



**QUALITY FOOD INTERNATIONAL LIMITED**

**東成控股有限公司**

(於百慕達註冊成立之有限公司)

*(Incorporated in Bermuda with limited liability)*

**Quality Food**

**Interim Report 2002**

# QUALITY FOOD INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

## Interim Results for the six months ended 31 October 2002

### Results

The Directors of Quality Food International Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 October 2002 together with the comparative figures for corresponding period as follows:-

#### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six Months ended	
		31 October	
		2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
TURNOVER	2	135,751	173,423
Cost of sales		<u>(125,798)</u>	<u>(161,965)</u>
Gross profit		9,953	11,458
Other revenue		1,268	85
Selling and distribution costs		(2,677)	(910)
Administrative expenses		<u>(8,203)</u>	<u>(5,839)</u>
PROFIT FROM OPERATING ACTIVITIES	3	341	4,794
Finance costs		(1,352)	(1,227)
Share of profit/(loss) of an associate		-	(3,678)
Share of profit/(loss) of jointly-controlled entity		<u>4,815</u>	<u>-</u>
PROFIT/(LOSS) BEFORE TAX	2	3,804	(111)
Tax	4	<u>(1,589)</u>	<u>(47)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		2,215	(158)
Minority interests		<u>(1,045)</u>	<u>(105)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		<u>1,170</u>	<u>(263)</u>
EARNINGS/(LOSS) PER SHARE	5		
Basic		<u>HK0.06 cents</u>	<u>HK(0.02) cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Other than the net profit/(loss) for the period attributable to shareholders, the Group had no material recognized gains or losses. Accordingly, a consolidated statement of recognized gains or losses is not presented in the interim report.

CONDENSED CONSOLIDATED BALANCE SHEET

		31 October 2002	30 April 2002
		Unaudited	Audited
	Notes	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		31,994	33,125
Interest in jointly-controlled entities		42,426	-
Trade investment		2,000	-
Security deposit under rental agreement		<u>14,115</u>	<u>14,115</u>
		<u>90,535</u>	<u>47,240</u>
<b>CURRENT ASSETS</b>			
Inventories		75,503	60,482
Accounts and bills receivable	6	17,621	22,055
Prepayments, deposits and other receivables		31,330	11,297
Pledged deposits		-	2,212
Cash and bank balances		<u>10,622</u>	<u>51,830</u>
		<u>135,076</u>	<u>147,876</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	7	9,493	25,692
Accrued liabilities and other payables		8,139	9,642
Short term bank loans	8	78,525	57,326
Tax payable		<u>7,665</u>	<u>6,882</u>
		<u>103,822</u>	<u>99,542</u>
<b>NET CURRENT ASSETS</b>		<u>31,254</u>	<u>48,334</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		121,789	95,574
<b>MINORITY INTERESTS</b>		<u>( 1,045)</u>	<u>-</u>
		<u>120,744</u>	<u>95,574</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		192,000	168,000
Reserves		<u>(71,256)</u>	<u>(72,426)</u>
		<u>120,744</u>	<u>95,574</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six Months ended 31 October	
	2002	2001
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	(40,295)	(16,047)
Net cash inflow/(outflow) from investing activities	(47,004)	16,606
Net cash inflow/(outflow) from financing activities	46,091	-
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(41,208)	559
Cash and cash equivalents at beginning of period	51,830	9,408
CASH AND CASH EQUIVALENTS AT END OF PERIOD	10,622	9,967
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	10,622	9,967

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six Months ended 31 October	
	2002	2001
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Total shareholders' equity as at 1st May	95,574	121,899
Issue of shares during the period	24,000	-
Net profit /(loss) for the period	1,170	(263)
Total shareholders' equity as at 31st October	120,744	121,636

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### (1) Basis of Presentation And Accounting Policies

These interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 30 April 2002, except that the Group has adopted the following SAAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised) :	Presentation of financial statements
SSAP 11 (revised) :	Foreign currency translation
SSAP 15 (revised) :	Cash flow statements
SSAP 34 :	Employee benefits

The adoption of these new or revised SSAPs has no significant effect on the results of the Group in both accounting periods, other than a change in the format of presentation of the cash flow statement and the requirement to present a statement of change in equity.

### (2) Segmental Information

The Group’s turnover and contribution to profit after finance costs analyzed by principal activity and geographical area of operations, are as follows

By business segments:

	Processed eels		Eel Feeds		Consolidated	
	2002 Unaudited HK\$’000	2001 Unaudited HK\$’000	2002 Unaudited HK\$’000	2001 Unaudited HK\$’000	2002 Unaudited HK\$’000	2001 Unaudited HK\$’000
Sales to external customers	124,968	155,022	10,783	18,401	135,751	173,423
Other revenue	<u>1,246</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>1,246</u>	<u>13</u>
	<u>126,214</u>	<u>155,035</u>	<u>10,783</u>	<u>18,401</u>	<u>136,997</u>	<u>173,436</u>
Segment results	4,297	3,009	491	3,219	4,788	6,228
Unallocated other revenue					22	72
Unallocated expenses					(4,469)	(1,506)
Profit from operating activities					341	4,794
Finance cost					(1,352)	(1,227)
Share of (loss) of an associate				(3,678)	-	(3,678)
Share of profit of jointly- controlled entities					4,815	-
Profit/(loss) before tax					3,804	(111)
Tax					(1,589)	(47)
Profit/(loss) before minority Interest					2,215	(158)
Minority interest					(1,045)	(105)
Net profit/(loss) attributable to shareholders					<u>1,170</u>	<u>(263)</u>

By geographical segments:

	Japan		PRC		Consolidated	
	2002	2001	2002	2001	2002	2001
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	124,968	155,022	10,783	18,401	135,751	173,423
Segment results	<u>4,297</u>	<u>3,009</u>	<u>491</u>	<u>3,219</u>	<u>4,788</u>	<u>6,228</u>

### (3) Profit From Operating Activities

The Group's profit from operating activities is arrived at after charging:

	Six Months ended	
	31 October	
	2002	2001
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Share issue expenses	153	-
Depreciation	<u>2,038</u>	<u>2,028</u>

### (4) Tax

Hong Kong profits tax has not been provided for as the Group had no assessable profits arising in Hong Kong during the period (2001: Nil). Provisions for tax of profits of subsidiaries operating in the People's Republic of China (the "PRC") have been calculated at the rates applicable, based on existing legislation, interpretations and practices, during the period.

Group:	Six Months ended	
	31 October	
	2002	2001
	Unaudited	Unaudited
	HK\$'000	HK\$'000
The People's Republic of China, other than Hong Kong	<u>1,589</u>	<u>47</u>

### (5) Earnings/(Loss) Per Share

The calculation of earnings per share is based on the net profit attributable to shareholders for the period of HK\$1,170,000 (2001: net loss of HK\$263,000) and the 1,800,002,000 (2001: 1,400,002,000) ordinary shares in issue during the period. No diluted loss per share is presented for both current and last period as there are no dilutive potential ordinary shares.

## (6) Accounts and Bills Receivable

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

	31 October 2002	30 April 2002
	Unaudited	Audited
	HK\$'000	HK\$'000
Current to three months	4,992	11,872
Four to six months	5,389	3,571
Seven to twelve months	6,380	5,470
Over one year	<u>860</u>	<u>1,142</u>
	<u>17,621</u>	<u>22,055</u>

The Group has a defined credit policy. The general credit terms granted by the Group to customers are normally less than 90 days.

## (7) Accounts Payable

All the Group's accounts payable were aged within three months as at the current period end and prior year end.

## (8) Short Term Bank Loans

A bank loan of JPY87,000,000, equivalent to approximately HK\$5,469,000 (30 April 2002: JPY87,000,000, equivalent to approximately HK\$5,289,000), was secured by the Group's leasehold land and buildings in PRC. A bank loan of RMB 8,000,000, equivalent to approximately HK\$7,528,000 (30 April 2002: RMB 8,000,000, equivalent to approximately HK\$7,528,000) was secured by the leasehold land and buildings of an associate. The remaining bank loans of HK\$65,528,000 (30 April 2002: HK\$44,509,000) were secured by guarantees executed by a related company.

## (9) Share Capital

On 14 June 2002, the Company entered into a placing agreement with an independent third party, for the placing of a total of 240,000,000 shares of HK\$0.10 each of the Company at an issue price of HK\$0.10 per share. The subscription was completed on 28 June 2002 and raised approximately HK\$24,000,000 before share issue expenses, and the net proceeds of the subscription has been used for the working capital of the Group.

### Share Options

The Company adopted a new share options scheme (the "Scheme") on 31 October 2002. No share options were granted during the period or were outstanding under the Scheme up to the date of this report.

## (10) Reserves

	Asset Revaluation reserve HK\$'000	Exchange Fluctuation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 May 2002	3,405	(2,693)	34	(73,172)	(72,426)
Net profit for the period	-	-	-	1,170	1,170
At 31 October 2002	<u>3,405</u>	<u>(2,693)</u>	<u>34</u>	<u>(72,002)</u>	<u>(71,256)</u>

## (11) Related Party And Connected Transactions

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

Name of related party	Nature of transaction	Notes	Six Months ended	
			31 October 2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Fu Qing Sanhua Forage Co., Ltd.	Royalty income received	(ii)	<u>-</u>	<u>2,331</u>

Notes:

- (i) Fu Qing Sanhua Forage Co., Ltd. ("Fu Qing Sanhua") is an associate of the Company (within the meaning of SSAPs).
- (ii) According to an agreement between Fu Qing Sanhua and a subsidiary of the Company, the royalty fee relates to the use of the Group's 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 eel feed formulae, except those related to sales to companies of the Group. The agreement was terminated on 1st May 2002.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review and Prospects**

For the six months ended 31 October 2002, the turnover of the Group decreased by 22% from HK\$173.4 million to HK\$135.8 million when compared to the corresponding period in the previous year. This resulted in a profit attributable to shareholders of HK\$1,170,000. Earning per share was HK0.06 cents (2001: HK0.02 cents - Loss per share).

Premium processed eels are manufactured in the Group's two facilities which are located in Fuqing, the PRC, and are marketed to Japan, the largest processed eel importing country, under its own brand name "Qixiang". During the review period, both the sales volume and the selling price were sliding down. The sales figure was decreased by approximately 19% to HK\$125 million representing 1,930 tonnes (2001: 2,340 tonnes) against last year's figure of HK\$155 million. The processed eel business accounted for approximately 92% of the Group's total turnover.

During the review period, the market in Japan, the Group's major market, was becoming more competitive due to the continuing slowing down in the economy. Selling prices has been adjusted in view of the market situation to maintain market share and also to ensure acceptable returns. The Group's maximum production capacity is still maintained at 6,000 tonnes of processed eels per year in its two production facilities. It is expected that the annual production may reduce to approximately 3,500 tonnes for the entire fiscal year due to Japan's tight hygienic requirement. The Directors will be cautious in balancing between the market share and its returns.

Apart from its core processed eel manufacturing business, the Group also engages in another business line, the manufacturing and sale of quality eel feeds to the approximately 150 eel farms in the PRC under the "Sanhua" brand name. The eel feed business serves as a complementary arm to the Group's processed eel manufacturing business.

On 12 July 2002 an investment agreement entered into between Oriental Mate Limited, wholly-owned subsidiary of the Company, and Joyson Limited, an independent third party, to form a B.V.I. company as an investment holding company to invest in environmental protection business in the PRC. Up to this report date, application has been made to the relevant authority for setting up a plant in Kun Shan (昆山), the PRC. Further progress will be reported in the final result.

### **Liquidity and Financial Resources**

The Group generally finances its operations with internally generated cash flow and banking facilities provided by the principal bankers in the PRC. As at 31 October 2002, the Group's net asset value stood at HK\$121 million with total assets over HK\$225 million, out of which included cash and bank balances of approximately HK\$10 million. The Group's bank borrowings at 31 October 2001 amounted to HK\$78.5 million of which approximately HK\$5.5 million was secured by the Group's leasehold land and buildings, and a loan of which approximately HK\$7.5 million was secured by the land and buildings of an associate. The remaining bank loans of approximately HK\$65.5 million were secured by guarantees executed by a related company. The gearing ratio of the Group at 31 October 2002 calculated as a ratio of total bank loans to total assets was 35%. Net current assets was approximately HK\$31.2 million and current ratio was maintained at a healthy level of approximately 130%.

With the above, the Group has adequate capital resources to finance its business operations.

## Employees

As 31 October 2002, the Group employed a total of approximately 520 employees in Hong Kong and the PRC. The remuneration policy and package of the Group's employees are approved and reviewed by the Board. The remuneration package includes salary, bonus and welfare. For staff in Hong Kong, the Group provides medical insurance and Mandatory Provident Fund retirement benefits.

## Directors' Interests

The interests of the directors and their associates in the issued shares of the Company and its associated corporations, as recorded in the register kept under Section 29 of the Securities (Disclosure of interests) Ordinance as at 31 October 2001 were as follows:

Company

Directors	Type of Interests	Number of shares	Number of warrants
Mr. Lai Leong	Corporate (Note 1)	980,020,000	39,350,400
Mr. Zhu Yi Cai	Corporate (Note 1)	980,020,000	39,350,400

### Notes:

- (1) These Shares were held by Wealth Success Limited, a company beneficially owned as to 28 per cent and 72 per cent by Mr. Lai Leong and Mr. Zhu Yi Cai, respectively.
- (2) The warrants to subscribe new shares expired on 16 December 2002. Wealth Success Limited does not exercise the warrant.

## Substantial Shareholders

Shareholder	Member of the Group	Number of shares	Percentage of voting power
Wealth Success Limited	The Company	980,020,000	51.04%

## Purchase, Sale and Redemption of shares

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 31 October 2002.

## Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group as well as the review of this interim financial statements which have not been audited. The Committee comprises Dr. Chow King Wai and Mr. Chu Kar Wing, two Independent Non-Executive Directors and Ms. Chan Yim Kum, the Company Secretary of the Company.

## **Code of Best Practice**

In the opinion of Directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the year.

By Order of the Board

**Lai Leong**

Chairman

Hong Kong, 27th January 2003