

Report of the Directors

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 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates comprise property investment and development, hotel ownership and operations, food processing and related businesses which include edible oils refining, wine-making and beverage, food trading and flour milling. During the year, the Group ceased to be the controlling shareholder of COFCO International Limited (formerly known as China Foods Holdings Limited) (“COFCO International”) which directly engages in food processing and related businesses. Further details are set out in notes 1 and 18 to the financial statements.

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 5 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 26 to 71.

No interim dividend was paid during the year and the Directors do not recommend the payment of any final dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 74. This summary does not form part of the audited financial statements.

FIXED ASSETS, INVESTMENT PROPERTIES AND HOTEL PROPERTIES

Details of movements in the fixed assets, investment properties and hotel properties of the Group during the year are set out in note 15 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company’s share capital and share options during the year are set out in note 33 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.

Report of the Directors (cont'd)

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$325,304,000. In addition, the Company's share premium account, in the amount of HK\$946,454,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 30% by value of the Group's turnover during the year, with the largest one accounting for approximately 10%. The five largest suppliers of the Group together accounted for approximately 34% by value of the Group's total purchase during the year, with the largest one accounting for approximately 13%.

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, 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 suppliers or the Group's four other largest customers.

DIRECTORS

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

Executive Directors:

Zhou Mingchen	
Liu Fuchun	(appointed on 8 April 2002)
Xue Guoping	(also alternate to Mr. Zhou Mingchen)
Dong Zhongxin	
Jin Jiakai	(appointed on 8 April 2002)
Wang Jinjun	
Hung Kam Hung, Allan	(resigned on 2 January 2001)

Independent non-executive Directors:

Lau Kwok Hing
Liang Shangli

In accordance with Article 99 of the Company's Articles of Association, Mr. Liu Fuchun and Mr. Jin Jiakai will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 116 of the Company's Articles of Association, Mr. Zhou Mingchen, Mr. Lau Kwok Hing and Mr. Liang Shangli will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors (cont'd)

DIRECTORS' AND SENIOR MANAGEMENT PROFILE

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 12 and 14 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 Group within one year without payment of compensation other than statutory compensation.

The independent non-executive Directors have been appointed for a term subject to retirement by rotation as required by the Company's Articles of Association.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN SECURITIES

Save as disclosed in the following section headed "Directors' Rights to Acquire Shares or Debentures", as at 31 December 2001, none of the Directors and the chief executive of the Company had any (and was not deemed or taken under section 31 of or Part I of the Schedule to the Securities (Disclosure of Interests) Ordinance (the "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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

COFCO International, an associate of the Company, has a share option scheme to enable the directors of COFCO International to grant options to eligible employees, including executive directors of COFCO International or any of its subsidiaries to subscribe for shares in COFCO International.

As at 31 December 2001, two Directors, who are also directors of COFCO International, have the following interest in options granted pursuant to COFCO International's share option scheme to subscribe for shares in COFCO International.

Number of Director	Number of options	Date granted	Expiry date of options	Price per share
				in COFCO International to be paid on exercise of options
Zhou Mingchen	5,000,000	5.3.2001	4.3.2006	HK\$1.368
Xue Guoping	5,000,000	5.8.1997	12.2.2003	HK\$2.156
	3,000,000	5.3.2001	4.3.2006	HK\$1.368

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (cont'd)

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the Directors, or their respective spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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 2 June 1999 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of the Company's shares in respect of which options may be granted (together with shares issued pursuant to options exercised and the Company's shares in respect of which any options remain outstanding) under the Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company from time to time (excluding for this purpose the Company's shares issued pursuant to 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 value of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and shall not exceed a period of 5 years commencing on the expiry of six months after the date of grant and expires on the last date of such 5-year period or the expiry date of the Scheme, if earlier.

The exercise price is 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 are granted to eligible participants.

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. No share options have been granted by the Company under the Scheme since its adoption on 2 June 1999. However, any option to be granted under the Scheme shall be subject to the new changes which include, inter alia, the following:

- (a) 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 advance in a general meeting;
- (b) 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
- (c) 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 Company's shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

Report of the Directors (cont'd)

SHARE OPTION SCHEME (cont'd)

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

No options to subscribe for ordinary shares in the Company have been granted to any eligible participants, including Directors or their respective associates or the Group's employees, under the Scheme since its adoption on 2 June 1999.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following details were recorded in the register maintained by the Company under Section 16 of the SDI Ordinance for the purpose of Sections 3 to 7 of the SDI Ordinance:

Name of shareholder	Number of ordinary shares and nature of interest		
	Direct interest	Deemed interest	Total interest
Rovtec Investments Limited (Note)	886,519,589	–	886,519,589
COFCO (HK) (Note)	226,163,450	1,124,811,589	1,350,975,039
COFCO	–	1,350,975,039	1,350,975,039

Note: The ultimate holding company of these companies is COFCO.

Save as disclosed above, as at 31 December 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16 of the SDI Ordinance shows that the Company has not been notified of any other interest representing 10% or more of the Company's issued share capital.

CONNECTED TRANSACTIONS

- (a) Separate management contracts had been entered into between Gloria International Hotels Limited ("Gloria International"), a wholly-owned subsidiary of COFCO (HK), and the respective Group companies owning Gloria Plaza Hotel, Beijing, Gloria Plaza Hotel, Shenyang, Gloria Plaza Hotel, Dalian and Gloria Resort, Sanya. Details of each of the management contracts are as follows:
- (i) Pursuant to the management contract entered into between Gloria International and Gloria Plaza Hotel Ltd. ("Beijing JVC") in relation to Gloria Plaza Hotel, Beijing, Gloria International will provide certain hotel operation and management services to Beijing JVC in return for a fee calculated based on 2.5% of the turnover of Gloria Plaza Hotel, Beijing. The management contract is for a term of 10 years from 29 September 1993 to 28 September 2003. Under the management contract, Gloria International will be entitled to receive a bonus calculated at 4% of the actual gross profit for the relevant year should the annual gross profit of Beijing JVC exceed the amount budgeted for by the board of directors of Beijing JVC for the relevant year.
 - (ii) Pursuant to the management contract entered into between Gloria International and Shenyang Gloria Plaza Co., Ltd. ("Shenyang JVC") in relation to Gloria Plaza Hotel, Shenyang, Gloria International will provide certain hotel operation and management services to Shenyang JVC in return for a fee calculated based on 3% of the turnover of Gloria Plaza Hotel, Shenyang. The management contract is for a term of 10 years from 18 October 1995 to 17 October 2005. Under the management contract, Gloria International will be entitled to receive a bonus calculated at 1% of the turnover for the relevant year should the annual gross profit of Shenyang JVC exceed the amount budgeted for by the board of directors of Shenyang JVC for the relevant year.

CONNECTED TRANSACTIONS (cont'd)

- (iii) Pursuant to the management contract entered into between Gloria International and Dalian Gloria Plaza Hotel Co., Ltd. ("Dalian JVC") in relation to Gloria Plaza Hotel, Dalian, Gloria International will provide certain hotel operation and management services to Dalian JVC in return for a fee calculated based on 2.5% of the turnover of Gloria Plaza Hotel, Dalian. The management contract is for a term of 25 years from 22 March 1996 to 21 March 2021. Under the management contract, Gloria International will be entitled to receive a bonus calculated at 4% of the actual gross profit for the relevant year should the annual gross profit of Dalian JVC exceed the amount budgeted for by the board of directors of Dalian JVC for the relevant year.
- (iv) Pursuant to the management contract entered into between Gloria International and Sanya Gloria Resort Limited ("SGRL") in relation to Gloria Resort, Sanya, Gloria International will provide certain hotel operation and management services to SGRL in return for a management fee calculated based on 2.5% of the turnover together with a bonus payment calculated based on 4% of the gross operating profit of Gloria Resort, Sanya for the relevant year. The management contract is for a term of 10 years from 26 February 1997 to 25 February 2007.

The total amount of the management fees paid to Gloria International pursuant to the respective management contracts mentioned above for the year ended 31 December 2001 was approximately HK\$7,514,000 (2000: approximately HK\$8,997,000).

The above connected transactions were reviewed by the independent non-executive Directors who confirmed that:

- (i) they were carried out in accordance with the terms of the agreement relating to the transactions in question or, where there was no such agreement, on terms no less favourable than terms available to (or from, as the case may be) independent third parties;
- (ii) they were carried out in the ordinary and usual course of business of the Group; and
- (iii) they were either on normal commercial terms or, where there was no available comparison, on terms that were fair and reasonable in so far as the independent shareholders of the Company were concerned.

Report of the Directors (cont'd)

CONNECTED TRANSACTIONS (cont'd)

- (b) During the year, Bapton Company Limited, a wholly-owned subsidiary of the Company, entered into six separate tenancy agreements with COFCO (HK) and its associates (as defined in the Listing Rules) for the lease of certain floors of office space in Top Glory Tower, the Company's office tower in Causeway Bay, for a period of two years from 1 January 2002 to 31 December 2003 at an aggregate rental of HK\$10,763,808. Brief details of the tenancy agreements are as follows:

Tenant	Connected relationship to the Company	Premises rented	Rental paid for the entire tenancy
COFCO (HK)	The Company's intermediate holding company	Whole of 33rd Floor	HK\$3,216,528
Blissea Consortium Company Limited	A subsidiary of COFCO (HK)	Room 3201, 32nd Floor	HK\$1,620,360
China Foods Trading Limited	A subsidiary of COFCO (HK)	Room 3202, 32nd Floor	HK\$1,620,360
Gloria International	A wholly-owned subsidiary of COFCO (HK)	Room 2203, 22nd Floor	HK\$705,024
Top Glory Shipping Company Limited	A wholly-owned subsidiary of COFCO	Whole of 27th Floor	HK\$2,896,512
Ceroilfood Finance Limited	A wholly-owned subsidiary of COFCO	Room 1603, 16th Floor	HK\$705,024

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Set out below is the information disclosed pursuant to paragraph 8.10 of the Listing Rules.

Five Directors of the Company, namely Messrs. Zhou Mingchen, Liu Fuchun, Xue Guoping, Dong Zhongxin and Wang Jinjun 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 businesses of the COFCO Group for the purposes of paragraph 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (cont'd)

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

(a) Property investment and development

The COFCO Group holds investment properties and/or properties under development in the following cities in the mainland in which the Group also has investment properties and/or properties under development.

Beijing

The COFCO Group owns Beijing COFCO Plaza, an office and commercial building located at Jian Guo Men Nei Avenue. Six floors of one office block of Beijing COFCO Plaza are occupied by COFCO, whilst the rest of the floor space has been leased out for office and commercial purposes. The COFCO Group also has a property project under development in Chaoyang District, which is proposed as high-rise residential apartments.

There is little competition between the COFCO Group's properties in Beijing and the Group's properties as Beijing Capital Paradise is a low-rise residential development catered to the expatriate community in Beijing and Beijing Qianmen Shopping Centre is a re-developed, modern shopping arcade.

Shanghai

In Shanghai, the COFCO Group has an approximate 10% interest in Kerry Everbright City located in Zhabei District. The COFCO Group is a passive investor as the development of this project is undertaken by Kerry Properties Limited. The Group's property interest in Shanghai on the other hand is located in Pudong, where 5 high-rise deluxe residential blocks are planned.

Guangzhou

The COFCO Group has three properties under development located in different parts of Guangzhou, namely Tian He District, Huanshi Dong Lu and Henan Lu. All three properties are proposed residential projects, whereas the Group's property, Top Spring Development Building, is an office and commercial building.

Shenzhen

The COFCO Group has two high-rise residential property developments in Shenzhen, located at Beili Nan Lu and Wenjin Bei Lu, respectively, whereas the Group's residential-cum-commercial development, Shenzhen Xin An Lake, is located in Baoan County outside the Shenzhen city limits.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (cont'd)

(b) Hotel investment

The COFCO Group owns the following hotels, which are managed by Gloria International, a wholly-owned subsidiary of COFCO (HK).

Name	Location	No. of rooms
Gloria Plaza Hotel, Suzhou	Suzhou, Jiangsu Province	300
Gloria Plaza Hotel, Nanchang	Nanchang, Jiangxi Province	350
Gloria Inn, Shenyang	Shenyang, Liaoning Province	81
Songhuajiang Gloria Inn	Harbin, Heilongjiang Province	304
Huanhai Gloria Inn	Qingdao, Shandong Province	238
Cactus Resort	Sanya, Hainan Province	600
Gloria Holiday Villas Qinhuangdao	Qinhuangdao, Hebei Province	106

Save and except for Gloria Inn, Shenyang and Cactus Resort, the hotels owned and operated by the COFCO Group are located in cities other than those in which the Group owns and operates its hotels. In Shenyang, the Group's hotel, Gloria Plaza Hotel, Shenyang, is operated to 4-star hotel standards and caters to a large extent to business travellers, whereas Gloria Inn, Shenyang is operated to 3-star hotel standards and caters to domestic travellers and tourists. In Sanya, the Group's resort hotel, Gloria Resort, Sanya, is operated to 5-star hotel standards, whereas Cactus Resort is operated to 3-star hotel standards. As the hotels are either located in different locations or where if they are located in the same cities, they are operated to different hotel standards, the Company considers that there is no direct competition between the hotels owned and operated by the COFCO Group and those owned and operated by the Group.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules to review and supervise the Group's financial reporting process and internal controls.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year except that the non-executive Directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code of Best Practice, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31 December 2001, the Company had the following outstanding loan facilities each of which was subject to, inter alia, a specific performance obligation being maintained by the Company's intermediate holding company, COFCO (HK), during the tenure of each loan facility:

- (a) HK\$285,715,000, maturing on 28 November, 2002; and
- (b) HK\$77,000,000, maturing on 29 June 2003.

The obligation requires COFCO (HK) to maintain a holding of not less than 40% of the entire issued share capital of the Company throughout the life of each loan facility. A breach of the aforesaid obligation will constitute an event of default under the loan agreements setting out the terms and conditions of each loan facility. As a result of such breach, each loan facility may become due and payable on demand by the lenders under the loan agreement according to the terms and conditions thereof.

As at 31 December 2001, COFCO (HK), directly and indirectly, held approximately 50.5% of the issued share capital of the Company.

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. The Company has received a special notice from a member of the Company proposing a resolution at the 2002 AGM to appoint Ernst & Young as auditors of the Company for the ensuing year in place of the retiring joint auditors, Ernst & Young and W. M. Sum & Co..

ON BEHALF OF THE BOARD

Xue Guoping

Vice-Chairman & Managing Director

Hong Kong, 8 April 2002