

1. CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in Bermuda on 27 July 1999 under the Companies Act 1981 of Bermuda (as amended). Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public 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 companies now comprising the Group (as detailed in note 13) on 5 October 1999 through the acquisition, for shares, of the entire issued share capital of Qixiang International Limited ("QIL"). The shares of the Company were listed on the Stock Exchange on 4 November 1999.

The principal activities of the Group have not changed during the year and consisted of the manufacture and trading of processed eels and eel feed products. In the opinion of the directors, the ultimate holding company of the Company is Modern Sky Limited, a company incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION AND CONSOLIDATION

The consolidated financial statements have been prepared using the merger basis of accounting as a result of a Group reorganisation completed on 5 October 1999. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the year ended 30 April 2000 include the results of the Company and its subsidiaries with effect from 1 May 1999 or since their respective dates of incorporation or registration, where this is a shorter period.

As at 30 April 1999, the Company had a 100% equity interest in Fu Qing Sanhua Forage Co., Ltd. ("Fu Qing Sanhua") and a 99% equity interest in Fuqing Qixiang Food Co., Ltd. ("Fuqing Qixiang"). Pursuant to a Group reorganisation, on 9 September 1999, the Group disposed of a 51% equity interest in Fu Qing Sanhua and a 29% equity interest in Fuqing Qixiang to Great Global Limited ("Great Global"), a company which is owned by Mr. Lam Hau Mei and Mr. Lin Hou Yun, two of the directors of the Company, at an aggregate consideration of approximately US\$2,465,000 (equivalent to HK\$19,080,000) computed based on the unaudited net asset value of the relevant equity interests of Fu Qing Sanhua and Fuqing Qixiang disposed of as at 1 September 1999, the effective date of the disposal.

For the purpose of these financial statements, Fu Qing Sanhua has been treated as a wholly-owned subsidiary prior to 9 September 1999 and a 49% owned associate thereafter and Fuqing Qixiang has been treated as a 99% owned subsidiary prior to 9 September 1999 and a 70% owned subsidiary thereafter.

2. BASIS OF PRESENTATION AND CONSOLIDATION (continued)

In the opinion of the directors, the consolidated financial statements prepared on the above basis present fairly the results and the states of affairs of the Group as a whole.

All the significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of certain fixed assets, as further explained below.

Subsidiaries

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

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been impairments in values other than those considered to be temporary in nature, when they are written down to values determined by the directors.

Associate

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any additional provisions for impairments in values, other than those considered to be temporary in nature, deemed necessary by the directors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Buildings	4.5% – 4.75%
Leasehold improvements	20%
Plant and machinery	9% – 9.5%
Furniture, fixtures and equipment	18% – 25%
Motor vehicles	18% – 19%

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund ("MPF") retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance with effect from December 2000. Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the profit and loss account as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees. The assets of the MPF are held separately from those of the Group in an independently administered fund.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products from three to five years, commencing from the date when the products are put into commercial production.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) royalty income, on a contract term basis; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates denominated in foreign currencies are translated into Hong Kong dollars for inclusion in the Group's financial statements at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets similar in nature to cash, which are not restricted to use.

NOTES TO FINANCIAL STATEMENTS

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4. TURNOVER

Turnover represents the invoiced value of goods sold and royalty fees earned, net of discounts and returns. All significant intra-Group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and contribution to profit/(loss) after finance costs by principal activity and geographical area of operations, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), is as follows:

	Turnover		Contribution to profit/(loss) after finance costs	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Manufacture and sale of processed eels	390,685	352,896	(30,952)	30,035
Manufacture and sale of eel feeds	79,013	97,650	7,251	23,243
	469,698	450,546	(23,701)	53,278
By geographical area of operations:				
The People's Republic of China (the "PRC")	88,276	99,421	6,068	23,414
Japan	381,422	349,072	(29,769)	29,676
Elsewhere	–	2,053	–	188
	469,698	450,546	(23,701)	53,278

NOTES TO FINANCIAL STATEMENTS

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5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2001	2000
	HK\$'000	HK\$'000
Depreciation	4,237	3,695
Operating lease rentals on land and buildings	1,456	663
Auditors' remuneration	1,220	880
Staff costs (including directors' remuneration – note 6):		
Wages and salaries	13,123	11,273
Pension contributions	12	–
	13,135	11,273
Loss on disposal of fixed assets	473	76
Provision against inventories	3,362	–
Items included in other revenue or other operating expenses:		
Provision against and write off of accounts receivable	13,720	–
Provision against other receivables	27,279	–
Research and development costs	3,294	–
Loss on disposal of partial interest in a subsidiary	–	988
Loss on disposal of a subsidiary	–	191
Exchange losses/(gains), net	(5,006)	3,474
Interest income	(385)	(239)

NOTES TO FINANCIAL STATEMENTS

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6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Executive directors:		
Fees	1,602	878
Salaries and allowances	–	83
Pension contributions	4	–
	1,606	961
Independent non-executive directors:		
Fees	154	100
	1,760	1,061

The remuneration of each director fell within the Nil – HK\$1,000,000 band for both years.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

The five highest paid individuals included four (2000: Four) directors, details of whose remuneration are set out above. The details of the emoluments of the remaining one non-director, highest paid individual are set out below:

	2001	2000
	HK\$'000	HK\$'000
Salaries and allowances	416	416
Pension contributions	4	–
	420	416

The remuneration of the above non-director, highest paid individual fell within the Nil – HK\$1,000,000 band.

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on short term bank loans	1,792	2,667

8. TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
Group:		
The People's Republic of China (excluding Hong Kong)	2,300	2,368
Associate	122	–
	2,422	2,368

Hong Kong profits tax has not been provided for as the Group had no assessable profits arising in Hong Kong during the year (2000: Nil). Provisions for tax on the profits of subsidiaries operating elsewhere in the PRC have been calculated at the rates applicable, based on existing legislation, interpretations and practices, during the year.

In accordance with the applicable enterprise income tax law of the PRC, Fuqing Qixiang is exempt from the enterprise income tax for its first two profitable years of operation and is entitled to a 50% relief from the enterprise income tax that would otherwise be charged for the succeeding three years. Fuqing Qixiang began its first profitable year in the year ended 30 April 1997 and is therefore entitled to a 50% relief from enterprise income tax, at an effective tax rate of 7.5%, for the year ended 30 April 2001.

Fu Qing Sanhua, Fuzhou Sanhua, Longyan Sanhua, Guilin Sanhua and Jiangxi Sanhua (the "eel feed companies"), details of which are set out in notes 13 and 14 to the financial statements, are exempt from the enterprise income tax for their first two profitable years of operation from 1 January 1999 and are entitled to a 50% relief from the enterprise income tax that would otherwise be charged for the succeeding three years. In accordance with the applicable tax rates in the locations of registration of the eel feed companies, the enterprise income tax rate applicable to Fu Qing Sanhua is 15%, while the enterprise income tax rate applicable to Fuzhou Sanhua and Longyan Sanhua is 24% and the enterprise income tax rate applicable to Guilin Sanhua and Jiangxi Sanhua is 33%. Accordingly, a provision for enterprise income tax has been made for the eel feed companies in respect of profits generated during the period from 1 January 2001 to 30 April 2001.

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8. TAX (continued)

Deferred tax has not been provided as there were no significant timing differences at the balance sheet date (2000: Nil).

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

9. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company for the year is HK\$45,388,000 (period from 27 July 1999 (date of incorporation) to 30 April 2000: net profit of HK\$59,271,000).

10. DIVIDEND

Proposed final – Nil (2000: HK5.5 cents) per share

2001	2000
HK\$'000	HK\$'000
–	15,400

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$17,246,000 (2000: net profit of HK\$53,005,000) and the weighted average of 1,400,000,548 (2000: 1,223,087,430) ordinary shares in issue during the year.

The comparative basic earnings per share has been adjusted to reflect the bonus issue of shares on the basis of eight bonus shares for every two shares held during the year.

The calculation of diluted loss per share for the year is based on the net loss attributable to shareholders for the year of HK\$17,246,000 and the weighted average of 1,401,222,476 ordinary shares in issue during the year. There were no dilutive potential ordinary shares in issue during the year ended 30 April 2000, and accordingly, the diluted earnings per share was not shown.

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11. EARNINGS/(LOSS) PER SHARE (continued)

A reconciliation of the weighted average number of shares used in the basic loss per share calculation to that used in the diluted loss per share calculation for the year ended 30 April 2001 is as follows:

Weighted average number of shares used in the basic loss per share calculation	1,400,000,548
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year	1,221,928
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Weighted average number of shares used in the diluted loss per share calculation	<u>1,401,222,476</u>

12. FIXED ASSETS

Group

	Medium term leasehold land and buildings in the PRC <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:						
At beginning of year	13,554	1,782	23,805	1,935	1,907	42,983
Additions	725	58	1,141	291	2,352	4,567
Disposals	–	–	(370)	(120)	(607)	(1,097)
Revaluation	1,346	–	–	–	–	1,346
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At 30 April 2001	15,625	1,840	24,576	2,106	3,652	47,799
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Accumulated depreciation:						
At beginning of year	–	–	7,881	942	941	9,764
Provided during the year	641	362	2,445	236	553	4,237
Disposals	–	–	(73)	(78)	(247)	(398)
Write-back on revaluation	(641)	–	–	–	–	(641)
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At 30 April 2001	–	362	10,253	1,100	1,247	12,962
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Net book value:						
At 30 April 2001	<u>15,625</u>	<u>1,478</u>	<u>14,323</u>	<u>1,006</u>	<u>2,405</u>	<u>34,837</u>
At 30 April 2000	<u>13,554</u>	<u>1,782</u>	<u>15,924</u>	<u>993</u>	<u>966</u>	<u>33,219</u>

NOTES TO FINANCIAL STATEMENTS

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12. FIXED ASSETS (continued)

Company

	Office equipment
	<i>HK\$'000</i>
Cost:	
Additions and at 30 April 2001	10
Accumulated depreciation:	
Provided during the year and at 30 April 2001	3
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Net book value:	
At 30 April 2001	<u>7</u>
At 30 April 2000	<u>–</u>

The Group's leasehold land and buildings were revalued at 30 April 2001 by Castores Magi Surveyors Limited, an independent firm of professional valuers, on a depreciated replacement cost basis at HK\$15,625,000. A surplus of HK\$1,987,000 was credited to the asset revaluation reserve. All of the other fixed assets are stated at cost less accumulated depreciation.

Had the land and buildings been carried at historical cost less accumulated depreciation, its carrying value would have been approximately HK\$11,348,000 (2000: HK\$11,264,000).

At 30 April 2001, the Group's leasehold land and buildings held under medium term leases in the PRC have been pledged to secure the Group's bank loans in the amount of approximately HK\$5,469,000 (2000: HK\$6,281,000) (note 20).

13. INTERESTS IN SUBSIDIARIES

Company

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	69,863	69,863
Due from subsidiaries	95,320	53,001
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	165,183	122,864
Less: Provisions	(41,780)	–
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	<u>123,403</u>	<u>122,864</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

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13. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Qixiang International Limited	British Virgin Islands	US\$2,491,446	100%	Investment holding
Indirectly held				
Sanhua Consultants Limited	British Virgin Islands	US\$1,000	100%	Provision of consultancy services
Fuqing Qixiang Food Co., Ltd.	PRC	US\$2,100,000	70%	Manufacture and sale of processed eels
Fuzhou Development Zone Sanhua Feed Co., Ltd. (formerly Fujian Ningde Sanhua Feed Co., Ltd.) ("Fuzhou Sanhua")	PRC	RMB1,000,000	100%	Manufacture and sale of eel feed products
Sanhua Feed Co., Ltd. Longyan ("Longyan Sanhua")	PRC	RMB1,000,000	100%	Manufacture and sale of eel feed products
Guilin Sanhua Forage Co., Ltd. ("Guilin Sanhua")	PRC	US\$120,400	100%	Manufacture and sale of eel feed products

NOTES TO FINANCIAL STATEMENTS

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13. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Jiangxi Shangro Sanhua Forage Co., Ltd. ("Jiangxi Sanhua")	PRC	RMB1,000,000	100%	Manufacture and sale of eel feed products
Qixiang (Hong Kong) Limited	Hong Kong	HK\$10,000	100%	Provision of marketing and management services
Qixiang Food Limited	British Virgin Islands	US\$100	100%	Trading of processed eels

14. INTEREST IN AN ASSOCIATE

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	14,693	10,280	–	–
Due from/(to) an associate	39,203	12,054	(225)	(229)
	<u>53,896</u>	<u>22,334</u>	<u>(225)</u>	<u>(229)</u>

The balance with the associate is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

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14. INTEREST IN AN ASSOCIATE (continued)

Particulars of the associate are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group	Principal activities
Fu Qing Sanhua Forage Co., Ltd.	Corporate	PRC	49%	Manufacture and sale of eel feed products

15. SECURITY DEPOSIT UNDER RENTAL AGREEMENT

The amount represents a security deposit paid to a landlord, who is an independent third party, under an agreement for leasing certain factory buildings and plant and machinery for the production of processed eels in the PRC. According to the leasing agreement, this security deposit will be refunded upon the expiry of the leasing agreement on 31 December 2004.

16. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	6,491	8,260
Finished goods	69,918	83,696
	<u>76,409</u>	<u>91,956</u>

The carrying amount of inventories carried at net realisable value included in the above is HK\$15,895,000 (2000: Nil).

NOTES TO FINANCIAL STATEMENTS

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17. ACCOUNTS AND BILLS RECEIVABLE

The aged analysis of the Group's accounts and bills receivable is as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Current to three months	10,897	16,785
Four to six months	6,966	75
Seven to nine months	1,785	–
	19,648	16,860

The credit terms granted by the Group to customers are normally less than 90 days.

18. DUE FROM DIRECTORS

Particulars of the amounts due from directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name of director	At 30 April 2001 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>	At 1 May 2000 <i>HK\$'000</i>
Mr. Lam Hau Mei	–	180	180
Mr. Lin Hou Yun	–	218	218
Mr. Pan Zhi Ming	–	111	111
Mr. Chen Yuan Jian	–	152	152
	–		661

The balances with directors were unsecured, interest-free and had no fixed terms of repayment.

19. ACCOUNTS PAYABLE

All of the Group's accounts payable were aged within three months as at the current and prior year's balance sheet dates.

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20. SHORT TERM BANK LOANS

A bank loan of JP¥87,000,000 (2000: JP¥87,000,000) (equivalent to approximately HK\$5,469,000 (2000: HK\$6,281,000)) was secured by the Group's leasehold land and buildings (note 12). A bank loan of RMB8,000,000 (equivalent to approximately HK\$7,528,000) (2000: Nil) was secured by the leasehold land and buildings of an associate. The remaining bank loans of HK\$45,544,000 (2000: HK\$44,665,000) were secured by guarantees executed by a related company.

21. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
Authorised:		
3,000,000,000 (2000: 1,000,000,000) ordinary shares of HK\$0.10 each	300,000	100,000
Issued and fully paid:		
1,400,002,000 (2000: 280,000,000) ordinary shares of HK\$0.10 each	140,000	28,000

The following changes in the Company's authorised and issued share capital took place during the year:

- (i) Pursuant to an ordinary resolution passed on 30 October 2000, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$300,000,000 by the creation of an additional 2,000,000,000 shares of HK\$0.10 each in the capital of the Company, ranking pari passu with the existing shares of the Company in all respects.
- (ii) Pursuant to an ordinary resolution passed on 30 October 2000, 1,120,000,000 new shares of HK\$0.10 each, ranking pari passu with the then existing shares, were issued as bonus shares on the basis of eight bonus shares for every two shares held by shareholders whose names appeared on the register of members of the Company as at 30 October 2000. The bonus shares were credited as fully paid by capitalising HK\$112,000,000 in total, comprising amount standing to the credit of the Company's share premium of HK\$25,754,000, contributed surplus of HK\$69,662,000 and retained profits of HK\$16,584,000 (note 22).
- (iii) On 21 January 2001, 2,000 warrants were exercised by warrant holders at a subscription price of HK\$0.13 per share for total cash proceeds of HK\$260, resulting in the issue of 2,000 new shares of HK\$0.10 each.

21. SHARE CAPITAL (continued)

Share options

Under the terms of the share option scheme adopted by the Company on 19 October 1999, the directors of the Company are authorised, at their discretion, to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares of the Company. The subscription price will be the higher of 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the grant of the option and the nominal value of the shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The scheme became effective upon the listing of the Company's shares on 4 November 1999. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the share option scheme.

No share options were granted during the year or were outstanding at the balance sheet date.

Warrants

Pursuant to an ordinary resolution passed on 30 October 2000, 56,000,000 bonus warrants were issued on the basis of one warrant for every five shares then held by shareholders whose names appeared on the register of members of the Company as at 30 October 2000. Each bonus warrant entitles the registered holder to subscribe in cash for a new ordinary share of the Company of HK\$0.10 each at an initial subscription price of HK\$0.13 per share, subject to adjustment, at any time on or before 16 December 2002.

At the balance sheet date, the Company had 55,998,000 warrants outstanding with an aggregate subscription value of HK\$7,279,740, entitling the registered holders to subscribe in cash for 55,998,000 ordinary shares of the Company of HK\$0.10 each at an initial subscription price of HK\$0.13 per share, subject to adjustment, at any time on or before 16 December 2002. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 55,998,000 additional ordinary shares and cash proceeds, before issue expenses, of HK\$7,279,740.

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22. RESERVES

Group

	Share premium	Contributed surplus	Statutory reserve	Asset revaluation reserve	Exchange fluctuation reserve	Capital reserve	Retained profits/ (accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 May 1999	-	19,084	468	-	(3,985)	48	25,896	41,511
Issue of shares	63,000	-	-	-	-	-	-	63,000
Capitalisation issue of shares	(20,800)	-	-	-	-	-	-	(20,800)
Share issue expenses	(16,446)	-	-	-	-	-	-	(16,446)
Exchange differences on translation of overseas subsidiaries' financial statements	-	-	-	-	164	-	-	164
Release upon disposal of a subsidiary	-	-	(239)	-	(2)	-	239	(2)
Surplus on revaluation of leasehold land and buildings	-	-	-	2,290	-	-	-	2,290
Release upon disposal of partial interest in a subsidiary	-	-	-	(576)	1,168	(14)	576	1,154
Share of associate's reserves	-	-	-	620	37	-	-	657
Share by minority interests	-	-	-	(111)	(41)	-	-	(152)
Net profit for the year	-	-	-	-	-	-	53,005	53,005
Dividend	-	-	-	-	-	-	(15,400)	(15,400)
At 30 April 2000 and at beginning of year	25,754	19,084	229	2,223	(2,659)	34	64,316	108,981
Bonus issue of shares	(25,754)	(19,084)	-	-	-	-	(67,162)	(112,000)
Surplus on revaluation of leasehold land and buildings	-	-	-	1,987	-	-	-	1,987
Share of associate's reserves	-	-	-	773	-	-	-	773
Share by minority interests	-	-	-	(596)	-	-	-	(596)
Net loss for the year	-	-	-	-	-	-	(17,246)	(17,246)
At 30 April 2001	<u>-</u>	<u>-</u>	<u>229</u>	<u>4,387</u>	<u>(2,659)</u>	<u>34</u>	<u>(20,092)</u>	<u>(18,101)</u>
Retained by:								
Company and subsidiaries	-	-	-	2,994	(2,693)	34	(32,667)	(32,332)
Associate	-	-	229	1,393	34	-	12,575	14,231
At 30 April 2001	<u>-</u>	<u>-</u>	<u>229</u>	<u>4,387</u>	<u>(2,659)</u>	<u>34</u>	<u>(20,092)</u>	<u>(18,101)</u>

NOTES TO FINANCIAL STATEMENTS

30 April 2001

22. RESERVES (continued)

Company

	Share premium	Contributed surplus	Retained profits/ (accumulated losses)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Arising on acquisition of QIL	–	69,762	–	69,762
Applied in payment of 1,000,000 shares allotted nil paid on incorporation	–	(100)	–	(100)
Issue of shares	63,000	–	–	63,000
Capitalisation issue of shares	(20,800)	–	–	(20,800)
Share issue expenses	(16,446)	–	–	(16,446)
Net profit for the year	–	–	59,271	59,271
Dividend	–	–	(15,400)	(15,400)
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At 30 April 2000 and at beginning of year	25,754	69,662	43,871	139,287
Bonus issue of shares (note 21)	(25,754)	(69,662)	(16,584)	(112,000)
Net loss for the year	–	–	(45,388)	(45,388)
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At 30 April 2001	–	–	(18,101)	(18,101)

The contributed surplus of the Group represented the difference between the nominal value of the share capital of the subsidiaries acquired, pursuant to the Group reorganisation set out in note 1 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor, net of the distribution in the form of bonus shares during the year.

The contributed surplus of the Company arising on the acquisition of QIL represented the excess of the then combined net assets value of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Profit/(loss) from operating activities	(21,909)	55,945
Interest income	(385)	(239)
Depreciation	4,237	3,695
Loss on disposal of fixed assets	473	76
Loss on disposal of partial interest in a subsidiary	–	988
Loss on disposal of a subsidiary	–	191
Increase in security deposit under rental agreement	–	(14,115)
Provision against inventories	3,362	–
Provision against and write off of accounts receivable	13,720	–
Provision against other receivables	27,279	–
Decrease/(increase) in inventories	12,185	(25,406)
Increase in accounts and bills receivable	(13,358)	(3,174)
Decrease/(increase) in prepayments, deposits and other receivables	7,141	(40,551)
Decrease in amounts due from related companies	–	681
Decrease in amounts due from directors	661	427
Increase/(decrease) in accounts payable	5,078	(301)
Increase/(decrease) in accrued liabilities and other payables	(658)	2,679
Decrease in amount due to a related company	–	(929)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	<u>37,826</u>	<u>(20,033)</u>

NOTES TO FINANCIAL STATEMENTS

30 April 2001

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium	Due to/(from) a related company	Bank loans	Minority interests
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 May 1999	200	(3,690)	87,519	260
Arising from the disposal of a subsidiary	–	8,941	(10,351)	–
Proceeds from public issue of shares	70,000	–	–	–
Share issue expenses	(16,446)	–	–	–
Net cash outflow from financing activities	–	(5,251)	(26,689)	–
Interests acquired	–	–	–	10,984
Share of loss for the year	–	–	–	(277)
Share of asset revaluation surplus	–	–	–	111
Share of exchange fluctuation reserve	–	–	–	41
Exchange adjustment	–	–	467	–
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At 30 April 2000 and at beginning of year	53,754	–	50,946	11,119
Net cash inflow from financing activities	–	–	7,595	–
Bonus issue of shares (note 21)	86,246	–	–	–
Dividends	–	–	–	(6,600)
Share of asset revaluation surplus	–	–	–	596
Share of loss for the year	–	–	–	(5,115)
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At 30 April 2001	<u>140,000</u>	<u>–</u>	<u>58,541</u>	<u>–</u>

NOTES TO FINANCIAL STATEMENTS

30 April 2001

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of a subsidiary

	2001	2000
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	–	18,118
Inventories	–	2,383
Accounts receivable	–	6,834
Prepayments, deposits and other receivables	–	1,312
Accounts payable	–	(4,461)
Due from a related company	–	8,941
Cash and bank balances	–	1,140
Short term bank loans	–	(10,351)
Accrued liabilities and other payable	–	(1,553)
Due to the Group companies	–	(3,593)
Tax payable	–	(2,842)
Minority interests	–	(7,805)
	–	8,123
Loss on disposal of a subsidiary	–	(191)
Release of exchange fluctuation reserve	–	(2)
	–	7,930
Satisfied by:		
Cash consideration	–	(7,930)
Cash and bank balances disposed of	–	1,140
Net inflow of cash and cash equivalents	–	(6,790)

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Major non-cash transaction

During the year, 1,120,000,000 new shares of HK\$0.10 each were issued as bonus shares, details of which are set out in note 21 to the financial statements.

The reorganisation of the Group in preparation for the public listing of the Company's shares in the prior year involved the acquisition of QIL by the issue of shares of the Company, further details of which are set out in note 1 to the financial statements.

24. RELATED PARTY AND CONNECTED TRANSACTIONS

The Group had the following significant related party transactions during the year:

Name of related party	Nature of transaction	Notes	2001 HK\$'000	2000 HK\$'000
Continuing				
Fu Qing Sanhua	Purchases of raw materials and finished goods	(i)	27,756	30,024
	Royalty income received	(ii)	5,300	3,123
Non-continuing				
Bright & Shine Corporate Finance Limited	Consultancy fees paid	(iii)	–	1,200
Great Global Limited	Disposal of interests in subsidiaries	(iv)	–	19,080
			<u> </u>	<u> </u>

Mr. Lee Juleus, a director of the Company who resigned during the year, was directly interested as a director and beneficial shareholder of Bright & Shine Corporate Finance Limited.

24. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

Notes:

- (i) The directors consider that the purchases were made at cost to the suppliers.
- (ii) According to an agreement between Fu Qing Sanhua and Sanhua Consultants, the royalty fee relates to the use of Sanhua Consultants' eel feed formulae by Fu Qing Sanhua and is based on 10% of the gross sales amount of Fu Qing Sanhua attributable to the use of the eel feed formulae, except those related to sales to companies within the Group.
- (iii) The consultancy fees, which represented charges for advising on the Group reorganisation and flotation, were charged on the basis of rates agreed with Bright & Shine Corporate Finance Limited.
- (iv) A 29% equity interest in Fuqing Qixiang and a 51% equity interest in Fu Qing Sanhua were disposed of to Great Global at an aggregate cash consideration of US\$2,465,000 (equivalent to HK\$19,080,000) computed based on the unaudited net asset value of the relevant equity interests disposed of as at 1 September 1999, the effective date of the disposal.

Additionally, during the year, Fuqing Qixiang, a 70% owned subsidiary, sold finished goods amounting to HK\$148,397,452 (2000: HK\$213,811,000) to Qixiang Food, a wholly-owned subsidiary, at prices which were based on 90% of the selling prices charged by Qixiang Food to other customers.

The balances with Fu Qing Sanhua are set out in note 14 to the financial statements.

As at 30 April 2001, a bank loan of the Group amounting to RMB8,000,000 (equivalent to approximately HK\$7,528,000) was secured by the leasehold land and buildings of Fu Qing Sanhua.

On 19 October 1999, the Company entered into an option agreement with Mr. Lam Hau Mei and Mr. Lin Hou Yun, two of the directors of the Company, pursuant to which the Company has an option to acquire from Mr. Lam Hau Mei and Mr. Lin Hou Yun a 100% equity interest in Great Global at a consideration to be based on the net asset value of Great Global at the date of exercising the option. The option is exercisable within three years from the date of the option agreement. As at the date of this report, Great Global held a 29% equity interest in Fuqing Qixiang and a 51% equity interest in Fu Qing Sanhua.

The transactions between the Group and Fu Qing Sanhua, and between Fuqing Qixiang and Qixiang Food were connected transactions under the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

30 April 2001

25. OPERATING LEASE COMMITMENTS

At 30 April 2001, the Group had commitments under non-cancellable operating leases to make payments in the following year as detailed below:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	–	160
In the second to fifth years, inclusive	641	458
	<hr/>	<hr/>
	641	618
	<hr/> <hr/>	<hr/> <hr/>

Besides, the Group had a commitment in respect of its capital contributions to a subsidiary registered in the PRC in the amount of HK\$14,820,000.

The Company had no commitments at the balance sheet date (2000: Nil).

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 21 August 2001.