1. GROUP REORGANISATION AND BASIS OF PREPARATION OF COMPARATIVE FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 October, 2002.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group (the "Group") on 3 June, 2003.

The Group Reorganisation principally involved the exchange of fully-paid shares of the Company with all the issued shares of WYFI. Details of the Group Reorganisation are set out in the prospectus (the "Prospectus") issued by the Company dated 12 June, 2003.

The shares of the Company were listed on the Stock Exchange on 25 June, 2003.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group for the year ended 31 December, 2003 were prepared on a merger basis in accordance with Statement of Standard Accounting Practice 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the production and distribution of snack food and convenience frozen food products. Details of the subsidiaries are set out in note 33.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

3. 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 incorporated 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 arising on consolidation represents the excess of the cost of acquisition over Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life and is presented separately in the balance sheet.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses at the balance sheet date.

Construction in progress for production or administrative purpose are carried at cost less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Land use rights and leasehold land	Over the relevant lease terms
Buildings	Over the relevant lease terms, or 20 years, whichever is the shorter
Furniture and equipment	20%
Motor vehicles	20%
Plant and machinery	10%
Loose tools and moulds	20%

Assets under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profits.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into Hong Kong dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments are its primary reporting format.

(a) Business segments

The Group is principally engaged in the production and distribution of snack food and convenience frozen food products. No business segment analysis is presented as management considers this as one single business segment.

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the PRC. Geographical segment information are based on location of its assets, and the location of its assets is not different from the location of its customers.

For the year ended 31 December, 2004

	Hong Kong	**The PRC**	**Eliminations**	**Consolidated**
	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER				
External sales	115,785	94,669	–	210,454
Inter-segment sales	–	31,021	(31,021)	–
Total turnover	115,785	125,690	(31,021)	210,454
SEGMENT RESULTS	4,985	20,771		25,756
Unallocated corporate income				731
Profit from operations				26,487
Finance costs				(9,803)
Profit before taxation				16,684
Taxation				(3,598)
Profit before minority interests				13,086
Minority interests				–
Profit for the year				13,086

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments *(Continued)*

At 31 December, 2004

	Hong Kong	The PRC	Consolidated
	HK$'000	HK$'000	HK$'000
ASSETS			
Segment assets	46,577	250,356	296,933
Unallocated corporate assets	–	–	51,497
Consolidated total assets			348,430
LIABILITIES			
Segment liabilities	5,915	28,276	34,191
Unallocated corporate liabilities	–	–	182,198
Consolidated total liabilities			216,389
OTHER INFORMATION			
Capital additions	592	11,159	11,751
Depreciation	1,191	7,617	8,808
Write-back of allowance for bad and doubtful debts	–	409	409

Inter-segment sales are charged at terms agreed between the relevant parties.

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments *(Continued)*

For the year ended 31 December, 2003

	Hong Kong	**The PRC**	**Eliminations**	**Consolidated**
	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER				
External sales	96,496	102,438	–	198,934
Inter-segment sales	–	25,442	(25,442)	–
Total turnover	96,496	127,880	(25,442)	198,934
SEGMENT RESULTS	9,687	25,169		34,856
Unallocated corporate income				403
Profit from operations				35,259
Finance costs				(8,401)
Profit before taxation				26,858
Taxation				(5,516)
Profit before minority interests				21,342
Minority interests				(1,199)
Profit for the year				20,143

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments *(Continued)*

At 31 December, 2003

	Hong Kong	**The PRC**	**Consolidated**
	HK$'000	HK$'000	HK$'000
ASSETS			
Segment assets	58,467	240,669	299,136
Unallocated corporate assets	–	–	52,875
Consolidated total assets			352,011
LIABILITIES			
Segment liabilities	5,368	42,655	48,023
Unallocated corporate liabilities	–	–	176,660
Consolidated total liabilities			224,683
OTHER INFORMATION			
Capital additions	1,256	16,286	17,542
Depreciation	1,443	6,353	7,796
Allowance for bad and doubtful debts	130	2,822	2,952

Inter-segment sales are charged at terms agreed between the relevant parties.

5. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the amount received and receivable for goods sold, less returns and allowances.

	2004	2003
	HK$'000	HK$'000
Sales of goods to outside customers	**210,454**	198,934
Other operating income:		
Interest income from bank deposits	**513**	258
Sundry income	**959**	326
	1,472	584
Total income	**211,926**	199,518

6. PROFIT FROM OPERATIONS

	2004 HK$'000	2003 HK$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments	**22,204**	21,212
Retirement benefits scheme contributions, including contributions for directors *(note 26)*	**1,326**	853
Total staff costs	**23,530**	22,065
Allowance for bad and doubtful debts	**–**	2,952
Auditors' remuneration	**636**	580
Depreciation		
– owned assets	**8,270**	7,180
– assets held under finance lease	**538**	616
Loss on disposal of property, plant and equipment	**48**	2
Operating lease rentals paid in respect of rented premises	**1,916**	2,260

7. FINANCE COSTS

	2004 HK$'000	2003 HK$'000
Interest expense on bank and other borrowings wholly repayable within five years	**9,229**	7,792
Interest expense on obligations under finance leases	**574**	609
	9,803	8,401

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2004 HK$'000	2003 HK$'000
Fees paid to executive directors	**250**	–
Other emoluments paid to executive directors		
Salaries and other benefits	**360**	895
Retirement benefits scheme contributions	**18**	32
	378	927
Total emoluments	**628**	927

The emoluments of each of the director were less than HK$1,000,000.

(b) Employees' emoluments

The five highest paid individuals for the year ended 31 December, 2004 included one (2003: two) executive director(s) of the Company. The emoluments of the remaining four (2003: three) individuals are as follows:

	2004 HK$'000	2003 HK$'000
Salaries and other benefits	**1,358**	1,075
Retirement benefit scheme contributions	**65**	57
	1,423	1,132

The emoluments of each of the four (2003: three) highest paid individuals were less than HK$1,000,000.

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

9. INCOME TAX EXPENSE

	2004	2003
	HK$'000	HK$'000
The charge comprises:		
Hong Kong Profits Tax		
– current year	**561**	–
– overprovision in prior year	**–**	(57)
PRC Enterprise Income Tax		
– current year	**2,501**	5,066
– underprovision in prior year	**270**	376
	3,332	5,385
Deferred tax charge for the year *(note 25)*	**266**	131
	3,598	5,516

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

In accordance with the relevant tax laws and regulations of the PRC, certain of the Group's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from the first profit making year after utilisation of the carried forward tax losses and eligible for a 50% relief of the PRC Enterprise Income Tax for the following three years.

9. INCOME TAX EXPENSE *(Continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2004	2003
	HK$'000	HK$'000
Profit before taxation	**16,684**	26,858
Tax at PRC Enterprise Income Tax rate of 33% (2003: 33%)	**5,506**	8,863
Tax effect of expenses not deductible for tax purpose	**1,981**	1,929
Tax effect of income not taxable for tax purpose	**(200)**	–
Underprovision in respect of prior year	**270**	319
Tax effect of tax losses not recognised	**151**	635
Utilisation of losses not previously recognised	**(288)**	–
Effect of tax exemption granted to PRC subsidiaries	**(3,530)**	(6,114)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(292)**	(116)
Tax expense for the year	**3,598**	5,516

10. DIVIDENDS

	2004	2003
	HK$'000	HK$'000
2003 interim dividend of HK1.5 cents per share	**–**	3,000
2003 final dividend of HK2 cents per share	**4,000**	–
	4,000	3,000

The directors of the Company have declared and paid a 2003 final dividend of HK2 cents per share amounting to HK$4,000,000 to the shareholders of the Company whose names appeared in the register of members on 27 May, 2004.

The directors do not recommend the payment of a dividend for the year.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2004	2003
	HK$	HK$
Earnings:		
Net profit for the year and earnings for the purpose of basic and diluted earnings per share	**13,086,000**	20,143,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**200,000,000**	171,232,877
Effect of dilutive potential ordinary shares in respect of share options	**590,164**	N/A
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	**200,590,164**	N/A

The weighted average number of shares for the year ended 31 December 2003 was determined on the assumption that the Group Reorganisation as described in note 1 had been completed on 1 January 2003.

12. PROPERTY, PLANT AND EQUIPMENT

	Land use rights held under medium term lease HK$'000	Land and buildings held under medium term lease HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Loose tools and moulds HK$'000	Total HK$'000
THE GROUP								
COST								
At 1 January, 2004	2,803	46,206	18,387	10,069	76,030	–	189	153,684
Additions	–	5,166	3,340	533	1,231	1,481	–	11,751
Transfer in/(out)	–	–	–	–	1,315	(1,315)	–	–
Disposals	–	–	(37)	(787)	–	–	–	(824)
At 31 December, 2004	2,803	51,372	21,690	9,815	78,576	166	189	164,611
DEPRECIATION AND AMORTISATION								
At 1 January, 2004	598	5,979	14,179	8,611	21,205	–	135	50,707
Provided for the year	128	1,068	1,084	535	5,988	–	5	8,808
Eliminated on disposals	–	–	(30)	(697)	–	–	–	(727)
At 31 December, 2004	726	7,047	15,233	8,449	27,193	–	140	58,788
NET BOOK VALUES								
As at 31 December, 2004	2,077	44,325	6,457	1,366	51,383	166	49	105,823
As at 31 December, 2003	2,205	40,227	4,208	1,458	54,825	–	54	102,977

The net book value of property, plant and equipment of the Group held under finance leases included above is as follows:

	2004 HK$'000	2003 HK$'000
Motor vehicles	**787**	1,197
Plant and machinery	**15,903**	13,913
	16,690	15,110

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book value of the Group's land and buildings, including land use rights, held under lease terms are as follows:

	2004	2003
	HK$'000	HK$'000
Medium term leases situated in Hong Kong	**1,026**	1,092
Medium term leases situated in the PRC	**45,376**	41,340
	46,402	42,432

13. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The balance represents the deposits paid to vendors for the acquisition of certain plant and equipment to expand the Group's production capacity.

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**73,992**	73,992
Amounts due from subsidiaries	**34,967**	26,253
	108,959	100,245

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within one year from the balance sheet date. Accordingly, such amounts have been classified as non-current.

Particulars of the Company's subsidiaries at 31 December, 2004 are set out in note 33.

15. INVENTORIES

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Raw materials	**12,184**	13,428
Work in progress	**7,982**	1,652
Finished goods	**25,815**	18,394
	45,981	33,474

All inventories are stated at cost.

16. TRADE AND OTHER RECEIVABLES

The Group adopts a general policy of allowing average credit period ranging from 90 days to 180 days to its trade customers. However, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted up to one year.

An aged analysis of trade receivables (net of allowance for bad and doubtful debts) is as follows:

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Within 30 days	**50,423**	45,850
31 to 60 days	**22,143**	15,409
61 to 90 days	**9,996**	14,451
91 to 180 days	**13,256**	17,194
181 to 270 days	**12,226**	8,181
271 to 365 days	**8,635**	8,705
Over 365 days	**–**	21,516
Trade receivables	**116,679**	131,306
Deposits	**12,451**	4,786
Prepayments	**8,193**	8,732
Other receivables	**4,084**	7,562
	141,407	152,386

17. LOAN RECEIVABLE

The amount is interest-free and repayable within one year. Should the borrower be unable to repay the amount, the Group could exercise the right, on the expiry of the loan period, to acquire the speciality stores operated by the borrower.

18. TRADE AND OTHER PAYABLES

An aged analysis of the trade payables is as follows:

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Within 30 days	**9,015**	8,963
31 to 60 days	**3,106**	6,595
61 to 90 days	**1,253**	3,605
91 to 180 days	**885**	5,127
181 to 365 days	**3,157**	6,363
Trade payables	**17,416**	30,653
Other payables	**15,410**	16,207
	32,826	46,860

19. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**7,677**	5,449	**7,254**	4,970
In the second to fifth year inclusive	**4,362**	6,258	**4,011**	5,945
	12,039	11,707	**11,265**	10,915
Less: Future finance charges	**(774)**	(792)	**N/A**	N/A
Present value of lease obligations	**11,265**	10,915	**11,265**	10,915
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(7,254)**	(4,970)
Amount due for settlement after 12 months			**4,011**	5,945

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term is 3 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

20. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount was unsecured and interest-free and was fully repaid during the year.

21. BORROWINGS

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Trust receipt loans	**31,460**	21,187
Bank overdrafts	**96**	15,563
Bank loans	**132,885**	117,636
Other loan	**6,086**	6,554
	170,527	160,940
Analysis as:		
Secured	**150,602**	154,218
Unsecured	**19,925**	6,722
	170,527	160,940
The maturity profile of the above borrowings is as follows:		
On demand or within one year	**128,928**	117,067
More than one year, but not exceeding two years	**41,319**	43,873
More than two years, but not exceeding five years	**280**	–
	170,527	160,940
Less: amount due within one year shown under current liabilities	**(128,928)**	(117,067)
	41,599	43,873

The other loan is unsecured, bears interest at 9% and is repayable within one year.

22. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary share of HK$0.01 each		
Authorised:		
On incorporation	10,000,000	100
Increase in authorised share capital	3,990,000,000	39,900
At 31 December, 2003 and 31 December, 2004	4,000,000,000	40,000
Issued and fully paid:		
Issue of shares to initial subscribers	2	–
Allotment of shares	9,999,998	100
Issue of shares on acquisition of a subsidiary	10,000,000	100
Issue of shares by capitalisation of share premium account	120,000,000	1,200
Placing and public offer of shares	60,000,000	600
At 31 December, 2003 and 31 December, 2004	200,000,000	2,000

Pursuant to the Group Reorganisation, the Company became the holding company of the Group on 3 June, 2003 by effecting the following changes in share capital:

(i) the authorised share capital of the Company was increased from HK$100,000 to HK$40,000,000 by the creation of an additional 3,990,000,000 new ordinary shares of HK$0.01 each.

(ii) the Company allotted and issued, credited as fully paid at par, 10,000,000 new ordinary shares as to 4,500,000 ordinary shares to each of Able Success Group Limited ("ASG Limited"), a company beneficially owned by Mr. But Ka Wai, and National Chain International Limited ("NCI Limited"), a company beneficially owned by Mr. But Chai Tong and as to 500,000 ordinary shares to each of Mr. But Ching Pui and Ms. Leung Wai Ling; and credited as fully paid at par the 10,000,000 nil paid ordinary shares then held as to 4,500,000 shares by each of ASG Limited and NCI Limited and 500,000 shares by each of Mr. But Ching Pui and Ms. Leung Wai Ling.

22. SHARE CAPITAL *(Continued)*

Pursuant to a resolution in writing passed by all shareholders of the Company on 3 June, 2003, conditional on the share premium account of the Company being credited as a result of the public offer and placing on 12 June, 2003, an amount of HK$1,200,000 standing to the credit of the share premium account of the Company was capitalised by applying such sum in paying up in full at par 120,000,000 ordinary shares of HK$0.01 each for allotment and issue on a pro-rata basis to the Company's shareholders immediately before the public offer and placing.

On 25 June, 2003, to provide additional working capital for the Group, 60,000,000 shares of HK$0.01 each were issued to the public at a price of HK$0.85 per share.

There was no movement in the share capital of the Company during the year ended 31 December, 2004.

23. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 June, 2003 for the primary purpose of providing incentives to encourage its participants to perform their best in achieving the goals of the Company and enjoy its result. The participants are any director and eligible employee of the Group; any entity in which any member of the Group holds any equity interest (the "Invested Entity"); any supplier of goods or services and customers to any member of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; any adviser or consultant to any area of business or business development of any member of the Group or any Invested Entity; any shareholders of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, as absolutely determined by the board.

The maximum number of securities which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon the exercise of all options to be granted under the Scheme of the Group must not in aggregate exceed 10% of the shares in issue on 25 June, 2003, being the date on which the Company's shares were listed on the Stock Exchange. For the purpose of calculating the above, options lapsed in accordance with the Scheme shall not be counted.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

23. SHARE OPTION SCHEME *(Continued)*

The period within which the shares must be taken up under an option of the Scheme shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK$1 is payable on acceptable of the options within 21 days from the date of grant. The subscription price is the highest of (i) the closing price of the shares quoted in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant which must be a business day; (ii) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share. The Scheme is valid for 10 years from 3 June, 2003. No further options may be granted pursuant to the Scheme after 2 June, 2013.

On 14 December, 2004, the Company granted share options under the Scheme to certain employees of the Group, which entitles them to subscribe for a total of 10,000,000 shares at HK31.6 cents per share.

The following table discloses details of the Company's options under the Scheme held by employees and movement in such holdings during the year:

Category	Date of grant	Exercise price	Exercisable period	Granted during the year	Exercised during the year	Outstanding at 31.12.2004
		HK cents				
Employees	14 December 2004	31.6	14.12.2004 to 13.12.2007	10,000,000	–	10,000,000

During the year, the total amount of consideration received from the participants for taking up the options granted was HK$7.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no change is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting share issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or cancelled prior to their exercise date are deleted from the register of outstanding options.

No share options were exercised by the grantees during the year ended 31 December, 2004.

24. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Total HK$'000
THE COMPANY				
Issue of shares on placing and public offer	50,400	–	–	50,400
Issue of shares by way of capitalisation of share premium account	(1,200)	–	–	(1,200)
Expenses incurred in connection with the issue of shares	(13,555)	–	–	(13,555)
Contributed surplus arising on the Group Reorganisation	–	73,792	–	73,792
Profit for the period	–	–	6,615	6,615
Dividends *(note 10)*	–	–	(3,000)	(3,000)
At 31 December, 2003	35,645	73,792	3,615	113,052
Loss for the year	–	–	(1,944)	(1,944)
Dividends *(note 10)*	–	(2,329)	(1,671)	(4,000)
At 31 December, 2004	**35,645**	**71,463**	**–**	**107,108**

The contributed surplus represents the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the Group Reorganisation.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately HK$107 million as at 31 December, 2004 (2003: HK$113 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distributions or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

25. DEFERRED TAXATION

The followings are the Group's major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1 January, 2004	317	(186)	131
Charge to income statement for the year *(note 9)*	178	88	266
At 31 December, 2004	**495**	**(98)**	**397**

At 31 December, 2004, the Group had unused tax losses of HK$2,817,000 (2003: HK$3,736,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$560,000 (2003: HK$1,063,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$2,257,000 (2003: HK$2,673,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

26. RETIREMENT BENEFIT SCHEMES

When the Mandatory Provident Fund Scheme Ordinance ("MPFO") came into effect in Hong Kong on 1 December, 2000, the Group established a mandatory provident fund scheme with voluntary contributions (the "MPF Scheme") for its employees in Hong Kong.

Prior to the introduction of the MPF Scheme, the Group had operated a defined contribution scheme registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") for its qualified employees in Hong Kong. The ORSO Scheme discontinued in 2001 and the benefits of the employees were transferred to the MPF Scheme. The assets held under the ORSO Scheme which were held separately from those of the Group were also transferred directly to the MPF Scheme for MPF. For MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

The amounts charged to the consolidated income statements represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes less forfeitures, if any, arising from employees leaving the Group prior to completion of their qualifying service period.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the balance sheet date, there was no significant amount of forfeited contributions available to reduce future contributions.

27. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of the acquisition of assets with a total capital value at the inception of the leases of HK$6,637,000 (2003: HK$6,299,000).

28. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged by the Group to banks in order to secure general banking facilities granted to the Group are as follows:

	2004	2003
	HK$'000	HK$'000
Land and buildings together with relevant land use rights situated in the PRC	**41,075**	41,340
Land and buildings situated in Hong Kong	**1,026**	1,092
Plant and machinery	**49,761**	47,829
Trade receivables of subsidiaries	**26,782**	36,089
Bank deposits	**26,560**	17,378
	145,204	143,728

The Company did not have any assets pledged at the balance sheet date.

29. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating lease in respect of rented premises, which fall due as follows:

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Within one year	**1,867**	1,395
In the second to fifth year inclusive	**168**	1,200
	2,035	2,595

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

30. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**6,627**	9,831

The Company did not have any capital commitments at the balance sheet date.

31. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had transactions and/or balances with the directors and/or related parties, some of which are also deemed to be connected persons pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The transactions during the year and balances with them at the balance sheet date, are as follows:

	Notes	**2004**	2003
		HK$'000	HK$'000
Rental paid to Lucky Fair Investment Limited	(i) & (ii)	**180**	180
Rental paid to Profit Horn Development Limited	(i) & (ii)	**156**	156
Rental paid to Tai Tung Supermarket Limited	(i) & (ii)	**288**	288
Rental paid to Mr. But Ching Pui	(ii)	**72**	72
Rental paid to But's Family and Mr. But Chai Leung	(ii)	**144**	144
Rental paid to Mr. But Ka Wai and Mr. But Chai Leung	(ii)	**156**	156
Rental paid to Mr. But Ching Pui and Ms. Leung Wai Ling	(ii)	**156**	156

Notes:

(i) Mr. But Ching Pui, Ms. Leung Wai Ling, Mr. But Ka Wai and Mr. But Chai Tong, all of whom are directors and beneficial shareholders of the Company, are collectively referred to as the "But's Family". The But's Family has 100% beneficial interests in these companies.

(ii) Rental for premises were determined in accordance with the leases entered into between the Group and the related parties, on the basis of estimated market value.

31. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

In addition to the above, during the year ended 31 December, 2003, Wah Yuen (Guangzhou) Foods Company Limited ("Wah Yuen Guangzhou"), a wholly-owned subsidiary of the Company, has provided guarantees and pledged its property interests in favour of a bank in respect of bank loans granted to Rocco Foods Enterprises Company (Guangzhou) Limited ("Rocco"), a 64.81% owned subsidiary of the Group amounting to approximately HK$7.4 million during that year. The amounts of guarantees provided were in proportion to the Group's interests in Rocco.

During the year, the Group and 花都市天誠實業有限公司 (Huadu Tian Cheng Industrial Limited) ("Huadu CTC") entered into an acquisition agreement for the purpose of acquiring from Huadu CTC, its interest in 35.19% of the registered capital of Rocco at a cash consideration of RMB4,670,000 (equivalent to approximately HK$4,405,660). Rocco became a wholly-owned subsidiary of the Group, the guarantee provided by Huadu CTC lapsed and the financial assistance provided by Wah Yuen Guangzhou no longer constitutes a connected transaction under the Listing Rules.

Details of the balances with connected and related parties at the respective balance sheet dates are set out in note 20.

32. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks, in respect of banking facilities utilised by subsidiaries	**–**	–	**169,096**	134,445

33. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December, 2004 are as follows:

Name of company	**Place of incorporation/ establishment**	**Issued and fully paid share capital/ registered capital**	**Percentage of issued capital/ registered capital held by the Company** *Note (i)*	**Principal activities**
WYFI	British Virgin Islands/ Hong Kong	Ordinary share USD1,000	100%	Investment holding
Wah Yuen Foods (China) Limited 華園食品(中國)有限公司	British Virgin Islands/ Hong Kong	Ordinary share USD1,000	100%	Investment holding
Hong Kong Wah Yuen Foods Company Limited 華園食品廠有限公司	British Virgin Islands/ Hong Kong	Ordinary share HK$1	100%	Investment holding
Wah Yuen Investment Limited 華園投資有限公司	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Wah Yuen Licensing Company Limited 華園商標有限公司	Cook Islands/ Hong Kong	Ordinary shares HK$10	100%	Holding of trademarks
Honfine Company Limited 朗耀有限公司	Hong Kong	Ordinary shares – HK$10 Non-voting deferred shares – HK$2 *Note (iv)*	100%	Distribution and marketing of snack food products

33. PARTICULARS OF SUBSIDIARIES *(Continues)*

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company *Note (i)*	Principal activities
Wah Yuen Foods (Hong Kong) Company Limited 華園食品(香港)有限公司	Hong Kong	Ordinary shares – HK$1,000 Non-voting deferred shares – HK$10,000,000 *Note (iv)*	100%	Manufacturing, distribution and marketing of snack food products and convenience frozen food products
Million Riches Development Limited 裕億發展有限公司	Hong Kong	Ordinary shares – HK$100 Non-voting deferred shares – HK$1,000,000 *Note (iv)*	100%	Distribution and marketing of snack food products
Wah Yuen Foods Company Limited 華園食品廠有限公司	Hong Kong	Ordinary shares HK$20	100%	Investment holding
Wah Yuen Guangzhou 華園(廣州)食品有限公司 *Note (ii)*	PRC	Registered and contributed capital USD4,500,000	100%	Manufacturing, distribution and marketing of snack food products
Rocco 廣州樂高食品企業有限公司	PRC	Registered and contributed capital USD2,810,000 *Note (iii)*	100%	Manufacturing, distribution and marketing of snack food products

33. PARTICULARS OF SUBSIDIARIES *(Continued)*

Notes:

(i) All the above subsidiaries, except for WYFI which is directly held, are indirectly held by the Company and operate principally in their places of incorporation/establishment.

(ii) Wah Yuen Guangzhou is registered as a wholly foreign owned enterprise.

(iii) Rocco is a sino-foreign equity joint venture established for a period of 30 years up to March, 2019. The Group and 花都市天誠實業有限公司 (Huadu Tian Cheng Industrial Limited) ("Huadu CTC") held 51% and 49% of the registered capital of Rocco, respectively. Pursuant to a supplemental agreement dated 8 December, 1993 and approved by Huadu CTC on 17 January, 1994, the capital contribution ratio of the joint venture partners were adjusted as to 35.19% by Huadu CTC and 64.81% by the Group. Pursuant to a further supplemental agreement dated 25 June, 1999, as approved by 花都市對外經濟貿易委員會 (Trade Co-operation and Huadu city commission of Foreign Economic) ("Huadu COFTEC") on 7 October, 1999, Rocco was converted into a sino-foreign co-operative joint venture. Pursuant to the terms of the co-operative joint venture agreement, (i) in respect of the period from May, 1999 to 31 May, 2006, the Group would be entitled to all the profit or loss of Rocco, after the payment to Huadu CTC of an annual amount calculated with reference to the turnover of Rocco (the "PRC Amount"); (ii) the manner of profit sharing for the period after 30 May, 2006 will be determined upon future negotiation. On 20 November, 2002, the Group and Huadu CTC entered into a further supplemental joint venture agreement, which agreement was approved by Huadu COFTEC on 21 February, 2003, to further vary the terms of the profit sharing arrangement, whereby the PRC Amount would be an annual fixed sum of RMB1,280,000 subject to certain conditions, for the period from 1 January, 2004 to 31 May, 2006 and would continue thereafter unless agreed otherwise by the joint venture in proportion to the capital injected by the respective joint venture partners and in accordance with the applicable laws and regulations of the PRC.

During the year, the Group and Huadu CTC entered into an acquisition agreement for the purpose of acquiring from Huadu CTC, its interest in 35.19% of the registered capital of Rocco. The joint venture agreement lapsed and the Group was released from any further obligations under the profit sharing arrangement.

(iv) The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any of the respective companies' general meetings or to participate in any distribution on their winding up.

None of the subsidiaries had any debt securities outstanding at 31 December, 2004 or at any time during the year.