

# R eport of the Directors

The directors have pleasure in submitting their first annual report together with the audited financial statements of First Natural Foods Holdings Limited (the “Company”) for the period from 27 July 2001 (date of incorporation) to 31 December 2001. Attached to the audited financial statements is the proforma financial information of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2001 prepared on the basis set out on page 36.

## **GROUP REORGANIZATION AND LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED**

The Company was incorporated in Bermuda on 27 July 2001 as an exempted company with limited liability under the Companies Act of 1981 of Bermuda under the name of First China Natural Foods Holdings Limited. The Company changed its name to First Natural Foods Holdings Limited on 10 August 2001. Pursuant to a group reorganization (the “Reorganization”) for the purpose of listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired the entire issued share capital of First China Technology Limited through a share exchange and consequently became the holding company of the Group on 17 January 2002. Details of the Company’s subsidiaries now comprising the Group are set out in note 28 to the proforma financial information.

Further details of the Reorganization are set out in note 1(b) to the financial statements and in the Company’s prospectus dated 30 January 2002 (the “Prospectus”).

On 11 February 2002, pursuant to the public offer, the shares of the Company were listed on and commenced trading on the Stock Exchange.

To facilitate comparison of the financial results and position of the Group with that presented in the accountants’ report in the Prospectus, proforma financial information comprising proforma combined income statement, balance sheet and cash flow statement are also included in the annual report. The basis of presentation of the proforma financial information is set out on page 36 of the annual report and the accounting policies set out on pages 41 to 46 have been consistently applied for presenting the proforma financial information referred to the Group in this report.

## **PRINCIPAL ACTIVITIES**

For the period from 27 July 2001 (date of incorporation) to 31 December 2001, the Company has not carried out any business since the date of the incorporation save for the incurring of certain expenditure relating to the Reorganization.

Pursuant to the Reorganization, the principal activities and other particulars of the subsidiaries are set out in note 28 to the proforma financial information.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries, pursuant to the Reorganization, are set out in note 13 to the proforma financial information.



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## eport of the Directors *(continued)*

### **FINANCIAL STATEMENTS**

The loss of the Company for the period ended 31 December 2001 and the state of the Company's affairs as at that date are set out in the financial statements on pages 27 to 28.

The proforma combined profit of the Group for the year ended 31 December 2001 and the state of the Group's affairs as at that date are set out in the proforma financial information on pages 37 to 38.

The Board of directors of the Company does not recommend the payment of any final dividend for the period ended 31 December 2001. (2000 : nil)

### **FIXED ASSETS**

Details of movements in fixed assets are set out in note 14 to the proforma financial information.

### **SHARE CAPITAL**

Details of the movements in share capital of the Company since 27 July 2001 (date of incorporation), together with reasons therefor are set out in note 10 to the financial statements.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under the laws of Bermuda.

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## eport of the Directors *(continued)*

### **DIRECTORS**

The directors of the Company since 27 July 2001 (date of incorporation) and up to the date of this report were:

#### **Executive directors**

Yeung Chung Lung, Chairman	(appointed on 10 August 2001)
Yang Le	(appointed on 10 August 2001)
Ni Chao Peng	(appointed on 10 August 2001)
Weng Zu Liang	(appointed on 10 August 2001)
Yip Tze Wai, Albert	(appointed on 28 December 2001)

#### **Non-executive director**

Lin Wan Qaing	(appointed on 10 October 2001)
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#### **Independent non-executive directors**

Tsui Chun Chung, Arthur	(appointed on 10 October 2001)
Lu Ze Jian	(appointed on 10 October 2001)

In accordance with paragraph 87 of the Company's Bye-laws, Mr. Yang Le and Mr. Ni Chao Peng retire from office by rotation at the forthcoming annual general meeting and, being eligible, offers themselves for re-election.

Mr. Lin Wan Qaing is the non-executive director of the Company. He had entered into a letter of appointment with the Company on 11 February 2002 for an initial term of 1 year and will continue thereafter unless and until terminated by either party.

Mr. Tsui Chun Chung, Arthur and Mr. Lu Ze Jian are the independent non-executive directors of the Company. Each of them had entered into a letter of appointment with the Company on 11 February 2002 for an initial term of 1 year and will continue thereafter unless and until terminated by either party.

### **DIRECTORS' SERVICE CONTRACTS**

Each of Mr. Yeung Chung Lung, Mr. Yang Le, Mr. Ni Chao Peng, Mr. Weng Zu Liang and Mr. Yip Tze Wai Albert has entered into a service contract with the Company all dated 17 January 2002, except for Mr. Ni Chao Peng dated 18 January 2002, for a term of one year and shall continue thereafter unless and until terminated by either party giving three months' prior written notice.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.



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### **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Brief biographical details and senior management are set out on pages 14 to 16.

### **DIRECTOR'S INTEREST IN COMPETING BUSINESS**

None of the directors is interested in any business which competes or is likely to compete, either directly or indirectly with the Company's business.

### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES OF THE COMPANY**

Subsequent to the balance sheet date of 31 December 2001, the Company's shares were listed on the Stock Exchange on 11 February 2002. As at the listing of the Company on 11 February, 2002, the interests of the Directors and Chief Executive of the Company in the equity of the Company or its associated corporation as recorded in the register kept 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Company	Name of Director	Number of Shares			Total Shares
		Personal Interests	Family Interests	Corporate Interests	
The Company	Yeung Chung Lung	—	—	390,000,000 (Note 1)	390,000,000
The Company	Lin Wan Qaing	—	—	126,000,000 (Note 2)	126,000,000

Notes:

1. Held through Regal Splendid Limited which is wholly-owned by Mr. Yeung Chung Lung.
2. Held through Linacre Services Limited which is wholly-owned by Mr. Lin Wan Qaing.

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

### **DIRECTORS' INTERESTS IN CONTRACTS**

Significant related party transaction entered by the Group during the year ended 31 December 2001, which do not constitute connected transaction under the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") is disclosed in note 27 to the proforma financial information.

Apart from the foregoing, there was no contract of significance to which the Company or any of its

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subsidiaries was a party, in which a director of the Company had a material interests, subsisted at the end of the year or at any time during the year.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

On 17 January 2002, the Company had conditionally adopted a share option scheme under which eligible person ( as defined in the share option scheme) may be granted options to subscribe for shares of the Company. However, no option was granted under the share option scheme following the listing of the Company on 11 February 2002.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Company's directors ( including their spouses or children under 18 years of age) or chief executive of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES OF THE COMPANY**

As at the listing of the Company on 11 February 2002, so far as are known to the Directors, the following persons (other than the Directors or Chief Executives of the Company whose interests are disclosed above) were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as being directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company :

<b>Name of Shareholder</b>	<b>Number of Shares</b>	<b>% of Issued Share Capital</b>
Regal Splendid Limited (Note 1)	390,000,000	48.75%
Linacre Services Limited (Note 2)	126,000,000	15.75%
Wisdom Latch Limited (Note 3)	84,000,000	10.50%

Notes :

1. Regal Splendid Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Yeung Chung Lung.
2. Linacre Services Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Lin Wan Qaing.
3. Wisdom Latch Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Tung Fai.



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### **SHARE OPTION SCHEME**

The Company's share option scheme ("the Scheme") was adopted pursuant to a resolution passed on 17 January 2002 for the primary purpose of providing incentives to directors and eligible persons, and will expire on 16 January 2012. Under the Scheme, the Company may grant options to any person who is a director or employee (whether full-time or part-time) of the Group or any other groups or classes of suppliers, customers, sub-contractors or agents of the Group or any other persons from time to time determined by the Board of Directors as having contributed or may contribute to the development and growth of the Group to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue at the date of listing of the Company. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible person in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the individual limit must be subject to shareholders' approval.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1.00 per option. Option may be exercised, which shall commence 1 year after the date on which that option is granted and shall expire on the earlier of the last day of (i) a ten-year period from the date of such grant and (ii) ten-years from 17 January 2002. The subscription price is determined by the Board of Directors in its absolute discretion which, in any event, shall not be less than the highest of (a) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of that option, which must be a business day; (b) the average of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of that option; and (c) the nominal value for the time being of each share of the Company.

As at the date of listing of the Company on 11 February 2002, no option was granted by the Company under the Scheme since its adoption.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Since the date of listing of the Company, on 11 February 2002 and up to the date of this report, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

### **BANK LOANS AND OTHER BORROWINGS**

Particulars of bank loans and other borrowings of the Group as at 31 December 2001 are set out in notes 20 and 21 to the proforma financial information.

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## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's proforma sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	18.6%	
Five largest customers in aggregate	69.6%	
The largest supplier		13.1%
Five largest suppliers in aggregate		56.3%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the four financial years is set out on page 65 of the annual report.

## RETIREMENT SCHEMES

As from 1 December 2001, the Company operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000.

Details of the retirement benefit scheme of the Group and the employer's costs charged to the proforma combined income statement for the year ended 31 December 2001 are set out in note 12 to the proforma financial information.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules since the date of the listing of the Company.

## AUDIT COMMITTEE

The Company established an audit committee on 17 January 2002 with written terms of reference in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules.

The audit committee comprises two independent non-executive directors namely Mr. Tsui Chun Chung, Arthur and Lu Ze Jian. In respect of the financial statements for the period ended 31 December 2001 and the proforma financial information for the year ended 31 December 2001, the audit committee had met once to review the financial reporting process and the internal control systems of the Group and provide advice and comments to the board of directors.



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### **AUDITORS**

Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Ltd. were the joint auditors of the Company since the date of its listing on 11 February 2002. Arthur Andersen & Co was resigned as auditors of the Company on 27 March 2002 and then Charles Chan, Ip & Fung CPA Ltd. remains as auditors of the Company.

The financial statements and proforma financial information were audited by Charles Chan, Ip & Fung CPA Ltd. who retire at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Charles Chan, Ip & Fung CPA Ltd. as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

**Yeung Chung Lung**

Chairman

Hong Kong, 22 April 2002