



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BACKGROUND AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 9 October 2002 as an exempted Company with limited liability under the Companies Law (Revised) of Cayman Islands. Pursuant to a reorganisation scheme to rationalise the Group in preparation for listing of the Company's Shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "SEHK") in June 2003, the Company became the holding company of the Companies now comprising the Group on 3 June 2003. This was accomplished by the Company acquiring the entire issued share capital of WYFI, then became holding company of other subsidiaries, in consideration of and in exchange for the issue and allotment of 20,000,000 Shares to ASG Limited, NCI Limited, Mr. But Ching Pui and Ms. Leung Wai Ling. Further details of the reorganisation are set out in the Company's prospectus dated 12 June 2003.

The first interim financial report is unaudited, and has been prepared in accordance with the requirements of the Main Board Listing Rules of the SEHK, including Compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The condensed financial statements have been prepared under the historical cost convention.

The condensed financial statements have been prepared in accordance with the accounting policies consistent with those adopted by the Group in its financial statements for the year ended 31 December 2002.

**2. SEGMENT INFORMATION***(a) Business segment*

The Group is principally engaged in the production and distribution of snack food and convenience frozen food products which constitute one single business segment throughout the periods.

*(b) Geographical segment*

Geographical segment is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions. In presenting information on the basis of geographical segment, segment revenue is based on the geographical presence of customers.

The Group's business is principally managed in Hong Kong and the People's Republic of China (the "PRC") while the principal markets for the Group's products are consumers and retailers in Hong Kong and PRC.

	<b>For the six months ended 30 June 2003</b>			
	<b>Hong Kong</b>	<b>The PRC</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>TURNOVER</b>				
External sales	<b>40,572</b>	<b>48,020</b>	–	<b>88,592</b>
Inter-segment sales	–	<b>8,985</b>	<b>(8,985)</b>	–
Total turnover	<b><u>40,572</u></b>	<b><u>57,005</u></b>	<b><u>(8,985)</u></b>	<b><u>88,592</u></b>
<b>SEGMENT RESULTS</b>	<b><u>2,585</u></b>	<b><u>10,526</u></b>	–	<b>13,111</b>
Unallocated corporate income				<b>152</b>
Profit from operations				<b>13,263</b>
Finance costs				<b>(3,975)</b>
Profit before taxation				<b>9,288</b>
Taxation				<b>(1,939)</b>
Profit before minority interests				<b><u>7,349</u></b>



	For the six months ended 30 June 2002			
	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>				
External sales	33,873	52,756	–	86,629
Inter-segment sales	–	5,253	(5,253)	–
Total turnover	<u>33,873</u>	<u>58,009</u>	<u>(5,253)</u>	<u>86,629</u>
<b>SEGMENT RESULTS</b>				
	<u>3,068</u>	<u>9,521</u>	<u>–</u>	12,589
Unallocated corporate income				<u>69</u>
Profit from operations				12,658
Finance costs				<u>(4,569)</u>
Profit before taxation				8,089
Taxation				<u>(1,133)</u>
Profit before minority interests				<u>6,956</u>

### 3. DEPRECIATION AND AMORTISATION

During the period, charged against profit from operations was depreciation and amortisation of approximately HK\$3,309,000 (2002: approximately HK\$3,524,000) in respect of the Group's property, plant and equipment.

### 4. TAXATION

	For the six months ended 30 June	
	2003 <i>HK'000</i>	2002 <i>HK'000</i>
The charge comprises:		
Hong Kong Profits Tax	–	137
PRC income tax		
– current period	1,537	996
– under provision in prior year	402	–
	<u>1,939</u>	<u>1,133</u>



Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit during the periods.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years, as follows:

- (i) the full PRC income tax rate applicable to Wah Yuen (Guangzhou) Foods Company Limited ("Wah Yuen (Guangzhou)") is 27% and the reduced rate for the relief period is 12%. The first profit-making year of Wah Yuen (Guangzhou) is 2000.
- (ii) Rocco Foods Enterprise Company (Guangzhou) Limited is subject to PRC income tax at the full rate of 27%.

The charge of PRC income tax for the periods has been provided for after taking into account the above-mentioned tax incentives.

The Group had no significant unprovided deferred taxation for the period.

## 5. DIVIDENDS

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2003</b>	2002
	<b>HK'000</b>	HK'000
Interim dividend declared of HK cents 1.5 per share	<b>3,000</b>	–
Dividend declared and paid to the shareholders prior to the reorganisation	–	2,219
	<b><u>3,000</u></b>	<u>2,219</u>

At a meeting on 24 September 2003, the Directors of the Company declared an interim dividend of HK cents 1.5 per share for the six months ended 30 June 2003. The interim dividends will be payable on 27 October 2003 to shareholders whose names appear on the Register of Members of the Company on 20 October 2003. The interim dividend proposed after 30 June 2003 has not been recognised as a liability at that date.



## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of approximately HK\$6,750,000 (2002: approximately HK\$6,357,000) and on the weighted average number of 141,988,950 Shares (2002: 140,000,000 Shares) in issue and issuable.

## 7. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$9,908,000 (2002: approximately HK\$12,513,000).

## 8. 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 will be granted.

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

	<b>At 30 June 2003 HK\$'000</b>	At 31 December 2002 HK\$'000
Within 30 days	<b>32,590</b>	32,849
31 to 60 days	<b>15,739</b>	18,347
61 to 90 days	<b>11,263</b>	18,583
91 to 180 days	<b>10,546</b>	16,982
181 to 270 days	<b>24,139</b>	18,594
271 to 365 days	<b>4,873</b>	3,065
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Trade receivables	<b>99,150</b>	108,420
Other receivables	<b>15,704</b>	12,030
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	<b>114,854</b>	120,450
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**9. TRADE AND OTHER PAYABLES**

An aged analysis of the trade payables is as follows:

	<b>At 30 June 2003 HK\$'000</b>	At 31 December 2002 HK\$'000
Within 30 days	<b>7,864</b>	17,538
31 to 60 days	<b>7,057</b>	9,932
61 to 90 days	<b>4,352</b>	3,419
91 to 180 days	<b>4,386</b>	5,853
181 to 365 days	<b>8,552</b>	11,120
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Trade payables	<b>32,211</b>	47,862
Other payables	<b>10,913</b>	26,989
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	<b>43,124</b>	74,851
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## 10. SHARE CAPITAL

The following is a summary of movements in the authorised and issued share capital of the Company during the period:

	<i>Notes</i>	<b>Number of Ordinary Shares</b>	<b>Amounts</b> <i>HK\$'000</i>
<i>Authorised:</i>			
Ordinary shares of HK\$0.01 each			
– balance at 1 January 2003		10,000,000	100
– increase in authorised share capital	<i>(b)</i>	390,000,000	3,900
		<u>400,000,000</u>	<u>4,000</u>
– balance at 30 June 2003		<u>400,000,000</u>	<u>4,000</u>
<i>Issued and fully paid:</i>			
Total issued share capital as at 1 January 2003	<i>(a)</i>	10,000,000	–
Ordinary share issued as the consideration for the acquisition of the entire issued share capital of WYFI	<i>(c)</i>	10,000,000	200
New issue on public offer and placing	<i>(d)</i>	60,000,000	600
Capitalisation of share premium	<i>(e)</i>	120,000,000	1,200
Total issued share capital as at 30 June 2003		<u>200,000,000</u>	<u>2,000</u>

(a) As at 1 January 2003, 10,000,000 shares of the Company were in issue nil paid.

(b) On 3 June 2003, pursuant to written resolutions of all shareholders of the Company, the authorised share capital of the Company was increased from HK\$100,000 to HK\$4,000,000 by the creation of 390,000,000 additional ordinary shares of HK\$0.01 each, ranking *pari passu* in all respects with the existing ordinary shares of the Company.



- (c) On 3 June 2003, pursuant to the reorganisation described in note 1, the Company allotted and issued 10,000,000 ordinary shares of HK\$0.01 each, created as fully paid, and also credited as fully paid the 10,000,000 nil paid ordinary shares of HK\$0.01 each as set out in (a) above, in consideration for the acquisition of the entire issued share capital of WYFI.
- (d) On 23 June 2003, 60,000,000 ordinary shares of HK\$0.01 were issued to the public at \$0.85 each for a total cash consideration of HK\$51,000,000 before the related issue expenses.
- (e) On 3 June 2003, as a result of the ordinary shares offer, a total of 120,000,000 ordinary shares of HK\$0.01 each were allotted as fully paid at par to the shareholders whose name appeared on the register of members of the Company at that date, in proportion to their respective shareholdings by way of capitalisation of the sum of HK\$1,200,000 standing to the credit of the share premium account.

#### 11. CONTINGENT LIABILITIES

At the respective balance sheet dates, the Group had contingent liabilities not provided for in the condensed financial statements as follows:

	<b>At 30 June 2003 HK\$'000</b>	At 31 December 2002 HK\$'000
Factored trade receivables with recourse	<b>613</b>	1,316
Guarantees to banks in favour of Wah Yuen Development Limited	—	23,240
	<b><u>613</u></b>	<b><u>24,556</u></b>

#### 12. CAPITAL COMMITMENTS

	<b>At 30 June 2003 HK\$'000</b>	At 31 December 2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<b><u>702</u></b>	<b><u>647</u></b>