

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 March 2004.

## 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 30 January 2004.

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\$2,753,000 (2003: HK\$1,881,000).

## FIXED ASSETS

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

## 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 2004, calculated under section 79B of the Companies Ordinance, amounted to HK\$139,465,000 (2003: HK\$149,322,000).

## REPORT OF THE DIRECTORS

## FIVE YEAR FINANCIAL INFORMATION

The following table summarises the results, assets and liabilities of the Group for each of the last five years ended 31 March 2004:

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
<b>Results</b>					
Turnover	<u>532,679</u>	<u>474,422</u>	<u>501,444</u>	<u>601,596</u>	<u>711,247</u>
Operating profit	<u>38,422</u>	<u>19,343</u>	<u>8,905</u>	<u>42,622</u>	<u>36,205</u>
Share of profit of associated companies	<u>20,877</u>	<u>20,759</u>	<u>24,371</u>	<u>17,946</u>	<u>–</u>
Profit before taxation and minority interests	<u>59,299</u>	<u>40,102</u>	<u>33,276</u>	<u>60,568</u>	<u>36,205</u>
Taxation	<u>(10,966)</u>	<u>(7,564)</u>	<u>(4,785)</u>	<u>(3,429)</u>	<u>(2,761)</u>
Profit after taxation	<u>48,333</u>	<u>32,538</u>	<u>28,491</u>	<u>57,139</u>	<u>33,444</u>
Minority interests	<u>–</u>	<u>–</u>	<u>–</u>	<u>(52)</u>	<u>(749)</u>
Profit attributable to shareholders	<u>48,333</u>	<u>32,538</u>	<u>28,491</u>	<u>57,087</u>	<u>32,695</u>
<b>Assets and liabilities</b>					
Total assets	<u>516,838</u>	<u>419,447</u>	<u>419,983</u>	<u>389,283</u>	<u>352,834</u>
Total liabilities and minority interests	<u>(194,224)</u>	<u>(136,404)</u>	<u>(161,154)</u>	<u>(154,485)</u>	<u>(135,676)</u>
Shareholders' funds	<u>322,614</u>	<u>283,043</u>	<u>258,829</u>	<u>234,798</u>	<u>217,158</u>

*Figures have been adjusted for 2002 and 2003 as a result of the change in accounting policy for deferred taxation. Details are set out in note 1(k) to the account. For comparative purpose, the figures for 2000 and 2001 have not been adjusted for effects on the adoption.*

## 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

TAI Chun Leung (appointed on 16 February 2004)

CHAN Kay Cheung\*

LAN Yee Fong, Steve John\*

In accordance with Article 105(A) of the Company's Articles of Association, Mr. CHAN Kay Cheung and Mr. LAN Yee Fong, Steve John retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article 96 of the Company's Articles of Association, Mr. TAI Chun Leung retires and, being eligible, offers himself 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**, SBS, JP, PhD (*honoris causa*), aged 56, 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 (the “Stock Exchange”). He is also a director of Careful Guide Limited (“CGL”) and Special Access Limited (“SAL”), the substantial shareholders of the Company.

**Mr. Takeshi NOMAGUCHI**, aged 56, 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 48, is responsible for corporate finance, information technology, project investments and general administration of the Group. 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 54, is responsible for the business development of the Group. Prior to joining the Group, Mr. Yip was the marketing manager of a Japanese food company in Hong Kong for 8 years. He has more than 31 years’ experience in sales and marketing. Mr. Yip 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 43, is responsible for the food management of the Group. He has extensive experience in food manufacturing and factory production management. Mr. Tse joined the Group in 1980. He is also a director and the general manager of Hong Kong Ham Holdings Limited, a wholly-owned subsidiary of the FSMHL.

**Mr. LAI Yuk Chuen, Philip**, aged 49, is responsible for strategic sales, marketing and purchasing management of the Group. He has extensive experience in trading and marketing. Mr. Lai joined the Group in 1984.

**Mr. TAI Chun Leung**, aged 30, is responsible for information technology and business development of the Group. He received his Bachelor of Commerce degree from Macquarie University in Australia and a Master of Business Administration degree from Southern California University for Professional Studies in the U.S.A. He worked for an international accounting firm and joined the Group in 1998. Mr. Tai possesses various experiences in information technology, finance, sales, marketing, merchandising and food manufacturing. He is the son of Dr. TAI Tak Fung, Stephen.

#### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. CHAN Kay Cheung**, aged 57, 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 an independent non-executive 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 63, 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.

## REPORT OF THE DIRECTORS

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

## SENIOR MANAGEMENT

**Mr. FUNG Kwok Wing, Kenny**, aged 43, 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, Master of Corporate Governance degree, Master of Finance degree and Master of Professional Accounting degree. He is also a member of various professional institutes, including the Hong Kong Society of Accountants, the Institute of Chartered Secretaries and Administrators and the Chartered Institute of Marketing in the UK. Mr. Fung has extensive experience in accounting and administration. He joined the Group in 1985.

**Mr. LAM Wai Sum**, aged 58, 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 44, 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

At the annual general meeting held on 2 September 2002 a share options scheme (the "Scheme") of the Company was approved and adopted by the shareholders of the Company to comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchanges of Hong Kong Limited (the "Listing Rules"). As at 31 March 2004, there are options relating to 22,200,000 shares granted by the Company pursuant to the Scheme which are valid and outstanding.

## (a) Details of the Scheme are as follows:

## (i) Purpose

The Scheme is designed to provide incentives or rewards to participants thereunder for their contribution to the Company and any of its subsidiaries 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 subsidiaries.

## REPORT OF THE DIRECTORS

### SHARE OPTIONS (continued)

(a) **Details of the Scheme are as follows:** (continued)

(iii) *Maximum number of shares*

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme. The overall limit on total number of shares which may be issued upon exercise of all outstanding options and yet to be exercised under the Scheme must not exceed 30% of the issued share capital of the Company from time to time. No options may be granted under the Scheme if this will result in such limit being exceeded. As at 31 March 2004, the number of shares available for issue in respect thereof is 24,782,000 shares.

(iv) *Limit for each participant*

The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

(v) *Option period*

On and subject to the terms of the 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 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.

(vi) *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 of HK\$1.00 in favour of the Company 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 Scheme are as follows: (continued)

(vii) *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 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.

(viii) *The remaining life of the 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.



## REPORT OF THE DIRECTORS

## SHARE OPTIONS (continued)

(b) Details of the share options outstanding as at 31 March 2004 under the Scheme are as follows:

Name	Number of share options					At 31 March 2004	Exercise price HK\$	Date of grant	Exercisable Period
	At 1 April 2003	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year				
TAI Tak Fung, Stephen	-	1,200,000	-	-	-	1,200,000	0.93	11 November 2003	1 May 2004 to 31 October 2005
Takeshi NOMAGUCHI	-	1,200,000	-	-	-	1,200,000	0.93	11 November 2003	1 May 2004 to 31 October 2005
MAN Wing Cheung, Ellis	-	1,000,000	-	-	-	1,000,000	0.93	11 November 2003	1 May 2004 to 31 October 2005
YIP Wai Keung	-	1,000,000	-	-	-	1,000,000	0.93	11 November 2003	1 May 2004 to 31 October 2005
TSE Siu Wan	-	1,000,000	-	-	-	1,000,000	0.93	11 November 2003	1 May 2004 to 31 October 2005
LAI Yuk Chuen, Philip	-	1,000,000	-	-	-	1,000,000	0.93	11 November 2003	1 May 2004 to 31 October 2005
CHAN Kay Cheung	-	800,000	-	-	-	800,000	0.93	11 November 2003	1 May 2004 to 31 October 2005
LAN Yee Fong, Steve John	-	800,000	-	-	-	800,000	0.93	11 November 2003	1 May 2004 to 31 October 2005
	-	8,000,000	-	-	-	8,000,000			
<b>Other employees</b>									
Managerial level in aggregate	-	14,200,000	-	-	-	14,200,000	0.93	11 November 2003	1 May 2004 to 31 October 2005
<b>Grand Total</b>	<b>-</b>	<b>22,200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,200,000</b>			

## Notes:

- At the date before the options were granted, the closing market price per share was HK\$0.93.
- The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial year. The directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

## REPORT OF THE DIRECTORS

### SHARE OPTIONS (continued)

At the balance sheet date, the Company had 22,200,000 share options outstanding under the Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 22,200,000 additional ordinary shares of the Company and additional share capital of HK\$2,220,000 and share premium of HK\$18,426,000 (before issue expenses).

### 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.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES

As at 31 March 2004, the interests and short positions of the directors and chief executives of the Company (including those interests and short positions which were taken or deemed to have been taken under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were notified to the Company or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

#### (a) Interest in shares of the Company

	Number of shares held					Total		Total interests as % of the relevant issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of controlled corporation)	Trust and similar interests	Other interests	Number of underlying shares held under equity derivatives	Total interests	
TAI Tak Fung, Stephen	–	–	53,095,177 <sup>(i)</sup>	30,914,000 <sup>(ii)</sup>	–	2,000,000 <sup>(iv)</sup>	86,009,177	34.71%
Takeshi NOMAGUCHI	–	–	–	–	–	1,200,000 <sup>(iv)</sup>	1,200,000	0.48%
MAN Wing Cheung, Ellis	–	–	–	–	–	1,000,000 <sup>(iv)</sup>	1,000,000	0.40%
YIP Wai Keung	256,360	–	–	–	–	1,000,000 <sup>(iv)</sup>	1,256,360	0.51%
TSE Siu Wan	–	–	–	–	–	1,000,000 <sup>(iv)</sup>	1,000,000	0.40%
LAI Yuk Chuen, Philip	–	–	–	–	–	1,000,000 <sup>(iv)</sup>	1,000,000	0.40%
TAI Chun Leung	–	–	–	30,914,000 <sup>(ii)</sup>	–	–	30,914,000	12.47%
CHAN Kay Cheung	–	–	–	–	–	800,000 <sup>(iv)</sup>	800,000	0.32%
LAN Yee Fong, Steve John	–	–	–	–	–	800,000 <sup>(iv)</sup>	800,000	0.32%

#### Notes:

- (i) Out of the 53,095,177 shares, 187,927 shares, representing 0.076% of the Company's issued share capital, are beneficially owned by FSMHL. SAL and CGL which in aggregate hold more than one-third of the issued share capital of FSMHL. SAL is wholly-owned by Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly; whereas CGL is 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. Accordingly, Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly are deemed to have interests in those 187,927 shares of the Company's issued share capital held by FSMHL. The remaining 52,907,250 shares, representing 21.35% of the Company's issued share capital, are owned by SAL, and Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly are therefore deemed to have interests therein.

## REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN SHARES (continued)

## (a) Interest in shares of the Company (continued)

Notes: (continued)

- (ii) 30,914,000 shares, representing 12.47% of the Company's issued capital, are owned by CGL 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. Thus Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly are deemed to have interests therein.
- (iii) Such interests in the shares are held by CGL, a company controlled by the Tai Family Trust under which Mr. TAI Chun Leung is a discretionary beneficiary. As director of the Company, Mr. TAI Chun Leung is taken to have a duty of disclosure in relation to such shares under the SFO.
- (iv) These represent the interest in underlying shares in respect of the share options granted by the Company, the details of which are set out in "Share Options" section.
- (v) Of which, 1,200,000 share options were granted to Dr. TAI Tak Fung, Stephen, JP. Another 800,000 share options were granted to his spouse Dr. WU Mei Yung, Quinly. Dr. TAI Tak Fung, Stephen, JP is therefore deemed to have interest therein.

## (b) Interests in shares of the associated corporation

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

	Number of shares held					No. of share options held		Total interests as % of the relevant issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of controlled corporation)	Trust and similar interests	Other interests	Personal/Family interests	Total interests	
TAI Tak Fung, Stephen	–	–	188,758,000 <sup>(i)</sup>	82,000,000 <sup>(ii)</sup>	–	600,000 <sup>(iv)</sup>	271,358,000	67.91%
YIP Wai Keung	680,000	–	–	–	–	300,000 <sup>(v)</sup>	980,000	0.25%
MAN Wing Cheung, Ellis	–	–	–	–	–	300,000 <sup>(v)</sup>	300,000	0.08%
TAI Chun Leung	–	–	–	82,000,000 <sup>(iii)</sup>	–	100,000 <sup>(v)</sup>	82,100,000	20.55%

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES (continued)

#### (b) Interests in shares of the associated corporation (continued)

*Notes:*

- (i) Of which, 81,250,000 shares, representing 20.33% of the issued share capital of FSMHL, are owned by SAL, which in turn is wholly owned by Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly. Another 107,508,000 shares, representing 26.91% of the issued share capital of FSMHL, are owned by Capital Season Investments Limited, a company wholly-owned by Advance Finance Investments Limited ("AFIL"). Since AFIL is wholly owned by the Company, which in turn is controlled by SAL and CGL, Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly are deemed to have interests in 107,508,000 shares of FSMHL.
- (ii) The shares, which represent 20.52% of the issued share capital of FSMHL, are owned by CGL 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) Such interests in the shares are held by CGL, a company controlled by the Tai Family Trust under which Mr. TAI Chun Leung is a discretionary beneficiary. As a director of the Company, Mr. TAI Chun Leung is taken to have a duty of disclosure in relation to such shares under the SFO.
- (iv) Of which, 300,000 share options were granted to Dr. TAI Tak Fung, Stephen, JP. Another 300,000 share options were granted to his spouse Dr. WU Mei Yung, Quinly. Dr. TAI Tak Fung, Stephen, JP is therefore deemed to have interest therein.
- (v) The above share options were granted to the directors on 11 February 2003, exercisable from 1 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.

All interests disclosed above represent long positions in the shares/underlying shares of the Company. Save as disclosed above, as at 31 March 2004, none of the directors or the chief executives of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Apart from the foregoing, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors or any of their spouses or children under the 18 years of age to acquire benefits by means of the acquisitions of shares in, or debentures of, the Company or any other body corporate.

## REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the directors and chief executives of the Company) had interests, being 5% or more of the Company's issued share capital, and short positions in the shares and underlying shares of the Company:

	Number of shares held					No. of share options held		Total interests as % of the relevant issued share capital
	Direct/ Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of controlled corporation)	Trust and similar interests	Other interests	Personal/ Family interests	Total interests	
SAL	52,907,250 <sup>(i)</sup>	–	–	–	–	–	52,907,250	21.35%
CGL	–	–	–	30,914,000 <sup>(ii)</sup>	–	–	30,914,000	12.47%
WU Mei Yung, Quinly	–	–	53,095,177 <sup>(iii)</sup>	30,914,000 <sup>(ii)</sup>	–	2,000,000 <sup>(v)</sup>	86,009,177	34.71%
HSBC International Trustee Limited	–	–	–	30,914,000 <sup>(iv)</sup>	–	–	30,914,000	12.47%

*Notes:*

- (i) SAL is wholly owned by Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly. This interest is also included as Corporate interests of Dr. TAI Tak Fung, Stephen, JP in "Directors' Interests in Shares".
- (ii) CGL is 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 Dr. WU Mei Yung, Quinly. This interest is also included as Trust and similar interests of Dr. TAI Tak Fung, Stephen, JP in "Directors' Interests in Shares".
- (iii) Out of the 53,095,177 shares, 187,927 shares, representing 0.076% of the Company's issued share capital, are beneficially owned by FSMHL. SAL and CGL which in aggregate hold more than one-third of the issued share capital of FSMHL. SAL is wholly-owned by Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly; whereas CGL is 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. Accordingly, Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly are deemed to have interests in those 187,927 shares of the Company's issued share capital held by FSMHL. The remaining 52,907,250 shares, representing 21.35% of the Company's issued share capital, are owned by SAL, and Dr. TAI Tak Fung, Stephen, JP and his spouse Dr. WU Mei Yung, Quinly are therefore deemed to have interests therein. This interest is also included as Corporate interests of Dr. TAI Tak Fung, Stephen, JP in "Directors' Interests in Shares".

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS (continued)

Notes: (continued)

- (iv) HSBC International Trustee Limited is the trustee of the discretionary trust, the Tai Family Trust, referred to in note (ii) above.
- (v) Of which, 800,000 share options were granted to Dr. WU Mei Yung, Quinly. Another 1,200,000 share options were granted to her spouse Dr. TAI Tak Fung, Stephen, JP. Dr. WU Mei Yung, Quinly is therefore deemed to have interest therein. The share options were granted to the directors on 11 November 2003, exercisable from 1 May 2004 to 31 October 2005 at an exercise price HK\$0.93. No share options were exercised by the directors during the year. This interest is also included as interest in the underlying shares held under equity derivatives of Dr. TAI Tak Fung, Stephen, JP in "Directors' Interests in Shares".

All interests disclosed above represent long positions in the shares/underlying shares of the Company. Other than as disclosed above, as at 31 March 2004, the Company had not been notified of any persons (other than the directors or chief executives of the Company) who had an interests or a short positions in shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the Company's issued share capital, and short positions in the shares and underlying shares of the Company.

### 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:

	2004	2003
	%	%
Purchases		
– the largest supplier	88	86
– five largest suppliers combined	<u>96</u>	<u>95</u>

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

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.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 March 2004, which do not constitute connected transactions under the Listing Rules, are disclosed in note 27 to the accounts.

### BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of the Group's bank loans and other borrowings are set out in notes 18 and 19 to the accounts. The Group had no bank overdrafts as at 31 March 2004.

### LIQUIDITY

Operating revenue was the Group's major source of funds during the financial year. As at 31 March 2004, the Group held cash on hand and bank balances of approximately HK\$157 million (2003: HK\$107 million) whilst trade credit facilities were utilised to the extent of approximately HK\$158 million (2003: HK\$117 million), representing approximately 36% (2003: 28%) of the total banking facilities of HK\$441 million (2003: HK\$411 million).

The Group has a gearing ratio of 0.49 (2003: 0.41) 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 was obtained to finance the construction of the Group's premise at Sai Kung. The other bank loans were obtained for working capital purpose.

### PLEDGE OF ASSETS

As at 31 March 2004, the assets (including land and buildings) and issued shares of a subsidiary were pledged as securities for a bank loan granted to the Group.

### CONTINGENT LIABILITIES

As at 31 March 2004, the Group had no contingent liabilities except for irrevocable letters of credit issued to suppliers amounting to HK\$738,000 (2003: HK\$380,000).



## REPORT OF THE DIRECTORS

### 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 in Hong Kong 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. The Group made contributions are made to the MPF Scheme 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 employees also contribute 5% of their relevant income to the MPF Scheme if their relevant income is more than HK\$5,000 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 performance in management and operation. At 31 March 2004, the Group employed a total of 66 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 accounting period 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.

### SUBSEQUENT EVENTS

From 11 to 18 June 2004, the Company repurchased a total of 3,514,000 shares on the Stock Exchange, all of which were cancelled on 18 June 2004, 23 June 2004 and 29 June 2004. An aggregate consideration of HK\$4,145,000 was paid.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Takeshi NOMAGUCHI**

*Managing Director*

Hong Kong, 20 July 2004