

REPORT OF THE DIRECTORS

- The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

- During the year, the Group ceased its investment in the manufacturing joint ventures in Mainland China which were engaged in the processing of edible oil and wheat flour and oil seed; other than this, there were no significant changes in the nature of the Group's principal activities during the year. The principal activities of the Company are investment holding. The principal activities of the subsidiaries, associate and jointly-controlled entities are set out in notes 15, 16 and 17 to the financial statements, respectively.

SEGMENT INFORMATION

- An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

- The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 62.

- The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

- A summary of the published results and of the assets and liabilities of the Group for the last five financial period/years, as extracted from the published audited financial statements and reclassified or restated as appropriate, is set out below. The amounts for each period/year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements.

	Year ended 31 December 2001 HK\$'000	Year ended 31 December 2000 HK\$'000	Year ended 31 December 1999 HK\$'000	Year ended 31 December 1998 HK\$'000	Period from 1 April 1997 to 31 December 1997 HK\$'000
RESULTS					
TURNOVER	<u>1,231,885</u>	<u>3,079,845</u>	<u>4,117,487</u>	<u>2,339,027</u>	<u>2,176,191</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(74,319)</u>	<u>8,017</u>	<u>9,883</u>	<u>8,481</u>	<u>(23,478)</u>

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SUMMARY FINANCIAL INFORMATION *(continued)*

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i> <i>(Restated)</i>	1997 <i>HK\$'000</i>
ASSETS AND LIABILITIES					
TOTAL ASSETS	231,368	464,875	636,300	854,897	1,025,032
TOTAL LIABILITIES	(30,997)	(204,290)	(384,770)	(611,871)	(786,680)
	<u>200,371</u>	<u>260,585</u>	<u>251,530</u>	<u>243,026</u>	<u>238,352</u>

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and the Group and the investment properties of the Group are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 25 to the financial statements.

PURCHASE, REDEMPTION OR SALE 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 Group during the year are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had no reserve available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 91% of the Group's total turnover for the year and sales to the largest customer included therein amounted to approximately 45% of the Group's total turnover.

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• **MAJOR CUSTOMERS AND SUPPLIERS** *(continued)*

• The aggregate purchases from the five largest suppliers of the Group accounted for approximately 99% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 40% of the Group's total purchases.

• As far as the directors are aware, neither the directors, their associates, nor those shareholders (which, to the best of knowledge of the directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

• **DIRECTORS**

• The directors of the Company during the year were:

• **Executive directors:**

- Cheung Siu Lam (*Chairman*)
- Chan Yuk Ming (*Vice-chairman*)
- Lim Kuo Chiang (*Managing director*) (resigned on 1 July 2001)
- Yu Hei Wung, Raymond
- Lo Wan
- Zhang Wei
- Cheung Siu Yan

• **Independent non-executive directors:**

- Wang Xiao Min (resigned on 31 May 2001)
- Wang Jian Sheng
- Chan Chun Keung
- Choy Ming Yuk

• Subsequent to the balance sheet date, on 22 April 2002, Mr. Zhang Wei resigned as executive director of the Company.

• In accordance with article 105 of the Company's articles of association, Ms. Lo Wan, Mr. Yu Hei Wung, Raymond and Mr. Wang Jian Sheng will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The directors of the Company, including the independent non-executive directors but excluding the chairman, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

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DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company 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, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2001, the interests of the Company's directors and their associates in the share capital of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Number of shares held and nature of interest		
	Personal interest	Corporate interest	Total
Cheung Siu Lam	171,210,000	57,600,000 (Note)	228,810,000
Lo Wan	—	57,600,000 (Note)	57,600,000

Note: Arbalice Holdings Limited, a company controlled by Mr. Cheung Siu Lam and his wife, Ms. Lo Wan, held 57,600,000 shares in the Company.

Save as disclosed above, as at 31 December 2001, none of the directors or their associates had any interest in the equity or debt securities or rights in the share capital of either the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' interests in share capital" above and "Share option scheme" below, 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 or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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SUBSTANTIAL SHAREHOLDER

At 31 December 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following party was interested in 10% or more of the issued share capital of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Arbalice Holdings Limited	57,600,000	10.2

Except as disclosed above, no person, other than Mr. Cheung Siu Lam and Ms. Lo Wan, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded in the register pursuant to Section 16(1) of the SDI Ordinance.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the employees of the Company or its wholly-owned subsidiaries (including the executive directors of the Company or its wholly-owned subsidiaries). The Scheme became effective on 19 March 1993 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. As at 31 December 2001, the number of shares issuable under share options granted under the Scheme was 44,600,000, which represented approximately 7.9% of the Company's shares in issue as at the date. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 25% of the maximum aggregate number of shares in respect of which options may at that time be granted under the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on the expiry of 6 months after the offer date and ends on a date which is not later than five years from the date of the offer of the share options.

The exercise price shall be 80% of the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the offer date on which there were dealings in the shares of the Company on the Stock Exchange or the nominal value of a share (whichever is the greater).

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SHARE OPTION SCHEME (continued)

Details of the share options granted under the Scheme and remain outstanding as at 31 December 2001 are as follows:

	Options held at 1 January 2001	Options granted during the year	Options exercised during the year	Options held at 31 December 2001	Exercise Price (Note 1) HK\$	Grant date	Exercisable from	Exercisable until
Cheung Siu Lam	13,900,000	—	—	13,900,000	0.163	18 May 1999	18 Nov 1999	17 May 2004
Chan Yuk Ming	10,200,000	—	—	10,200,000	0.163	18 May 1999	18 Nov 1999	17 May 2004
Lo Wan	13,900,000	—	—	13,900,000	0.163	18 May 1999	18 Nov 1999	17 May 2004
Zhang Wei	3,100,000	—	—	3,100,000	0.163	18 May 1999	18 Nov 1999	17 May 2004
Cheung Siu Yan	2,500,000	—	—	2,500,000	0.163	18 May 1999	18 Nov 1999	17 May 2004
Continuous contract employees	1,000,000	—	—	1,000,000	0.218	8 July 1999	8 Jan 2000	7 Jul 2004

Notes:

- The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- 5,200,000 share options of the Company granted to Mr. Lim Kuo Chiang were lapsed on 1 July 2001 pursuant to the Scheme due to his resignation as director of the Company.

Summary details of the Company's share option scheme are also set out in note 25 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

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FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

In accordance with the provision of Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company and/or its subsidiaries have provided financial assistance to certain associates and jointly-controlled entities, namely, Taicang Huifeng Chemical Fertilizer Co., Ltd. and K.P.I. (BVI) Retail Management Company Limited, and/or their respective wholly-owned subsidiaries (collectively as, the "Borrowers").

As at 31 December 2001, obligations in relation to the above-mentioned financial assistance by the Group continued to exist. Set out below is an unaudited pro forma combined balance sheet of the Borrowers as at 31 March 2002 (being the latest practicable date for determining the relevant amounts) required to be disclosed under Practice Note 19 of the Listing Rules:

Unaudited pro forma combined balance sheet of the Borrowers

As at 31 March 2002

	<i>HK\$'000</i>
Long term investments	<u>47,676</u>
Fixed assets	<u>13,534</u>
Current assets	66,484
Current liabilities	<u>(52,395)</u>
Net current assets	<u>14,089</u>
Net assets	<u>75,299</u>
Group's share of net assets	<u><u>34,612</u></u>
Financial assistance given by the Company and/or its wholly-owned subsidiaries:	
Advances	<u><u>3,494</u></u>

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POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 32 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") 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 a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three of the independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cheung Siu Lam
Chairman

Hong Kong
22 April 2002