

# Notes to Financial Statements

31 March 2004

## 1. CORPORATE INFORMATION

The registered office of the Company is situated at the offices of Caledonian Bank & Trust Limited, Caledonian House, 69 Dr. Roy's Drive, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands, British West Indies.

During the year, the Group's principal activities were the manufacturing and trading of snack foods, confectionery, beverages, frozen food products, noodles, ham and ham-related products.

## 2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The following revised SSAP and Interpretation are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : "Income Taxes"
- Interpretation 20 : "Income Taxes – Recovery of revalued non-depreciable assets"

The SSAP and Interpretation prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting the SSAP and Interpretation are summarised as follows:

SSAP 12 (Revised) principally prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

## 2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”) (continued)

### Measurement and recognition (continued):

- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of a subsidiary; and
- a deferred tax asset has been recognised for tax losses arising in the current/ prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

### Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 25 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 25 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

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## 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 certain leasehold land and buildings, investment property, currency-link deposits, long term investments and short term investments, as further explained below, which are stated at valuation or fair value.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### **Associates**

An associate is a company, not being a subsidiary, 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 associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the goodwill reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the goodwill reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the goodwill reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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.

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation

Fixed assets, other than investment property and construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period 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 an 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:

Medium term leasehold land	Over the lease terms
Buildings	2% – 10%
Leasehold improvements	20%
Furniture, fixtures and equipment	10% – 25%
Plant and machinery	10% – 20%
Motor vehicles and vessel	15% – 30%

Land use rights granted in Mainland China are amortised on the straight-line basis over the lease terms.

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 or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio 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.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

#### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.



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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Long term investments**

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis, as determined by the directors.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises.

### **Short term investments**

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

### **Currency-link deposits**

Currency-link deposits are stated at their fair values at the balance sheet date, on an individual basis. The gains or losses arising from changes in their fair values are credited or charged to the profit and loss account in the period in which they arise. The fair values of currency-link deposits are derived from pricing models which consider the current interest rates, time value, maturity and volatility factors of the currency-link deposits.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis or first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. In the case of work in progress and self-produced finished goods, cost 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.

#### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

#### **Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

# Notes to Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Income tax** (continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Income tax (continued)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### **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) from 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) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) dividend income, when the shareholders' right to receive payment has been established;
- (d) rental income, on the straight-line basis over the lease terms; and
- (e) commission income, in the period in which services are rendered.

#### **Employee benefits**

##### *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a yearly basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

# Notes to Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Employee benefits (continued)**

#### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

#### *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 8% to 22.5% of the payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Employee benefits (continued)**

##### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

#### **Foreign currencies**

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

# Notes to Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Summary details of the geographical segments are as follows:

- the Hong Kong segment is engaged in the manufacturing and trading of snack foods, confectionery, beverages, frozen food products, ham and ham-related products and the retailing of snack foods, confectionery and beverages; and
- the Mainland China segment is engaged in the manufacturing and trading of snack foods, confectionery, beverages, frozen food products, and ham and ham-related products.

In determining the Group's business segments, revenue and results are attributed to the segments based on the nature of their operations.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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## 4. SEGMENT INFORMATION (continued)

### (a) Geographical segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's geographical segments.

#### Group

	Hong Kong		Mainland China		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)		(Restated)				(Restated)	
Segment revenue:								
Sales to external customers	980,660	892,741	408,683	356,898	-	-	1,389,343	1,249,639
Intersegment sales	2,340	741	53,313	44,769	(55,653)	(45,510)	-	-
Other revenue	16,972	2,704	144	79	(616)	(845)	16,500	1,938
Total revenue	999,972	896,186	462,140	401,746	(56,269)	(46,355)	1,405,843	1,251,577
Segment results	58,196	54,204	507	7,776	-	-	58,703	61,980
Interest and dividend income and unallocated gains							16,343	14,370
Unallocated expenses							(3,729)	(3,263)
Profit from operating activities							71,317	73,087
Finance costs							(6,393)	(5,033)
Share of profits and losses of associates	11,240	8,071	1,215	(534)	-	-	12,455	7,537
Profit before tax							77,379	75,591
Tax							(13,037)	(15,078)
Profit before minority interests							64,342	60,513
Minority interests							421	3,006
Net profit from ordinary activities attributable to shareholders							64,763	63,519



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## 4. SEGMENT INFORMATION (continued)

### (a) Geographical segments (continued)

Group	Hong Kong		Mainland China		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)		(Restated)		(Restated)	
Segment assets	522,453	435,772	252,593	230,333	775,046	666,105
Interests in associates	88,974	79,747	39,836	32,740	128,810	112,487
Unallocated assets					354,092	294,295
Total assets					<u>1,257,948</u>	<u>1,072,887</u>
Segment liabilities	96,364	80,157	58,024	42,066	154,388	122,223
Unallocated liabilities					503,563	384,840
Total liabilities					<u>657,951</u>	<u>507,063</u>
Other segment information:						
Capital expenditure	63,409	11,632	22,568	28,258	85,977	39,890
Depreciation	10,059	10,432	12,534	8,296	22,593	18,728
Amortisation of goodwill	278	116	249	154	527	270
Negative goodwill recognised as income during the year	<u>-</u>	<u>-</u>	<u>111</u>	<u>77</u>	<u>111</u>	<u>77</u>

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## 4. SEGMENT INFORMATION (continued)

### (b) Business segments

The following tables present revenue and certain asset and expenditure information for the Group's business segments.

#### Group

	Manufacturing and wholesaling		Retailing		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)		(Restated)		(Restated)		(Restated)	
Segment revenue:								
Sales to external customers	1,078,411	1,019,131	171,051	162,788	139,881	67,720	1,389,343	1,249,639
Other segment information:								
Segment assets	710,490	610,244	24,608	25,772	39,948	30,089	775,046	666,105
Capital expenditure	20,417	30,056	1,184	3,187	64,376	6,647	85,977	39,890

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## 5. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, net of discounts and returns.  
An analysis of turnover, other revenue and gains is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	<b>1,389,343</b>	1,249,639
<b>Other revenue</b>		
Interest income	<b>3,115</b>	10,820
Net income from currency-link deposits	<b>9,700</b>	–
Dividend income from listed investments	<b>692</b>	1,377
Management fee income	<b>461</b>	461
Rental income	<b>119</b>	206
Commission income	<b>–</b>	52
Negative goodwill recognised as income during the year	<b>111</b>	77
Others	<b>1,409</b>	1,142
	<b>15,607</b>	14,135
<b>Gains</b>		
Gain on disposal of long term investments	<b>2,209</b>	2,173
Gain on disposal of short term investments	<b>257</b>	–
Unrealised gain on short term investments	<b>370</b>	–
Net exchange gains on cash and cash equivalents and receivables	<b>14,400</b>	–
	<b>17,236</b>	2,173
	<b>1,422,186</b>	1,265,947

# Notes to Financial Statements

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## 6. PROFIT FROM OPERATING ACTIVITIES

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

		<b>Group</b>	
		<b>2004</b>	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)
Depreciation	14	22,593	18,728
Amortisation of goodwill for the year*	15	527	270
Negative goodwill recognised as income during the year**	15	(111)	(77)
Minimum lease payments under operating leases in respect of land and buildings		56,286	53,556
Auditors' remuneration		1,287	1,070
Staff costs (excluding directors' remuneration (note 8)):			
Wages and salaries		132,037	133,021
Pension scheme contributions		5,815	5,842
Less: Forfeited contributions		(3)	(20)
Net pension contributions***		5,812	5,822
		137,849	138,843
Loss on disposal of fixed assets		453	1,381
Net exchange losses (net of exchange gains disclosed in note 5 above)		21,323	19,078

\* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

\*\* The movements in negative goodwill recognised in the consolidated profit and loss account for the year are included in "Other revenue and gains" on the face of the consolidated profit and loss account.

\*\*\* At 31 March 2004, the Group had forfeited contributions amounting to HK\$1,000 (2003: HK\$3,000) available to reduce its contributions to the pension scheme in future years.

# Notes to Financial Statements

31 March 2004

## 7. FINANCE COSTS

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank and trust receipt loans wholly repayable within five years	<b>6,393</b>	<b>5,033</b>

## 8. DIRECTORS' REMUNERATION

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

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	<b>1,709</b>	1,705
Pension scheme contributions	<b>148</b>	136
	<b>1,857</b>	1,841
	<b>1,857</b>	<b>1,841</b>

There were no fees or other emoluments payable to the independent non-executive directors during the year (2003: Nil).

# Notes to Financial Statements

31 March 2004

## 8. DIRECTORS' REMUNERATION (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	7	8
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>8</u>	<u>9</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options (2003: 2,400,000) were granted to the directors in respect of their services to the Group, further details of which are set out in note 27 to the financial statements. No value in respect of the share options granted last year was charged to the prior year's profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2003: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2003: four) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,326	3,213
Pension scheme contributions	200	186
	<u>3,526</u>	<u>3,399</u>

# Notes to Financial Statements

31 March 2004

## 9. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>4</u>	<u>4</u>

During the year, no share options (2003: 800,000) were granted to the four non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. No value in respect of the share options granted last year was charged to the prior year's profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

# Notes to Financial Statements

31 March 2004

## 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16.0%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		(Restated)
Group:		
Current – Hong Kong		
Provision for the year	<b>9,886</b>	11,454
Under/(over)provision in prior years	<b>(1,646)</b>	242
Current – Overseas	<b>369</b>	715
Deferred tax charge, net (note 25)	<b>1,404</b>	295
	<b>10,013</b>	12,706
Share of tax attributable to associates:		
Hong Kong	<b>2,887</b>	2,372
Overseas	<b>137</b>	–
	<b>3,024</b>	2,372
Total tax charge for the year	<b>13,037</b>	15,078



# Notes to Financial Statements

31 March 2004

## 10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

### Group

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before tax	<u>77,379</u>		<u>75,591</u>	
Tax at Hong Kong profits tax rate of 17.5% (2003:16.0%)	13,541	17.5	12,095	16.0
Effect of different rates for companies operating in other jurisdictions*	(331)	(0.4)	(623)	(0.8)
Effect on opening deferred tax of increase in rates	–	–	(352)	(0.5)
Under/(over)provision in prior years	(1,646)	(2.1)	242	0.3
Income not subject to tax	(5,230)	(6.8)	(2,594)	(3.4)
Expenses not deductible for tax	1,411	1.8	583	0.8
Tax losses utilised from previous periods	(814)	(1.1)	(394)	(0.5)
Deferred tax assets not recognised	4,210	5.4	4,046	5.3
Others	<u>1,896</u>	<u>2.5</u>	<u>2,075</u>	<u>2.7</u>
Tax charge at the Group's effective rate	<u>13,037</u>	<u>16.8</u>	<u>15,078</u>	<u>19.9</u>

# Notes to Financial Statements

31 March 2004

## 10. TAX (continued)

\* Under the People's Republic of China (the "PRC") income tax laws, enterprises are subject to corporate income tax ("CIT") at the rate of 33%. However, certain of the Group's subsidiaries are operating in specific development zones in Mainland China, and the relevant authorities have granted these subsidiaries preferential rates ranging from 18% to 27%.

In addition to preferential CIT rates granted to certain of the Group's subsidiaries in Mainland China, tax holidays were also granted by the relevant authorities to these subsidiaries, whereby CIT is exempted for the first two profitable years of the subsidiaries and is chargeable at half of the applicable rate for the next subsequent three years.

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company is HK\$24,974,000 (2003: HK\$24,818,000) (note 28(b)).

## 12. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend of HK2.0 cents (2003: HK2.0 cents) per ordinary share	7,991	7,991
Proposed final dividend of HK4.6 cents (2003: HK4.6 cents) per ordinary share	18,380	18,380
	<b>26,371</b>	<b>26,371</b>

The proposed final dividend for the year is calculated by reference to the number of shares in issue at the date of this report.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

# Notes to Financial Statements

31 March 2004

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders for the year of HK\$64,763,000 (2003: HK\$63,519,000 (restated)), and on the 399,565,640 (2003: 399,565,640) ordinary shares in issue during the year.

A diluted earnings per share amount for the year ended 31 March 2004 has not been disclosed as the options outstanding during the year had an anti-dilutive effect on the basic earnings per share for the year.

The calculation of diluted earnings per share for the year ended 31 March 2003 was based on the Group's net profit attributable to shareholders for the year of HK\$63,519,000 (restated). The number of ordinary shares used in the calculation was the 399,565,640 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 1,789 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that year.

# Notes to Financial Statements

31 March 2004

## 14. FIXED ASSETS

### Group

	Investment property HK\$'000	Land use rights HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles and vessel HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	–	20,808	141,461	19,834	44,295	83,743	23,923	18,264	352,328
Additions	–	–	53,029	10,224	5,241	2,308	1,551	13,624	85,977
Disposals	–	–	–	(916)	(818)	(976)	(325)	–	(3,035)
Transfers	10,646	(416)	21,651	(38)	–	–	–	(31,888)	(45)
Revaluation surplus	186	–	–	–	–	–	–	–	186
At 31 March 2004	10,832	20,392	216,141	29,104	48,718	85,075	25,149	–	435,411
Analysis of cost or valuation:									
At cost	–	20,392	131,141	29,104	48,718	85,075	25,149	–	339,579
At 31 March 1994 valuation	–	–	85,000	–	–	–	–	–	85,000
At 31 March 2004 valuation	10,832	–	–	–	–	–	–	–	10,832
	10,832	20,392	216,141	29,104	48,718	85,075	25,149	–	435,411
Accumulated depreciation:									
At beginning of year	–	1,538	21,569	9,654	33,927	29,911	18,821	–	115,420
Provided during the year	–	593	4,833	4,474	4,066	7,104	1,523	–	22,593
Disposals	–	–	–	(913)	(537)	(796)	(288)	–	(2,534)
Transfers	–	(45)	–	–	–	–	–	–	(45)
At 31 March 2004	–	2,086	26,402	13,215	37,456	36,219	20,056	–	135,434
Net book value:									
At 31 March 2004	10,832	18,306	189,739	15,889	11,262	48,856	5,093	–	299,977
At 31 March 2003	–	19,270	119,892	10,180	10,368	53,832	5,102	18,264	236,908

The Group's land and buildings included above are held under medium term leases and are situated in:

	At cost HK\$'000	At valuation HK\$'000	Total HK\$'000
Hong Kong	69,586	85,000	154,586
Mainland China	61,555	–	61,555
	131,141	85,000	216,141

# Notes to Financial Statements

31 March 2004

## 14. FIXED ASSETS (continued)

The land use rights relate to land situated in Mainland China and are held under medium term leases.

The Group's investment property is situated in Mainland China and is held under a medium term lease.

Certain of the Group's land and buildings, which are situated in Hong Kong, were revalued on 15 July 1993 by C.Y. Leung & Company Limited, independent professionally qualified valuers. The land and buildings were revalued at open market value, based on their existing use. Since the year ended 31 March 1994, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions of SSAP 17, from the requirement to carry out future revaluations of its fixed assets which were stated at valuation at that time.

Had the whole class of land and buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$162,966,000 (2003: HK\$92,493,000).

The Group's investment properties were revalued on 31 March 2004 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at HK\$10,832,000 on an open market, existing use basis. The investment properties are leased to an associate of the Group under operating leases, further summary details of which are included in note 31(a) to the financial statements.

# Notes to Financial Statements

31 March 2004

## 15. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	<b>Group</b>	
	<b>Goodwill</b>	<b>Negative goodwill</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Restated)	
<hr/>		
Cost:		
At beginning of year	4,863	(2,225)
Acquisition of additional interests in subsidiaries	500	(189)
	<hr/>	<hr/>
At 31 March 2004	5,363	(2,414)
	<hr/>	<hr/>
Accumulated amortisation/(recognition as income):		
At beginning of year	270	(127)
Amortisation provided/(recognised as income)		
during the year	527	(111)
	<hr/>	<hr/>
At 31 March 2004	797	(238)
	<hr/>	<hr/>
Net book value:		
At 31 March 2004	4,566	(2,176)
	<hr/>	<hr/>
At 31 March 2003	4,593	(2,098)
	<hr/>	<hr/>

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP to remain eliminated against or credited to consolidated reserves.

# Notes to Financial Statements

31 March 2004

## 15. GOODWILL AND NEGATIVE GOODWILL (continued)

The amounts of goodwill and negative goodwill remaining in consolidated reserves as at 31 March 2004, arising from the acquisition of subsidiaries and associates prior to 1 April 2001, are as follows:

	<b>Goodwill eliminated against revaluation reserve HK\$'000 (Restated)</b>	<b>Group Goodwill debited to goodwill reserve HK\$'000 (Restated)</b>	<b>Negative goodwill credited to goodwill reserve HK\$'000</b>
Cost:			
At beginning of year and end of year	3,248	137,798	(4,577)
Accumulated impairment:			
At beginning of year and end of year	(2,135)	(503)	–
Net amount:			
At 31 March 2004 and 2003	<u>1,113</u>	<u>137,295</u>	<u>(4,577)</u>

## 16. INVESTMENTS IN SUBSIDIARIES

	<b>Company 2004 HK\$'000</b>	<b>2003 HK\$'000</b>
Unlisted shares, at cost	<u>53,819</u>	<u>53,819</u>

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

# Notes to Financial Statements

31 March 2004

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and fully paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Abundant Capital Inc.	British Virgin Islands	US\$100	–	51.0	Investment holding
Cowboy Food Company Limited	Hong Kong	HK\$6,000,000	–	85.0	Manufacturing of peanut products
Crowne Profits Limited	British Virgin Islands	US\$1	–	100.0	Investment holding
E-Options Technology Limited	British Virgin Islands	US\$1	–	100.0	Property holding
Fancy Talent Limited*	Hong Kong	HK\$100,000,000	–	100.0	Marketing of snack foods
Four Seas Enterprises (BVI) Limited	British Virgin Islands	US\$20,000	100.0	–	Investment holding
Four Seas China Holdings Limited	British Virgin Islands	US\$1	–	100.0	Investment holding
Four Seas Mercantile Limited	Hong Kong	(i) Ordinary HK\$200 (ii) Non-voting deferred HK\$20,000,000	–	100.0	Trading in snack foods, confectionery and beverages



# Notes to Financial Statements

31 March 2004

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and fully paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Four Seas Property Holdings Limited	Hong Kong	HK\$20	–	100.0	Investment holding
Four Seas Yamauchi Company Limited	Hong Kong	HK\$7,000,000	–	100.0	Investment holding
Four Seas Confectionery (Shantou) Company Limited*^	Mainland China	HK\$11,320,000	–	100.0	Manufacturing of cakes
Four Seas CB Company Limited	Hong Kong	HK\$2,500,000	–	100.0	Investment holding
Four Seas Central Bussan Foods (Shenzhen) Company Limited*^	Mainland China	HK\$1,000,000	–	100.0	Manufacturing of jelly drink
Four Seas (Shantou) Foods Industrial Park Management Company Limited*^	Mainland China	HK\$30,500,000	–	100.0	Property holding
Four Seas Foods (Shantou) Company Limited*^	Mainland China	HK\$27,000,000	–	100.0	Trading of confectionery and food products
Four Seas Logistics Company Limited	Hong Kong	HK\$200,000	–	100.0	Provision of transportation services

# Notes to Financial Statements

31 March 2004

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and fully paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Four Seas Trading (Shanghai) Company Limited*^	Mainland China	US\$200,000	–	100.0	Trading of confectionery and food products
Four Seas Catering Enterprises Company Limited	Hong Kong	HK\$10,000	–	100.0	Investment holding
Guangdong Fourseas Frozen Food Products Company Limited*^	Mainland China	RMB6,300,000	–	100.0	Operator of ice-cream and frozen food products
Hakadate Investments Limited	British Virgin Islands	US\$1	–	100.0	Investment holding
Hong Kong Ham Holdings Limited	Hong Kong	HK\$20	–	100.0	Manufacturing and packaging of ham and ham-related products
Hong Kong Biscuit (International) Limited*	Hong Kong	HK\$25,000,000	–	88.0	Investment holding
Homeright Properties Limited	British Virgin Islands	US\$1	–	100.0	Holding of trademarks

# Notes to Financial Statements

31 March 2004

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and fully paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
J.P. Inglis Company Limited	Hong Kong	HK\$1,000,000	–	100.0	Trading in food materials
KTC Corporation*	Japan	JPY10,000,000	–	100.0	Trading of cakes
Kanro Four Seas Foods Company Limited	Hong Kong	HK\$46,500,000	–	81.0	Investment holding
Kanro Four Seas Foods (Shantou) Company Limited*^	Mainland China	HK\$46,203,380	–	81.0	Manufacturing of candy
Kwong Cheung Development Limited	British Virgin Islands	US\$1	–	100.0	Investment holding
Kung Tak Lam Shanghai Vegetarian Cuisine Limited	Hong Kong	HK\$3,660,000	–	99.0	Operator of restaurants
Li Fook (Qingdao) Foods Co. Ltd.*^	Mainland China	US\$2,800,000	–	100.0	Manufacturing of noodles
Matchless Bakery Company Limited	British Virgin Island	HK\$20,000,000	–	100.0	Investment holding
More Ways Industrial Limited	Hong Kong	HK\$10,000	–	**34.0	Investment holding
Papochou Holdings Limited	British Virgin Islands	HK\$15,000,000	–	100.0	Investment holding

# Notes to Financial Statements

31 March 2004

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and fully paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Matchless Food Company Limited*^	Mainland China	RMB5,500,000	–	100.0	Operator of bakery shops and a factory
Shenzhen Yaohan Zhonghao Food Co., Limited*^	Mainland China	RMB32,100,000	–	60.0	Manufacturing and packaging of ham and ham-related products
Sushi Pro Limited	Hong Kong	HK\$6,500,000	–	#50.0	Investment holding
Shousihuang Restaurant (Shenzhen) Company Limited*^	Mainland China	HK\$4,500,000	–	#50.0	Operator of restaurants
Tohato Four Seas Company Limited	Hong Kong	HK\$7,000,000	–	80.0	Investment holding
Tohato Four Seas Confectionery (Shenzhen) Company Limited*^	Mainland China	HK\$7,000,000	–	80.0	Manufacturing of snack foods
Tsun Fat (Huizhou) Biscuit Factory Limited*^	Mainland China	HK\$13,000,000	–	88.0	Manufacturing of biscuits
T & M Advertising Company Limited	Hong Kong	HK\$20	–	100.0	Advertising agent

# Notes to Financial Statements

31 March 2004

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and fully paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Wide Success Holdings Limited	Hong Kong	HK\$10,000	–	100.0	Operator of a restaurant
Xing Hing Duo Wei Industrial Company Limited*^	Mainland China	RMB8,560,000	–	**34.0	Operator of poultry business
Yaohan (Yanwin) Food Co., Limited	Hong Kong	HK\$10,000	–	100.0	Investment holding

\* Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.

\*\* These subsidiaries are indirectly held by the Group and the Group has control over them.

^ Registered as wholly-foreign owned enterprise under the PRC law.

# The Group has a casting vote in these subsidiaries and accordingly the Group has control over them.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# Notes to Financial Statements

31 March 2004

## 17. INTERESTS IN ASSOCIATES

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net assets	<b>128,810</b>	<b>112,487</b>

The amounts due from the associates included in the Group's current assets are unsecured, interest-free and have no fixed terms of repayment.

The Group's trade receivable and payable balances with the associates are disclosed in note 20 and 23 to the financial statements, respectively.

Particulars of the associates are as follows:

<b>Name</b>	<b>Business structure</b>	<b>Place of incorporation/ registration and operations</b>	<b>Percentage of equity attributable to the Group</b>	<b>Principal activities</b>
Calbee Four Seas Company Limited	Corporate	Hong Kong	50.0	Manufacturing of snack foods
Calbee Four Seas (Shantou) Company Limited (i)	Corporate	Mainland China	50.0	Manufacturing of snack foods
Cadbury Four Seas Company Limited (i)(iii)	Corporate	Hong Kong	30.0	Trading in confectionery
Four Seas & Jintan Co., Limited	Corporate	Hong Kong	50.0	Marketing of health foods
Guangzhou Meiji Confectionery Company Limited (i)(iii)	Corporate	Mainland China	(ii)17.5	Manufacturing of snack foods and confectionery

# Notes to Financial Statements

31 March 2004

## 17. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Guangdong M&F-Yantang Dairy Products Company Limited (i)(iii)	Corporate	Mainland China	21.0	Manufacturing of ice-cream and dairy products
Meiji-Four Seas Company Limited (iii)	Corporate	Hong Kong	25.0	Investment holding
MFD Holding Company Limited (i)	Corporate	Hong Kong	30.0	Investment holding
Nico-Nico Four Seas Company Limited (iii)	Corporate	Hong Kong	35.0	Investment holding
Nico Four Seas (Shantou) Company Limited (i)(iii)	Corporate	Mainland China	35.0	Manufacturing of seaweed products
Pokka Four Seas (Suzhou) Food Company Limited (iii)	Corporate	Mainland China	30.0	Manufacturing of canned beverages
Pokka Coffee (Macau) Limited (iv)	Corporate	Macau	49.0	Operator of a coffee shop and restaurant
Pokka Corporation (HK) Limited (iv)	Corporate	Hong Kong	49.0	Operator of coffee shops and restaurants
Shantou Pokka Coffee Limited (i)(iv)	Corporate	Mainland China	49.0	Operator of a coffee shop, restaurant and bakery shop

# Notes to Financial Statements

31 March 2004

## 17. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Want Want Four Seas Company Limited (i)(iii)	Corporate	Hong Kong	30.0	Trading of snack foods

- (i) Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firm.
- (ii) This associate is indirectly held by the Group and the Group has significant influence over it.
- (iii) The year end date of these associates is not coterminous with that of the Group and is 31 December.
- (iv) The year end date of these associates is not coterminous with that of the Group and is 31 January.

## 18. LONG TERM INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity investments, at market value:				
Hong Kong	11,990	20,898	259	98
Elsewhere	552	265	—	—
	<b>12,542</b>	<b>21,163</b>	<b>259</b>	<b>98</b>
Unlisted equity investments, at fair value				
	356	356	—	—
	<b>12,898</b>	<b>21,519</b>	<b>259</b>	<b>98</b>



# Notes to Financial Statements

31 March 2004

## 19. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	17,285	16,308
Work in progress	3,076	2,127
Finished goods	67,469	65,335
	<u>87,830</u>	<u>83,770</u>

## 20. TRADE RECEIVABLES

The Group grants credit periods ranging from 30 days to 120 days to its trade customers. An aged analysis of trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current	112,164	87,356
1 to 2 months	58,654	43,286
2 to 3 months	49,206	61,383
Over 3 months	96,885	86,093
	<u>316,909</u>	<u>278,118</u>

Included in trade receivables is an aggregate amount due from the Group's associates of HK\$1,237,000 (2003: Nil), which is repayable on similar credit terms to those offered to the major customers of the Group.

# Notes to Financial Statements

31 March 2004

## 21. SHORT TERM INVESTMENTS

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Listed equity investments, at market value:		
Hong Kong	<b>3,632</b>	<b>–</b>

## 22. CASH AND CASH EQUIVALENTS

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Cash and bank balances	<b>70,119</b>	61,021	<b>325</b>	327
Time deposits	<b>276,832</b>	222,719	<b>–</b>	–
Cash and cash equivalents	<b>346,951</b>	283,740	<b>325</b>	327

## 23. TRADE PAYABLES AND ACCRUED LIABILITIES

Included in the trade payables and accrued liabilities is a trade payables balance of HK\$100,422,000 (2003: HK\$74,406,000). An aged analysis of trade payables as at the balance sheet date, based on invoice date, is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current	<b>69,384</b>	47,043
1 to 2 months	<b>12,828</b>	13,439
2 to 3 months	<b>5,973</b>	5,859
Over 3 months	<b>12,237</b>	8,065
	<b>100,422</b>	<b>74,406</b>

Included in trade payables are trade payables of HK\$39,855,000 (2003: HK\$26,936,000) due to associates, which are repayable on similar credit terms to those offered by the associates to their major customers.

# Notes to Financial Statements

31 March 2004

## 24. INTEREST-BEARING BANK BORROWINGS

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trust receipt loans	<b>155,122</b>	64,705
Bank loans	<b>337,110</b>	311,819
	<b>492,232</b>	376,524
Repayable:		
Within one year	<b>458,616</b>	311,923
In the second year	<b>33,616</b>	32,000
In the third to fifth years, inclusive	<b>–</b>	32,601
	<b>492,232</b>	376,524
Portion classified as current liabilities	<b>(458,616)</b>	(311,923)
Long term portion	<b>33,616</b>	64,601

# Notes to Financial Statements

31 March 2004

## 25. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

#### Group – 2004

	Accelerated tax depreciation <i>HK\$'000</i>	Fair value adjustment arising from acquisition of subsidiaries <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003				
As previously reported	566	–	–	566
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	–	1,304	4,795	6,099
As restated	566	1,304	4,795	6,665
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	56	977	(110)	923
Net deferred tax liabilities At 31 March 2004	622	2,281	4,685	7,588

# Notes to Financial Statements

31 March 2004

## 25. DEFERRED TAX (continued)

### Deferred tax assets

#### Group – 2004

	Decelerated tax depreciation <i>HK\$'000</i>	Losses available for offset tax against future taxable profit <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003				
As previously reported	–	–	–	–
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	57	5,340	748	6,145
	57	5,340	748	6,145
Deferred tax credited/(charged) to the profit and loss account during the year (note 10)	92	(676)	103	(481)
Net deferred tax assets at 31 March 2004	149	4,664	851	5,664

# Notes to Financial Statements

31 March 2004

## 25. DEFERRED TAX (continued)

### Deferred tax liabilities

#### Group – 2003

	Accelerated tax depreciation <i>HK\$'000</i>	Fair value adjustment arising from acquisition of subsidiaries <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002				
As previously reported	1,360	–	–	1,360
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	(1,476)	1,691	4,484	4,699
As restated	(116)	1,691	4,484	6,059
Deferred tax charged to equity arising on change in tax rate	–	–	411	411
Deferred tax charged/(credited) to the profit and loss account during the year, including a charge of HK\$148,000 due to the effect of a change in tax rate (note 10)	682	(387)	(100)	195
Net deferred tax liabilities				
At 31 March 2003	566	1,304	4,795	6,665

# Notes to Financial Statements

31 March 2004

## 25. DEFERRED TAX (continued)

### Deferred tax assets

#### Group – 2003

	Decelerated tax depreciation <i>HK\$'000</i>	Losses available for offset against future taxable profit <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002				
As previously reported	–	–	–	–
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	–	4,784	558	5,342
As restated	–	4,784	558	5,342
Acquisition of subsidiaries	–	903	–	903
Deferred tax credited/(charged) to the profit and loss account during the year, including a credit of HK\$500,000 due to the effect of a change in tax rate (note 10)	57	(347)	190	(100)
Net deferred tax assets at 31 March 2003	57	5,340	748	6,145

## 25. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of HK\$30,581,000 (2003: HK\$24,761,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK\$34,036,000 (2003: HK\$37,235,000) that can be used to offset against future taxable profits of the companies in which the losses arose for a maximum of five years. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time or may not have sufficient future profit to utilise the tax losses.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 March 2004 and 2003 by HK\$6,966,000 and HK\$6,099,000, respectively and an increase in deferred tax assets by HK\$5,664,000 and HK\$6,145,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 March 2004 and 2003 have been decreased by HK\$1,257,000 and HK\$1,050,000, respectively, the consolidated retained profits at 1 April 2003 and 2002 have been reduced by HK\$370,000 and increased by HK\$680,000, respectively, the revaluation reserve at 1 April 2003 and 2002 have been reduced by HK\$5,886,000 and HK\$5,475,000, respectively, and the goodwill reserve (debit balance) has been reduced by HK\$5,438,000 at 1 April 2003 and 2002, as detailed in the consolidated statement of changes in equity.



# Notes to Financial Statements

31 March 2004

## 26. SHARE CAPITAL

### Shares

	2004 HK\$'000	2003 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<b>100,000</b>	100,000
Issued and fully paid:		
399,565,640 ordinary shares of HK\$0.10 each	<b>39,956</b>	39,956

### Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 27 to the financial statements.

## 27. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Company, and any executive directors or employees of any of the Company's subsidiaries and any entities in which the Group holds any equity interest.

The Scheme will be valid and effective for a period of 10 years up to 16 September 2012, after which no further share options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. Share options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to the end of the 10-year period shall continue to be exercisable in accordance with their terms of grant within the share option period for which such share options are granted, notwithstanding the expiry of the Scheme.

## 27. SHARE OPTION SCHEMES (continued)

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 39,956,564 ordinary shares, being 10% of the shares of the Company in issue on 2 September 2002. As at the date of this report, the total number of shares available for issue under the Scheme is 39,956,564 ordinary shares, representing 10% of the existing issued share capital of the Company. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company (excluding independent non-executive director who is a grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon receipt of the duplicate offer letter comprising acceptance of the offer duly signed by the grantee with the numbers of shares in respect of which the offer is accepted clearly stated therein, together with payment of a nominal consideration of HK\$1 by the grantee to the Company provided that no offer shall be open for acceptance after the expiry of the Scheme or after the Scheme has been terminated. The terms and conditions of the share options granted are determinable by the directors on a case by case basis. Such terms and conditions may include but are not limited to (i) the subscription price; (ii) the period within which the Company's shares must be taken up under the share option, which must not be more than 10 years from the offer date; (iii) the minimum period, if any, for which a share option must be held before it can be exercised; and (iv) the performance target, if any, that must be achieved before the share option can be exercised.

# Notes to Financial Statements

31 March 2004

## 27. SHARE OPTION SCHEMES (continued)

The exercise price of the share options is determinable by the directors in their absolute discretion at the time of the making of the offer which shall be stated in the letter containing the offer, but may not be lower than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Prior to the adoption of the above Scheme, the Company also operated an option scheme (the "Old Scheme"). The Old Scheme was approved on 4 August 1993 and was effective for 10 years from 4 August 1993. This Old Scheme was terminated early pursuant to an ordinary resolution of members passed on 2 September 2002. There were no share options granted under the Old Scheme in the prior years.

# Notes to Financial Statements

31 March 2004

## 27. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's
	At 1 April 2003	Granted during the year	Lapsed during the year	Cancelled during the year	At 31 March 2004				share at grant date of options***
									HK\$
									HK\$
Directors									
Tai Tak Fung, Stephen	300,000	-	-	-	300,000	11 February 2003	1 August 2003 to 31 January 2005	2.955	2.955
Wu Mei Yung, Quinly	300,000	-	-	-	300,000	11 February 2003	1 August 2003 to 31 January 2005	2.955	2.955
Yip Wai Keung	300,000	-	-	-	300,000	11 February 2003	1 August 2003 to 31 January 2005	2.955	2.955
Wu Wing Biu	300,000	-	-	-	300,000	11 February 2003	1 August 2003 to 31 January 2005	2.955	2.955
Man Wing Cheung, Ellis	300,000	-	-	-	300,000	11 February 2003	1 August 2003 to 31 January 2005	2.955	2.955
Tsunao Kijima	300,000	-	-	-	300,000	11 February 2003	1 August 2003 to 31 January 2005	2.955	2.955
Leung Mei Han	300,000	-	-	-	300,000	11 February 2003	1 August 2003 to 31 January 2005	2.955	2.955
Chan Yuk Sang, Peter	300,000	-	-	-	300,000	11 February 2003	1 August 2003 to 31 January 2005	2.955	2.955
	2,400,000	-	-	-	2,400,000				
Other employees									
Managerial level in aggregate	3,700,000	-	(600,000)	-	3,100,000	11 February 2003	1 August 2003 to 31 January 2005	2.955	2.955
	6,100,000	-	(600,000)	-	5,500,000				

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange average closing price for the five trading days immediately prior to the date of the grant of the options.

At the balance sheet date, the Company had 5,500,000 share options outstanding under the Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 5,500,000 additional ordinary shares of the Company and additional share capital of HK\$550,000 and share premium of HK\$15,702,500 (before issue expenses).

# Notes to Financial Statements

31 March 2004

## 28. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 33 and 34 of the financial statements.

Pursuant to the relevant laws and regulations for Foreign Investment Enterprises, a portion of the profits of the Group's subsidiaries and the Group's associates operating as Foreign Investment Enterprises in Mainland China has been transferred to reserve fund. The reserve fund is non-distributable in nature.

Included in the share premium account of the Group is an amount of HK\$19,900,000 which represents the difference between the nominal value of the share capital issued by the Company and the aggregate nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation in 1993.

Certain amounts of goodwill and negative goodwill arising on acquisition of subsidiaries and associates in prior years remain eliminated against and credited to the goodwill reserve and revaluation reserve as explained in note 15 to the financial statements.

# Notes to Financial Statements

31 March 2004

## 28. RESERVES (continued)

### (b) Company

		Share premium account HK\$'000	Long term investment valuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
	Notes				
At 1 April 2002		274,009	(27)	9,116	283,098
Net profit for the year		–	–	24,818	24,818
Movement in fair value		–	(9)	–	(9)
Interim 2003 dividend	12	–	–	(7,991)	(7,991)
Proposed final 2003 dividend	12	–	–	(18,380)	(18,380)
At 31 March 2003 and beginning of year		274,009	(36)	7,563	281,536
Net profit for the year		–	–	24,974	24,974
Movement in fair value		–	161	–	161
Interim 2004 dividend	12	–	–	(7,991)	(7,991)
Proposed final 2004 dividend	12	–	–	(18,380)	(18,380)
At 31 March 2004		274,009	125	6,166	280,300

Included in the share premium account of the Company is an amount of HK\$53,719,000 which represents the difference between the nominal value of the share capital issued by the Company and the combined net assets of the subsidiaries acquired pursuant to the group reorganisation in 1993. Under the Company Law (Revised) of the Cayman Islands, a distribution may be made from the share premium account in certain circumstances.

The difference between the share premium accounts of the Company and the Group represents the difference between the aggregate nominal values of the share capital of the subsidiaries and their combined net assets acquired, pursuant to the group reorganisation in 1993, as detailed above.

# Notes to Financial Statements

31 March 2004

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000 (Restated)
Net assets acquired:		
Fixed assets	—	51,352
Deferred tax assets	—	903
Due from group companies	—	6,672
Loan to a shareholder	—	5,500
Inventories	—	7,550
Prepayments, deposits and other receivables	—	3,109
Trade receivables	—	3,166
Cash and bank balances	—	6,134
Tax payable	—	(301)
Due to a group company	—	(72)
Trade payables and accrued liabilities	—	(15,492)
Bank loans	—	(12,911)
Bank overdrafts	—	(3,219)
	—	52,391
Minority interests	—	(12,601)
Loan to a shareholder acquired	—	(5,500)
Goodwill	—	3,714
Negative goodwill	—	(532)
	—	37,472
Satisfied by:		
Cash	—	21,548
Reclassification to interests in subsidiaries from interests in associates	—	15,924
	—	37,472

# Notes to Financial Statements

31 March 2004

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (a) Acquisition of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	–	(21,548)
Cash and bank balances acquired	–	6,134
Bank overdrafts acquired	–	(3,219)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(18,633)

The subsidiaries acquired in the prior year contributed HK\$78,031,000 to the Group's turnover and loss of HK\$5,477,000 to the consolidated profit after tax and before minority interest for the year ended 31 March 2003. In the case of the associate which was reclassified to a subsidiary, these turnover and profit after tax amounts exclude the former associate's contribution to the results prior to its becoming a subsidiary.

### (b) Major non-cash transaction

In the prior year, the Group acquired a further 50% equity interest in Matchless Bakery Company Limited and its subsidiaries (the "Matchless Group") at a total consideration of HK\$7,708,999. Such consideration was partly settled by taking over a loan owing to the Matchless Group amounting to HK\$5,500,000 from the vendor.



# Notes to Financial Statements

31 March 2004

## 30. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	2,307	2,026	–	–
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	–	–	1,180,450	1,143,450
Associates	22,911	22,488	22,911	22,488
Guarantees given to third parties in connection with lease payments for lease agreements entered into by a subsidiary	–	–	13,914	8,016
	<u>25,218</u>	<u>24,514</u>	<u>1,217,275</u>	<u>1,173,954</u>

As at 31 March 2004, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$485,544,000 (2003: HK\$370,772,000), and the bank facilities guaranteed by the Company and the Group to associates were utilised to the extent of approximately HK\$22,911,000 (2003: HK\$21,840,000).

# Notes to Financial Statements

31 March 2004

## 30. CONTINGENT LIABILITIES (continued)

- (b) As at 31 March 2004, the Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$12,461,000 (2003: HK\$15,480,000), as further explained under the heading “Employee benefits” in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

## 31. OPERATING LEASE COMMITMENTS

### (a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for a term of two years.

At 31 March 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<b>649</b>	—
In the second to fifth years, inclusive	<b>162</b>	—
	<b>811</b>	—

# Notes to Financial Statements

31 March 2004

## 31. OPERATING LEASE COMMITMENTS (continued)

### (b) As lessee

The Group leases certain land and buildings under operating lease arrangements. Leases are negotiated for terms ranging from one to five years. The Group has the option of extending the leases up to three years in certain operating lease arrangements.

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<b>45,635</b>	47,119
In the second to fifth years, inclusive	<b>33,890</b>	41,107
	<b>79,525</b>	88,226

## 32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following commitments at the balance sheet date:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Capital commitments:		
Contracted, but not provided for:		
Land and buildings	–	12,450
Furniture, fixtures and equipment	–	248
	–	12,698

Save as disclosed above, the Group and the Company had no other significant commitments at the balance sheet date.

# Notes to Financial Statements

31 March 2004

## 33. RELATED PARTY TRANSACTIONS

- (a) The Group had the following material transactions with its related parties during the year:

	2004 HK\$'000	2003 HK\$'000
Purchases of goods from associates	266,912	240,524
Sales of goods to associates	<u>18,503</u>	<u>19,033</u>

*Notes:*

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

Details of the amount due from associates to the Group at the balance sheet date are included in note 17 to the financial statements.

Details of the Group's trade balances with its associates as at the balance sheet date are disclosed in notes 20 and 23 to the financial statements.

- (b) The Company has executed guarantees in favour of certain banks for banking facilities granted to associates to the extent of HK\$22,911,000 (2003: HK\$22,488,000), as further detailed in note 30(a) to the financial statements.

## 34. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 July 2004.