

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 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 4 in the financial statements.

SEGMENTAL INFORMATION

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 14 in the financial statements.

FINANCIAL STATEMENTS

The consolidated income statement of the Group for the year ended 31 December 2003 and the state of the Group's affairs as at that date are set out in the financial statements on pages 23 to 59.

DIVIDENDS AND OTHER DISTRIBUTION

The Board has recommended the payment of a final dividend of HK\$0.02 per share (approximately equivalent to RMB2.12 cents per share) for the year ended 31 December 2003, together with a bonus issue of shares of HK\$0.05 each, on the basis of two shares for every one hundred shares held by the members registered as such on the register of members of the Company on 4 June 2004 (including those with registered addresses outside Hong Kong) (2002: HK\$0.03 per share (approximately equivalent to RMB3.18 cents per share)), subject to members' approval at the forthcoming annual general meeting to be held on 4 June 2004, to the members whose names appear on the Register of Members of the Company on 4 June 2004 and payable and distributable on or before 18 June 2004.

No interim dividend was declared for the six months ended 30 June 2003 (2002: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 31 May 2004 (Monday) to 4 June 2004 (Friday), both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend and bonus shares, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, namely, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 28 May 2004 (Friday).

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 26 in the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 29 in 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:

Mr. Yeung Chung Lung (*Chairman*)

Mr. Yang Le

Mr. Ni Chao Peng

Mr. Weng Zu Liang (Resigned on 27 October 2003)

Mr. Yip Tze Wai, Albert

Non-executive director:

Mr. Lim Kwok Choi (Resigned on 27 October 2003)

Independent Non-executive directors:

Mr. Tsui Chun Chung, Arthur

Mr. Lu Ze Jian

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Lu Ze Jian will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Yeung Chung Lung, Mr. Yang Le, Mr. Ni Chao Peng, 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 commencing on 11 February 2002 and shall continue thereafter unless and until terminated by either party giving not less than three months' prior written notice.

Each of Mr. Tsui Chun Chung, Arthur and Mr. Lu Ze Jian has entered into a letter of appointment with the Company for a term of one year commencing on 11 February 2002 and will continue thereafter unless and until terminated in accordance with the terms and conditions stated in the letter of appointment.

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 within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of Directors and senior management are set out on pages 14 to 15.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2003, none of the Directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2003, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows :

Long positions in shares of the Company

Name of Director	Personal interests	Number of ordinary shares			Total	Percentage of issued share capital
		Family interests	Corporate interests			
Yeung Chung Lung	—	—	390,000,000 (Note)	390,000,000	48.36%	

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 interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2003, so far as is known to the Directors, the following parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of Ordinary shares	Percentage of issued share capital
Regal Splendid Limited (Note 1)	Beneficial owner	390,000,000	48.36%
Wisdom Latch Limited (Note 2)	Beneficial owner	51,115,000	6.39%

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) 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the headings "Share Option Scheme" below and "Directors' and Chief Executives' Interests in Securities" above, at no time during the year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or Chief Executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected Transaction" below, there was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year, and in which a Director had, whether directly or indirectly, a material interest, nor there was any other contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.

CONNECTED TRANSACTIONS

Neither significant related party transactions nor connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") had entered by the Group during the year ended 31 December 2003.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 28 to the financial statements.

2.5% COUPON BONDS WITH WARRANTS ATTACHED

Details of coupon bonds, warrants and movement in warrants of the Group are set out in note 25 and 27 respectively.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2003 are set out in note 22 to the financial statements.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

During the year ended 31 December 2003, circumstance which will trigger events of default of the Company under the banking facility document as far as the obligation of the controlling shareholder is concerned is as follows:

On 1 December 2003, the Company had entered into a facility agreement (the "Facility Agreement") with a syndicate of banks relating to a 3-year term loan facility of up to HK\$60,000,000 (the "Loan"). Under the Facility Agreement, it would be an event of default if Mr. Yeung Chung Lung, the controlling shareholder of the Company as defined in the Listing Rules, ceasing to be the single largest and controlling shareholder of the Company. If such an event of default was to occur, all amounts outstanding in respect of the Loan would become immediately due and payable by the Company.

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 the Group's total	
	Sales	Purchases
The largest customer	32%	
Five largest customers in aggregate	81%	
The largest supplier		14%
Five largest suppliers in aggregate		52%

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 customer and suppliers.

FINANCIAL 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 60 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 2003 are set out in note 13 to the financial statements.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors of the Company, namely, Mr. Tsui Chun Chung, Arthur and Mr. Lu Ze Jian. The audit committee has reviewed with the Company's management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements and the audited annual financial statements of the Company during the year.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year under review except for the Independent Non-executive Directors are not appointed for any specific terms as they are subject to retirement by rotation in accordance with bye-law 87(1) of the Bye-laws of the Company.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 32 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, 26 April 2004