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 2002.

FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of HK$370.5 million (2001: HK$469.7 million), representing a decrease of 21.1% over the prior year. Loss attributable to shareholders amounted to HK$53.3 million (2001: HK$17.2 million). Loss per share was HK3.77 cents (2001: HK1.23 cents). At 30 April 2002, the Group's net cash position amounted to HK$51.8 million (2001: HK$9.4 million) represented 54% of the shareholders' equity of HK$95.6 million (2001: HK$121.9 million).

DIVIDEND

The Board of Directors do not recommend the payment of any dividend for the year ended 30 April 2002 (2001: Nil).

EQUITY

The Company's issued and fully paid share capital as at 30 April 2002 amounted to HK$168,000,200 divided into 1,680,002,000 ordinary shares of HK$0.10 each.

Pursuant to a placing agreement dated 26 March 2002, 280,000,000 new ordinary shares of HK$0.10 each of the Company, ranking pari passu with the existing shares in all respects, were issued. The placement was completed on 12 April 2002.

Subsequent to the balance sheet date, pursuant to another placing agreement dated 14 June 2002, 240,000,000 new ordinary shares of HK$0.10 each of the Company, ranking pari passu with the existing shares in all respects, were issued. The placement was completed on 28 June 2002.

INDUSTRY REVIEW

Processed Eel

Japan, the largest processed eel importing country in the World, has been facing stagnant growth in the economy during the past few years resulted in slowdown in the private consumption. As a traditional delicacy in Japan, the slowdown in private sector consumption does not affect the market demand of processed eels in term of trading volume. On the contrary, the selling price of processed eels has been in decreasing trend during the past few years. Even the demand in processed eel products is still increasing in Japan market, the product itself is price sensible.

The People's Republic of China (the "PRC") is the largest supplier of processed eels in the World. The manufacturers of processed eels in the PRC are with excellent technical known-how in production and food quality assurance. Another advantage is the low production cost in the PRC as compared with the suppliers from other countries. The PRC manufacturers play a key role in the processed eel market as the aforesaid two advantages continue to contribute.

Eel Feed Production

The eel feed production serves as a complement to both the processed eel industry and eel farming industry – the eel farms, the live eel suppliers. Market demand in eel feeds would be increased while increasing demand for live eels and vice versa. The production of eel feeds in Fujian Province, the PRC is still in a better position as most of the eel farms are located in Fujian and Guangdong Province, the PRC.

BUSINESS & OPERATION REVIEW

Processed Eel Division

Premium grade processed eel is the major product of the Group. The processed eel business accounted for approximately 91.6% of the Group's total turnover. Premium grade processed eels are manufactured in the Group's two plants which are located in Fuqing, the PRC, and are marketed to Japan under the brand names "Qixiang" and "Yuanfu" and they are well received by the Japan market. Over 99% of the Group's processed eels were exported to Japan and only small quantity of processed eels were sold in the PRC. During the year under review, the Group successfully secured increasing number of sales orders from Japan and the Group achieved its highest sales volume and production volume record since its establishment even the Japan market was becoming in fierce competitive due to new suppliers of premium grade eels and the slowdown of the private consumption.

Despite of the increasing sales volume, the sales amount decreased because of the slide down of selling price. The sales figure was decreased by approximately 13% to HK$339.4 million representing over 5,000 tonnes against last year's figure of HK$390.7 million representing about 4,600 tonnes. The average selling price for current year was dropped by about 27%. The Group decreased its selling price in order to cope with the keen competition and to maintain the market share, which led to the drop in gross profit margin. As a result, the processed eels division incurred loss for current year.

During the year under review, the Group's maximum production capacity is maintained at 6,000 tonnes of processed eels per year in its two production plants, and the actual production level was over 5,000 tonnes as compared with the production level of over 4,600 tonnes in last year. The Group expects production for the coming year will at least maintain at this year's level.

In addition to the two well received brand names, the Group's eel production plants were awarded ISO 9002 and HACCP quality assurance accreditation which demonstrated that the Group's quality control system has met the international standards. The aforesaid are the strength of the Group in the competitive processed eels market in the near future.

Feed Production Division

Apart from the processed eel business, the Group also engages in the manufacturing and trading of quality eel feeds to approximately 200 eel farms in the PRC under the brand name "Sanhua". Feeds are manufactured in the Group's two plants located at Fuzhou and Longyan, the PRC. Sales of eel feeds only account for 8.4% of the Group's total turnover during the year under review. The sales figure was down sharply by about 61%. The tremendous drop in turnover was resulted from the general downturn in the eel farms business as the processed eel manufacturers cut down the cost of manufacturing. The eel feed production business recorded an operating loss for the year.

In order to better utilize the human, financial resources and the production capacity, the Company shut down the eel feed plant in Guilin, the PRC in June 2001.

Disposal of Associated Company

In order to rationalize the Group's structure and control over the financial resources and to minimize further loss in the coming years, at 30 April 2002, the Group disposed its associated company located in Fuqing, the PRC, a manufacturer of eel feeds. The disposal gave rise to a loss of approximately HK$27.4 million.

PROSPECTS

For the processed eel products, apart from Japan market, the Group will enhance its market research effort in the PRC and Hong Kong market. Trial orders have been obtained from Hong Kong. The management is now considering expansion into other markets such as South East Asia, North America and EEC. Looking ahead in the coming years, the Group expects the share in the world market of processed eel products will be at least at current year's level.

Subsequent to the balance sheet date, the Group has entered into two new business arms:

i) A co-operation agreement was entered into by the Group with an independent third party for setting up a company engaging in distribution of snack foods in the PRC. The Group is responsible for contributing 42%

of the total registered capital of this newly set up company, being HK$21 million, in cash, all of which was paid in June 2002. The experience of manufacture and marketing processed eels would be benefit in extending its business into the snack foods market by sourcing quality snack foods accepted by the market; and

ii) An investment agreement was entered into by the Group with an independent third party for setting up a company engaging in investing in environmental protection business in the PRC. The Group is responsible for contributing 60% of the total share capital of this newly set up company, being HK$13.2 million, in cash, all of which was paid in July 2002. Environmental protection will be the major issue in the coming future in the PRC or any part of the world. The environmental protection business will be a growth business in the coming years. It should be the right time for the Group to enter into this new business arm.

Details of these two subsequent events were set out in note 26 of the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group financed its operations with internally generated cash flows, proceeds from placing of shares and banking facilities provided by the principal bankers in the PRC. As at 30 April 2002, the Group's net asset value stood at HK$95.6 million with total assets over HK$195 million. The Group's unpledged cash and bank balances stood at approximately HK$52 million as at 30 April 2002.

On the contrary, the Group's bank borrowings as at 30 April 2002 was at a similar level to that of last year and amounted to HK$57.3 million, all of which is fully repayable within one year. Out of the HK$57.3 million bank borrowings, a loan of JPY87 million (equivalent to approximately HK$5.3 million) was secured by the Group's leasehold land and buildings, and a loan of RMB8 million (equivalent to approximately HK$7.5 million) was secured by the leasehold land and buildings of an associated company. The remaining bank loans of JPY500 million (equivalent to approximately HK$30.5 million) and approximately HK$14 million were secured by guarantees executed by a related company. The gearing ratio of the Group as at 30 April 2002 calculated as a ratio of total bank loans to total assets was 29%. Net current assets was approximately HK$48.3 million and current ratio was maintained at a healthy level of approximately 149%.

EMPLOYEES AND REMUNERATION POLICIES

The Group had a total of approximately 550 employees in Hong Kong and the PRC as at 30 April 2002. 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 the PRC, the Group provides staff welfare and bonus to its employees pursuant to prevailing labour laws. In Hong Kong, the Group provides staff with Mandatory Provident Fund retirement benefit scheme. Under the terms of the share option scheme (the "Scheme") adopted by the Company on 19 October 1999, the Directors are authorized, 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.

CONTINGENT LIABILITY

The Group did not have any significant contingent liability as at the balance sheet date.

FOREIGN EXCHANGE AND CURRENCY RISKS

Significant foreign currency exposure was not expected by the Group since most of the revenue generated from the sales and the payment for purchases of materials, equipment and salaries are made at Hong Kong dollars, Renminbi, or Japanese Yen. No financial instruments for hedging purposes are used by the Group.

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.

Lai Leong
Chairman