, a wholly owned subsidiary, to its then shareholders prior to the Reorganization	**75,610**	—

11. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the proforma combined profit attributable to shareholders of approximately RMB87,076,000 (2000: RMB42,133,000) and on the 600,000,000 ordinary shares (2000: 600,000,000 ordinary shares) of the Company outstanding after the Reorganization and capitalization issue as if those shares had been outstanding for each year presented.

(b) Diluted earnings per share

Diluted earnings per share is not presented because there was no diluted potential ordinary shares in existence during the two years.

(Expressed in Renminbi unless otherwise stated)

11. Earnings Per Share (Continued)

(c) Proforma earnings per share

Proforma earnings per share is calculated based on the proforma combined profit attributable to shareholders of approximately RMB87,076,000 (2000: RMB42,133,000) and on the 800,000,000 ordinary shares (2000: 800,000,000 ordinary shares) of the Company outstanding on the assumption that the Reorganization, the capitalization issue and the listing of the Company's shares had been effective on 1 January 2000.

(d) Reconciliations

	2001 Number of shares	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**600,000,000**	600,000,000
Issue of ordinary shares upon listing	**200,000,000**	200,000,000
Number of ordinary shares used in calculating proforma earnings per shares	**800,000,000**	800,000,000

12. Retirement Schemes

Set out below are the particulars of retirement schemes operated by the Group.

(a) Nature of the schemes

During the year, the Group was required to join the Mandatory Provident Fund Schemes ("the Schemes") under the requirements of the Mandatory Provident Fund Schemes Ordinance. Contributions to the Schemes are based on 5% of the relevant income of the relevant staff in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related guidelines. Contribution paid or payable to the Schemes are charged to the proforma combined income statements.

The employees of the Group's subsidiary in PRC are members of a state-sponsored retirement plan operated by the local government in PRC and this subsidiary make mandatory contributions to the state-sponsored retirement plan to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiary are based on 19% of the basic salary of its employees in accordance with the relevant regulations in PRC and are charged to the proforma combined income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in PRC.

(b) Retirement benefit costs for the year were as follows:

	2001 RMB'000	2000 RMB'000
Retirement contributions paid or payable to the retirement schemes	**263**	559

At 31 December 2001, there were no forfeited contributions, which arose upon employees leaving the retirement schemes up to 31 December 2001, available to reduce the contributions payable by the Group in future period.

13. Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

Business segments

The Group comprises the following main business segments:

Frozen marine food products	:	The manufacture and sale of frozen marine food products
Frozen functional food products	:	The manufacture and sale of frozen functional food products
Refrigerated processed meat products	:	The manufacture and sale of refrigerated processed meat products

	Frozen marine food products		Frozen functional food products		Refrigerated processed meat products		Unallocated		Combined	
	2001 RMB'000	2000 RMB'000	**2001 RMB'000**	2000 RMB'000	**2001 RMB'000**	2000 RMB'000	**2001 RMB'000**	2000 RMB'000	**2001 RMB'000**	2000 RMB'000
Revenue from external customers	**122,223**	17,093	**150,690**	101,894	**1,415**	1,458	**–**	–	**274,328**	120,445
Segment result	**60,799**	9,480	**68,271**	48,091	**298**	136	**–**	–	**129,368**	57,707
Unallocated operating income and expenses									**(24,467)**	(5,970)
Profit from operations									**104,901**	51,737
Finance costs									**(3,251)**	(3,315)
Taxation									**(14,574)**	(6,289)
Profit attributable to shareholders									**87,076**	42,133
Depreciation for the year	**522**	519	**2,398**	2,394	**662**	649	**3,456**	2,693		
Segment assets	**41,292**	15,938	**44,947**	75,379	**3,087**	4,797	**–**	–	**89,326**	96,114
Unallocated assets									**118,312**	86,256
Total assets									**207,638**	182,372
Segment liabilities									**–**	–
Unallocated liabilities									**73,770**	59,970
Total liabilities									**73,770**	59,970
Capital expenditure incurred during the year	**–**	–	**–**	–	**38**	–	**8,113**	287		

13. Segment Reporting (Continued)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the destination of delivery of goods.

	PRC		Japan		Unites States of America	
	2001 RMB'000	2000 RMB'000	**2001 RMB'000**	2000 RMB'000	**2001 RMB'000**	2000 RMB'000
Revenue from external customers	**3,742**	1,893	**219,458**	108,296	**51,128**	10,256

Approximately 94% (2000: 96%) of the Group's sales for the year were exported from PRC to Japan and United States of America using third party export companies in PRC which have export rights.

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

No analysis of segment assets and capital expenditure incurred during the year by geographical location is presented as all of the Group's assets are located in PRC.

14. Fixed Assets

	Land RMB'000	Buildings RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost							
At 1 January 2001	2,550	59,446	25,664	254	798	4,376	93,088
Additions	7,742	—	215	121	—	73	8,151
Transfer	—	673	19	—	—	(692)	—
Disposals	—	—	—	(17)	—	—	(17)
At 31 December 2001	10,292	60,119	25,898	358	798	3,757	101,222
Accumulated depreciation and impairment loss							
At 1 January 2001	248	9,417	9,402	146	492	—	19,705
Charge for the year	90	2,973	3,741	75	159	—	7,038
Impairment loss	—	—	—	—	—	3,697	3,697
Written back on disposal	—	—	—	(2)	—	—	(2)
At 31 December 2001	338	12,390	13,143	219	651	3,697	30,438
Net book value							
At 31 December 2001	9,954	47,729	12,755	139	147	60	70,784
At 31 December 2000	2,302	50,029	16,262	108	306	4,376	73,383

Land and buildings are located in PRC. The land is held under a land use right for a period of 50 years up to December 2045.

Impairment loss

In 1997, the Group purchased machinery for poultry breeding farm and pig butchery, which are departed from its main business. During the year, the Group decided to suspend to build up such activities, and the machinery pending installation was written off in full and was included in "other operating expenses". The directors estimated that there was no recoverable amount from these machinery.

15. Prepaid Rentals

During the year, the Group entered into three operating lease agreements for the leasing of three pieces of land located in Fujian Province, PRC for a period of 20 years, 20 years and 30 years up to June 2021, August 2021 and May 2031, respectively. The Group paid a sum of RMB27,200,000, representing approximately 85% of total rental payable under these operating lease agreements. The agreements expiring in June 2021 and May 2031 have been cancelled during the year, and a compensation of RMB100,000 was deducted from the lease payments refunded from the landlords. The compensation was charged to the proforma income statement as other operating expense. The movements of prepaid rentals during the year were:

	2001 RMB'000	2000 RMB'000
Amounts paid during the year	**27,200**	—
Amounts refunded upon cancellation of the agreements	**(23,200)**	—
	4,000	—
Accumulated amortization:		
Amortization for the year	**(67)**	—
Net book value at end of year	**3,933**	—

16. Inventories

	2001 RMB'000	2000 RMB'000
Raw materials	**1,139**	1,348
Finished goods	**9,876**	23,714
	11,015	25,062
Less: Provision for obsolete and slow moving inventories	**(1,383)**	(1,253)
	9,632	23,809

There was no inventories carried at net realizable value as at 31 December 2000 and 2001.

17. Trade and Other Receivables

	2001	2000
	RMB'000	RMB'000
Due from a director (note 18(a))	**—**	3,338
Trade receivables	**49,937**	36,439
Loans receivable		
— from a related company (note 18(b))	**40,000**	—
— from other parties	**—**	3,166
Advances to suppliers *	**5,994**	11,034
Rental and other deposits	**501**	375
Prepayments	**2,307**	50
Advances to employees	**45**	5,393
Others	**450**	52
	99,234	59,847

* All of the advances to suppliers as at 31 December 2001 will be settled through deduction of future purchases payable to these suppliers. All advances to suppliers are unsecured and non-interest bearing.

Apart from the advances to suppliers, all of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of specific provision for bad and doubtful debts) with the following ageing analysis:

	2001	2000
	RMB'000	RMB'000
0 to 1 month	**44,537**	11,289
1 to 3 months	**8,033**	16,946
More than 3 months but less than 12 months	**—**	10,220
More than 12 months	**—**	170
	52,570	38,625
Less: General provision for bad and doubtful debts	**(2,633)**	(2,186)
	49,937	36,439

The Group generally does not grant any pre-determined credit terms to customers. Debts are usually settled within 3 months from the date of billing. Debtors with balances that are more than 3 months are requested to settle all outstanding balance before any further credit is granted.

(Expressed in Renminbi unless otherwise stated)

18. Loans to Officers

Loans to officers of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

(a) Amount due from a director

Name of borrower	:	Mr. Yeung Chung Lung
Position	:	Director
Terms of the amount due		
— duration and repayment terms	:	Repayable on demand
— interest rate	:	None
— security	:	None
Balance of the amount due		
— at 1 January 2000	:	approximately RMB2,007,000
— at 31 December 2000 and 1 January 2001	:	approximately RMB3,338,000
— at 31 December 2001	:	Nil
Maximum balance outstanding		
— during 2001	:	approximately RMB3,338,000
— during 2000	:	approximately RMB3,460,000

There was no provision being made against balance at 31 December 2001.

(b) Loan receivable from a related company

Name of borrower	:	Fuqing City Shangjing Longsheng Experimental Breeding Farm
Name of director having controlling interest	:	Mr. Yeung Chung Lung
Terms of the loan		
— duration and repayment terms	:	Repayable on 31 January 2002
— interest rate	:	None
— security	:	None
Balance of the loan		
— at 1 January 2000	:	Nil
— at 31 December 2000 and 1 January 2001	:	Nil
— at 31 December 2001	:	RMB40,000,000
Maximum balance outstanding		
— during 2001	:	RMB40,000,000
— during 2000	:	Nil

There was no provision being made against balance at 31 December 2001. The loan was subsequently settled in January 2002.

19. Trade and Other Payables

	2001	2000
	RMB'000	RMB'000
Loans payable (note 20)	**1,300**	1,354
Trade payables	**1,950**	841
Accruals and other payables	**11,867**	3,328
Due to a related company	**—**	2,273
Due to a director	**2,635**	—
	17,752	7,796

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

Included in trade and other payables are trade payables with the following ageing analysis.

	2001	2000
	RMB'000	RMB'000
Due within 1 month or on demand	**1,094**	743
Due after 1 month but within 3 months	**432**	98
Due after 3 months but within 6 months	**378**	—
Due after 6 months	**46**	—
	1,950	841

20. Loans Payable

	2001	2000
	RMB'000	RMB'000
Loans from the provincial government of Fujian Province, PRC (note a)	**1,300**	1,300
Loan from Fuqing Longfu Forage Co., Ltd. (note b)	**—**	54
	1,300	1,354

Note:

(a) The loans are unsecured, repayable on demand and bear interest at 2% per month.

(b) Fuqing Longfu Forage Co., Ltd. is a company beneficially owned by a relative of Mr. Yeung Chung Lung, a director of the company. The loan was unsecured, non-interest bearing and without pre-determined repayment terms.

21. Bank Loans

At 31 December 2001, the bank loans were repayable as follows:

	2001 **RMB'000**	2000 RMB'000
Within 1 year or on demand and classified under current liabilities	**34,500**	34,500
After 1 year but within 2 years	**7,000**	—
After 2 years but within 5 years	**—**	7,000
After 5 years	**—**	—
Non-current portion	**7,000**	7,000
	41,500	41,500

The Group had aggregate banking facilities of approximately RMB41,500,000 (2000: RMB41,500,000) for bank loans, which were fully utilized as at 31 December 2001. The banking facilities are secured by guarantees provided by Fuquing Longfu Forage Co., Ltd., a company owned by a relative of Mr. Yeung Chung Lung, a director of the Company.

The bank has agreed to release Fuquing Longfu Forage Co., Ltd. from its obligations under the guarantees and to replace them with a guarantee issued by the Company in respect of such loans upon listing of the shares of the Company on The Stock Exchange of Hong Kong Limited. At the date of this report, such application is in progress.

22. Provision for Staff Welfare Benefit

	2001 **RMB'000**	2000 RMB'000
At 1 January	**212**	51
Additional provision made	**5,384**	309
Provision utilised	**(541)**	(148)
At 31 December	**5,055**	212

The provision can be utilized for the provision of collective welfare of the employees of Fuqing Longyu Food Development Co., Ltd., a wholly owned subsidiary.

23. Capital

The capital represents the aggregate amount of paid-in capital of the companies comprising the Group.

24. Reserves

	Merger reserve	Statutory reserve fund (note a)	Enterprise expansion reserve fund (note b)	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2000	—	—	—	38,734	38,734
Profit for the year	—	—	—	42,133	42,133
At 31 December 2000 and 1 January 2001	—	—	—	80,867	80,867
Movement during the year	41,527	—	—	—	41,527
Profit for the year	—	—	—	87,076	87,076
Transfer from retained profits	—	10,081	10,081	(20,162)	—
Dividend	—	—	—	(75,610)	(75,610)
At 31 December 2001	41,527	10,081	10,081	72,171	133,860

Note:

a) According to the relevant rules and regulations in PRC, Fuqing Longyu Food Development Co., Ltd., a wholly owned subsidiary, is required to transfer 10% of after-tax profit (after offsetting prior year losses), based on its PRC statutory accounts, to a statutory reserve fund until the balance of the fund reaches 50% of its registered capital. Thereafter, any further transfer can be made at directors' discretion. The statutory reserve fund can be utilized to offset prior year losses, or be converted into paid-up capital on the condition that the statutory reserve fund should be maintained at a minimum of 25% of the registered capital after conversion.

During the year, the directors of the subsidiary decided to transfer 10% of the profits after taxation, which are based on its PRC statutory accounts for the three years ended 31 December 1998, 1999 and 2000, to the statutory reserve fund.

b) According to the relevant rules and regulations in PRC, Fuqing Longyu Food Development Co., Ltd., a wholly owned subsidiary may also appropriate a portion of its after-tax profit (after offsetting prior year losses), based on its PRC statutory accounts, to an enterprise expansion reserve fund at the discretion of its board of directors. The enterprise expansion reserve fund can be used to convert into paid-up capital.

During the year, the directors of the subsidiary decided to transfer 10% of the profits after taxation, which are based on its PRC statutory accounts for the three years ended 31 December 1998, 1999 and 2000, to the enterprise expansion reserve fund.

25. Notes to the Proforma Combined Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2001 RMB'000	2000 RMB'000
Operating profit	**101,650**	48,422
Interest income	**(321)**	(5)
Interest expenses	**3,251**	3,315
Depreciation	**7,038**	6,255
Amortization of long-term prepaid rentals	**67**	—
Impairment loss on fixed assets	**3,697**	—
Loss on disposal of fixed assets	**15**	—
Decrease/(increase) in inventories	**14,177**	(4,950)
Increase in debtors, deposits and prepayments	**(2,725)**	(28,502)
Increase in creditors and accrued charges	**9,648**	914
Decrease in PRC value-added tax payable	**(1,835)**	(225)
Increase in PRC urban real estate tax payable	**594**	594
Increase in provision for employee welfare benefit	**4,843**	161
Net cash inflow from operating activities	**140,099**	25,979

(b) Analysis of changes in financing

	Short-term bank loans RMB'000	**Long-term bank loans** RMB'000	**Loans payable** RMB'000	**Due to a related company** RMB'000	**Due to a director** RMB'000
Balance as at 1 January 2000	34,500	7,000	2,530	2,353	—
Repayment of bank loans	(34,500)	(7,000)	—	—	—
Inception of bank loans	34,500	7,000	—	—	—
Decrease in amount due to a related company	—	—	—	(80)	—
Decrease in loan payable	—	—	(1,176)	—	—
Balance as at 31 December 2000	34,500	7,000	1,354	2,273	—
Repayment of bank loans	(34,500)	—	—	—	—
Inception of bank loans	34,500	—	—	—	—
Decrease in amount due to a related company	—	—	—	(2,273)	—
Increase in amount due to a director	—	—	—	—	2,635
Decrease in loans payable	—	—	(54)	—	—
Balance as at 31 December 2001	34,500	7,000	1,300	—	2,635

26. Operating Lease Commitments

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases in respect of premises are payable as follows:

	2001 **RMB'000**	2000 RMB'000
Within 1 year	**830**	—
After 1 year but within 5 years	**473**	—
	1,303	—

The Group leases a number of properties under operating leases. The leases typically run for an initial period of two years, with an option to renew the lease when all terms are renegotiated.

(Expressed in Renminbi unless otherwise stated)

27. Material Related Party Transactions

In December 2001, the Group advanced a loan of approximately RMB40,000,000 to Fuqing City Shangjing Longsheng Experimental Breeding Farm, a company beneficially owned by Mr. Yeung Chung Lung, a director of the company. The loan was unsecured and non-interest bearing. The loan was subsequently settled in January 2002.

28. Subsidiaries

Immediately following the completion of the Reorganization on 17 January 2002, the Company had the following subsidiaries:

Name of company	Place of incorporation/ establishment	Proportion of attributable equity interest held Directly %	Indirectly %	Issued share capital/ registered capital	Principal activities
First China Technology Limited	British Virgin Islands	100%	—	US$1,000	Investment holding
Fuqing Longyu Food Development Co., Ltd.	PRC	—	100%	US$5,000,000	Manufacturing and sale of food products

29. Post Balance Sheet Events

The following events took place subsequent to 31 December 2001:

(a) 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.

(b) 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.

(c) On 3 February 2002, the Company entered into an agreement for upgrading cold storage facilities at a consideration of approximately RMB9,010,000.

(d) On 8 February 2002, the Company entered into an agreement to set up frozen facilities at a consideration of approximately RMB4,834,000.

(e) On 1 March and 8 March 2002, the Company entered into two agreements to purchase two sets of antiseptic equipment at a consideration of approximately RMB10,300,000 and RMB16,100,000 respectively.