

The Directors present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2000.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates comprise food processing and related businesses which include edible oils refining, wine-making and beverage, food trading and flour milling. There were no changes in the nature of the Group's principal activities during the year.

### SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area for the year is as follows:

	Year ended 31 December, 2000		Year ended 31 December, 1999	
	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000
By activity:				
Food trading	778,502	7,960	244,764	8,542
Edible oils refining	233,812	(27,687)	282,215	(16,939)
Flour milling	284,791	11,190	253,175	9,360
Others	817	(379)	1,697	(1,010)
	<b>1,297,922</b>	<b>(8,916)</b>	781,851	(47)
Dividend and interest income		<b>62,120</b>		62,580
Corporate and others		<b>12,751</b>		773
		<b>65,955</b>		63,306
By geographical area:				
The People's Republic of China:				
Hong Kong	778,502	65,103	244,764	55,597
Elsewhere	519,420	852	537,087	7,709
	<b>1,297,922</b>	<b>65,955</b>	781,851	63,306

## **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 64.

An interim dividend of 3 HK cents per share was paid on 10 November 2000. The Directors recommend the payment of a final dividend of 4 HK cents per share in respect of the year to shareholders whose names appear on the register of members on 18 May 2001. This recommendation has been incorporated in the financial statements.

## **SUMMARY FINANCIAL INFORMATION**

A summary of the results and of the assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements, restated and reclassified as appropriate, is set out on page 65. This summary is not part of the audited financial statements.

## **POST BALANCE SHEET EVENTS**

Details of the significant events which occurred subsequent to the balance sheet date are set out in note 30 to the financial statements.

## **FIXED ASSETS**

Details of movements in the fixed assets of the Company and the Group are set out in note 12 to the financial statements.

## **SUBSIDIARIES AND ASSOCIATES**

Particulars of the Company's principal subsidiaries and the Group's interests in its associates are set out in notes 28 and 29 to the financial statements, respectively.

## **BANK BORROWINGS**

Details of the bank borrowings of the Group are set out in note 20 to the financial statements.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of the Company's share capital and share options are set out in note 22 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

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

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements.

**DISTRIBUTABLE RESERVES**

At 31 December 2000, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$579,032,000. In addition, the Company's share premium account may be distributed in the form of fully paid bonus shares.

**CHARITABLE CONTRIBUTIONS**

During the year, the Group made charitable contributions totalling HK\$17,000.

**MAJOR CUSTOMERS AND SUPPLIERS**

The five largest customers of the Group accounted for approximately 34% of the total sales for the year with the largest customer accounting for approximately 18%. The five largest suppliers of the Group accounted for approximately 67% of the Group's total purchases during the year, with the largest supplier accounting for approximately 56%.

Apart from the Group's ultimate holding company, China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), which had interests in two of the Group's five largest suppliers, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or the Group's three other largest suppliers.

**DIRECTORS**

The Directors of the Company during the year were:

*Executive Directors:*

Mr. Zhou Mingchen	(Appointed on 8 August 2000)
Mr. Liu Fuchun	(Appointed on 8 August 2000)
Mr. Ma Lishan	
Mr. Xue Guoping	
Mr. Liu Yongfu	(Appointed on 8 August 2000)
Mr. Ng Eng Leong	
Mr. Wu Qian	(Appointed on 8 August 2000)
Mr. Qu Zhe	(Appointed on 8 August 2000)

*Independent non-executive Directors:*

Mr. Yuen Tin Fan, Francis  
Mr. Liang Shangli

In accordance with bye-law 94 of the Company's Bye-laws, Messrs. Zhou Mingchen, Liu Fuchun, Liu Yongfu, Wu Qian and Qu Zhe will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive Directors are appointed for a term subject to retirement by rotation as required by the Company's Bye-laws.

**DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES**

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 17 to 18 of the Annual Report.

**DIRECTORS' SERVICE CONTRACTS**

No Director 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 Company within one year without payment of compensation other than statutory compensation.

**DIRECTORS' INTERESTS IN CONTRACTS**

No Director had a material interest in any contract of significance to the business of the Group to which the Company, its subsidiaries, its holding companies, or its fellow subsidiaries was a party during the year.

**DIRECTORS' INTERESTS IN SHARES**

None of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

The interests of the Directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares" below.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Pursuant to the share option schemes of the Company and Top Glory International Holdings Limited ("Top Glory International"), its listed immediate holding company, certain options to subscribe for shares in the Company and Top Glory International have been granted to certain Directors.

During the year, the share options of Top Glory International granted to the Directors of the Company expired. The interests of the Directors of the Company in options to subscribe for shares in the Company under the share option scheme are as follows:

Company	Number of share options at	Exercise period	Exercise price of share options
Name of Director	31 December 2000	of share options	HK\$
Mr. Xue Guoping	5,000,000	13.2.1998-12.2.2003	2.156
Mr. Ma Lishan	5,000,000	13.2.1998-12.2.2003	2.156
Mr. Ng Eng Leong	2,000,000	7.2.1998-6.2.2003	2.156
	12,000,000		

**Top Glory International**

Name of Director	Number of share options	Exercise period of share options	Exercise price of share options HK\$
Mr. Xue Guoping	5,000,000	13.8.1997-13.8.2000	2.116
Mr. Ma Lishan	4,000,000	13.8.1997-13.8.2000	2.116
Mr. Ng Eng Leong	1,600,000	7.8.1997-7.8.2000	2.116
	10,600,000		

The above share options of Top Glory International expired during the year.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

No Director exercised any interest in his outstanding share options of the Company or of Top Glory International during the year. Further details of the Company's share option scheme are set out in note 22 to the financial statements.

**SUBSTANTIAL SHAREHOLDERS**

As at 31 December 2000, the following details were recorded in the register maintained by the Company under Section 16 of the SDI Ordinance for the purposes of Sections 3 to 7 of the SDI Ordinance.

Name	Notes	Number of ordinary shares held			%
		Direct interest	Deemed interest	Total interest	
Brunton Holdings Limited ("Brunton")		337,637,002	–	337,637,002	51
Top Glory International	(1)	–	337,637,002	337,637,002	51
Rovtec Investments Limited	(1)	–	337,637,002	337,637,002	51
COFCO (Hong Kong) Limited ("COFCO HK") (formerly "Top Glory Holding Company Limited")	(2)	10,138,000	337,637,002	347,775,002	53
COFCO	(3)	–	347,775,002	347,775,002	53

*Notes:*

1. This represents the deemed corporate interest of the company in 337,637,002 shares in the Company held by Brunton in which the company is entitled to exercise or to control the exercise of one-third or more of the voting power at general meetings of Brunton.
2. This represents the deemed corporate interest of COFCO HK in 337,637,002 shares in the Company held by Brunton in which COFCO HK is entitled to control the exercise of one-third or more of the voting power at general meeting of Brunton and the direct interest of COFCO HK in 10,138,000 shares in the Company.
3. This represents the deemed corporate interest of COFCO in 347,775,002 shares in the Company held by Brunton and COFCO HK.

Save as disclosed above, as at 31 December 2000, the register of substantial shareholders maintained by the Company pursuant to Section 16 of the SDI Ordinance shows that the Company had not been notified of any interest representing 10% or more of the Company's issued share capital.

**CONNECTED TRANSACTIONS**

In September 1998, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granted a waiver to the Company from the disclosure and shareholders' approval requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") regarding the buying and selling of various commodities and foodstuffs between China Foods Trading Limited, a wholly-owned subsidiary of the Company, and COFCO (the "Transactions") subject to, inter alia, the ceiling for the annual value of the Transactions in any particular financial year, being 70% (the "Cap") of the audited consolidated net tangible assets of the Company as stated in its audited financial statements for the relevant year.

The Transactions entered into during the year involved the trading of maize, sugar, cottonseed meal and rapeseed meal with a total value of about HK\$783,116,000 (1999: HK\$75,524,000).

The independent non-executive Directors of the Company had reviewed those Transactions entered into during the year and confirmed that:

- (i) they were carried out in the ordinary and usual course of business of the Group;
- (ii) they were on normal commercial terms and were fair and reasonable in so far as the independent shareholders of the Company were concerned;
- (iii) their aggregate value did not exceed the Cap; and
- (iv) they were carried out in accordance with the terms of the agreement governing those Transactions or, where there was no agreement, on terms no less favourable than those available to (or from, as appropriate) independent third parties.

**DIRECTORS' INTEREST IN COMPETING BUSINESSES**

Six Directors of the Company, namely, Messrs. Zhou Mingchen, Liu Fuchun, Xue Guoping, Liu Yongfu, Ma Lishan and Wu Qian, being also directors of the Company's ultimate holding company, COFCO, and /or its subsidiaries (together the "COFCO Group"), are considered as having an interest in the COFCO Group under paragraph 8.10 of the Listing Rules.

The following businesses of the COFCO Group compete or are likely to compete, directly or indirectly, with the businesses of the Group.

**Edible oils refining**

The COFCO Group's edible oils refining business is operated through its investments in seven edible oils plants in the northern and western regions of the Mainland which are located in the cities / provinces of Tianjin, Shandong, Zhangjiagang, Laiyang and Guangxi. The principal business of the seven edible oils plants is the extraction, processing and refining of a wide variety of edible oils and fats in the northern and western regions of the Mainland. Since the Group's edible oils refining business is operated through Eastbay Oils and Fats Industries (Guangzhou) Co., Ltd. and Southseas Oils & Fats Industrial (Chiwan) Ltd. which are located in the Guangdong province and targeted mainly at customers in the Pearl River Delta region, the effect of any possible competition with the edible oils business of the COFCO Group is minimized.

**Wine making**

The COFCO Group's wine making business is operated through its investments in three wineries including a 25% equity interest in China Great Wall Wine Co., Ltd. ("Great Wall Wine") of which the Group is also a holder of 25% equity interest. The other two wineries are located in the cities of Qinhuangdao and Yantai and are engaged in the business of production of white and red wine targeting the markets in the southern and eastern regions of the Mainland. Great Wall Wine on the other land is located in the city of Zhangjiakou and focused on the production of dry white and dry red wine and targeted mainly at customers in the northern region of the Mainland.

**Food trading**

The COFCO Group's food trading business is operated mainly in the Mainland through its various subsidiaries and associates which act as principal or as agent for customers in the Mainland, whereas the Group focuses mainly on the markets in the Asia-Pacific region.

**Flour milling**

The Company's flour milling business is operated through its two flour mills in Zhengzhou and Xiamen which targets the flour markets in the central part of the Mainland, whereas the COFCO Group's flour milling business focuses mainly on the flour markets in the northern and eastern parts of the Mainland.

**RETIREMENT BENEFITS SCHEME**

Details of the retirement benefits scheme of the Group and the employer's retirement benefits costs charged to the profit and loss account for the year are set out in notes 2 and 4 to the financial statements, respectively.

#### **AUDIT COMMITTEE**

The Company in 1999 established an Audit Committee in accordance with paragraph 14 of the Code of Best Practice to review and supervise the Group's financial reporting process and internal controls. Both independent non-executive Directors of the Company are members of the Audit Committee.

#### **CODE OF BEST PRACTICE**

In the opinion of the Directors, 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 the annual report, except that the independent non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-laws. Details of the Audit Committee are set out in the section "Audit Committee" above.

#### **AUDITORS**

In respect of the year ended 31 December 1999, Deloitte Touche Tohmatsu resigned as one of the joint auditors of the Company and Ernst & Young were appointed by the Directors as joint auditors with W. M. Sum & Co.. There have been no other changes of auditors in the past three years.

A resolution for the reappointment of Ernst & Young and W. M. Sum & Co. as joint auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Liu Fuchun**

*Vice-Chairman and Managing Director*

Beijing

6 April 2001