

CHAIRMAN'S STATEMENT

To our shareholders

On behalf of the Board of Directors of Quality Food International Limited ("Quality Food" or the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the financial year ended 30 April 2001.

FINANCIAL RESULTS

During the year under review, the Group achieved a turnover of HK\$469.7 million (2000: HK\$450.5 million), Loss attributable to shareholders amounted to HK\$17.2 million, (2000: profit attributable to shareholders HK\$53 million). Loss per share was HK1.23 cents (2000: Earnings per share HK4.33 cents). The Group maintains approximately HK\$9.4 million cash on hand.

DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 30 April 2001 (2000: HK5.5 cents per share).

EQUITY

The Company's issued and fully paid share capital as at 30 April 2001 amounted to HK\$140,000,200 divided into 1,400,002,000 ordinary shares of HK\$0.10 each.

The following changes in the Company's authorised and issued share capital took place during the year:

- (i) Pursuant to an ordinary resolution passed on 30 October 2000, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$300,000,000 by the creation of an additional 2,000,000,000 shares of HK\$0.10 each in the capital of the Company, ranking pari passu with the existing shares of the Company in all respects.
- (ii) Pursuant to an ordinary resolution passed on 30 October 2000, 1,120,000,000 new shares of HK\$0.10 each, ranking pari passu with the then existing shares, were issued as bonus shares on the basis of eight bonus shares for every two shares held by shareholders whose names appeared on the register of members of the Company as at 30 October 2000. The bonus shares were credited as fully paid by capitalising HK\$112,000,000 in total, comprising amount standing to the credit of the Company's share premium of HK\$25,754,000, contributed surplus of HK\$69,662,000 and retained profits of HK\$16,584,000.
- (iii) On 21 January 2001, 2,000 warrants were exercised by warrant holders at a subscription price of HK\$0.13 per share for total cash proceeds of HK\$260, resulting in the issue of 2,000 new shares of HK\$0.10 each.

Details of the share capital of the Company are set out in note 21 to the financial statements

INDUSTRY REVIEW

Processed eels is a traditional delicacy in Japan. Currently, Japan is the world's largest processed eels importing country while the PRC is the largest processed eels suppliers in the world. The market demand for processed eels has continued to grow dramatically in Japan over the past few years. According to

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the special trading period for the eel business in Japan each year, that is from September to August of following year, in 2000, processed eels imported by Japan amounted to 70,400 tonnes, a sharp increase from 25,000 tonnes in 1989 when the roasted eels business started growing in the PRC.

Eels feed production is derived from the demand for processed eels. Most of the eel farms are located in Fujian Province and Guangdong Province, the PRC. The eels feed production serves as a complement to the eel farming and processed eels industry, whereby the sales of eel's feed increase with rising demand for eels and vice versa.

BUSINESS REVIEW

Processed Eel Division

The Group produced premium grade processed eels under its brandname "Qixiang". For the Year, roasted eels accounted for 83% of the Group's total turnover. Roasted eels production increased from 3,700 tonnes last year to 4,630 tonnes. Over 97% of the Group's roasted eels were exported to Japan during the year under review. However, the keen competition in the roasted eel business led to the drop in selling price and gross profit margin of the roasted eel division, together with the provision made for the advances to the live eel suppliers, the division gave a loss for the Year. The roasted eels are marketed under the brandnames of "Qixiang" and "Yuanfu" and are well received by the market. The Group obtained increasing numbers of orders from Japan during the Year.

In addition, the Group's eel processing plants were awarded ISO 9002 and HACCP quality assurance accreditation, both of which are highly recognised internationally, which demonstrated that the Group's quality control system has met the international standards.

In view of the persistent growth in the global demand for processed eels and the increasingly fierce competition, the Group began developing new products of roasted eel in collaboration with various Japanese supermarket conglomerates and has achieved great success with orders constantly coming in. In December 2000, the Group invested approximately RMB1 million in the technical upgrade of its existing production line for barbecued eels to equip it with the capability of producing the charcoal-cured eels which are the most popular delicacy in the Japanese market. This line was already put into production on 1 January 2001 and is expected to produce 250 tonnes of charcoal-cured eels for the first year of its operation and up to 500 tonnes starting from the second year. Change in production structure is due to the higher price segment with barbecued eels per kilogram and thus are capable of generating more profit for the Group.

As in the previous year, the Group has currently maintained an annual production capacity of 6,000 tonnes. The Group expects production for the coming year will at least maintain at this year's level.

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Feed Division

Sales of eel's feed was down by 19% to HK\$79 million, or 6,615 tonnes, against last year's figure of HK\$97.7 million, and accounted for 17% of the Group's total turnover. The eel's feed produced by the Group is distributed to 250 eel farms in the PRC under the "Sanhua" brandname.

The factory of Fu Qing Sanhua Forage Co., Ltd, an associate of the Company, was awarded the ISO 9002 accreditation in February 2001.

To better utilize human and financial resource, the Group shut down its feeds plant in Jiangxi in December 2000. The feeds plant in Guilin has also ceased production in June 2001.

PROSPECTS

The latest bio-technology introduced last year through a strategic alliance has achieved a good result in improving the quality of eel's feeds. Meanwhile, in keeping with the Group's endeavour in pursuing highest quality products, the Group has drawn up a plan for all the subsidiaries to acquire the ISO 9002 accreditation successively in the coming year.

In the course of developing its business, the Group will enhance its market research effort in the PRC and Hong Kong to explore the feasibility of increasing its share in these emerging markets, especially in roasted eel products. Apart from that, the management is now considering an expansion into other markets such as North America and the South East Asia where Japanese food is gaining popularity. Looking ahead in the coming year, the Group expects its world market share of roasted eel products will increase from 6.5% to 7.5%. The management of the Company are fully confident in maintaining its leading market position.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and banking facilities provided by the principal bankers in the PRC. As at 30 April 2001, the Group's net asset value stood at approximately HK\$122 million with total assets of HK\$219 million, out of which included cash and bank balances of HK\$9.4 million. The Group's bank borrowings at 30 April 2001 amounted to HK\$58.5 million of which JPY87 million (equivalent to approximately HK\$5.5 million) was secured by the Group's leasehold land and buildings in the PRC and RMB8 million (equivalent to approximately HK\$7.5 million) was secured by the leasehold land and buildings of an associate. The remaining bank loans of approximately HK\$45.5 million were secured by guarantees executed by a related company. The gearing ratio of the Group at 30 April 2001 calculated as a ratio of total bank loans to total assets was 27%. Net current assets was approximately HK\$19 million and current ratio was maintained at a healthy level of approximately 120%.

EMPLOYEES

The Group had a total of approximately 560 employees in Hong Kong and PRC as at 30 April 2001. The Group ensures that pay scales of its employees are rewarded on a performance related basis within the general framework of the Group's remuneration strategy. In PRC, the Group provides staff welfare and bonus to its employees pursuant to prevailing labour law. In Hong Kong, the Group provides staff

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Mandatory Provident Fund retirement benefits scheme. Under the terms of the share option scheme (the "Scheme") adopted by the Company on 19 October 1999, the Directors are authorised, at their discretion, to grant options to employees, including the executive directors, of the Company or any of its subsidiaries, to subscribe for shares in the Company. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 4 November 1999. No share options have been granted to any Director or employee under the Scheme since the implementation of the Scheme.

PLEGE OF ASSETS

Details of the pledge of assets are set out in notes 12 and 20 to the financial statements.

SEGMENTAL INFORMATION

The principal activities of the Company and its subsidiaries have not changed during the year and mainly consisted of the manufacture and trading of processed eels and eel feed products.

Details of the segmental information are set out in note 4 to the financial statements.

APPRECIATION

On behalf of the Board of Directors, I would like to extend my deepest appreciation to our management and staff for their dedication and commitment.

In addition, I would like to extend my sincere thanks to our business partners for their continued support over the past years. The Group is confident that its future will be even more promising.

LAM Hau Mei

Chairman