On behalf of the board of directors (the "Board"), I am pleased to present the annual results of the PNF Food Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the financial year (the "2000 Financial Year") ended 31 December 2000.

FINANCIAL RESULTS

For the year ended 31 December 2000, the Group's turnover was approximately RMB147.8 million (1999: RMB201.8 million) and the profit attributable to shareholders amounted to approximately RMB1.7 million (1999: RMB41.2 million). Basic and diluted earnings per share were RMB0.72 cents and RMB0.70 cents respectively. (1999: proforma basic earnings per share RMB22.0 cents).

DIVIDENDS

The Board has resolved not to recommend the payment of a dividend for the year ended 31 December 2000.

BUSINESS REVIEW AND PROSPECTS

The Company made a successful listing on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in February 2000, and part of the proceeds from the new issue has been utilised for the renewal and improvement of production facilities and for market expansion.

In the past year, several large-scale international supermarkets and chain stores have entered the People's Republic of China (the "PRC") market one after another. New changes were brought to the distribution channel as customers preferred making purchases in these large supermarkets rather than the traditional smaller stores. Competition in the PRC food market became intense, and in particular, the Group has recorded a relatively significant decline in turnover and profit in the second half of the 2000 Financial Year. Moreover, during the 2000 Financial Year, the Group has re-introduced certain existing lines of products into the market with new packaging and modified formula of ingredient. It is expected to take certain period of time for the customers to get used to the changes. In view of the difficult operating conditions, the management of the Group has promptly readjusted the business strategy.

Firstly, as stated in the interim report for the six months ended 30 June 2000, the Group has been very dedicated to the exploration of the northwestern market of the PRC. The Group has started to establish relationships with the local retailers and the results were encouraging. The Board considers that competition in such market is less intense and there is a strong demand for food in the middle-low price range. As a result, the development potential is immense. The Board believes when this market matures, it will contribute significantly to the Group's revenue.

BUSINESS REVIEW AND PROSPECTS (continued)

Secondly, the Group has achieved initial success in stabilizing and developing target markets as evidenced by the steady increase in turnover in markets such as Chongqing, Sichuan, Guangzhou, Zhengzhou in the second half of the 2000 Financial Year.

It is most encouraging that the sales channels have been realigned timely and successfully. The Group has established excellent supply and purchase relationships with various international well-known supermarkets and chain stores, thus laying a solid foundation for the future sales prospects of the Group.

The Group has implemented a trial production of innovative products such as sesame milk tea and mung bean tea. The soft launch of these products has been well received by the market. In respect of traditional products such as sesame mix and black cereal products, there has been a set-back in sales due to severe competition. In order to reduce the Group's reliance on its traditional products, the Group will strengthen the research and development of new products, so as to achieve the target of product diversification.

On 5 March 2001, the Company completed the issue of 23,750,000 shares of the Company ("Subscription Shares") at a price of HK$3.80 per share to Total China Investments Limited. The Subscription Shares represented approximately 8.67% of the share capital of the Company immediately enlarged by the allotment and issue of the Subscription Shares. Total China Investments Limited is a wholly-owned subsidiary of San Jiu Enterprise Group ("San Jiu"). The directors believe San Jiu's well-established reputation in the pharmaceutical area in both domestic and foreign markets will help the Group to open up new markets in the future. The directors also believe that San Jiu's expertise in the medical and pharmaceutical area will certainly add to the Group's research and development capability in therapeutic and health food products.

Apart from using the proceeds as working capital and for the research and development of therapeutic and health food products, part of the proceeds from the issue of the Subscription Shares is proposed to be invested in new projects with great potential.

LIQUIDITY & FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and minimal banking facilities provided by its bankers in Hong Kong and the PRC. Both the liquidity ratio and gearing ratio were maintained at a healthy level. Inventory level was strictly controlled and accounts receivable was closely monitored. The Group's gearing ratio as at 31 December 2000 was 23.4% (1999: 10.9%) which was calculated based on total borrowings of RMB33,168,000 (1999: RMB10,832,000) and shareholders funds of RMB141,773,000 (1999: RMB98,811,000).

APPLICATION OF PROCEEDS OF NEW ISSUES

The Group raised approximately HK$38 million, net of related expenses, from the issue of 62.5 million new shares at HK$0.80 per share in February 2000. The Company's shares were successfully listed on the main board of the Stock Exchange with effect from 9 February 2000. The net proceeds of HK$38 million raised from the initial public offering of the shares of the Company in early 2000 have been applied, as stated in the Company's prospectus dated 14 January 2000 (the "Prospectus"), as follows:

– approximately HK$15 million for the acquisition of new production equipment and new computer system;

– approximately HK$11 million for the expansion of the distribution networks throughout the PRC and overseas;

– approximately HK$3 million for the alignment and enhancement of product development facilities as well as for the development of new products; and

– approximately HK$9 million as additional working capital of the Group.

ACQUISITION OF EQUITY INTEREST IN OIL TRANSPORTATION BUSINESS (THE "ACQUISITION")

On 12 February 2001, the Group entered into a sale and purchase agreement with Mr. Le Xian Feng, Mr. Pun Wai Hak and Ms. Zhang Di (collectively the "Vendors") to acquire the entire issued share capital of and all the shareholders' loans due from Bamber Resources Limited ("Bamber") at a total consideration of HK$43,265,000 (approximately RMB46,300,000).

Bamber is an investment holding company incorporated in the British Virgin Islands whose principal asset is an 80% equity interest in Xinjiang Xingmei Oil Pipeline Co. Ltd. ("Xingmei"). Xingmei is a Sino-foreign joint venture established in the PRC and is principally engaged in the transportation and storage of crude oil exploited from the Ta He Oil Field (塔河油田) in the Xinjiang province of the PRC.

The oil field in the Xinjiang province is operated by China National Star Petroleum Corporation ("CNSP"), which holds the remaining 20% equity interest of Xingmei. Pursuant to the transportation and storage agreement dated 25 November 1999 made between CNSP and Xingmei, CNSP has agreed to transport crude oil through Xingmei's pipeline as well as to use its storage facilities for 20 years from 25 November 1999.

ACQUISITION OF EQUITY INTEREST IN OIL TRANSPORTATION BUSINESS (THE "ACQUISITION") (continued)

The audited consolidated net assets of Bamber and Xingmei as at 31 December 2000 and consolidated net profit after taxation for the year ended 31 December 2000 amounted to approximately RMB2.81 million and RMB3.36 million respectively. As at 31 December 2000, Bamber owed to the Vendors the shareholders' loan of HK$42,875,925 (approximately RMB45,448,480).

In view of the national policy of the PRC Government to develop the northwestern region of the PRC, the directors believe that there is immense market potential for energy related businesses in that region. To this end, the directors believe that the Acquisition presents an excellent opportunity for the Group to expand and diversify its business and that the Group will benefit from this investment being one of the earlier investors in the northwestern region of the PRC. The directors also believe that the Acquisition will bring steady income to the Group.

The Acquisition was completed on 6 March 2001.

CHANGE OF CONTROLLING SHAREHOLDER OF THE COMPANY

On 6 March 2001, China GeoMaxima Company Limited ("CGCL") entered into a conditional sale and purchase agreement (the "S&P Agreement") to acquire from Kindhearted Holdings Limited ("Kindhearted") 166,279,565 shares of the Company, representing approximately 60.67% of the issued share capital of the Company. The aggregate consideration under the S&P Agreement amounted to HK$166,279,565 and represented a price of HK$1 per share of the Company.

The issued share capital of Kindhearted is owned as to 18.7% by Mr Li Han Chao, the chairman of the Board, 34.0% by Mr Li Han Rong, a director of the Company, and 47.3% by Madam Cheng Hung Mui, a director of the Company. CGCL is beneficially owned by Mr. Sun Tian Gang, a director of the Company.

Completion of the S&P Agreement took place on 12 March 2001. Immediately after completion of the S&P Agreement, CGCL became the controlling shareholder of the Company holding 60.67% of the issued share capital of the Company.

Under the Hong Kong Code on Takeovers and Mergers, completion of the S&P Agreement will trigger an obligation on CGCL to make an unconditional general offer for all the issued shares of the Company (other than those shares which are already owned by CGCL and parties acting in concert with it). The offer document in relation to such offer has been despatched to the shareholders on 28 March 2001. The circular with respective advices from independent board committee and independent financial advisers will be despatched to the shareholders of the Company shortly.

EMPLOYEES

As at 31 December 2000, the Group had employed 854 full-time employees, of which 838 were based in the PRC and 16 were based in Hong Kong.

ACKNOWLEDGEMENTS

I take this opportunity to thank my fellow directors and our staff for their invaluable contribution and dedication to the Group. On behalf of the directors, I would like to express appreciation to our customers, suppliers, bankers and shareholders for their continuous and dedicated support.

Li Han Chao
Chairman

Hong Kong, 6 April 2001