

The board of directors (the “Board”) has pleasure in submitting the annual report together with the audited financial statements of First Natural Foods Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2002.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are set out in note 16 to the financial statements.

## **SEGMENTAL INFORMATION**

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries are set out in note 14 to the financial statements.

## **FINANCIAL STATEMENTS**

The consolidated income statement of the Group for the year ended 31 December 2002 and the state of the Group’s affairs as at that date are set out in the financial statements on pages 23 to 55.

The Board recommends the declaration of a final dividend at the rate of HK\$0.03 per share (equivalent to approximately RMB0.0318 per Share) payable on 24 June 2003 to all persons registered as holders of shares on 22 May 2003 (2001: nil).

No interim dividend was declared in the year 2002. (2001: RMB75,610,000)

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 23 May to 30 May 2003, both days inclusive, during which period no transfer of shares will be effected.

## **FIXED ASSETS**

Details of movements in fixed assets are set out in note 15 to the financial statements.

## **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 25 to the financial statements.

## **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 27 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.

## DIRECTORS

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

### Executive directors

Yeung Chung Lung, *Chairman*

Yang Le

Ni Chao Peng

Weng Zu Liang

Yip Tze Wai, Albert

### Non-executive director

Lim Kwok Choi (appointed on 3 June 2002)

Lin Wan Qaing (resigned on 3 June 2002)

### Independent non-executive directors

Tsui Chun Chung, Arthur

Lu Ze Jian

In accordance with article 86(2) of the Company's bye-laws, Mr. Lim Kwok Choi will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In accordance with article 87 of the Company's bye-laws, Mr. Weng Zu Liang and Mr. Tsui Chun Chung, Arthur will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Mr. Lim Kwok Choi was appointed by the Board as a non-executive director to fill the vacancy left by the resignation of Mr. Lin Wan Qaing. He entered into a letter of appointment with the Company on 3 June 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 1 year and shall continue thereafter unless and until terminated by either party giving 3 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the directors and senior management are set out on pages 14 to 15.

## 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 EXECUTIVES' INTERESTS IN SECURITIES OF THE COMPANY

As at 31 December 2002, the interests of the directors and chief executives in the shares of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

| Name of Company | Name of Director | Number of Shares   |                  |                              |                 | Total Shares |
|-----------------|------------------|--------------------|------------------|------------------------------|-----------------|--------------|
|                 |                  | Personal Interests | Family Interests | Corporate Interests          | Other Interests |              |
| The Company     | Yeung Chung Lung | —                  | —                | 390,000,000<br><i>(Note)</i> | —               | 390,000,000  |

*Note:*

Held through Regal Splendid Limited which is wholly-owned by Mr. Yeung Chung Lung.

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 OF SIGNIFICANCE

Save as disclosed under the section heading "CONNECTED TRANSACTIONS" below, there was no contract of significance to which the Company or any of its 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.

## CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2002, which do not constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are disclosed in note 30 to the financial statements.

## 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 31 December 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the issued share capital:

| <b>Name of Shareholder</b>             | <b>Number of Shares</b> | <b>% of Issued Share Capital</b> |
|--|-------------------------|----------------------------------|
| Regal Splendid Limited ( <i>Note</i> ) | 390,000,000             | 48.75%                           |

*Note:*

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.

## **SHARE OPTION SCHEME**

Details of share option scheme of the Company are set out in note 26 to the financial statements.



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

During the year, 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 2002 are set out in notes 22 and 23 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

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

|                                     | Percentage of<br>the Group's total |           |
|-------------------------------------|------------------------------------|-----------|
|                                     | Sales                              | Purchases |
| The largest customer                | 27.8%                              |           |
| Five largest customers in aggregate | 79.1%                              |           |
| The largest supplier                |                                    | 15.3%     |
| Five largest suppliers in aggregate |                                    | 57.8%     |

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors own 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 five financial years is set out on page 56 of the annual report.

## RETIREMENT SCHEME

Details of the retirement benefit scheme of the Group and the employer's costs charged to the consolidated income statement for the year ended 31 December 2002 are set out in note 13 to the financial statements.

## 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 Mr. Lu Ze Jian. In respect of the financial statements for the year ended 31 December 2002, 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.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

## AUDITORS

The financial statements were audited by Charles Chan, Ip & Fung CPA Ltd. who will 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, 23 April 2003