

# DIRECTORS' REPORT

The Directors present their first report together with the audited financial statements of the Company from 9 October, 2002 (date of incorporation) to 31 December, 2003 and of the Group for the year ended 31 December, 2003.

## REORGANISATION AND LISTING ON THE STOCK EXCHANGE

The Company was incorporated and registered on 9 October, 2002 as an exempted company with limited liabilities in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 3 June, 2003.

Details of the Group Reorganisation are set out in note 1 to the financial statements.

The shares of the Company were listed on the Stock Exchange with effect from 25 June, 2003.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 36 to the financial statements.

## RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December, 2003 are set out in the consolidated income statement on page 27 of this annual report.

An interim dividend of HK1.5 cents per share was paid during the year. The directors now recommend the payment of a final dividend of HK2 cents per share to the shareholders on the register of members on 27 May, 2004.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

## SHARE CAPITAL

Details of movements during the period from 9 October, 2002 (date of incorporation) to 31 December, 2003 in the share capital of the Company are set out in note 25 to the financial statements.

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

## DIRECTORS

The directors of the Company since its date of incorporation and up to the date of this report were:

### Executive directors:

But Ching Pui ( <i>Honorary Chairman</i> )	(appointed on 28 May, 2003)
But Ka Wai ( <i>Chairman</i> )	(appointed on 24 October, 2002)
But Chai Tong ( <i>Vice Chairman</i> )	(appointed on 24 October, 2002)
Lai Wing Kuen	(appointed on 28 May, 2003)
Chu Kin Wah	(appointed on 28 May, 2003)

### Non-executive directors:

Leung Wai Ling	(appointed on 28 May, 2003)
Ngai Chun Kong, Stephen	(appointed on 28 May, 2003)

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### **Independent non-executive directors:**

Cheung Yu Yan, Tommy	(appointed on 28 May, 2003)
Ip Shing Tong, Francis	(appointed on 28 May, 2003)
Ku Siu Fung, Stephen	(appointed on 28 May, 2003)

In accordance with Article 108 of the Company's Articles of Association, Messrs. Leung Wai Ling, Ngai Chun Kong, Stephen and Ku Siu Fung, Stephen will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors has entered into a service agreement with the Company. Each of Messrs. But Ching Pui, But Kai Wai and But Chai Tong has entered into a service agreement with the Company for an initial term of three years commencing 1 June, 2003 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Each of Messrs. Lai Wing Kuen and Chu Kin Wah has entered into a service agreement with the Company for an initial term of two years commencing 1 June, 2003 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Each non-executive and independent non-executive director has entered into a service agreement with the Company for an initial term of two years commencing 1 June, 2003 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Save as disclosed above, none of the Directors being 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 Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December, 2003, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), 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:

### Long positions

Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
But Ching Pui	Beneficial owner	7,000,000	3.5%
But Ka Wai	Held by controlled corporation (note 1)	63,000,000	31.5%
But Chai Tong	Held by controlled corporation (note 2)	63,000,000	31.5%
Leung Wai Ling	Beneficial owner	7,000,000	3.5%
		140,000,000	70.0%

Notes:

(1) These shares were held by Able Success Group Limited which is wholly-owned by Mr. But Ka Wai.

(2) These shares were held by National Chain International Limited which is wholly-owned by Mr. But Chai Tong.

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Other than as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December, 2003.

### SHARE OPTIONS

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

No share option has been granted under the Company's share option scheme since its adoption on 3 June, 2003.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Options" above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 31 December, 2003.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in the section headed "Connected Transactions" below, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

## CONNECTED TRANSACTIONS

Details of discloseable connected transactions for the year are set out in note 34 to the financial statements. In the opinion of the independent non-executive Directors, the transactions were carried out on normal commercial terms, in the ordinary and usual course of business of the Group, on terms that are fair and reasonable so far as the shareholders of the Company are concerned and within the relevant cap amounts as agreed by the Stock Exchange.

## MAJOR CUSTOMERS AND SUPPLIERS

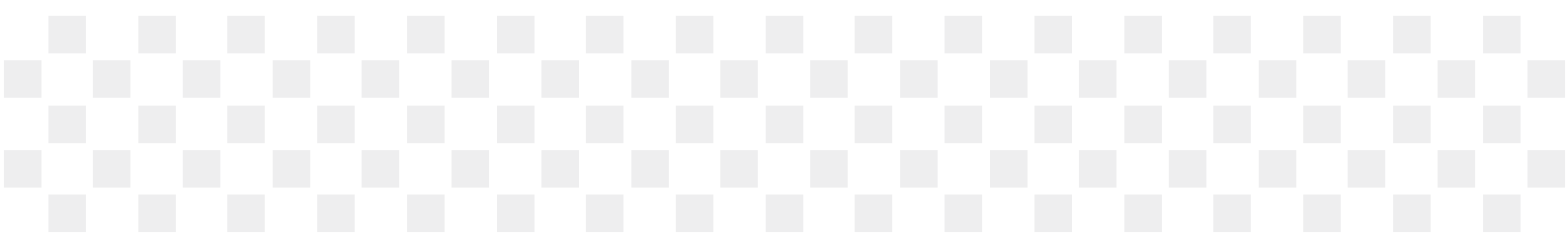
During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 43% of the sales of the Group and the largest customer accounted for approximately 18% of the total sales of the Group.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 43% of the total purchases of the Group and the largest supplier accounted for approximately 12% of the total purchases of the Group.

At no time during the year did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the Directors owns more than 5% of the Company's issued share capital, have an interest in any of the five largest customers and suppliers of the Group.

## CORPORATE GOVERNANCE

The Company has complied in the period between the listing date and 31 December, 2003 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules").



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## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES

The Group has entered into a loan agreement which requires the substantial shareholders of the Company to maintain their controlling interest in the Company. Failure to do so may result in the loan becoming immediately due and payable. The relevant loan was granted to Wah Yuen Foods International Limited, a wholly-owned subsidiary of the Company, amounting to HK\$40 million.

## AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company at the time of its incorporation on 9 October, 2002. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint them.

On behalf of the Board

**But Ka Wai**

CHAIRMAN

Hong Kong, 26 April, 2004