

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 Significant accounting policies

(a) Basis of presentation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 13.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA except that comparative figures for the cash flow statement have not been prepared as the company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Stock Exchange's website. The auditors have expressed an unqualified opinion on those accounts in their report dated 6 April 2001.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report except as disclosed under notes 1(b), 1(c) and 1(d).

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2000 annual accounts.

(b) Negative goodwill arising on acquisition

In prior years, the Group's policy was to credit the excess of the Group's interest in the fair values of the identifiable assets and liabilities of subsidiaries acquired over the cost of the acquisition to capital reserve. With effect from 1 January 2001, in order to comply with SSAP 30 "Business combination" issued by HKSA, such excess is recognized as negative goodwill in the balance sheet. Negative goodwill arising from the acquisition of the oil transportation business during the period is recognized as income on a straight-line basis over a period of 18 years, being the remaining useful life of the oil pipeline.

No adjustment is required to be made to the opening balance of retained profits and the comparative information as no negative goodwill arose on acquisition of subsidiaries in the previous periods.

(c) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:

- fixed assets;
- intangible assets; and
- investments in subsidiaries.



If any such indication exists, recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price or 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 there are assets that do not generate cash flows largely independent of those from other assets, recoverable amounts are determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment loss is limited to the carrying amount of the asset that would have been determined had no impairment loss been recognized in prior years. Reversal of impairment losses are credited to the profit and loss account in the year in which the reversals are recognized, except where the assets are carried at revalued amounts, in which case the reversal of impairment loss is treated as a revaluation movement.

(d) The following accounting policies have been adopted in respect of the oil transportation business acquired by the Group in March 2001.

(i) Depreciation

Depreciation is calculated to write off the cost of the underground oil pipeline and ancillary facilities on a straight-line basis over their estimated useful lives of 20 years.

(ii) Revenue recognition

Revenue from provision of crude oil transportation service is recognized upon performance of the service. Revenue excludes sales taxes and is after deduction of any trade discounts.

(iii) Repairs and maintenance expenses

Repairs and maintenance expenses are charged to the profit and loss account as incurred.

2 Acquisition of subsidiaries

On 12 February 2001, the Group entered into an agreement with independent third parties (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 an 80% owned subsidiary, Xinjiang Xingmei Oil Pipeline Company Limited ("Xingmei"), a sino-foreign equity joint venture established in the People's Republic of China (the "PRC"), which is engaged in the operation of transportation and storage facilities for crude oil exploited from the Ta He oil field in Xinjiang Autonomous Region, the PRC. The sale and purchase agreement was completed on 6 March 2001.

3 Segmental reporting

The principal activities of the Group are manufacture, sale and development of instant food; and operation of transportation and storage facilities for crude oil.

Segmental information is presented in respect of the Group's business segments. As all of the Group's revenue and results were substantially derived from the PRC, no geographical segment information is presented.

An analysis of the Group's turnover and contribution to profit from operations for the financial period is as follows:

	Turnover		Contribution to profit from operations	
	Six months ended 30 June		Six months ended 30 June	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Business segment				
Oil transportation	42,616	–	32,299	–
Sale of instant food	50,891	83,984	4,311	13,791
	<u>93,507</u>	<u>83,984</u>	<u>36,610</u>	<u>13,791</u>
Unallocated expenses			(9,078)	(6,790)
			<u>27,532</u>	<u>7,001</u>



4 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2001 RMB'000	2000 <i>RMB'000</i>
(a) <i>Finance cost</i>		
Interest on bank advances and other borrowings repayable within five years	9,229	440
Less: Borrowing costs capitalized into construction in progress	(2,910)	–
	6,319	440
(b) <i>Other items</i>		
Cost of inventories	31,037	55,423
Recognition of negative goodwill as income	(173)	–
Depreciation	7,866	2,736
Amortization of intangible asset	950	950

The borrowing cost has been capitalized at a rate of 5.9% per annum for construction in progress.

5 Taxation

	Six months ended 30 June	
	2001 RMB'000	2000 <i>RMB'000</i>
Provision for PRC income tax for the period	906	2,699

- (i) PRC income tax is provided for at the applicable rates of taxation for each period on the estimated assessable profits arising from the Group's instant food business in the PRC.
- (ii) Pursuant to relevant PRC laws and regulations applicable to the Sino-foreign equity joint venture enterprises, Xingmei is exempted from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the subsequent three years. Furthermore, pursuant to an approval document dated 19 April 2000 issued by the relevant tax authorities, Xingmei has been granted certain tax relief, whereby it is subject to PRC income tax at a reduced tax rate of 15% for three years subsequent to the 50% reduction period. No provision for PRC income tax has been made in respect of the profit of Xingmei as it is exempted from PRC income tax during the period.

6 Dividends

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2001 (2000: Nil).

7 Earnings per share*(a) Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB14,589,000 (2000: RMB3,290,000) and the weighted average of 2,656,339,779 ordinary shares (2000: 2,393,543,960 shares) in issue during the period after adjusting for the effect of subdivision of the Company's shares on 16 May 2001.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of RMB14,589,000 and the weighted average number of ordinary shares of 2,845,037,706 shares after adjusting for the effects of all potential dilutive ordinary shares. There were no potential dilutive shares in existence during the period ended 30 June 2000.

8 Fixed assets

	Oil pipeline	Land use rights and buildings	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net book value as at 30 June 2001	<u>282,173</u>	<u>21,723</u>	<u>22,728</u>	<u>326,624</u>
31 December 2000	<u>–</u>	<u>22,254</u>	<u>22,968</u>	<u>45,222</u>

The underground oil pipeline and ancillary facilities were constructed for the purpose of transporting crude oil from the Ta He oil field to the Lun Tai railway station in Xinjiang Autonomous Region. The major customers are entities related to the minority shareholder of Xingmei.

9 Construction in progress

As at 30 June 2001, the balance represents construction costs of a heat pump station along the oil pipeline to increase its transportation capacity.

10 Negative goodwill

	30 June 2001 RMB'000	31 December 2000 RMB'000
Negative goodwill arising on acquisition of subsidiaries	(8,689)	–
Amount recognized as income during the period	<u>173</u>	–
Balance carried forward	<u>(8,516)</u>	–

Negative goodwill represents the excess of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition arising on the acquisition of Bamber and its subsidiary during the period.

11 Trade and other receivables

	30 June 2001 RMB'000	31 December 2000 RMB'000
Trade debtors	100,528	64,886
Prepayments, deposits and other receivables	84,139	56,048
	184,667	120,934

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

	30 June 2001 RMB'000	31 December 2000 RMB'000
Current	69,486	51,051
1 to 6 months overdue	31,042	13,835
	100,528	64,886

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.

12 Bank loans and overdrafts and other loans

At 30 June 2001, the bank loans and overdrafts and other loans were repayable as follows:

	30 June 2001 RMB'000	31 December 2000 RMB'000
Bank loans and overdrafts (note (a))		
Within 1 year or on demand	256,000	33,168
After 1 year but within 2 years	140,000	–
After 2 years but within 5 years	40,000	–
	436,000	33,168
Other loan (note (b))		
Within 1 year or on demand	74,103	–
	510,103	33,168
Amounts classified as current liabilities	(330,103)	(33,168)
Amounts classified as long term liabilities	180,000	–

As at 30 June 2001, the borrowings of the Group were secured as follows:

- (a) *Bank loans and overdrafts*
- (i) pledges of certain land use rights and buildings of the Group with an aggregate carrying value of approximately RMB20 million as at 30 June 2001;
 - (ii) pledges of bank deposits of the Group totaling US\$4.31 million;
 - (iii) pledges of certain fixed assets of the Group with a carrying value of approximately RMB87 million as at 30 June 2001; and
 - (iv) corporate guarantees issued by a related company.
- (b) The other loan is secured by two shares in a wholly owned subsidiary, Amersham Investment Limited ("Amersham"), which represent the entire issued share capital of Amersham. Amersham's principal asset is an interest of 94.83% in Guangxi Baixing Nanfang Food Company Limited.

13 Trade and other payables

	30 June 2001 RMB'000	31 December 2000 RMB'000
Trade creditors	24,183	21,708
Receipts in advance	2,056	4,155
Accrued expenses and other payables	29,757	15,441
	55,996	41,304

Included in trade and other payables are trade creditors with the following aging analysis:

	30 June 2001 RMB'000	31 December 2000 RMB'000
Due within 3 months or on demand	11,661	15,118
Due after 3 months	12,522	6,590
	24,183	21,708

14 Other loan

The loan is from a company controlled by a director of the Company. The balance is unsecured, interest free and has no fixed terms of repayment. The loan is not expected to be repayable within one year.

15 Share capital

	Note	No. of shares '000	Amount RMB'000
<i>Issued and fully paid:</i>			
At 1 January 2001		250,000	26,750
Share options exercised	(a)	300	32
Share placement	(b)	23,750	2,518
Subdivision of shares	(c)	<u>2,466,450</u>	<u>–</u>
At 30 June 2001		<u>2,740,500</u>	<u>29,300</u>

(a) On 11 January 2001, 300,000 shares of HK\$0.10 each were issued at a price of HK\$0.84 each, upon the exercise of share options under the Company's share option scheme.

(b) On 5 March 2001, 23,750,000 shares of HK\$0.10 each were allotted and issued to Total China Investments Limited at a price of HK\$3.80 each pursuant to a subscription agreement.

(c) Pursuant to an ordinary resolution passed in a special general meeting held on 15 May 2001, the Company subdivided the issued and unissued shares of HK\$0.10 each on the basis of one share of HK\$0.10 being subdivided into 10 shares of HK\$0.01 each.

16 Reserves

	Share premium RMB'000	Contributed surplus RMB'000	General reserve RMB'000	Enterprise expansion reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2001	14,658	43,721	16,337	8,169	32,138	115,023
Issue of shares net of expenses	92,965	–	–	–	–	92,965
Profit for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>14,589</u>	<u>14,589</u>
At 30 June 2001	<u>107,623</u>	<u>43,721</u>	<u>16,337</u>	<u>8,169</u>	<u>46,727</u>	<u>222,577</u>

17 Commitments*(a) Capital commitments*

Capital commitments outstanding not provided for in the accounts were as follows:

	30 June 2001 RMB'000	31 December 2000 RMB'000
Contracted for	5,100	5,126

(b) Operating lease commitments

The total future minimum lease payments under non-cancelable operating leases are payable as follows:

	30 June 2001 RMB'000	31 December 2000 RMB'000
Within one year	2,658	255
After one year but within five years	1,551	92
	4,209	347

18 Material related party transactions

(a) One of the shareholders of Guangxi Havle Foodstuff Group is a director of the Company. Details of material transactions between the Group and Guangxi Havle Foodstuff Group, its subsidiaries and associated companies during the period are as follows:

	Six months ended 30 June	
	2001 RMB'000	2000 RMB'000
Purchase of packaging materials	1,943	3,340
Purchase of instant food products	54	1,418
Hotel charges	48	317
Rental charges	–	18
Licence fee income	100	161

(b) There exists an agreement dated 25 November 1999 entered into between the Company's subsidiary, Xingmei, and its minority shareholder for the provision of crude oil transportation service for a period of 20 years.

During the period ended 30 June 2001, revenue from the provision of crude oil transportation service to the minority shareholder and its related companies amounted to RMB24,552,000 (2000: Nil). The amount due to minority shareholder as at 30 June 2001 amounted to RMB2,147,000 (2000: Nil).