

# REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2002.

## 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, soyabean meal and related products; wineries; confectionery; trading and flour milling.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 80.

An interim dividend of 3 HK cents per share was paid on 30 September 2002. The Directors recommend the payment of a final dividend of 6 HK cents per share in respect of the year to shareholders on the register of members on 16 May 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits 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 and restated and reclassified as appropriate, is set out on page 81. 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 during the year 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 during the year, together with the reasons therefor are set out in notes 26 and 27 to the financial statements, respectively.

## 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.

## Report of the Directors

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements.

### DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$775,591,000, of which HK\$94,950,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account in the amount of HK\$2,413,788,000 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 12% of the total sales for the year with the largest customer accounting for approximately 5%. The five largest suppliers of the Group accounted for approximately 60% of the Group's total purchases during the year, with the largest supplier accounting for approximately 28%.

Apart from the Group's ultimate holding company, China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), which is one of the Group's five largest customers and 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 other four 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. Ng Eng Leong and Mr. Yuen Tin Fan, Francis will retire and, being eligible, will 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.

## Report of the Directors

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 20 to 21 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, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

### DIRECTORS' INTERESTS IN SECURITIES AND OPTIONS

Save as disclosed in note 27 to the financial statements, as at 31 December 2002, 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 then existing 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.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, 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	Notes	Number of ordinary shares held		Total interest	% of Shareholding
		Direct interest	Deemed 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")		717,173,947	–	717,173,947	45.70%
COFCO (Hong Kong) Limited ("COFCO (HK)")	(2)	10,138,000	1,054,810,949	1,064,948,949	67.86%
COFCO	(3)	–	1,064,948,949	1,064,948,949	67.86%

Notes:

1. This represents the deemed corporate interests 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 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 1,054,810,949 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, together with 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, 717,173,947 shares and 10,138,000 shares held by Brunton, Wide Smart and COFCO (HK), respectively.

Save as disclosed above, there is no person known to the Directors who was, as at 31 December 2002, 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 (collectively referred to as 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, 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 and sugar, with a total value of about HK\$953,383,000.
2. COFCO Oils & Fats Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries and associates (collectively referred to as 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 Archer Daniels Midland Asia-Pacific Limited (“ADM”), a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group, or companies in which ADM has an interest, in relation to the sale of edible oils, oil-related products and soyabean products with a total value of approximately HK\$769,011,000.
3. The COFCO Oils & Fats Group entered into various transactions during the year with (i) the COFCO Group; (ii) Wilmar; and (iii) certain companies in which ADM has an interest in relation to the purchase of raw materials of oils and soyabean with a total value of approximately HK\$6,300,533,000.
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) the sale of wine and wine-related products to a company within the COFCO Group at a total value of approximately HK\$5,819,000; and
  - (ii) the purchase of wine and wine-related products from a company within the COFCO Group at a total value of approximately HK\$83,000.
5. COFCO (BVI) No. 100 Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (collectively referred to as 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, rice products, red bean products, sesame products, cottonseed meal, rapeseed meal and chestnut products with a total value of approximately HK\$150,274,000.

## Report of the Directors

### CONNECTED TRANSACTIONS (cont'd)

6. The COFCO Trading Group also entered into the following transactions with COFCO during the year:
- (i) The payment of lease rental and management fees amounting to HK\$4,051,000 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) The payment of management fees amounting to HK\$6,792,000 to COFCO in relation to the provision of management services by COFCO to the COFCO Trading Group pursuant to a service agreement dated 7 June 2001; and
  - (iii) The receipt of management fees amounting to HK\$30,320,000 from COFCO in relation to the provision of management services by the COFCO Trading Group to COFCO pursuant to a service agreement dated 26 October, 2001.

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 was no such agreement, on terms no 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 the Company's audited consolidated accounts for the year;
- (d) In relation to item 2
  - the aggregate amount of each 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;

## Report of the Directors

### 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 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, as disclosed below, five Directors of the Company, namely, Messrs. Zhou Mingchen, Liu Fuchun, Xue Guoping, Liu Yongfu 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 was operated mainly through Xiamen Haijia Flour Mills Co., Ltd. and Zhengzhou Haijia Food Co., Ltd. which targets 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 flour mills in Shenyang and Qinhuangdao, which targets the flour markets in the northern and eastern regions of China, the effect of any possible competition with the flour milling business of the Company is minimised.

## Report of the Directors

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

### AUDIT COMMITTEE

In 1999, the Company 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 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 2002, W. M. Sum & Co. resigned as one of the joint auditors of the Company and Ernst & Young were appointed by the shareholders as the sole auditors, whereas previously they were the other joint auditors. There have been no other changes of auditors in the past three years.

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

**Ma Lishan**

*Managing Director*

Hong Kong, 7 April 2003