

## **REPORT OF THE DIRECTORS**

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and of the Group for the year ended 30 April 2001.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consisted of the manufacture and trading of processed eels and eel feed products. There were no changes in the nature of the Group's principal activities during the year.

### **SEGMENTAL INFORMATION**

An analysis of the Group's turnover and contribution to profit/(loss) after finance costs by principal activity and geographical area of operations for the year is set out in note 4 to the financial statements.

### **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 30 April 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 54.

The directors do not recommend the payment of any dividend in respect of the year (2000: Proposed final dividend of HK5.5 cents per share).

### **SUMMARY FINANCIAL INFORMATION**

The following is a summary of the combined/consolidated results of the Group for the last five financial years and its assets and liabilities as at 30 April 2000 and 2001, prepared on the basis set out in the notes below.

## REPORT OF THE DIRECTORS

### SUMMARY FINANCIAL INFORMATION (continued)

#### RESULTS

	Year ended 30 April				
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
TURNOVER	<b>469,698</b>	435,260	351,983	250,633	272,171
PROFIT/(LOSS) AFTER FINANCE COSTS	<b>(23,701)</b>	52,726	41,784	28,596	16,264
Share of profit of an associate	<b>3,762</b>	2,653	1,478	505	–
PROFIT/(LOSS) BEFORE TAX	<b>(19,939)</b>	55,379	43,262	29,101	16,264
Tax	<b>(2,422)</b>	(2,368)	(3,574)	(980)	(385)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<b>(22,361)</b>	53,011	39,688	28,121	15,879
Minority interests	<b>5,115</b>	(2,594)	(7,277)	(5,015)	(1,992)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<b>(17,246)</b>	50,417	32,411	23,106	13,887

#### ASSETS AND LIABILITIES

	30 April	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
NON-CURRENT ASSETS	<b>102,848</b>	69,668
CURRENT ASSETS	<b>116,050</b>	176,516
TOTAL ASSETS	<b>218,898</b>	246,184
CURRENT LIABILITIES	<b>96,999</b>	98,084
MINORITY INTERESTS	–	11,119
NET ASSETS	<b>121,899</b>	136,981

# REPORT OF THE DIRECTORS

## SUMMARY FINANCIAL INFORMATION (continued)

Notes:

1. Prior to 1 September 1999, the Group had a 100% equity interest in Fu Qing Sanhua Forage Co., Ltd. ("Fu Qing Sanhua") and a 99% equity interest in Fuqing Qixiang Food Co., Ltd. ("Fuqing Qixiang"). Pursuant to a Group reorganisation, on 9 September 1999, the Group disposed of a 51% equity interest in Fu Qing Sanhua and a 29% equity interest in Fuqing Qixiang to Great Global Limited, a company which is owned by Mr. Lam Hau Mei and Mr. Lin Hou Yun, two of the directors of the Company, for an aggregate consideration of approximately US\$2,465,000 (equivalent to HK\$19,080,000) computed based on the unaudited net asset value of the relevant equity interests of Fu Qing Sanhua and Fuqing Qixiang disposed of as at 1 September 1999, the effective date of the disposal.

The above summary of the combined results of the Group for each of the four years ended 30 April 2000 was prepared on a pro forma basis to reflect the Group reorganisation, as set out above, as if the Group structure as at 5 October 1999, when the Company became the holding company of the companies now comprising the Group, had been in existence throughout these financial years. The results of the Group for the year ended 30 April 2000, which were prepared on the basis that the interests in Fu Qing Sanhua and Fuqing Qixiang were diluted on 1 September 1999, are set out in the financial statements on page 22.

2. As the Company was incorporated on 27 July 1999, the only audited consolidated/combined balance sheets for the Group that have been prepared are those set out on pages 24 and 25 of the financial statements.

## FIXED ASSETS

Details of movements in the fixed assets of the Company and of the Group during the year are set out in note 12 to the financial statements.

## SUBSIDIARIES

Particulars of the subsidiaries of the Company are set out in note 13 to the financial statements.

## BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 20 to the financial statements.

## SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements in the share capital and warrants of the Company during the year, together with reasons therefor, and details of the share option scheme of the Company are set out in note 21 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **REPORT OF THE DIRECTORS**

### **RESERVES**

Details of movements in the reserves of the Company and of the Group during the year are set out in note 22 to the financial statements.

### **DISTRIBUTABLE RESERVES**

At 30 April 2001, the Company had no reserves available for distribution.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the year under review, sales to the Group's five largest customers accounted for approximately 76% of the total sales for the year and sales to the largest customer included therein amounted to approximately 28% of the total sales.

Purchases from the Group's five largest suppliers accounted for approximately 30% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 8% of the total purchases.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")), nor any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or suppliers.

### **RETIREMENT SCHEME**

On 1 December 2000, the Group joined the Mandatory Provident Fund (the "MPF") retirement benefit scheme under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the profit and loss account as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees. The total mandatory contributions made by the Group during the year were HK\$12,000.

# REPORT OF THE DIRECTORS

## DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

### Executive directors:

Mr. Lam Hau Mei

Mr. Lin Hou Yun

Mr. Pan Zhi Ming

Mr. Chen Yuan Jian

Mr. Wu Wai Kit (appointed on 22 September 2000)

Mr. Lee Juleus (resigned on 18 October 2000)

### Independent non-executive directors:

Mr. Chan Kwok Tsang

Mr. Li Qinghe (appointed on 22 September 2000)

Mr. Hui King Wai (resigned on 18 November 2000)

In accordance with clause 87 of the Company's bye-laws, Mr. Pan Zhi Ming and Mr. Chen Yuan Jian will retire by rotation at the forthcoming annual general meeting. These retiring directors, being eligible, will offer themselves for re-election at the annual general meeting.

## DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

### Directors

Mr. Lam Hau Mei, aged 49, is the co-founder of the Group and the chairman of the Company. Mr. Lam is responsible for the strategic planning of the Group. He has over 11 years' experience in eel processing, the manufacture of eel feeds and eel farming in the PRC. He is the younger brother of Mr. Lin Hou Yun.

Mr. Lin Hou Yun, aged 52, is the co-founder of the Group and the deputy chairman of the Company. Mr. Lin is responsible for the overall management of the Group. He has extensive experience in the eel industry and has engaged in eel processing, the manufacture of eel feeds and eel farming in the PRC since 1990. Mr. Lin is an executive member of the Fuqing Municipal Committee of the People's Congress and a member of the Fuzhou Municipal Committee of the People's Consultative Conference in the PRC. He is the elder brother of Mr. Lam Hau Mei.

Mr. Pan Zhi Ming, aged 47, is the general manager of Fuqing Qixiang. Mr. Pan joined the Group in March 1994. He has more than 17 years' experience in the production management of eel processing and more than 21 years' experience in corporate and financial management. Mr. Pan is also a member of the Fuqing Municipal Committee of the People's Consultative Conference in the PRC.

## REPORT OF THE DIRECTORS

### **DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES (continued)**

#### **Directors (continued)**

Mr. Chen Yuan Jian, aged 38, is the manager of the finance department and financial controller of the Group's PRC operations. Mr. Chen graduated from Xiamen University, the PRC, and has more than 11 years' experience in accounting, finance and auditing. He joined the Group in July 1996.

Mr. Wu Wai Kit, aged 44, holds a Bachelor of Foreign Language degree from Xiamen University, the PRC, and a Master of Business Administration degree from Murdoch University, Australia. Mr. Wu has more than 21 years' experience in business management and international trading. He joined the Group in October 1998.

Mr. Chan Kwok Tsang, aged 52, is a merchant in Hong Kong. He has over 11 years' experience in trading and owns a jewellery business in Hong Kong.

Mr. Li Qinghe, aged 39, holds a Bachelor of Accounting and Finance degree from Xiamen University, the PRC. He has more than 16 years' experience in accounting, finance and auditing.

Mr. Lee Juleus, aged 54, was the finance director of the Group and resigned on 18 October 2000. He holds a Bachelor of Economics degree from the University of Tasmania, Australia, and a Master of Commerce degree from the University of New South Wales, Australia. He is a member of the Australian Society of Certified Practising Accountants, a Fellow of the Hong Kong Society of Accountants and a Hong Kong Certified Public Accountant. He was a business consultant to the Group in 1998 and joined the Group in 1999. Prior to that, he held senior finance positions in several listed companies in Hong Kong.

Mr. Hui King Wai, aged 51, is a solicitor practising in Hong Kong. He graduated from South Bank University, London with a Bachelor degree in Law. He was admitted as a solicitor of the Supreme Court of England and Wales and as a solicitor of the Supreme Court of Hong Kong in 1981 and 1982, respectively. He is the honourable vice-president of the Hong Kong Football Association Limited and is also a director of other listed companies. Mr. Hui resigned as a director of the Company on 18 November 2000.

## REPORT OF THE DIRECTORS

### DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES (continued)

#### Senior Management

Mr. Hsieh Kuan Jen, aged 48, is the general manager of the Company and the vice-general manager of Fuqing Qixiang. Mr. Hsieh is a graduate of Taiwan National Ping Dong School of Agriculture. He was engaged in the processed eel industry in Taiwan prior to joining the Group in March 1994 and has more than 21 years' experience in the technical aspects of eel processing and sales of processed eels.

Mr. Lu Yu Fei, aged 42, is the general manager of the PRC operations of the Group and is also the general manager of Guilin Sanhua Forage Co., Ltd. Mr. Lu graduated from the Northwestern Textile Institute of the PRC. He joined the Group in January 1995 and has more than 10 years' experience in foreign trade.

Mr. Fok Yiu Keung, aged 47, is the Group's financial controller and company secretary. Mr. Fok is a member of the Association of International Accountants and the Hong Kong Society of Accountants and has over 21 years' accounting experience including auditing and financial management for both Hong Kong and international companies. Mr. Fok joined the Group in April 1999.

Ms. Lin Qin, aged 36, is the vice-general manager of Fuqing Qixiang and the manager of its production department. She joined the Group in March 1994 and has 7 years' experience in the technical aspects and quality control of eel processing.

Mr. Yu Han Bing, aged 32, is the general manager of Fu Qing Sanhua and Jiangxi Shangrao Sanhua Forage Co., Ltd.. He joined the Group in February 1994 and has 7 years' experience in the management of eel feeds production.

Mr. Chen Zeng He, aged 42, is the general manager of Fujian Ningde Sanhua Feed Co., Ltd. and Sanhua Feed Co., Ltd. Longyan. He joined the Group in February 1993 and has over 10 years' experience in the management of eel feeds production.

### DIRECTORS' SERVICE CONTRACTS

All of the executive directors entered into service contracts with the Company for terms of three years commencing from 19 October 1999 which are terminable by not less than six months' notice in writing served by either party on the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 24 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

### CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

Details of the connected and related party transactions of the Group are set out in note 24 to the financial statements. The Company's independent non-executive directors have reviewed the connected and related party transactions, as detailed in note 24 to the financial statements, and consider that these transactions were carried out in the ordinary and usual course of business of the Group on normal commercial terms and on an arm's length basis and that these transactions were also carried out on terms that were fair and reasonable so far as the shareholders of the Company are concerned.

Details of the related party balances of the Group are set out in notes 14 and 18 to the financial statements. The Company's independent non-executive directors have reviewed the related party balances as detailed in notes 14 and 18 to the financial statements, and consider that these balances arose from the ordinary course of business of the Group.

### REMUNERATION OF DIRECTORS AND OF THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' remuneration and that of the five highest paid individuals in the Group are set out in note 6 to the financial statements.

### DIRECTORS' INTERESTS IN SHARE CAPITAL OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

At 30 April 2001, the interests of the directors and their associates in the securities of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for securities transactions by Directors of Listed Companies, were as follows:

#### (a) Company

Director	Nature of interest	Number of shares	Number of warrants
Mr. Lam Hau Mei	Corporate ( <i>Note 1</i> )	1,018,500,000	40,740,000
Mr. Lin Hou Yun	Corporate ( <i>Note 1</i> )	1,018,500,000	40,740,000
Mr. Wu Wai Kit	Personal	10,000	400
Mr. Li Qinghe	Personal	2,480,000	124,000



## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARE CAPITAL OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS (continued)

#### (b) Associated corporation

Director	Associated corporation	Nature of interest	Percentage interest in associated corporation
Mr. Lam Hau Mei	(1) Modern Sky Limited	Personal	99%
	(2) Fuqing Qixiang	Corporate (Note 2)	29%
	(3) Fuqing Sanhua	Corporate (Note 3)	51%
Mr. Lin Hou Yun	(1) Modern Sky Limited	Personal	1%
	(2) Fuqing Qixiang	Corporate (Note 2)	29%
	(3) Fuqing Sanhua	Corporate (Note 3)	51%

#### Notes:

- (1) These shares were held through Modern Sky Limited, a company beneficially owned by Mr. Lam Hau Mei and Mr. Lin Hou Yun.
- (2) The said interest in Fuqing Qixiang, a subsidiary of the Company, is held by Great Global Limited, a company owned by Mr. Lam Hau Mei and Mr. Lin Hou Yun.
- (3) The said interest in Fuqing Sanhua, an associate of the Company, is held by Great Global Limited, a company owned by Mr. Lam Hau Mei and Mr. Lin Hou Yun.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the terms of the share option scheme (the "Scheme") adopted by the Company on 19 October 1999, the board of directors is authorised, at its 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. Further details of the share option scheme are set out in note 21 to the financial statements. 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 up to the balance sheet date.

## **REPORT OF THE DIRECTORS**

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

### **SUBSTANTIAL SHAREHOLDERS**

Other than the shares held by Modern Sky, as disclosed in the section headed "Directors' interests in share capital of the Company or its associated corporations" above, no other person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance.

### **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company were not appointed for specific terms but were subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

### **AUDIT COMMITTEE**

In accordance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, the Company set up an audit committee (the "Committee") in 2000 with written terms of reference for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Committee comprises two independent non-executive directors, namely Mr. Li Qinghe and Mr. Chan Kwok Tsang. The work of the Committee has covered the full financial year ended 30 April 2001.

### **SIGNIFICANT EVENT**

On 19 October 1999, the Company entered into an option agreement with Mr. Lam Hau Mei and Mr. Lin Hou Yun, two of the directors of the Company, pursuant to which the Company has an option to acquire from Mr. Lam Hau Mei and Mr. Lin Hou Yun a 100% equity interest in Great Global Limited ("GGL") at a consideration to be based on the net asset value of GGL at the date of exercising the option. The option is exercisable within three years from the date of the option agreement. As at the date of this report, GGL held a 29% equity interest in Fuqing Qixiang, a subsidiary of the Group, and a 51% equity interest in Fu Qing Sanhua, an associate of the Group.

## REPORT OF THE DIRECTORS

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chen Yuan Jian**

*Chairman of the Meeting*

Hong Kong

21 August 2001