

## Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st March, 2002.

### PRINCIPAL ACTIVITIES

The principal activities of the Group are the manufacture and distribution of food and beverages.

The analysis of geographical locations of the operations of the Group during the year are set out in note 13 on the financial statements.

### SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st March, 2002 are set out in note 15 on the financial statements.

### FINANCIAL STATEMENTS

The profit of the Group for the year ended 31st March, 2002 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 33 to 79.

An interim dividend of HK2.8 cents per share (2001: HK2.8 cents per share) was paid on 28th December, 2001. The Directors now recommend the payment of a final dividend of HK5.1 cents per share (2001: HK5.1 cents per share) in respect of the year ended 31st March, 2002.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year 38% of turnover and 38% of purchases (not including items which are of a capital nature) were attributable to the Group's five largest customers and suppliers respectively. 16% of turnover was attributable to the Group's largest customer and 25% of purchases was attributable to the Group's largest supplier.

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.

### CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$96,000 (2001: HK\$161,000).

### FIXED ASSETS

Movements in fixed assets of the Company and the Group during the year are set out in note 14 on the financial statements.

### BANK LOANS, BANK OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans, bank overdrafts and other borrowings of the Company and the Group as at 31st March, 2002 are set out in notes 22 and 24 on the financial statements.

## Report of the Directors (continued)

### SHARE CAPITAL

Movements in share capital of the Company during the year are set out in note 27 on the financial statements.

### RESERVES

Movements in reserves of the Company and the Group during the year are set out in note 28 on the financial statements.

### DIRECTORS

The Directors in office during the year and up to the date of this report are set out on pages 1, 20 and 21.

Mr. Iain F. Bruce was appointed as an Independent Non-executive Director of the Company on 21st December, 2001.

In accordance with Article 110 of the Company's Articles of Association, Mr. Iain F. Bruce will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 104 of the Company's Articles of Association, Ms. Yvonne Mo-ling Lo and Ms. Myrna Mo-ching Lo retire from the board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligation.

Non-executive Directors are appointed under the same terms for rotational retirement as other Directors, pursuant to the Articles of Association of the Company.

## Report of the Directors (continued)

### DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES

The Directors who held office at 31st March, 2002 had the following interests in the issued share capital of the Company at that date as recorded in the register as required under section 29 of the Securities (Disclosure of Interests) Ordinance (including interests which they are taken and deemed to have under that Ordinance):

Name	Type of interests and number of ordinary shares of HK\$0.25 each				
	Personal interests	Family interests	Corporate interests	Other interests	Total interests
Mr. Winston Yau-lai Lo (Notes 1, 5 and 6)	11,188,500	28,702,500	–	109,670,550	149,561,550
Mr. Frank Yau-yee Lo (Notes 2 and 6)	461,250	–	–	112,140,750	112,602,000
Ms. Yvonne Mo-ling Lo (Notes 3 and 6)	31,866,450	843,750	–	72,678,300	105,388,500
Ms. Myrna Mo-ching Lo (Notes 4 and 6)	–	–	27,974,700	72,678,300	100,653,000
Mr. Chi-kian Shiu (Note 5)	3,281,400	–	–	4,426,950	7,708,350
Mr. John Shek-hung Lau (Note 5)	15,000	–	–	4,426,950	4,441,950
Mr. Eric Fat Yu (Note 5)	75,000	–	–	4,426,950	4,501,950
Dr. David Kwok-po Li	2,000,000	–	–	–	2,000,000
Mr. Fransis Ming-yin Kong (Note 5)	3,000	–	–	4,426,950	4,429,950

Notes:

1. Mr. Winston Yau-lai Lo is interested in 32,565,300 shares held by The Bank of East Asia (Nominees) Limited, 1,875,000 shares held by his wife and 26,827,500 shares held by HKSCC Nominees Limited in trust for his wife.
2. Mr. Frank Yau-yee Lo is interested in 39,462,450 shares held by Benson Corporation which is the trustee of the Benson Unit Trust, the beneficiaries of which are members of his family.
3. Ms. Yvonne Mo-ling Lo is interested in 843,750 shares held in name of Yvonne Wong who holds the shares in trust for Ms. Yvonne Mo-ling Lo's daughter who is under the age of 18.
4. Ms. Myrna Mo-ching Lo is interested in 27,974,700 shares held by Supreme Luck Holdings Limited which in turn holds such shares in trust for The Lo Kwee Seong 1987 Trust. Ms. Myrna Mo-ching Lo is a director of Supreme Luck Holdings Limited.
5. Each of Mr. Winston Yau-lai Lo, Mr. Chi-kian Shiu, Mr. John Shek-hung Lau, Mr. Eric Fat Yu and Mr. Fransis Ming-yin Kong are trustees of the Group's staff provident fund scheme, which holds 4,426,950 shares, and are therefore deemed to be interested in such shares.
6. Each of Mr. Winston Yau-lai Lo, Mr. Frank Yau-yee Lo, Ms. Yvonne Mo-ling Lo and Ms. Myrna Mo-ching Lo are interested in 72,678,300 shares held by The Bank of East Asia (Nominees) Limited which holds such shares as a nominee for the K.S. Lo Foundation. Each of them are trustees of the K.S. Lo Foundation and are therefore deemed to be interested in such shares.

## Report of the Directors (continued)

### DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES (continued)

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company, none of the Directors or their respective associates had any interest in any shares in or debentures of the Company or any of its associates within the meaning of the Securities (Disclosure of Interests) Ordinance.

The Directors of the Company had personal interests in options to subscribe for ordinary shares of HK\$0.25 each in the Company under the share option scheme. Particulars of the Directors' interests in options during the year and as at 31st March, 2002 are set out in the section "Share option scheme" below.

### SHARE OPTION SCHEME

On 9th March, 1994, the Company adopted a share option scheme under which the Directors may, at their discretion on or before 9th March, 2004, grant options to eligible Directors and employees to subscribe for ordinary shares of HK\$0.25 each in the Company. The principal terms of the share option scheme are as follows:

- The exercise price of the options was the higher of (i) the nominal amount of the shares and (ii) an amount not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five business days immediately preceding the date of offer.
- The options are exercisable for a period to be notified by the Directors to each option holder upon the grant of option, such period not to exceed ten years from the date on which the option is granted.
- The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding under the share option scheme) when aggregated with any shares subject to any other such scheme of the Company, may not exceed 10% of the issued share capital of the Company in issue from time to time (but excluding shares issued under the share option scheme).
- The maximum aggregate number of shares over which options may be granted to any one participant, when added to the number of shares issued or issuable to that participant under the share option scheme must not exceed 25% of the maximum aggregate number of shares for the time being issued and issuable under the share option scheme.
- An offer of the grant of an option remains open for acceptance by an eligible Director or employee for a period of 28 days from the date of offer or such longer or shorter period as the Directors may in their discretion determine. An eligible Director or employee has to pay HK\$10 on acceptance of the option as a consideration.

## Report of the Directors (continued)

### SHARE OPTION SCHEME (continued)

Particulars of options outstanding during the year and as at 31st March, 2002 are as follows:

Participants	Date granted	Period during which options are exercisable	Price per share on exercise of options HK\$	Number of options at the beginning of the year	Number of options lapsed during the year on expiry of exercisable period	Number of options forfeited during the year on resignation/ termination of employment of eligible employees	Number of options outstanding at the year end
<b>Directors</b>							
Mr. Winston Yau-lai Lo	28th June, 1994	31/5/1995 – 31/5/2001	1.435	1,792,500	1,792,500	–	–
	28th June, 1998	1/8/1998 – 31/7/2003	1.104	2,737,500	–	–	2,737,500
	4th July, 2000	7/9/2000 – 31/8/2005	1.193	3,450,000	–	–	3,450,000
Ms. Yvonne Mo-ling Lo	28th June, 1994	31/5/1995 – 31/5/2001	1.435	2,400,000	2,400,000	–	–
	3rd September, 1996	4/9/1996 – 3/9/2001	1.275	813,750	813,750	–	–
	28th June, 1998	1/8/1998 – 31/7/2003	1.104	2,250	–	2,250	–
	4th July, 2000	7/9/2000 – 31/8/2005	1.193	2,331,000	–	2,331,000	–
Mr. Eric Fat Yu	28th June, 1994	31/5/1995 – 31/5/2001	1.435	2,137,500	2,137,500	–	–
	3rd September, 1996	4/9/1996 – 3/9/2001	1.275	723,750	723,750	–	–
	28th June, 1998	1/8/1998 – 31/7/2003	1.104	1,245,000	–	–	1,245,000
	4th July, 2000	7/9/2000 – 31/8/2005	1.193	1,953,000	–	–	1,953,000
Mr. John Shek-hung Lau	28th June, 1994	31/5/1995 – 31/5/2001	1.435	2,137,500	2,137,500	–	–
	3rd September, 1996	4/9/1996 – 3/9/2001	1.275	723,750	723,750	–	–
	28th June, 1998	1/8/1998 – 31/7/2003	1.104	1,305,000	–	–	1,305,000
	4th July, 2000	7/9/2000 – 31/8/2005	1.193	1,953,000	–	–	1,953,000
Mr. Francis Ming-yin Kong	28th June, 1994	31/5/1995 – 31/5/2001	1.435	2,400,000	2,400,000	–	–
	3rd September, 1996	4/9/1996 – 3/9/2001	1.275	813,750	813,750	–	–
	28th June, 1998	1/8/1998 – 31/7/2003	1.104	1,478,250	–	–	1,478,250
	4th July, 2000	7/9/2000 – 31/8/2005	1.193	2,331,000	–	–	2,331,000
<b>Eligible employees working under employment contracts</b>	28th June, 1994	31/5/1995 – 31/5/2001	1.435	7,218,750	6,431,250	787,500	–
	3rd September, 1996	4/9/1996 – 3/9/2001	1.275	4,105,500	3,824,250	281,250	–
	28th June, 1998	1/8/1998 – 31/7/2003	1.104	3,533,250	–	6,000	3,527,250
	4th July, 2000	7/9/2000 – 31/8/2005	1.193	15,135,000	–	3,267,000	11,868,000

## Report of the Directors (continued)

### SHARE OPTION SCHEME (continued)

During the year, no share options were exercised to subscribe for ordinary shares in the Company.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company or any of their spouses or children under eighteen 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 INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified, in addition to Mr. Winston Yau-lai Lo, Mr. Frank Yau-yeo Lo, Ms. Yvonne Mo-ling Lo and Ms. Myrna Mo-ching Lo as set out in the section "Directors' interests in shares and rights to acquire shares" above, of the following interests in the Company's issued shares at 31st March, 2002 amounting to 10% or more of the shares in issue, as recorded in the register required to be kept pursuant to section 16(1) of the Securities (Disclosures of Interests) Ordinance (including interests which they are taken and deemed to have under that Ordinance):

	Ordinary shares of HK\$0.25 each	Percentage of total issued shares
Mr. Peter Tak-shing Lo	127,197,000	13.08%
Ms. Irene Chan	101,403,000	10.43%

Both Mr. Peter Tak-shing Lo and Ms. Irene Chan are interested in 72,678,300 ordinary shares held by The Bank of East Asia (Nominees) Limited which holds such shares as a nominee for the K.S. Lo Foundation. They are both the trustees of the K.S. Lo Foundation and are therefore deemed to be interested in such shares.

### DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries and associates was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and officers' liability insurance was maintained during the year.

## Report of the Directors (continued)

### CONNECTED TRANSACTIONS

- (a) During the year, the Company's subsidiary, Vitasoy Australia Products Pty. Ltd. ("VAP"), entered into the following transactions with National Foods Milk Limited ("NFML"), a fellow subsidiary of National Foods Holdings Limited, a substantial shareholder holding 49% of the issued share capital of VAP, which constituted connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").
- (i) Since November 2000, the Company has entered into an arrangement with VAP whereby VAP would distribute in Australia on behalf of the Company a certain amount of products targetted for the mainstream market and manufactured by the Company ("HK Products"). VAP then entered into an arrangement with NFML whereby NFML would act as the exclusive distributor in Australia of the HK Products. In return, VAP would pay a management fee equal to 3.5% of the gross sales of HK Products distributed by NFML in Australia ("1st Arrangement"). During the year ended 31st March, 2002, management fee amounting to HK\$934,000 was charged by NFML in this connection.
- (ii) On 24th December, 1999, VAP and NFML entered into an agreement whereby NFML will provide services to VAP in relation to products manufactured by VAP ("VAP Products"). As part of the services provided, NFML will be the exclusive distributor in Australia of VAP Products. In return, VAP would pay a management fee equal to 3.5% of gross sales of VAP Products distributed by NFML in Australia ("2nd Arrangement"). During the year ended 31st March, 2002, management fee amounting to HK\$1,300,000 was charged by NFML in this connection.

The Company has applied to The Stock Exchange of Hong Kong Limited for a conditional waiver from strict compliance with the Listing Rules in respect of the connected transactions above for each of the three years up to 31st March, 2004.

The Independent Non-executive Directors of the Company have reviewed the above connected transactions and confirmed that:

- The connected transactions were:
  - (i) entered into in the ordinary and usual course of business;
  - (ii) conducted on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
  - (iii) entered into in accordance with the terms of the agreement governing the transactions under the 2nd Arrangement; and are on terms no less favourable than those available from independent third parties for the transactions under the 1st Arrangement.
- The consideration of the transactions under each of the 1st and 2nd Arrangements has not exceeded 1% of the total turnover of the Group for the year ended 31st March, 2002.

## Report of the Directors (continued)

### CONNECTED TRANSACTIONS (continued)

(b) On 26th August, 1999 and 23rd March, 2001, the Company entered into agreements to guarantee banking facilities of HK\$21 million and HK\$48 million granted to its non-wholly owned subsidiaries, Shenzhen Vitasoy (Guang Ming) Foods and Beverage Company Limited and Vitasoy Australia Products Pty. Ltd. respectively.

### CORPORATE GOVERNANCE

#### *Audit Committee*

In compliance with the Code of Best Practice, the Company established an Audit Committee with written terms of reference in November 1998. The Committee comprised two Independent Non-executive Directors and one Non-executive Director since its establishment and throughout the accounting period for the six months ended 30th September, 2001.

Sadly, Mr. Eoghan M. McMillan, one of the Company's Independent Non-executive Directors and a member of the Committee, passed away on 2nd October, 2001. From that date to 10th January, 2002, until the appointment of Mr. Iain F. Bruce, an Independent Non-executive Director of the Company, as a member and the Chairman of the Committee, the Company was unable to comply with the requirement of the Code of Best Practice that a majority of the members of the Audit Committee should be independent.

The present Committee members are Messrs. Iain F. Bruce (Chairman), David Kwok-po Li and Chi-kian Shiu.

The Committee met twice during the year to review the internal audit programmes and plans for and results of the external audit, as well as to review the interim and annual reports of the Group.

#### *Compensation Committee*

The Company established a Compensation Committee on 4th February, 1994. The Committee comprises all the Independent Non-executive Directors, the Non-executive Directors and the Executive Chairman of the Company with written terms of reference. The Committee met twice during the year to review and approve the remuneration packages of the Group's employees including the Executive Directors and the other senior employees and the terms of and awards given under the discretionary bonus scheme.

#### *Compliance of Code of Best Practice*

Save as disclosed in the section "Audit Committee" above, the Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

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

Details of the purchase by the Company of its own shares during the year are set out in note 27(d) on the financial statements. The purchases were made in view of the depressed market for the shares to enhance the net assets value per share and earnings per share of the Company. Save as disclosed in note 27(d) on the financial statements, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.



## Report of the Directors (continued)

### FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 80.

### AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**Winston Yau-lai LO**

*Executive Chairman*

Hong Kong, 10th July, 2002