

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the audited financial statements for the year ended 31 March 2001, except in relation to SSAP 9 (revised) "Events after the Balance Sheet Date" and SSAP 30 "Business Combinations".

Following the adoption of SSAP 9 (revised), whereby dividends proposed after the balance sheet date should not be recognised as a liability at the balance date, the final dividend proposed for the year ended 31 March 2001 of HK\$11,987,000, classified as a current liability at 31 March 2001, has been reclassified and shown under shareholders' equity. There is no impact on the profit and loss account because of this change.

Following the adoption of SSAP 30, goodwill on acquisition occurring on or after 1 April 2001 is disclosed as an asset in the balance sheet and is amortised over its estimated useful life to the profit and loss account. Negative goodwill on acquisition occurring on or after 1 April 2001 which relates to an expectation of future losses and expenses that can be measured reliably at the date of acquisition, is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account. Goodwill/negative goodwill on acquisition occurring prior to 1 April 2001 was written off/credited to reserves in the year of acquisition. The Group has adopted the transitional provisions in SSAP 30 and such goodwill/negative goodwill has not been retrospectively disclosed as an asset in the balance sheet and amortised. However, any impairment arising on such goodwill is required to be accounted for in accordance with the newly issued SSAP 31 "Impairment of Assets". As a result of this change, in adjusting the prior year's figures, retained profits as at 1 April 2000 were restated and decreased by HK\$2,638,000 (the revaluation reserve and goodwill reserve increased by HK\$2,135,000 and HK\$503,000, respectively), representing the goodwill written off to the prior years' consolidated profit and loss account.

2. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities for the period by principal activities and principal markets is as follows:

	Turnover		Contribution to profit from operating activities	
	Six months ended 30 September		Six months ended 30 September	
	2001	2000	2001	2000
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
<i>Principal activities:</i>				
Trading and distribution of snack foods, confectionery, beverages and frozen food products	465,241	459,695	29,693	31,005
Manufacturing and selling of ham and ham related products, and snack foods	105,757	75,042	8,915	3,776
	<u>570,998</u>	<u>534,737</u>	<u>38,608</u>	<u>34,781</u>
<i>Principal markets:</i>				
The People's Republic of China:				
Hong Kong	461,094	434,076	37,274	36,661
Elsewhere	109,904	100,661	1,334	(1,880)
	<u>570,998</u>	<u>534,737</u>	<u>38,608</u>	<u>34,781</u>

3. OTHER REVENUE

An analysis of other revenue is as follows:

	Six months ended 30 September	
	2001	2000
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interest income	2,096	1,333
Dividend income from listed investments	598	1,651
Rental income	180	232
Commission income	—	290
Others	1,035	2,348
	<u>3,909</u>	<u>5,854</u>

4. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived after charging:

	Six months ended 30 September	
	2001	2000
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Depreciation	<u>8,575</u>	<u>8,028</u>

5. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group or its associates operate, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 September	
	2001	2000
	Unaudited HK\$'000	Unaudited HK\$'000
Group:		
Hong Kong	5,619	4,940
Overseas	<u>147</u>	<u>206</u>
	5,766	5,146
Associates:		
Hong Kong	<u>811</u>	<u>1,111</u>
Tax charge for the period	<u><u>6,577</u></u>	<u><u>6,257</u></u>

6. DIVIDENDS

	Six months ended 30 September	
	2001	2000
	Unaudited HK\$'000	Unaudited HK\$'000
Interim dividend of HK2.0 cents per ordinary share (2000: HK1.6 cents)	7,991	6,393
Dividend in specie of shares of interest in Four Seas eFood Holdings Limited ("FSFH")	<u>—</u>	<u>112,280</u>
	<u><u>7,991</u></u>	<u><u>118,673</u></u>

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the period of HK\$33,670,000 (2000: HK\$27,918,000) and the weighted average number of 399,565,640 (2000: 371,608,667) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 September 2001 and 30 September 2000 have not been calculated because no diluting events existed during the periods.

8. FIXED ASSETS

The Group acquired fixed assets amounting to HK\$17,484,000 through the acquisition of a subsidiary in the current period.

9. TRADE RECEIVABLES

The Group grants credit periods ranging from 30 days to 120 days to its trade customers. Details of the aging analysis of trade receivables are as follows:

	30 September 2001 Unaudited HK\$'000	31 March 2001 Audited HK\$'000
Current-1 month	92,784	69,308
1-2 months	62,800	48,798
2-3 months	49,401	54,630
Over 3 months	63,352	105,068
	<u>268,337</u>	<u>277,804</u>

10. TRADE PAYABLES AND ACCRUED LIABILITIES

Included in the trade payables and accrued liabilities is a trade payables balance of HK\$33,670,000 (31 March 2001: HK\$49,571,000). Details of the aging analysis of trade payables are as follows:

	30 September 2001 Unaudited HK\$'000	31 March 2001 Audited HK\$'000
Current-1 month	29,196	37,051
1-2 months	3,317	9,362
2-3 months	689	1,839
Over 3 months	468	1,319
	<u>33,670</u>	<u>49,571</u>

11. RESERVES

	Share premium account Unaudited HK\$'000	Goodwill reserve Unaudited HK\$'000	Revaluation reserve Unaudited HK\$'000	Long Term investment revaluation reserve Unaudited HK\$'000	Exchange fluctuation reserve Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Total Unaudited HK\$'000
At 31 March 2001							
As previously reported	240,190	(138,659)	28,239	(3,969)	1,188	256,015	383,004
Prior year adjustment (Note 1)	—	503	2,135	—	—	(2,638)	—
	<u>240,190</u>	<u>(138,156)</u>	<u>30,374</u>	<u>(3,969)</u>	<u>1,188</u>	<u>253,377</u>	<u>383,004</u>
As restated							
Movement in fair value	—	—	—	(2,919)	—	—	(2,919)
Exchange realignments	—	—	—	—	3	—	3
Net profit for the period	—	—	—	—	—	33,670	33,670
Dividends	—	—	—	—	—	(7,991)	(7,991)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(7,991)</u>	<u>(7,991)</u>
At 30 September 2001	<u>240,190</u>	<u>(138,156)</u>	<u>30,374</u>	<u>(6,888)</u>	<u>1,191</u>	<u>279,056</u>	<u>405,767</u>

12. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with its associates during the period.

	Six months ended 30 September	
	2001	2000
	Unaudited HK\$'000	Unaudited HK\$'000
Purchases from associates	124,398	125,081
Sales to associates	<u>7,855</u>	<u>6,074</u>

The cost of purchases from associates is determined by reference to the prevailing market prices. The selling prices of sales to associates are determined by reference to prices and conditions similar to those offered to other customers.

13. CONTINGENT LIABILITIES

	30 September 2001 Unaudited HK\$'000	31 March 2001 Audited HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	1,830	3,533
Guarantees given to banks in connection with facilities granted to associates	<u>26,870</u>	<u>28,270</u>
	<u><u>28,700</u></u>	<u><u>31,803</u></u>

14. ACQUISITION OF SUBSIDIARIES

During the period, the Group acquired a 51% equity interest in Li Fook (Qingdao) Foods Co., Ltd. in Mainland China at a consideration of HK\$7,961,000.

The following summarises the effect of the acquisition:

	Unaudited HK\$'000
Net assets acquired	8,966
Negative goodwill arising on acquisition	<u>(1,005)</u>
	<u><u>7,961</u></u>
Satisfied by:	
Cash consideration	<u><u>7,961</u></u>
Net cash outflow arising on acquisition:	
Cash consideration	(7,961)
Cash and bank balances acquired	<u>7</u>
	<u><u>(7,954)</u></u>

The results of the subsidiary acquired during the period are immaterial to the Group.

15. APPROVAL OF THE INTERIM ACCOUNTS

These Interim Accounts were approved by the Board of Directors on 18 December 2001.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.0 cents (2000: HK1.6 cents) per share for the period ended 30 September 2001, payable to shareholders whose names appear in the register of members of the Company on Monday, 4 February 2002. The dividend will be payable on Friday, 8 February 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 29 January 2002 to Monday, 4 February 2002 (both days inclusive) during which period no transfers of shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrars in Hong Kong, Tengis Limited, at 4/E, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Monday, 28 January 2002.

BUSINESS REVIEW AND PROSPECTS

On behalf of the board, I am pleased to announce that the Group's turnover for the period ended 30 September 2001 amounted to HK\$570,998,000 (2000: HK\$534,737,000) and the net profit from ordinary activities attributable to shareholders amounted to HK\$33,670,000 (2000: 27,918,000), an increase of 21% compared with the corresponding period in the last financial period.

Despite the continued weakness of the economy of Hong Kong, as shown by persistently increasing unemployment rate and weak consumer spending sentiment during the period, the Group achieved satisfactory results both in terms of turnover and profits. This was largely attributable to the Group's indepth knowledge and wide experience in the food products market earned over the past thirty years, the market leader position of the Group in the food industry and the well-known brand names carried by the Group.

Regarding the Group's manufacturing plants in Mainland China, turnover during the period continued to increase and their products enjoyed increasing popularity. This was attributable to the devoted support in the marketing and promotional activities from the Group for the past several years. The increased turnover of these manufacturing plants, coupled with the improvements in the operational efficiency and productivity of these plants, enhanced the profits of the Group during the period.

Among the business segments of the Group, food distribution remained its core business. The performance of food distribution was satisfactory during the period. The Group currently distributes more than four thousand kinds of superior quality food products comprising mainly of very famous brand names sourced from a variety of international food suppliers. All these products are well-received by the customers and maintain a leading position in the market. In addition, the Group has built up an effective channel through our snack food specialty chain stores, "Okashi Land", for the introduction of new and trendy Japanese snack food products to the market. This was well-received by our customers.

Through the Group's dedicated support in management and financial resources to the development of its twelve manufacturing plants in Mainland China, these manufacturing plants operated smoothly and efficiently and began to contribute profits to the Group. Among these manufacturing plants, sales of "Four Seas Seaweed", which is produced by Nico Four Seas (Shantou) Company Limited, continued to increase. "Four Seas Milk Candy", produced by Kanro Four Seas Foods (Shantou) Company Limited, has earned a good reputation in Mainland China and Hong Kong, resulting in strong demand in the market. "Four Seas Seaweed Corn Crisp", produced by Tohato Four Seas Confectionery (Shenzhen) Company Limited, also sold well during the period. The sales of other items, such as "Meiji Ice-cream" products produced by Guangdong M&F-Yantang Dairy Products Company Limited and "Pokka Four Seas" drinks produced by Pokka Four Seas (Suzhou) Food Company Limited were also encouraging.

During the period, the Group acquired a 51% equity interest in a food manufacturing plant located in Qingdao, which specialises in producing high quality instant noodles. Presently, this factory produces "Four Seas" brand instant noodles. Taking into account this Qingdao factory, the Group boasts investments in thirteen manufacturing plants in Mainland China.

The products of Potato Chips, Grilled Corn Sticks, Prawn Crackers and a series of Calbee food products produced by the Group's joint venture factory in Tseung Kwan O with Calbee Foods Co., Ltd, the largest snack manufacturer in Japan, have always

been a market leader achieving very high level of appreciation in the market. These products continued to generate an encouraging return for the Group.

The ham factories located in Tuen Mun and Shenzhen mainly produce high quality “Maid” brand ham and sausage products. The demand for “Maid” brand ham and sausage products is very strong in both Mainland China and Hong Kong and are well-received by the customers. Benefited from the Group’s extensive experience in marketing and promotion in food products, together with a successful TV advertising campaign, sales of “Maid” brand ham and sausage products increased steadily.

The Group continued to focus on developing the “Four Seas” brand. Apart from organising large scale marketing and promotional campaigns in Mainland China and Hong Kong, the Group devoted significant resources to expand the variety of products under the “Four Seas” brand. During the period, the Group acquired an instant noodle manufacturing plant, namely, Li Fook (Qingdao) Foods Co., Ltd. in Qingdao and developed a series of “Four Seas” brand instant noodles including “Four Seas Superior Soup Instant Noodle” and “Four Seas Superior Soup Rice Noodle”. These products have recently been launched on the market and the response is encouraging. With the high reputation, the market awareness of “Four Seas” brand and the extensive marketing and promotional activities and TV advertisements, Four Seas Instant Noodle is well positioned to become another successful product of the “Four Seas” brand after the successes in launching Four Seas Seaweed and Four Seas Seaweed Corn Crisp.

In addition, Pokka Café restaurant chain now has eighteen restaurants which are located in Mainland China, Hong Kong and Macau. Despite the weak economy and sluggish spending power, Pokka Café chain maintains its leading position, which is attributable to the establishment of an excellent reputation which has successfully gained the patronage of the young generation.

Looking forward, following the entry of China into the WTO, it is expected that Mainland China will continue to record strong economic growth with strong consumer spending. The food industry in Mainland China will stand to benefit substantially and have a prosperous future. The Group has established a long history and solid foundation in the food industry. It carries a portfolio of well-known brand names with more than four thousand kinds of products and has accumulated extensive knowledge and experience in marketing food products. With the thirteen well-established foods manufacturing plants producing superior quality products in Mainland China, the Group will aggressively develop the Mainland China market so as to enhance the

leading position. The Group produces and sells high quality products and at the same time, distributes the products in famous brand names which are internationally recognised. By capitalising the competitive edge in the market, the Group will continue to further explore the markets in both Mainland China and Hong Kong for further growth opportunities in order to maintain its leading position. The management is optimistic and have full confidence in the Group's future development.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2001 the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of Directors	Notes	Nature of interests	Number of shares
Tai Tak Fung, Stephen	<i>i</i>	Corporate	85,250,000
	<i>ii</i>	Other	80,000,000
	<i>iii</i>	Corporate & Other	102,944,000
Wu Mei Yung, Quinly	<i>i</i>	Corporate	85,250,000
	<i>ii</i>	Other	80,000,000
	<i>iii</i>	Corporate & Other	102,944,000
Yip Wai Keung		Personal	680,000

NOTES:

- (i) 85,250,000 shares were owned by Special Access Limited ("SAL"), a company wholly-owned by Dr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly.
- (ii) 80,000,000 shares were owned by Careful Guide Limited ("CGL") whose shares were owned by a discretionary trust, the eligible beneficiaries of which include members of the family of Dr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly.
- (iii) 102,944,000 shares were owned by Capital Season Investments Limited ("CSI"). CSI was wholly-owned by Advance Finance Investments Limited which was a wholly-owned subsidiary of Four Seas eFood Holdings Limited ("FSFH"). Accordingly, FSFH was deemed to be interested in 102,944,000 shares in the Company. SAL and CGL in aggregate held more than one-third of the issued share capital of FSFH. Accordingly, Dr. Tai Tak Fung, Stephen and his spouse Mdm. Wu Mei Yung, Quinly, through SAL and CGL, were deemed to be interested in 102,944,000 shares in the Company.

Other than certain non-beneficial personal equity interests held by Dr. Tai Tak Fung, Stephen and Mr. Yip Wai Keung for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements, and save as disclosed above, none of the directors or their respective associates had any interest in the equity of the Company or any of its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be kept under Section 29 of the SDI Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as at 30 September 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

On 4 August 1993, the Company approved a share option scheme (the "Scheme") under which the directors may, at their absolute discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. The Scheme will remain in force for a period of 10 years from 4 August 1993.

No options were granted under the Scheme up to 30 September 2001.

Apart from the foregoing, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2001, the interests of persons, other than the directors or the chief executive of the Company, of 10% or more of the share capital of the Company, as recorded in the register maintained by the Company pursuant to Section 16 of the SDI Ordinance, were as follows:

Name	Number of shares held	Notes
Special Access Limited ("SAL")	85,250,000	(a)
Careful Guide Limited ("CGL")	80,000,000	(b)
Capital Season Investments Limited ("CSI")	102,944,000	(c)
Advance Finance Investments Limited ("AFI")	102,944,000	(c)
Four Seas eFood Holdings Limited ("FSFH")	102,944,000	(c)

Notes:

- (a) Dr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly have beneficial interests in SAL. This interest is also included as corporate interests of Dr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly in "Directors' Interests in Shares".
- (b) CGL is owned by a discretionary trust, the eligible beneficiaries of which include members of the family of Dr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly. This interest is also included as other interests of Dr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly in "Directors' Interests in Shares".
- (c) CSI is wholly-owned by AFI which is a wholly-owned subsidiary of FSFH. Since SAL and CGL in aggregate hold more than one-third of the issued share capital of FSFH. Dr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly, through SAL and CGL, were deemed to be interested in the shares of the Company held by CSI. Accordingly, these interests were also included as corporate and other interests of Dr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly in "Directors' Interests in Shares".

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and facilities granted by its principal bankers. As at 30 September 2001, the Group had banking facilities of HK\$1,036,076,000 of which 20% had been utilised. The Group maintained a gearing ratio of 0.46 as at the balance sheet date. This is expressed as total bank borrowings to capital and reserves.

STAFF EMPLOYMENT

Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. The Group operates a mandatory provident fund scheme which covers all the employees of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the period under review.