

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill or negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(i) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the interests in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.



1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of an acquired associated company at the date of acquisition. Goodwill is amortised by equal annual installments over its estimated useful economic life of 20 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. Any impairment arising on such goodwill is accounted for in the consolidated profit and loss account.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for prior to 1 January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the consolidated profit and loss account.

Where an indication of impairment exists, the carrying amount of any goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(d) Fixed assets

(i) *Leasehold land and buildings*

Leasehold land and buildings are stated at cost less accumulated amortisation and depreciation and accumulated impairment losses, if any. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

(ii) *Amortisation of leasehold land*

Amortisation of leasehold land is calculated to write off their cost less accumulated impairment losses on a straight-line basis over the unexpired periods of the leases. The principal annual rate for this purpose is 2%.

(iii) *Depreciation of leasehold buildings*

Depreciation of leasehold buildings is calculated to write off their cost on a straight-line basis over the unexpired periods of the leases or their estimated useful lives to the Group, whichever is shorter. The principal annual rate used for this purpose is 2.5%.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Fixed assets (continued)

(iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates used are as follows:

Leasehold improvements, furniture, fixtures and equipment	10% to 20%
Motor vehicles	20%
Computer systems	30%

(v) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(vi) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(vii) Cost of restoring and improving fixed assets

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on the straight-line basis over the lease periods.



1 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in first-out basis, comprises invoiced price plus any freight and insurance charges. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave is recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group makes contribution to the mandatory provident fund scheme (the “MPF” Scheme) in Hong Kong, the assets of which are generally held in separate trustee-administered funds. The pension plan is funded by payments from employees and by the Group.

The Group’s contributions to the MPF scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the MPF scheme prior to vesting fully in the contributions.

(iii) *Equity compensation benefits*

Share options are granted to full time directors and employees of the Group. No compensation cost is recognised on the date of grant of the options. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



1 PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Deferred taxation (continued)

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating lease rental income is recognised on a straight-line basis.

Dividend income is recognised when the right to receive payment is established.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format. Business segments are not presented as the secondary reporting format because the Group's turnover and operating profit are solely contributed by food trading business. In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (note 11).

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in trading of frozen meat, seafood and vegetables. Revenues recognised during the year are as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Turnover		
Sale of goods	539,837	532,679
Other revenues		
Interest income	1,183	7,607
Gross rental income	1,149	1,300
Dividend income from other investments	23	—
	2,355	8,907
Total revenues	542,192	541,586



Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – geographical segments

	Hong Kong and Macau HK\$'000	2005 Mainland China HK\$'000	Group HK\$'000
Turnover	434,422	105,415	539,837
Segment results	16,951	2,195	19,146
Unallocated costs			(4,103)
Reversal of impairment loss of leasehold land and buildings	4,330	–	4,330
Operating profit before finance costs			19,373
Finance costs			(2,359)
Operating profit			17,014
Share of profits of associated companies			25,524
Profit before taxation			42,538
Taxation			(4,192)
Profit attributable to shareholders			38,346
Segment assets	353,082	7,674	360,756
Interests in associated companies	178,336	–	178,336
Unallocated assets			3,365
Total assets			542,457
Segment liabilities	146,762	26,937	173,699
Unallocated liabilities			9,044
Total liabilities			182,743
Capital expenditure	1,660	–	1,660
Depreciation of fixed assets	3,607	–	3,607
Amortisation of goodwill	440	–	440
Reversal of impairment loss of leasehold land and buildings	4,330	–	4,330

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – Geographical segments (continued)

	Hong Kong and Macau HK\$'000	2004 Mainland China HK\$'000	Group HK\$'000
Turnover	<u>384,672</u>	<u>148,007</u>	<u>532,679</u>
Segment results	<u>28,569</u>	<u>16,236</u>	44,805
Unallocated costs			<u>(3,976)</u>
Operating profit before finance costs			40,829
Finance costs			<u>(2,407)</u>
Operating profit			38,422
Share of profits of associated companies			<u>20,877</u>
Profit before taxation			59,299
Taxation			<u>(10,966)</u>
Profit attributable to shareholders			<u>48,333</u>
Segment assets	337,406	17,546	354,952
Interests in associated companies	161,267	–	161,267
Unallocated assets			<u>619</u>
Total assets			<u>516,838</u>
Segment liabilities	137,178	42,318	179,496
Unallocated liabilities			<u>14,728</u>
Total liabilities			<u>194,224</u>
Capital expenditure	914	–	914
Depreciation of fixed assets	3,302	–	3,302
Amortisation of goodwill	382	–	382
Provision for slow moving inventories	<u>860</u>	<u>7,140</u>	<u>8,000</u>



Notes to the Accounts

3 OPERATING PROFIT BEFORE FINANCE COSTS

Operating profit before finance costs is stated after crediting and charging the following:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Crediting		
Reversal of write-down of inventories	–	382
Unrealised gain on other investments	821	–
Net exchange gains	265	1,256
	<u> </u>	<u> </u>
Charging		
Auditors' remuneration	408	408
Depreciation of fixed assets	3,607	3,302
Operating leases of land and buildings	14,049	11,517
Staff costs (<i>note 9</i>)	22,742	25,294
Provision for doubtful debts	2,405	3,139
Provision for slow moving inventories	–	8,000
Amortisation of goodwill	440	382
	<u> </u>	<u> </u>

4 FINANCE COSTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest expense on bank loans and trust receipt loans	2,359	2,407
	<u> </u>	<u> </u>

5 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	1,710	8,921
– Over provision in prior year	(1,660)	(1,009)
Deferred taxation relating to the origination and reversal of temporary difference (<i>note 23</i>)	378	(448)
Deferred taxation resulting from an increase in tax rate (<i>note 23</i>)	–	3
	428	7,467
Share of taxation attributable to associated companies	3,764	3,499
	<u>4,192</u>	<u>10,966</u>



Notes to the Accounts

5 TAXATION (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	42,538	59,299
Calculated at a taxation rate of 17.5% (2004: 17.5%)	7,444	10,377
Effect of different taxation rates in other countries	(849)	(89)
Income not subject to taxation	(2,830)	(1,403)
Expenses not deductible for taxation purposes	1,752	2,201
Utilisation of previously unrecognised tax losses	(209)	(218)
Over provision in prior year	(2,316)	(1,451)
Increase in opening deferred tax liabilities resulting from an increase in tax rate	–	(90)
Deferred tax assets not recognised	1,479	1,130
Others	(279)	509
Taxation charge	4,192	10,966

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$12,000 (2004: HK\$56,000).

7 DIVIDENDS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interim, paid, of HK1.0 cent (2004: HK1.0 cent) per ordinary share	2,583	2,478
Final, proposed, of HK3.0 cents (2004: HK3.0 cents) per ordinary share	7,749	7,435
	<u>10,332</u>	<u>9,913</u>

Note: At a meeting held on 20 July 2005 the directors declared a final dividend of HK3.0 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2006.

8 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$38,346,000 (2004: HK\$48,333,000).

The basic earnings per share is based on the weighted average number of 254,810,000 (2004: 247,820,000) ordinary shares in issue during the year.

The diluted earnings per share is based on 254,810,000 (2004: 247,820,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 1,956,000 (2004: 6,195,349) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.



9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2005	2004
	HK\$'000	HK\$'000
Wages and salaries	21,377	23,590
Unutilised annual leave	30	300
Pension costs – defined contribution plan (<i>Note</i>)	949	1,001
Other staff benefits	386	403
	<u>22,742</u>	<u>25,294</u>

Note: Pursuant to the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the “MPF Ordinance”), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into the MPF Scheme.

The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the Group, the trustees and other service providers. The Group made contributions to the MPF Scheme at 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month or at any rate above 5% of the employees' relevant income as determined by the Group. The employees are also required to contribute 5% of their relevant income to the MPF Scheme up to a maximum of HK\$1,000 per month if their relevant income is more than HK\$5,000 per month.

The Group's contribution to the MPF Scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There were forfeited contributions of HK\$20,375 utilised during the year. (2004: Nil)

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Fees	150	120
Other emoluments:		
Basic salaries, allowances and other benefits in kind	7,926	7,487
Directors' pensions	317	231
	<u>8,393</u>	<u>7,838</u>

Directors' fees were paid to the three independent non-executive directors.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	7	6
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	1
	<u>10</u>	<u>9</u>

No directors waived their emoluments in respect of the years ended 31 March 2005 and 2004.



10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

- (b) The five individuals whose emoluments were the highest in the Group for the year are also directors of the Group and their aggregate emoluments during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries, allowances and other benefits in kind	7,699	7,652

11 FIXED ASSETS – GROUP

	Leasehold land and buildings						
	Held under leases of between 10 to 50 years in Hong Kong HK\$'000	Held under leases of over 50 years in Hong Kong HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Computer systems HK\$'000	Equipment HK\$'000	Total HK\$'000
Cost							
At 1 April 2004	83,662	19,952	3,308	2,501	2,802	820	113,045
Additions	–	–	–	1,570	45	45	1,660
Disposals	–	–	–	(168)	–	–	(168)
At 31 March 2005	83,662	19,952	3,308	3,903	2,847	865	114,537
Accumulated depreciation and impairment							
At 1 April 2004	7,801	16,117	1,327	1,751	1,204	571	28,771
Charge for the year	1,951	165	325	384	646	136	3,607
Disposals	–	–	–	(168)	–	–	(168)
Reversal of impairment charge	–	(4,330)	–	–	–	–	(4,330)
At 31 March 2005	9,752	11,952	1,652	1,967	1,850	707	27,880
Net book value							
At 31 March 2005	73,910	8,000	1,656	1,936	997	158	86,657
At 31 March 2004	75,861	3,835	1,981	750	1,598	249	84,274

As at 31 March 2005, leasehold land and buildings with a carrying value of HK\$73,910,000 (2004: HK\$75,861,000) was pledged as security for a bank loan granted to the Group.

**12 INTERESTS IN SUBSIDIARIES**

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost (<i>note a</i>)	39,004	39,004
Advances to subsidiaries (<i>note b</i>)	217,891	215,736
Less: Provision for diminution in value	(9,049)	(9,049)
	247,846	245,691

(a) The following is a list of the principal subsidiaries at 31 March 2005:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Interests held directly:				
William Food Company Limited	Hong Kong	Trading of frozen meat, seafood and vegetables in Hong Kong	100,000 ordinary shares of HK\$100 each	100%
Capital Season Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
Interests held indirectly:				
Hung King Development Limited	Hong Kong	Property holding in Hong Kong	400,000 ordinary shares of HK\$1 each	100%

The above list contains particulars of principal subsidiaries of the Group which in the opinion of the directors, materially affect the results and assets of the Group. To give details of other subsidiaries would, in the opinion of directors, result in particulars of excessive length.

12 INTERESTS IN SUBSIDIARIES (continued)**(b) Advances to subsidiaries**

The advances to subsidiaries are unsecured, interest free and will not be demanded for repayment within the next twelve months from the balance sheet date.

13 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets	170,841	154,490
Goodwill on acquisition of associated companies less amortisation	7,495	6,777
	<u>178,336</u>	<u>161,267</u>
Investments at cost:		
Shares listed in Hong Kong	171,529	168,819
	<u>171,529</u>	<u>168,819</u>
Market value of listed shares	301,589	290,272
	<u>301,589</u>	<u>290,272</u>

**13 INTERESTS IN ASSOCIATED COMPANIES (continued)**

The following is a list of the principal associated companies at 31 March 2005:

Name	Place of incorporation and business	Principal activities	Issued/registered and fully paid-up capital	Interest held
Interests held indirectly:				
Four Seas Mercantile Holdings Limited	Cayman Islands/ Hong Kong	Investment holding	HK\$39,956,564	27.16%
Fancy Talent Limited	Hong Kong	Marketing of snack foods	HK\$100,000,000	27.16%
Four Seas Mercantile Limited	Hong Kong	Trading in snack foods, confectionery and beverages	(i) Ordinary shares of HK\$200 (ii) Non-voting deferred shares HK\$20,000,000	27.16%
Four Seas Foods (Shantou) Co., Ltd. ¹	Mainland China	Trading of confectionery and food products	HK\$41,000,000	27.16%



13 INTERESTS IN ASSOCIATED COMPANIES (continued)

Name	Place of incorporation and business	Principal activities	Issued/registered and fully paid-up capital	Interest held
Interests held indirectly (continued):				
Hong Kong Biscuit (International) Limited	Hong Kong	Investment holding	HK\$40,000,000	26.29%
Hong Kong Ham Holdings Limited	Hong Kong	Manufacturing and packaging of ham and ham related products	HK\$20	27.16%
J.P. Inglis Company Limited	Hong Kong	Trading in food materials	HK\$1,000,000	27.16%
Kung Tak Lam Shanghai Vegetarian Cuisine Limited	Hong Kong	Operator of restaurants	HK\$3,660,000	26.89%
Li Fook (Qingdao) Foods Co., Ltd. ¹	Mainland China	Manufacturing of noodles	US\$3,320,000	27.16%



13 INTERESTS IN ASSOCIATED COMPANIES (continued)

Name	Place of incorporation and business	Principal activities	Issued/registered and fully paid-up capital	Interest held
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Interests held indirectly (continued):

Wide Success Holdings Limited	Hong Kong	Operator of a restaurant	HK\$10,000	27.16%
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The above list contains particulars of principal associated companies of the Group which in the opinion of the directors, materially affect the results and assets of the Group. To give details of other associated companies would, in the opinion of directors, result in particulars of excessive length.

All associated companies were not audited by PricewaterhouseCoopers.

- 1 Wholly foreign owned enterprise
- 2 Equity joint venture



13 INTERESTS IN ASSOCIATED COMPANIES (continued)

Details of information, as extracted from the annual report of Four Seas Mercantile Holdings Limited, a material associated company, for the year ended 31 March 2005, are as follows:

	2005 HK\$'000	2004 HK\$'000
Consolidated profit and loss account		
Turnover	<u>1,561,785</u>	<u>1,389,343</u>
Net profit from ordinary activities attributable to shareholders	<u>80,720</u>	<u>64,763</u>
Consolidated balance sheet		
Fixed assets	289,150	299,977
Goodwill	3,746	4,566
Negative goodwill	(1,827)	(2,176)
Deferred tax assets	3,918	5,664
Interests in associates	142,053	128,810
Long term investments	19,057	12,898
Other non-current assets	12,913	8,219
Current assets	894,353	799,990
Current liabilities	(675,302)	(616,747)
Net current assets	<u>219,051</u>	<u>183,243</u>
	<u>688,061</u>	<u>641,201</u>
Financed by:		
Share capital	39,956	39,956
Reserves	569,114	515,846
Proposed final dividend	19,978	18,380
Shareholders' funds	629,048	574,182
Long-term liabilities	26,553	41,204
Minority interests	32,460	25,815
	<u>688,061</u>	<u>641,201</u>
Contingent liabilities	<u>24,466</u>	<u>37,679</u>

**14 INVENTORIES**

	Group	
	2005	2004
	HK\$'000	HK\$'000
Finished goods	21,121	38,591
Goods in transit	19,819	26,363
	40,940	64,954
Less: Provision	—	(8,000)
	40,940	56,954

As at 31 March 2005, all inventories are stated at cost (2004: the carrying amount of inventories that were carried at net realisable value amounted to HK\$18,058,000).

15 TRADE RECEIVABLES

At 31 March 2005, the ageing analysis of the trade receivables was as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
0 – 30 days	40,906	41,358
31 – 60 days	7,626	9,040
Over 60 days	484	5,842
	49,016	56,240

The Group has a credit policy with general credit terms ranging from 30 days to 90 days.

16 OTHER INVESTMENTS

	2005	2004
	HK\$'000	HK\$'000
Listed equity securities in Hong Kong, at market value	4,522	—

17 DUE FROM/(TO) SUBSIDIARIES – COMPANY

The amounts due from/(to) subsidiaries were unsecured, interest free and repayable on demand.

18 DUE FROM ASSOCIATED COMPANIES – GROUP

The amounts due from associated companies were unsecured, interest free and repayable on demand.

19 TRADE AND BILLS PAYABLES

At 31 March 2005, the ageing analysis of the trade and bills payables was as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
0 – 30 days	8,563	14,256
31 – 60 days	9	4
Over 60 days	25	1,178
	<u>8,597</u>	<u>15,438</u>

20 BANK LOANS, SECURED

	Group	
	2005	2004
	HK\$'000	HK\$'000
Bank loans – wholly repayable within five years	49,098	21,210
Less: current portion of bank loans	(49,098)	(15,712)
	<u>–</u>	<u>5,498</u>



Notes to the Accounts

20 BANK LOANS, SECURED (continued)

As at 31 March 2005, the Group's bank loans were repayable as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	49,098	15,712
In the second year	—	5,498
	<u>49,098</u>	<u>21,210</u>

A bank loan of HK\$5,498,000 (2004: HK\$11,210,000) is secured by the assets (including land and buildings) and issued shares of a subsidiary and cross guarantees of the Company and a subsidiary.

The other bank loans of the Group are secured by corporate guarantees of the Company.

21 SHARE CAPITAL

	Authorised	
	Ordinary shares of	
	HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 March 2003, 2004 and 2005	<u>400,000,000</u>	<u>40,000</u>
	Issued and fully paid	
	Ordinary shares of	
	HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 March 2003 and 2004	247,820,000	24,782
Repurchase of shares (<i>Note a</i>)	(3,514,000)	(351)
Exercise of share options (<i>Note c</i>)	<u>13,980,000</u>	<u>1,398</u>
At 31 March 2005	<u>258,286,000</u>	<u>25,829</u>

21 SHARE CAPITAL (continued)*Notes:*

- (a) During the year, the Company purchased 3,514,000 ordinary shares of HK\$0.10 each in the capital of the Company at prices ranging from HK\$1.14 to HK\$1.20 per share on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Such purchases involved a total cash outlay of approximately HK\$4,144,000 and were for the purpose of enhancing returns on equity.
- (b) **Share options**
Share options are granted to the directors and executives under the Share Option Scheme (the “Scheme”) adopted by the Company on 2 September 2002. The directors of the Company are authorised to grant options to any qualifying participant of the Company and any subsidiary of the Company to subscribe for shares in the Company at prices according to the terms of the Scheme. The total number of shares subject to the Scheme must not when aggregated with shares under any other share option schemes exceed 30% of the shares in issue from time to time.
- (c) Movements in the number of share options outstanding under the Scheme during the year are as follows:

	Number of options	
	2005	2004
At 1 April	22,200,000	–
Granted	–	22,200,000
Exercised (<i>Note (i)</i>)	(13,980,000)	–
Lapsed	(200,000)	–
At 31 March (<i>Note (ii)</i>)	8,020,000	22,200,000



Notes to the Accounts

21 SHARE CAPITAL (continued)

Notes (continued):

- (i) The weighted average closing price of the share immediately before the dates on which the options were exercised was HK\$1.223.

	2005 HK\$'000	2004 HK\$'000
Ordinary share capital – at par	1,398	–
Share premium	11,604	–
Proceeds	13,002	–

- (ii) Share options outstanding at the end of the year have the following terms:

Grant date	Exercise period		Exercise price HK\$	Number of options	
	From	To		2005	2004
Directors					
11 November 2003	1 May 2004	31 October 2005	0.93	3,020,000	8,000,000
Other employees					
11 November 2003	1 May 2004	31 October 2005	0.93	5,000,000	14,200,000

- (iii) No share options were cancelled during the year (2004: Nil).

22 RESERVES**Group**

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Share of other reserves of associated companies <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	77,874	228	(2,084)	182,243	258,261
Surplus on revaluation of investment securities	–	–	103	–	103
Deficit on revaluation of investment securities released upon disposal	–	–	1,023	–	1,023
Exchange and other reserves	–	–	(25)	–	(25)
Surplus on revaluation of investment properties	–	–	50	–	50
Profit for the year	–	–	–	48,333	48,333
2003 Final dividend	–	–	–	(7,435)	(7,435)
2004 Interim dividend	–	–	–	(2,478)	(2,478)
At 31 March 2004	<u>77,874</u>	<u>228</u>	<u>(933)</u>	<u>220,663</u>	<u>297,832</u>
Representing:					
Reserves	77,874	228	(933)	213,228	290,397
2004 proposed final dividend	–	–	–	7,435	7,435
At 31 March 2004	<u>77,874</u>	<u>228</u>	<u>(933)</u>	<u>220,663</u>	<u>297,832</u>
Company and subsidiaries	77,874	228	–	174,255	252,357
Associated companies	–	–	(933)	46,408	45,475
At 31 March 2004	<u>77,874</u>	<u>228</u>	<u>(933)</u>	<u>220,663</u>	<u>297,832</u>



22 RESERVES (continued)

Group (continued)

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Share of other reserves of associated companies <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004	77,874	228	(933)	220,663	297,832
Surplus on revaluation of investment securities	–	–	(28)	–	(28)
Deficit on revaluation of investment securities released upon disposal	–	–	367	–	367
Repurchase of shares (Note 21(a))	–	351	–	(4,144)	(3,793)
Exercise of share options (Note 21(c))	11,604	–	–	–	11,604
Exchange and other reserves	–	–	(200)	–	(200)
Profit for the year	–	–	–	38,346	38,346
2004 Final dividend	–	–	–	(7,660)	(7,660)
2005 Interim dividend	–	–	–	(2,583)	(2,583)
At 31 March 2005	<u>89,478</u>	<u>579</u>	<u>(794)</u>	<u>244,622</u>	<u>333,885</u>
Representing:					
Reserves	89,478	579	(794)	236,873	326,136
2005 proposed final dividend	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,749</u>	<u>7,749</u>
At 31 March 2005	<u>89,478</u>	<u>579</u>	<u>(794)</u>	<u>244,622</u>	<u>333,885</u>
Company and subsidiaries	89,478	579	–	176,454	266,511
Associated companies	<u>–</u>	<u>–</u>	<u>(794)</u>	<u>68,168</u>	<u>67,374</u>
At 31 March 2005	<u>89,478</u>	<u>579</u>	<u>(794)</u>	<u>244,622</u>	<u>333,885</u>

22 RESERVES (continued)**COMPANY**

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April 2003	77,874	228	149,322	227,424
Profit for the year	–	–	56	56
2003 Final dividend	–	–	(7,435)	(7,435)
2004 Interim dividend	–	–	(2,478)	(2,478)
At 31 March 2004	<u>77,874</u>	<u>228</u>	<u>139,465</u>	<u>217,567</u>
Representing:				
Reserves	77,874	228	132,030	210,132
2004 Final dividend proposed	–	–	7,435	7,435
At 31 March 2004	<u>77,874</u>	<u>228</u>	<u>139,465</u>	<u>217,567</u>
At 1 April 2004	77,874	228	139,465	217,567
Profit for the year	–	–	12	12
Repurchase of shares (Note 21(a))	–	351	(4,144)	(3,793)
Exercise of share options (Note 21(c))	11,604	–	–	11,604
2004 Final dividend	–	–	(7,660)	(7,660)
2005 Interim dividend	–	–	(2,583)	(2,583)
At 31 March 2005	<u>89,478</u>	<u>579</u>	<u>125,090</u>	<u>215,147</u>
Representing:				
Reserves	89,478	579	117,341	207,398
2005 Final dividend proposed	–	–	7,749	7,749
At 31 March 2005	<u>89,478</u>	<u>579</u>	<u>125,090</u>	<u>215,147</u>

At 31 March 2005, the reserves of the Company that are available for distribution as dividends amounted to HK\$125,090,000 (2004: HK\$139,465,000).



Notes to the Accounts

23 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%)

The movement on the deferred tax (assets)/liabilities is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
At 1 April	(230)	215
Deferred taxation charged/(credited) to profit and loss account (<i>Note 5</i>)	378	(445)
At 31 March	148	(230)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$13,058,000 (2004: HK\$13,252,000) to carry forward against future taxable income, these tax losses have no expiry date.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation		Total	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	—	813	—	813
Charged/(credited) to consolidated profit and loss account	148	(813)	148	(813)
At 31 March	148	—	148	—

23 DEFERRED TAXATION (continued)**Deferred tax assets**

	Provisions		Accelerated tax depreciation		Total	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	203	527	27	71	230	598
Charged to consolidated profit and loss account	(203)	(324)	(27)	(44)	(230)	(368)
At 31 March	<u>–</u>	<u>203</u>	<u>–</u>	<u>27</u>	<u>–</u>	<u>230</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2005 HK\$'000	2004 HK\$'000
Deferred tax assets	–	(230)
Deferred tax liabilities	<u>148</u>	<u>–</u>
	<u>148</u>	<u>(230)</u>

The deferred tax assets and liabilities are to be recovered after more than 12 months.

**24 CONSOLIDATED CASH FLOW STATEMENT**

(a) Reconciliation of operating profit to net cash inflow generated from operations

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Operating profit	17,014	38,422
Interest expenses	2,359	2,407
Interest income	(1,183)	(7,607)
Dividends received from other investments	(23)	—
Depreciation of fixed assets	3,607	3,302
Amortisation of goodwill	440	382
Unrealised gain on other investments	(821)	—
Reversal of impairment loss of leasehold land and buildings	(4,330)	—
Operating profit before working capital changes	17,063	36,906
Decrease/(increase) in inventories	16,014	(24,661)
Net decrease/(increase) in trade receivables, prepayments, deposits and other receivables and due from associated companies	7,112	(11,866)
Net (decrease)/increase in trade and bills payables, other payables and accrued charges	(11,217)	13,489
Net cash inflow generated from operations	<u>28,972</u>	<u>13,868</u>

24 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Dividend payable		Bank loans and trust receipt loans	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	—	7,435	158,065	116,725
Dividends	10,243	2,478	—	—
Net cash (outflow)/ inflow from financing	(10,243)	(9,913)	5,313	41,340
At 31 March	—	—	163,378	158,065

25 OPERATING LEASE COMMITMENTS

At 31 March 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	309	284	309	284



26 RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Rental and building management fee received from related companies	<u>192</u>	<u>336</u>

Tenancy agreement was entered into with a related party to lease office for a period of 2 years. The lease was entered into at mutually agreed terms.

27 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 20 July 2005.