

The Directors present their report and the audited financial statements of the Company and its subsidiaries (“the Group”) for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. During the year, the Company acquired certain subsidiaries, the principal activities of which are set out in note 28(d) to the financial statements. The principal activities of the subsidiaries and associates comprise food processing and related businesses which include edible oils, wineries, trading, confectionery and flour milling.

CHANGE OF COMPANY NAME

Pursuant to a special resolution of the Company passed on 19 March 2001, the Company changed its name from China Foods Holdings Limited to COFCO International Limited with effect from 16 May 2001.

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 profit 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 30 to 81.

An interim dividend of 4 HK cents per share was paid on 29 October 2001. The Directors recommend the payment of a final dividend of 5 cents per share in respect of the year, to shareholders on the register of members on 13 May 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 3 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, restated and reclassified as appropriate, is set out on page 82. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options are set out in note 26 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 the existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$657,768,000. In addition, the Company's share premium account may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 25% of the total sales for the year with the largest customer accounting for approximately 15%. The five largest suppliers of the Group accounted for approximately 52% of the Group's total purchases during the year, with the largest supplier accounting for approximately 32%.

Apart from the Group's ultimate holding company, China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), being one of the Group's five largest customers, and COFCO's indirect 10% interest in one 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 other four largest customers or the Group's four other largest suppliers.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Zhou Mingchen
Mr. Liu Fuchun
Mr. Ma Lishan
Mr. Xue Guoping
Mr. Liu Yongfu
Mr. Ng Eng Leong
Mr. Qu Zhe
Mr. Wu Qian (Resigned on 8 April 2002)

Independent non-executive Directors:

Mr. Yuen Tin Fan, Francis
Mr. Liang Shangli

In accordance with bye-law 111 of the Company's Bye-laws, Mr. Xue Guoping and Mr. Liang Shangli 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 18 to 19 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 SECURITIES AND OPTIONS

Save as disclosed in the following section headed "Share Option Scheme", as at 31 December 2001, none of the Directors and their associates had any (and was not deemed or taken under section 31 or Part I of the Schedule to the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") to have any) interests in the securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to section 28 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") or which are required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein.

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 Company's Directors and other employees of the Group. The Scheme became effective on 23 June 1997 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. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 50,050,000, which represented approximately 3% of the Company's shares in issue as at that date. The exercise price was equal to the higher of the nominal value of the shares and a price not less than 80% of the average of the closing prices of the shares quoted on the Stock Exchange on the five trading days immediately preceding the date the options were granted to eligible employees.

SHARE OPTION SCHEME (cont'd)

The Stock Exchange has introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. An option granted under the Scheme shall be subject to the new changes which include, inter alia, the followings:-

- the maximum number of shares issuable under the share option to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting;
- share options granted to a Director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the Independent non-executive Directors; and
- the exercise price of the share options is determined by Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

The Company shall amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options					At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year					At grant date of options HK\$	At exercise date of options HK\$
Directors											
Mr. Zhou Mingchen	-	5,000,000	-	-	-	5,000,000	5.3.2001	5.3.2002 to 4.3.2006	1.368	1.670	n/a
Mr. Liu Fuchun	-	4,500,000	-	-	-	4,500,000	5.3.2001	5.3.2002 to 4.3.2006	1.368	1.670	n/a
Mr. Ma Lishan	5,000,000	-	-	-	-	5,000,000	5.8.1997	13.2.1998 to 12.2.2003	2.156	3.975	n/a
	-	3,000,000	-	-	-	3,000,000	5.3.2001	5.3.2002 to 4.3.2006	1.368	1.670	n/a
Mr. Xue Guoping	5,000,000	3,000,000	-	-	-	8,000,000					
	-	-	-	-	-	5,000,000	5.8.1997	13.2.1998 to 12.2.2003	2.156	3.975	n/a
	-	3,000,000	-	-	-	3,000,000	5.3.2001	5.3.2002 to 4.3.2006	1.368	1.670	n/a
Mr. Liu Yongfu	-	3,000,000	-	-	-	3,000,000	5.3.2001	5.3.2002 to 4.3.2006	1.368	1.670	n/a
	2,000,000	-	-	-	-	2,000,000	5.8.1997	7.2.1998 to 6.2.2003	2.156	3.975	n/a
Mr. Ng Eng Leong	-	1,000,000	-	-	-	1,000,000	5.3.2001	5.3.2002 to 4.3.2006	1.368	1.670	n/a
	2,000,000	1,000,000	-	-	-	3,000,000					
Mr. Qu Zhe	-	350,000	-	-	-	350,000	5.3.2001	5.3.2002 to 4.3.2006	1.368	1.670	n/a
Other employees											
The aggregate	400,000	-	-	-	-	400,000	5.8.1997	5.2.1998 to 4.2.2003	2.156	3.975	n/a
	-	800,000	-	-	-	800,000	5.3.2001	5.3.2002 to 4.3.2006	1.368	1.670	n/a
	-	16,000,000	-	-	-	16,000,000	23.3.2001	23.3.2002 to 22.3.2006	1.368	1.670	n/a
	-	1,000,000	-	-	-	1,000,000	3.10.2001	3.10.2002 to 2.10.2006	1.370	1.370	n/a
	400,000	17,800,000	-	-	-	18,200,000					
	12,400,000	37,650,000	-	-	-	50,050,000					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** 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.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

Summary details of the Scheme are also set out in note 26 to the financial statements.

SHARE OPTION SCHEME (cont'd)

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 accounts 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.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the Directors and employees, because in the absence of a readily market value of the share options on the shares of the Company, the Directors were unable to arrive at an assessment of the value of these share options.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, save for the interests of the Directors disclosed above, according to the register kept by the Company under section 16 of the SDI Ordinance for the purposes of sections 3 to 7 of the SDI Ordinance, the following persons were interested in shares representing 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of Shareholders	Notes	Number of ordinary shares			% of Shareholding
		Direct interest	Deemed interest	Total interest	
Brunton Holdings Limited ("Brunton")		337,637,002	–	337,637,002	21.52%
Top Glory International Holdings Limited ("Top Glory")	(1)	–	337,637,002	337,637,002	21.52%
Rovtec Investments Limited ("Rovtec")	(1)	–	337,637,002	337,637,002	21.52%
Wide Smart Holdings Limited ("Wide Smart")		716,858,947	–	716,858,947	45.68%
COFCO (Hong Kong) Limited ("COFCO (HK)")	(2)	10,138,000	1,054,495,949	1,064,633,949	67.84%
COFCO	(3)	–	1,064,633,949	1,064,633,949	67.84%

Notes:

- (1) This represents the deemed corporate interest of Top Glory and Rovtec in 337,637,002 shares held by Brunton in which each of Top Glory and Rovtec is entitled to exercise or 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 1,054,495,949 shares in aggregate held by Brunton and Wide Smart in which COFCO (HK) is entitled to control the exercise of one-third or more of the voting power at general meetings of Brunton and Wide Smart and the direct interest of COFCO (HK) in 10,138,000 shares.
- (3) This represents the deemed corporate interest of COFCO in 337,637,002 shares, 716,858,947 shares and 10,138,000 shares held by Brunton, Wide Smart and COFCO (HK) respectively.

Save as disclosed herein, there is no person known to the Directors who was, as at 31 December 2001, directly or indirectly, interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the Company.

CONNECTED TRANSACTIONS

During the year, the Company and its subsidiaries entered into various transactions with certain connected persons including COFCO and its subsidiaries (together the “COFCO Group”). These transactions are considered to be connected transactions under the Listing Rules, which need to be disclosed herein in accordance with the requirements of the Listing Rules or the waivers previously granted by the Stock Exchange. Details of these transactions are as follows:

1. China Foods Trading Limited (“CFTL”), a wholly-owned subsidiary of the Company, entered into various transactions with the COFCO Group during the year in relation to the trading of various commodities and foodstuffs including maize, sugar, redbean, buck wheat, cottonseed meal and rapeseed meal with a total value of about HK\$1,083,384,502.
2. COFCO Oils & Fats Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries and associates (together the “COFCO Oils & Fats Group”) entered into various transactions during the year with (i) certain members of the COFCO Group; (ii) Wilmar Trading Pte Ltd. (“Wilmar”), a company owned by a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group; and (iii) certain companies owned by or interested in by Archer Daniels Midland Asia-Pacific Limited (“ADM”), a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group, in relation to the sale of edible oils, oil related products and soyabean products with a total value of about HK\$322,039,704.
3. COFCO Oils & Fats Group entered into various transactions during the year with (i) the COFCO Group; (ii) Wilmar; and (iii) certain companies interested in by ADM in relation to the purchase of raw materials of oils and soyabean with a total value of about HK\$2,086,383,594.
4. COFCO Wines & Spirits Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries entered into the following transactions during the year:
 - (i) Sale of wine and wine related products to a company within the COFCO Group at a total value of about HK\$962,070; and
 - (ii) Payment of lease rental and management fee amounting to HK\$431,000 to COFCO in relation to the lease of office premises at 11th Floor, Tower A, COFCO Plaza, 8 Jian Guo Men Nei Da Jie, Beijing, China.
5. COFCO (BVI) No. 100 Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (together the “COFCO Trading Group”) entered into various transactions with certain companies within the COFCO Group during the year in relation to the purchase of certain agricultural products including redbean products, sesame products, peanut products and chestnut products with a total value of about HK\$21,192,501.
6. COFCO Trading Group also entered into the following transactions with COFCO during the year:
 - (i) Payment of lease rental and management fee amounting to HK\$648,000 to COFCO in relation to the lease of office premises at 8th and 11th Floors, Tower A, COFCO Plaza, 8 Jian Guo Men Nei Da Jie, Beijing, China;
 - (ii) Payment of management fee amounting to HK\$1,132,000 to COFCO in relation to the provision by COFCO of management services to the COFCO Trading Group pursuant to a Service Agreement dated 7 June 2001; and

CONNECTED TRANSACTIONS (cont'd)

(iii) Receipt of management fee amounting to HK\$3,620,000 from COFCO in relation to the provision by the COFCO Trading Group of management services to COFCO pursuant to a Service Agreement dated 26 October, 2001.

7. On 31 December 2001, Blissea Consortium Company Limited (“Blissea”) and CFTL, two wholly-owned subsidiaries of the Company, entered into two separate tenancy agreements with Bapton Company Limited, a wholly-owned subsidiary of Top Glory which in turn is a substantial shareholder of the Company, for the lease of certain office space in Top Glory Tower for a period of two years from 1 January 2002 to 31 December 2003 at an aggregate lease rental of HK\$3,240,720. Pursuant to the Listing Rules, Bapton is an associate of Top Glory. According to the Listing Rules, a transaction between an associate of the substantial shareholder and the Company’s subsidiary is a connected transaction. Brief details of the tenancy agreements are as follows:

Tenant	Premises rented	Rental payable for the entire tenancy
Blissea	Room 3201, 32nd Floor	HK\$1,620,360
CFTL	Room 3202, 32nd Floor	HK\$1,620,360

In accordance with the requirements of the respective waivers, the Independent non-executive Directors confirm that:

(a) In relation to items 1 to 6

- these transactions were entered into by the Company in the ordinary and usual course of its business;
- these transactions were entered into on normal commercial terms;
- these transactions were fair and reasonable so far as the shareholders of the Company were concerned;

(b) In relation to items 2 to 6

- these transactions were carried out in accordance with the terms of the agreements governing such transactions or, where there were no such agreement, no terms on less favourable than those available to or from independent third parties;

(c) In relation to item 1

- the aggregate amount of these transactions did not exceed 70% of the Company’s net tangible asset value as disclosed in its audited consolidated accounts for the year;

(d) In relation to item 2

- the aggregate amount of these transactions did not exceed 18% of the Company’s consolidated turnover as disclosed in the Company’s audited consolidated accounts for the year;

CONNECTED TRANSACTIONS (cont'd)

- (e) In relation to item 3
 - the aggregate amount of these transactions did not exceed 60% of the Company's consolidated turnover as disclosed in the Company's audited consolidated accounts for the year;
- (f) In relation to items 4(i), 4(ii), 6(i), 6(ii) and 6(iii)
 - the aggregate amount of each of these transactions was less than the higher of HK\$10 million or 3% of the book value of the Company's net tangible asset as disclosed in the Company's audited consolidated accounts for the year; and
- (g) In relation to item 5
 - the aggregate amount of these transactions did not exceed 6% of the Company's consolidated turnover as disclosed in the Company's audited consolidated accounts for the year;

In accordance with the requirements of the respective waivers, the auditors confirm that, with respect to items 1 to 6 above:

- (i) these transactions have received the approval of the Directors;
- (ii) these transactions were entered into in accordance with the pricing policies as stated in the respective agreements;
- (iii) these transactions were carried out in accordance with the terms of the agreements governing such transactions or, where there were no such agreement, on terms no less favourable than those available to or from independent third parties; and
- (iv) the cap amounts as stated in paragraphs (c) to (g) above have not been exceeded.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that five Directors of the Company, namely, Messrs. Zhou Mingchen, Liu Fuchun, Xue Guoping, Liu Yungfu and Ma Lishan, being also directors of the Company's ultimate holding company, COFCO, and/or its subsidiaries, are considered to have an interest in the COFCO Group's flour milling business which is likely to compete indirectly with that of the Company.

During the year, the Company's flour milling business is operated mainly through Xiamen Haijia Flour Mills Co., Ltd. and Zhengzhou Haijia Food Co., Ltd. which targeted at customers in the southern and central regions of China. Since the COFCO Group's flour milling business is operated mainly through its investments in two flourmills in Shenyang and Qinhuangdao, which targets the flour markets in the northern and eastern parts of China, the effect of any possible competition with the flour milling business of the Company is minimized.

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 accounts for the year are set out in notes 3 and 6 to the financial statements, respectively.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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.

Ernst & Young and W. M. Sum & Co. will retire as joint auditors of the Company at the forthcoming annual general meeting to be held on 13 May 2002 (the "2002 AGM"). W. M. Sum & Co. have advised the Company that they will not offer themselves for reappointment at the 2002 AGM. A resolution will be proposed at the 2002 AGM to appoint Ernst & Young as the auditors of the Company for the ensuing year.

On Behalf of the Board

Liu Fuchun

Vice-Chairman

Hong Kong, 8 April 2002