

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 March 2003.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's performance for the year by geographical segments is set out in note 2 to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 29.

The directors have declared an interim dividend of HK1.0 cent per ordinary share, totalling HK\$2,478,000 which was paid on 23 January 2003.

The directors recommend the payment of a final dividend of HK3.0 cents per ordinary share, totalling HK\$7,435,000.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$1,880,648.

## FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

## REPORT OF THE DIRECTORS

### SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the accounts.

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2003, calculated under section 79B of the Companies Ordinance, amounted to HK\$149,322,000 (2002: HK\$156,754,000).

### FIVE YEAR FINANCIAL INFORMATION

The following table summarises the results, assets and liabilities of the Group for each of the five years ended 31 March 2003:

	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Results</b>					
Turnover	<u>474,422</u>	<u>501,444</u>	<u>601,596</u>	<u>711,247</u>	<u>755,045</u>
Operating profit	19,343	8,905	42,622	36,205	24,615
Share of profit of associated companies	<u>20,734</u>	<u>24,371</u>	<u>17,946</u>	<u>–</u>	<u>–</u>
Profit before taxation and minority interests	40,077	33,276	60,568	36,205	24,615
Taxation	<u>(7,247)</u>	<u>(5,288)</u>	<u>(3,429)</u>	<u>(2,761)</u>	<u>(2,417)</u>
Profit after taxation	32,830	27,988	57,139	33,444	22,198
Minority interests	<u>–</u>	<u>–</u>	<u>(52)</u>	<u>(749)</u>	<u>(1,099)</u>
Profit attributable to shareholders	<u>32,830</u>	<u>27,988</u>	<u>57,087</u>	<u>32,695</u>	<u>21,099</u>
<b>Assets and liabilities</b>					
Total assets	419,564	419,830	389,283	352,834	326,125
Total liabilities and minority interests	<u>(136,713)</u>	<u>(161,494)</u>	<u>(154,485)</u>	<u>(135,676)</u>	<u>(136,793)</u>
<b>Shareholders' funds</b>	<u>282,851</u>	<u>258,336</u>	<u>234,798</u>	<u>217,158</u>	<u>189,332</u>

## REPORT OF THE DIRECTORS

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### DIRECTORS

The directors during the year were:

TAI Tak Fung, Stephen (*Chairman*)

Takeshi NOMAGUCHI (*Managing Director*)

MAN Wing Cheung, Ellis

YIP Wai Keung

TSE Siu Wan

LAI Yuk Chuen, Philip

CHAN Kay Cheung \*

LAN Yee Fong, Steve John \*

In accordance with Article 105(A) of the Company's Articles of Association, Mr. TSE Siu Wan and Mr. LAI Yuk Chuen, Philip retire by rotation and, being eligible, offer themselves for re-election.

\* *Independent non-executive directors*

## REPORT OF THE DIRECTORS

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out as follows:

#### EXECUTIVE DIRECTORS

**Dr. TAI Tak Fung, Stephen**, JP, PhD, aged 55, is the chairman of the Group, responsible for corporate strategies, policies and planning. Dr. Tai received a number of awards and accolades, including the 30th Food Industry Distinguished Service Award, Letter of Appreciation from the Food & Marketing Bureau of the Ministry of Agriculture, Forestry and Fishery of Japan, “Honourable Citizen of Shantou” and “Honourable Citizen of Guangzhou” in Mainland China. He holds several public positions including the president of Hong Kong Foodstuffs Association Limited, the president of Hong Kong Japan Confectionery, Biscuit & Foodstuff Association, the consultant of China National Food Industry Association, a member of Chinese People’s Political Consultative Conference, a member of the Chinese People’s Political Consultative Conference Canton Standing Committee and the International Economic Adviser of the People’s Government of Hebei Province. He is also the founder and Chairman of Four Seas Mercantile Holdings Limited (“FSMHL”), an associated corporation listed on The Stock Exchange of Hong Kong Limited. He is also a director of Careful Guide Limited and Special Access Limited, the substantial shareholders of the Company.

**Mr. Takeshi NOMAGUCHI**, aged 55, is the Managing Director of the Group, responsible for the overall management planning and control. Mr. Nomaguchi is a graduate of Kyushu University in Japan. Prior to joining the Group, he worked for Mitsubishi Corporation, Japan for 26 years where he gained extensive experience in trading of meat and livestock. Mr. Nomaguchi joined the Group in 1997.

**Mr. MAN Wing Cheung, Ellis**, aged 47, is responsible for corporate finance, information technology and general administration. Mr. Man has a Master of Commerce degree from the University of New South Wales in Australia. He is also a member of CPA Australia and the Hong Kong Society of Accountants. He gained extensive experience in finance and accounting from overseas multinational corporations. Mr. Man joined the Group in 1992. He is also a director of FSMHL.

**Mr. YIP Wai Keung**, aged 53, has extensive experience in sales and marketing. He joined the Group in 1997. He is also a director of FSMHL.

## REPORT OF THE DIRECTORS

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

#### EXECUTIVE DIRECTORS (continued)

**Mr. TSE Siu Wan**, aged 42, has extensive experience in food business. Mr. Tse joined the Group in 1980.

**Mr. LAI Yuk Chuen, Philip**, aged 48, is responsible for strategic sales, marketing and purchasing management. He has extensive experience in trading and marketing. Mr. Lai joined the Group in 1984.

#### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. CHAN Kay Cheung**, aged 56, joined the Group as independent non-executive director in 1995. He is an Executive Director and Deputy Chief Executive of The Bank of East Asia, Limited. He is also a Director of Chu Kong Shipping Development Company Limited and Winsan (China) Investment Group Company Limited. Mr. Chan is a fellow member of the Hong Kong Institute of Bankers and a member of the MPF Industry Schemes Committee. He joined the Bank in 1965 and possesses extensive knowledge and experience in the banking industry.

**Mr. LAN Yee Fong, Steve John**, aged 62, joined the Group as independent non-executive director in 1998. He is now the Chairman of Evergreen Consultants Limited and President of Inswire Insurance Brokers. Mr. Lan was Chairman of Zurich Financial Services Group, Hong Kong. He is a graduate of The University of Hong Kong and a fellow of Chartered Insurance Institute. Mr. Lan has extensive experience in the insurance industry with intensive involvement in corporate development.

#### SENIOR MANAGEMENT

**Mr. FUNG Kwok Wing, Kenny**, aged 42, is the Financial Controller and Company Secretary, responsible for finance, accounting, company secretarial affairs and general administration. Mr. Fung holds a Master of Business Administration degree and a Master of Corporate Governance degree. He is an associate member of the Hong Kong Society of Accountants and the Hong Kong Institute of Company Secretaries. He is also a member of various professional institutes, including the Chartered Institute of Marketing in the UK, the Institute of Administrative Management in the UK and the Hong Kong Institute of Human Resource Management. Mr. Fung has extensive experience in accounting and administration. He joined the Group in 1985.

## REPORT OF THE DIRECTORS

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

#### SENIOR MANAGEMENT (continued)

**Mr. LAM Wai Sum**, aged 57, is the Senior Accounting Manager, responsible for the Group's day-to-day accounting functions. Mr. Lam has extensive experience in accounting. He joined the Group in 1974.

**Ms. CHENG Lai Ling, Carol**, aged 43, is the Senior Purchase Manager, responsible for the purchase of frozen food products. Ms. Cheng has extensive experience in merchandising and purchasing. She joined the Group in 1988.

### SHARE OPTIONS

Pursuant to the share option scheme (the "Old Scheme") adopted by the Company on 27 November 1992, the Board shall be entitled at any time within 10 years after the adoption date to grant options to any employee (including any executive director) of the Company or any subsidiary of the Company to subscribe for shares at a maximum of one per cent of issued share capital of the Company from time to time. The options granted under the Old Scheme were exercisable from 8 October 1998 to 26 November 2002 and therefore, all options not exercised were lapsed at year end.

At the Annual General Meeting held on 2 September 2002 a new share option scheme (the "New Scheme") was approved and adopted by the shareholders of the Company. No share options have been granted to any eligible participant under the New Scheme during the year.

#### (a) Details of the New Scheme

##### (i) Purpose

The Scheme is designed to provide incentives or rewards to participants thereunder for their contribution to the Company and any of its subsidiary to recruit and retain high-calibre employees and attract human resources that are valuable to the Company and any of its subsidiaries.

##### (ii) Qualifying participants

Any employee including any executive director and non-executive director of the Company or any of its subsidiary.

## REPORT OF THE DIRECTORS

### SHARE OPTIONS (continued)

#### (a) Details of the New Scheme (continued)

##### (iii) *Maximum number of shares*

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding and excluding options that were lapsed) under the New Scheme and other share option schemes of the Company shall not in aggregate exceed 10 per cent of the issued share capital of the Company on the adoption date.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised upon the New Scheme and any other option schemes of the Company must not exceed 30 per cent of the total number of shares in issue from time to time.

No option may be granted to any participant which if exercised in full would result in the total number of shares already issued and issuable to him under all options exceeding 1 per cent of the total number of shares in issue.

##### (iv) *Option period*

On and subject to the terms of the New Scheme the Board shall be entitled at any time within 10 years, or such other period as the Board may from time to time determine subject to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") applicable for the time being, after the adoption date to offer the grant of an option to any participant as the Board may in its absolute discretion select.

##### (v) *Amount payable on application or acceptance*

An option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favour of the Company of HK\$1 by way of consideration for the grant thereof is received by the Company within 28 days from the date of the offer letter issued by the Company. Such remittance shall in no circumstances be refundable.

## REPORT OF THE DIRECTORS

## SHARE OPTIONS (continued)

## (a) Details of the New Scheme (continued)

## (vi) Subscription price

The subscription price in respect of any particular option shall be such prices as the directors may determine at the date of grant of the relevant option but shall not be less than the highest of:

- (a) The closing price of the shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant;
- (b) The average official closing price of the Company's shares as stated in the daily quotations sheets in the Stock Exchange for the five trading days immediately preceding the date of grant; and
- (c) The nominal value of the Company's shares.

## (vii) The remaining life of the New Scheme

The Board shall be entitled at any time within 10 years between 2 September 2002 and 1 September 2012 to offer the grant of an option to any qualifying participant.

## (b) Outstanding options under the Old Scheme

No options have been granted under the New Scheme since its adoption and details of the options granted under the Old Scheme and outstanding as at 31 March 2003 are as follows:

Name	Number of options				
	held at 1 April 2002	granted during the year	exercised during the year	lapsed during the year	held at 31 March 2003
<b>Directors</b>					
Takeshi NOMAGUCHI	1,000,000	–	–	(1,000,000)	–
MAN Wing Cheung, Ellis	700,000	–	–	(700,000)	–
YIP Wai Keung	700,000	–	–	(700,000)	–
TSE Siu Wan	500,000	–	–	(500,000)	–
LAI Yuk Chuen, Philip	500,000	–	–	(500,000)	–
	<u>3,400,000</u>	<u>–</u>	<u>–</u>	<u>(3,400,000)</u>	<u>–</u>
<b>Continuous</b>					
contract employees	<u>1,370,000</u>	<u>–</u>	<u>–</u>	<u>(1,370,000)</u>	<u>–</u>

## REPORT OF THE DIRECTORS

### SHARE OPTIONS (continued)

#### (b) Outstanding options under the Old Scheme (continued)

*Notes:* All of the above options were granted on 25 September 1997 and exercisable at an exercise price of HK\$0.62 from 8 October 1998 to 26 November 2002. All unexercised options were lapsed upon the expiry date.

Apart from the aforesaid, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire shares in or debentures of the Company or any other body corporate and none of the directors or their spouses or children under 18 years of age was granted any right to subscribe for any share in the Company.

### DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company and its subsidiaries 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' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 March 2003 the interests of the directors in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("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:

#### (a) The Company

	Number of shares held			
	Personal interests	Family interests	Corporate interests (note i)	Other interests (note ii)
TAI Tak Fung, Stephen	–	–	53,849,177	30,160,000
YIP Wai Keung	256,360	–	–	–

## REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES  
(continued)

## (a) The Company (continued)

Notes:

- (i) 187,927 shares, representing 0.076% of the Company's issued capital, are beneficially owned by FSMHL. Dr. TAI Tak Fung, Stephen, JP is a director and substantial shareholder of FSMHL. 53,661,250 shares, representing 21.65% of the Company's issued capital, are owned by Special Access Limited, which is wholly-owned by Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly.
- (ii) 30,160,000 shares, representing 12.17% of the Company's issued capital, are owned by Careful Guide Limited whose shares are owned by a discretionary trust, the Tai Family Trust, the eligible beneficiaries of which include members of the family of Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly.

## (b) Associated Corporation

Directors' interests in the equity of FSMHL are as follows:

	Number of shares held				Number of
	Personal interests	Family interests	Corporate interests (note i)	Other interests (note ii)	options held Personal interests (note iii)
TAI Tak Fung, Stephen	-	-	81,250,000	82,000,000	300,000
YIP Wai Keung	680,000	-	-	-	300,000
MAN Wing Cheung, Ellis	-	-	-	-	300,000

Notes:

- (i) The shares, which represent 20.33% of the issued share capital of FSMHL, are owned by Special Access Limited, a company wholly owned by Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly.
- (ii) The shares, which represent 20.52% of the issued share capital of FSMHL, are owned by Careful Guide Limited whose shares are owned by a discretionary trust, the Tai Family Trust, the eligible beneficiaries of which include members of the family of Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly.
- (iii) The above share options were granted to the directors on 11 February 2003, exercisable from 31 August 2003 to 31 January 2005 at an exercise price of HK\$2.955. No share options were exercised by the directors during the year.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (continued)

#### (b) Associated Corporation (continued)

Save as disclosed above and other than certain nominee shares in the subsidiaries held in trust for the Group by certain directors, as at 31 March 2003, no directors and their associates have any beneficial or non-beneficial interests in any equity or debt securities of the Company and associated corporations (within the meaning of the SDI Ordinance) which were required to be recorded in the register of directors' interests kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company.

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those directors and chief executives already disclosed above.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

	2003	2002
	%	%
Purchases		
– the largest supplier	86	77
– five largest suppliers combined	<u>95</u>	<u>89</u>

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers noted above at any time in the year.

## REPORT OF THE DIRECTORS

### MAJOR SUPPLIERS AND CUSTOMERS (continued)

The aggregate percentage of sales attributable to the Group's five largest customers is less than 30% of the total sales during the year and therefore no additional disclosure with regard to major customers are made.

### CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 March 2003, which do not constitute connected transactions under the Listing Rules, are disclosed in note 27 to the accounts.

### BANK LOANS AND OTHER BORROWINGS

Particulars of the Group's bank loans and other borrowings are set out in notes 18 and 19 to the accounts.

### LIQUIDITY

Operating revenue was the Group's major source of funds during the financial year. As at 31 March 2003 the Group held cash on hand and bank balances of approximately HK\$107 million (2002: HK\$105 million) whilst trade credit facilities were utilised to the extent of approximately HK\$117 million (2002: HK\$112 million), representing approximately 28% (2002: 32%) of the total banking facilities of HK\$411 million (2002: HK\$351 million).

The Group has a gearing ratio of 0.41 (2002: 0.58) as at the balance sheet date. Gearing is expressed as total bank borrowings to shareholders' funds.

Bank borrowings of the Group mainly comprised trust receipt loans and bank loans which were denominated in either Hong Kong dollars or US dollars. Risk in exchange rate fluctuations will not be material. The trust receipt loans were obtained to finance the purchase of meat products from overseas. The bank loan which is repayable by instalments up to 2006 were obtained to finance the construction of the Group's premise in Sai Kung. The other bank loans were obtained for working capital purpose.

### PLEDGE OF ASSETS

As at 31 March 2003, the assets (including land and buildings) and issued shares of a subsidiary were pledged as securities for a bank loan of the Group.

## REPORT OF THE DIRECTORS

### CONTINGENT LIABILITIES

As at 31 March 2003, the Group had no contingent liabilities except for irrevocable letters of credit issued to suppliers amounting to HK\$380,000 (2002: HK\$1,614,000).

### RETIREMENT BENEFIT COSTS

Pursuant to the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the “MPF Ordinance”), companies within the Group have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the “MPF Scheme”).

The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Contributions are made to the MPF Scheme by the employers at 5% of the employees’ relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month (the “MPF Contribution”) or at a rate determined by the employer but not less than 5%. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK\$4,000 per month. The Group’s contribution to the MPF Scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

### STAFF EMPLOYMENT

Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Share options were granted to the senior executives in reward for their outstanding management and operation performance. At 31 March 2003, the Group employed a total of 64 full-time employees.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year covered by this annual report, except that the independent non-executive directors of the Company are not appointed for specific term. However, they are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with Article 105(A) of the Company’s Articles of Association.

## REPORT OF THE DIRECTORS

### AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. CHAN Kay Cheung and Mr. LAN Yee Fong, Steve John. Two meetings were held during the current financial year.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. A resolution to this effect will be proposed at the Annual General Meeting.

On behalf of the Board

**Takeshi NOMAGUCHI**

*Managing Director*

Hong Kong, 23 July 2003