Ma Lishan
Managing Director

During the year under review, the Group recorded a consolidated turnover of HK$11,110,532,000, a substantial increase of 79% compared to last year. Profit attributable to shareholders amounted to HK$405,603,000, also representing a significant rise of 92% compared to the previous year. Basic earnings per share were 25.8 HK cents, an increase of 47% over the 17.5 HK cents per share posted last year.

During the year, the Group recorded non-recurring gains of HK$73,447,000 arising from the disposal of two long-term and other investments. Following the deduction of the aforesaid gain, profit attributable to shareholders and basic earnings per share of the Group amounted to HK$332,156,000 and 21.2 HK cents, respectively, representing increases of 57% and 21% compared to last year.

The Group has five established food-related core businesses: edible oils, soyabean meal and related products; wineries; confectionery; trading; and flour milling.

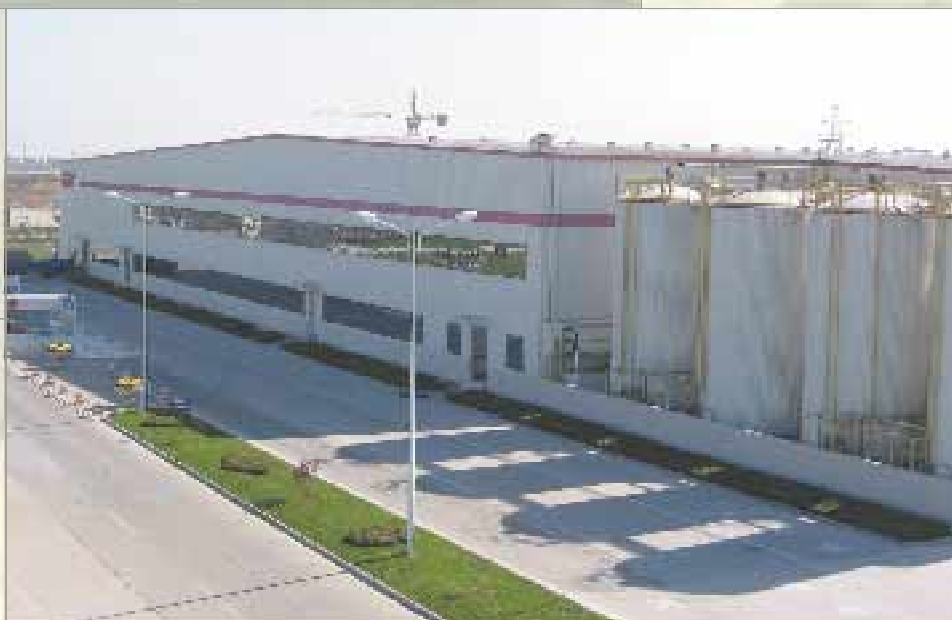
The results of each of the core businesses and other relevant information of the Group for the year under review are set out as follows:

Edible Oils, Soyabean Meal and Related Products

The Group is the largest edible oils and soyabean meal manufacturer in China. The Group extracts, refines, manufactures and sells "四海" soyabean meal and "Fortune" edible oils, and manufactures and sells related products on the Mainland. This is done through three subsidiaries, East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. ("East Ocean"), Yellowsea Oils & Grains Industries (Shandong) Co., Ltd., and Eastbay Oils and Fats Industries (Guangzhou) Co., Ltd., in which the Group holds 54%, 73% and 84% interests, respectively; and three associates, Northsea Oils & Grains Industries (Tianjin) Co., Ltd., Great Ocean Oils & Grains Industries (Fang Cheng Gang) Co., Ltd., ("Great Ocean") and Laiyang Luhua Fragrant Peanut Oil Co., Ltd., in which the Group holds 50%, 40% and 24% interests, respectively.

During the year, the Group was affected by such factors as the implementation of the "Provisional Rules on Genetically Modified Soyabean" on the Mainland, the substantial rise in prices of soyabean and other raw materials, and intensified industry competition. These factors, to a certain extent, affected the development and profitability of the edible oils business during the first half of 2002. However, soyabean imports returned to normal during the second half of the year, supported by the Group's large-scale operations in extraction and refining, and the clarified implementation of regulations on the genetic modification of soyabeans. The cost-cutting advantage of this large-scale production enabled the Group to maintain a strong competitive edge. Moreover, soyabean sales produced satisfactory profits as a result of the continual high price of soyabean meal throughout the year. In addition, the vertical integration of the Group's edible-oils business offset any negative effects due to the fluctuation of prices in raw materials, thus facilitating stable development with satisfactory returns.

Edible oils in consumer packs under the "Fortune" brand



East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.

Not only does the Group strive to improve production facilities, it also focuses on enhancing productivity. Factories newly constructed by East Ocean for consumer-pack edible oils and rapeseed/soyabean extraction commenced full-scale operations in the second half of the year under review. In addition, Great Ocean began the second phrase of construction works, which are expected to further consolidate the Group's leading position in the edible-oils business. The expansion of the Group's production facilities for feedstock and special grade oils and fats is also underway. The factory will begin operations in the first half of 2003. This will strengthen the foundation of the related businesses of the Group as part of its business development strategy to intensify and diversify edible oils. This strategy aims to improve overall operating profit margins of this business.

During the year, there was keen competition in the consumer-pack edible-oils market. The Group will continue to increase the market share of "Fortune" consumer-pack products under a cost-effective approach. The Group will also strengthen the existing sales channels of the "Fortune" brand for the future development of its consumer-pack edible-oils business and the use of the brand name "Fortune" in other consumer foodstuffs.

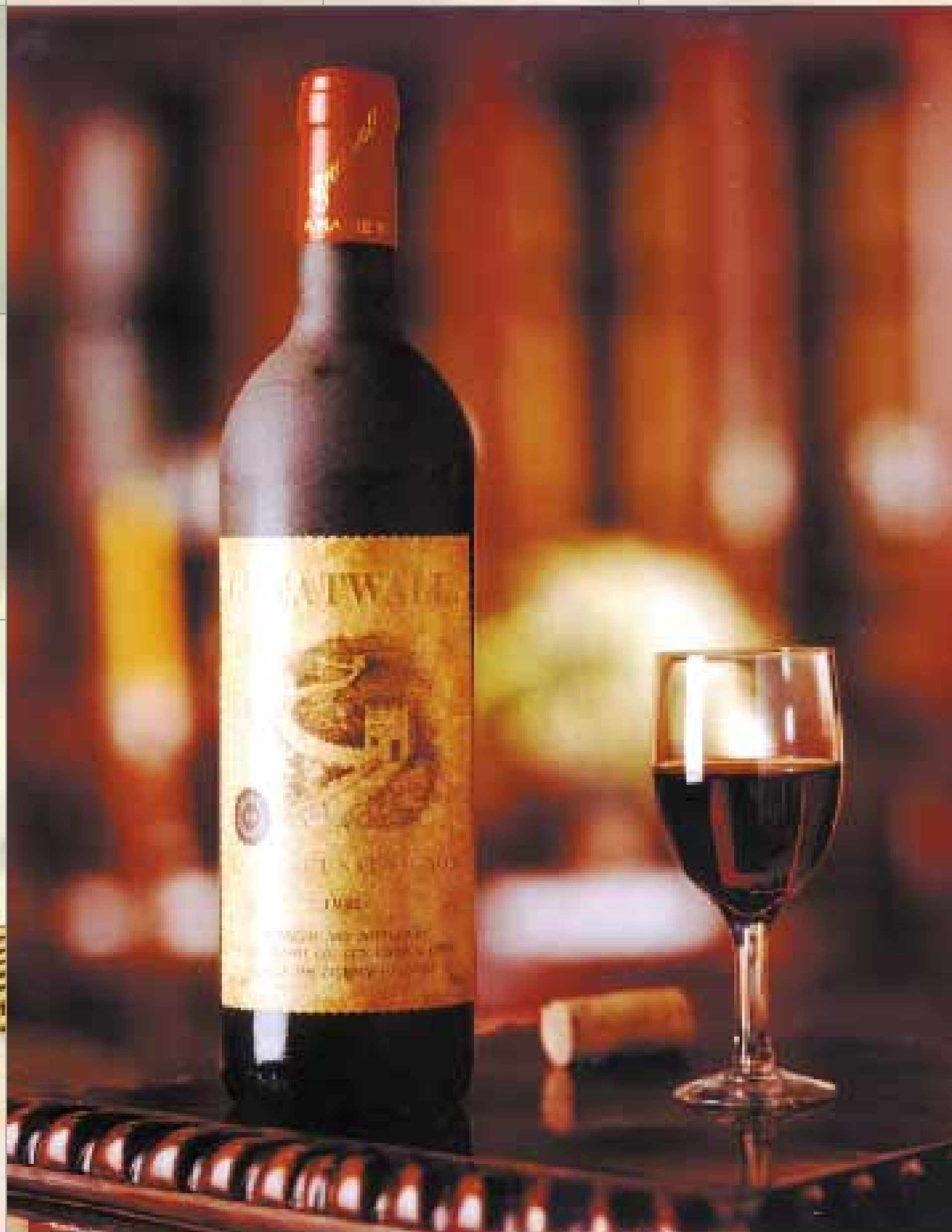
In view of the rapidly developing oil extraction and refinery industry on the Mainland, the gradual shift from small-scale to large-scale operations has proven to be a competitive advantage. Management believes that this business will be further strengthened, supported by the well-established, large-scale operation and brand superiority of its oils and fats products, as well as the gradual lifting or relaxation of import quotas on these products after China's accession to the World Trade Organization ("WTO").

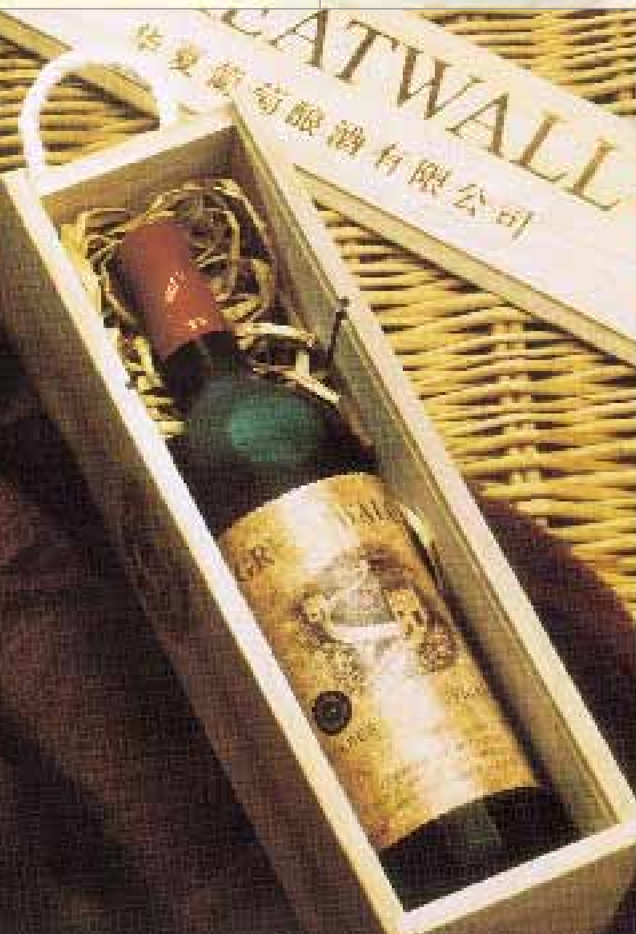
Wineries

During the year under review, the Group produced and sold wine under the trademark "Great Wall" on the Mainland, through its 50%, 100% and 60% interests, respectively, in China Great Wall Wine Co., Ltd. ("China Great Wall"), Huaxia Winery Co., Ltd. and Yantai COFCO Winery Co., Ltd.

Over this period, the wine market in China improved by 18%, while the "Great Wall" winery grew by 20%. China's wine market continued to develop rapidly and there was significant demand for "Great Wall" wines, which improved returns and formed a sound basis for this business. Furthermore, with the Group's improved production management and cost control, and the lower duties for the import of bulk wine, profitability of the winery business remained high despite increased competition.

The opening up of the wine market and relaxation of trade restrictions following China's accession to the WTO will inevitably intensify competition in the Chinese wine industry. Against such a background, the Group will continue to enhance the superior brand image of "Great Wall" and expand its sales channel, which covers over 300 top-tier distributors. The Group will also explore new markets, and consolidate the existing sales team and sales management of its "Great Wall" wines, in order to strengthen its production and centralize sourcing management, thus improving competitiveness. Towards these ends, the Group acquired the remaining 50% shareholding of China Great Wall from an independent third party on 19 March 2003, making the company a wholly owned subsidiary of the Group. This marked an important step in the consolidation of the Group's "Great Wall" wine business.





“Great Wall” Red Wine

Confectionery

During the year, the Group continued to produce and distribute confectionery and chocolate products on the Mainland under the trademark "Le Conte", through its 86% interest in Shenzhen Le Conte Foodstuff Co., Ltd..

The confectionery business maintained strong growth in turnover during 2002. Combining the solid foundation of the brand "Le Conte" with the successful introduction of two new production lines, the Group launched "Tastey" confectionery products and "Just Me" chocolate products during the second half of the year. The Group's strategy of different brands targeting different markets helped to penetrate various market segments and extend the coverage of the confectionery business.

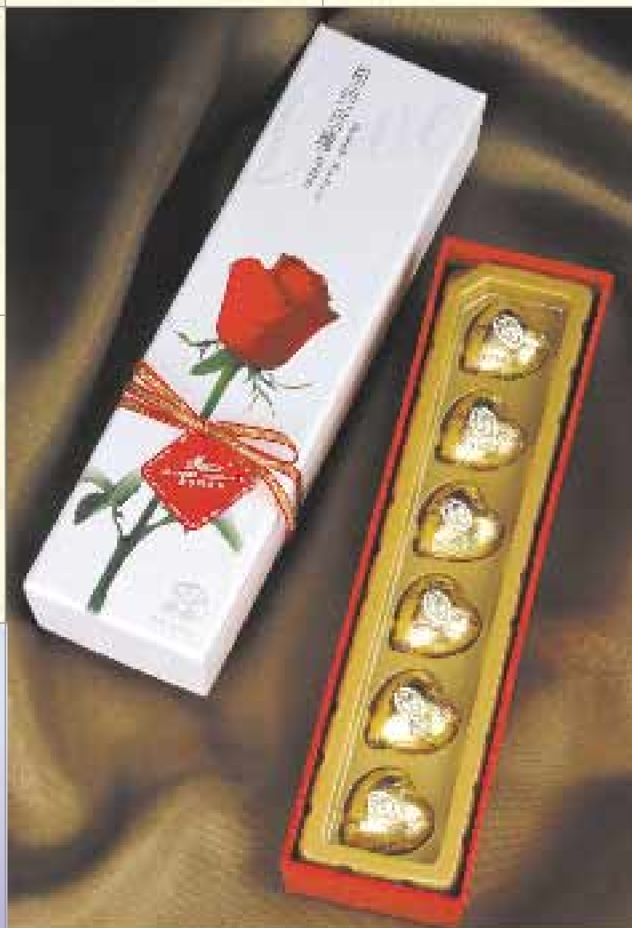
Despite the substantial surge in the price of cocoa, the confectionery business maintained high gross profit margins as a result of its effective cost-control measures; flexible procurement, production and sales policies; and a strengthened internal management.

The management firmly believes that further consolidation of the confectionery business largely depends on whether the Group could achieve better economic efficiency, increase market share and enhance Mainland consumers' loyalty to its "Le Conte" products. With its priorities centered on a reasonable level of profit growth as well as cost effectiveness, the Group will continue to strengthen the research and development of new products and commit more resources to marketing, measures expected to improve productivity and increase sales. The Group will also expand its sales channel that comprises over 160 top-tier distributors. In light of the tremendous potential of the chocolate market and the considerable growth in consumer spending on the Mainland, the confectionery business will certainly make large sales and profits contribution to the Group's food-related businesses.

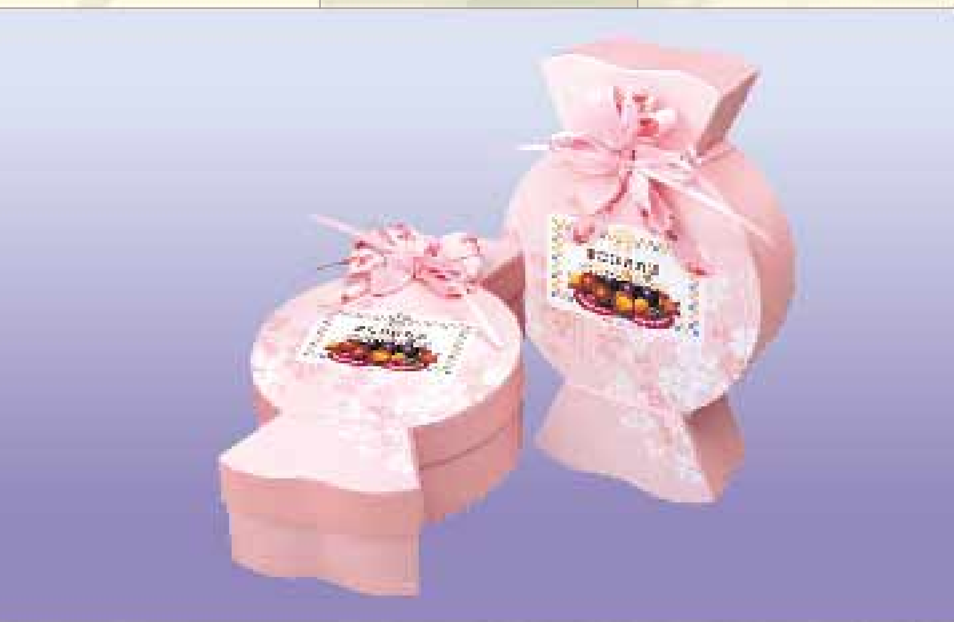
Trading

The Group continued to import and export foodstuffs, grains and animal feedstock domestically and internationally through two wholly owned subsidiaries: China Foods Trading Limited ("China Foods Trading") and COFCO International (Beijing) Ltd. ("COFCO International Beijing"). During the year under review, China Foods Trading and COFCO International Beijing were principally engaged in the bulk commodity back-to-back trading of sugar, maize, fishmeal, cotton meal, vegetable meal, cereal, soyabeans and red beans, as well as the trading of imported raw materials. The Group also rendered foodstuffs-trading agency services on a commission basis.

China's accession to the WTO has led to a gradual opening up of most of the Mainland foodstuffs import and export markets, as well as a significant increase in trade quotas, which have resulted in more intense competition within the trading business. Moreover, there was a decline in foodstuffs demand amid economic setbacks domestically and internationally, that, to a certain extent, affected the Group's trading business. However, supported by the diversified businesses of China Foods Trading and COFCO International Beijing, the Group's extensive experience in foodstuffs trading, its well-established international trading network and a stringent and comprehensive trading risk-management system, this business continued to generate considerable and stable operating profit.



“Le Conte” Chocolate



The management believes that, in long run, China's accession to the WTO will benefit the development of its domestic and international trading as well as its import and export business. The commodity-trading quota will also be increased substantially to create tremendous business opportunities for the Group. The Group will also explore opportunities in the high-value-added processing trading business and seek new markets, to extend its business scope. It is anticipated that demand from international markets for agricultural products from the Mainland will continue to increase in the coming years. As domestic products remain competitive after China's accession to the WTO, the Group's trading business will be able to register stable growth.

Flour Milling

During the year, the Group continued to engage in flour milling and related businesses through two Sino-foreign joint ventures, Zhengzhou Haijia Food Co., Ltd. and Xiamen Haijia Flour Mills Co., Ltd., in which the Group holds 55% and 60% interests, respectively, and through a wholly-foreign owned enterprise, East Ocean, in which the Group holds a 54% interest.

The Group continued to face a challenging operating environment, with rising raw material and production costs, declining sales prices and increasing competition. Nonetheless, by implementing effective measures to control costs, to enhance management and to monitor product quality, overall gross profit margins were maintained at a level comparable to the preceding year, with a significant increase in overall profits of the flour-milling business.

Looking ahead, the Group will take a proactive approach to overcome challenges in the flour-milling industry by enhancing production and the proportion of high-end flour through on-going adjustments to its product mix; speeding up development of both new and downstream products; improving cost control and product management; and expanding its sales network, measures expected to increase profitability. With China's accession to the WTO, the import of foreign quality wheat is expected to increase substantially. Together with the improved quality of domestic wheat as a result of modifications in cultivation methods, the Group should be able to implement its strategy of developing the high-end flour market.

Other Non-Core Business

In order to focus on its five core food-related businesses, the Group disposed of its 28.6% interest in Jiangsu Jiangshan Pharmaceutical Company Limited and a meat-product processing and production business during the year. Consideration for the respective disposals in aggregate amounted to HK$116,538,000, bringing in non-recurring gains of HK$73,447,000 for the year.

The Group has only retained a thermal-energy plant as its non-core business. The Group will explore any opportunity to dispose of this plant in order to commit all its internal resources to the development of its core businesses and further maximize returns for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position and cash flow status are sound and stable. As at the end of December 2002, the Group's consolidated shareholders' equity amounted to HK$3,543,286,000, representing 8.6% growth compared to the year before. As at 31 December 2002, the Group's cash and non-secured bank deposits reached HK$1,434,315,000 (31 December 2001: HK$1,738,844,000) and the Group's total net current assets were approximately HK$1,748,698,000. (31 December 2001: HK$1,744,813,000). Taking into consideration the above as well as available bank loans and other facilities, the management believes that the Group will have adequate financial resources to settle its debts and provide funding for its daily operational and capital expenditure. The Group also has sufficient internal resources to settle the payment of RMB185,000,000 (equivalent to HK$174,528,000) as the acquisition cost of a 50% equity interest in China Great Wall.

The Group's monetary assets, debts and transactions are principally denominated in Hong Kong dollars, Renminbi and US dollars. Due to the pegged exchange rate between the Hong Kong dollar and the US dollar and because there is little fluctuation in the exchange rate between Hong Kong dollars and Renminbi, the Group believes that its exposure to exchange-rate risk is minimal.

CAPITAL STRUCTURE

There was no change to the share capital of the Company during the year under review. As at 31 December 2002, the Company had 14 outstanding Convertible Notes of an aggregate value of HK$301,000,000 (the "Convertible Notes"). Effective from the date of issuance (26 October 2001) up to its third anniversary, the holder(s) of the Convertible Notes has the right to convert in full or in part to the Company's shares at HK$2.15 per share. This right of conversion had not been exercised in 2002. The Convertible Notes carry a fixed yield of 2% per annum payable semi-annually in arrears.

As at 31 December 2002, other than the abovementioned, certain bank loans plus advances from minority shareholders of the Group's subsidiaries and that from the Company's ultimate holding company, China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), and a subsidiary of COFCO, which amounted to HK$2,078,713,000 (31 December 2001: HK$1,250,598,000), the Group had no other material borrowings. During the year under review, all bank borrowings were charged at interest rates ranging from 1.8% to 6.44% p.a. (31 December 2001: from 1.8% to 7% p.a.). Other advances (excluding the Convertible Notes), in contrast, were either interest-free or charged at fixed annual rates of 5.04% and 5.85%. (31 December 2001: 5.6%, 5.9% and 6.4% p.a.).

As at the end of December 2002, the Group's total assets were approximately HK$7,456,129,000 (31 December 2001: HK$5,903,931,000), and the aggregate debts were HK$2,078,713,000 (31 December 2001: HK$1,250,598,000). Based on the above, the Group's gearing ratio was approximately 27.9% (31 December 2001: 21.2% (restated)).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 31 December 2002, the Group had no material contingent liabilities.

As at 31 December 2002, part of the Group's bank loans were secured by charges over its fixed assets valued at a net book value of approximately HK$98,463,000 (31 December 2001: HK$112,515,000), its investment properties with a carrying value of HK$31,709,000 (31 December 2001: HK$60,962,000) and a pledge of bank deposits of nil (31 December 2001: HK$5,442,000).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2002, the Group employed a total of approximately 3,720 employees in China and Hong Kong (31 December 2001: 3,496 employees). All employees are remunerated according to their performance, experience and prevailing industry practice. On-the-job and professional training are provided as well. The Group provided retirement benefits, either in the form of Mandatory Provident Fund Exempted ORSO or Mandatory Provident Fund entitlement, to employees in Hong Kong. A similar scheme is also provided for employees in China. Details concerning the retirement benefit schemes are set out in this Annual Report.

In addition, the Group has already implemented a share options scheme (the "Scheme") to reward eligible employees (including Executive Directors of the Company) for their outstanding performance. The Scheme was amended by the shareholders at the annual general meeting held on 13 May 2002 in order to comply with the new requirements under the Listing Rules. As at 31 December 2002, a total of 49,770,000 share options were outstanding. These share options can be exercised at any time within four years after a period of 12 months from the date when the options were granted. During the year under review, the Company had not granted any share options to Executive Directors and other qualified employees.

However, subsequent to the balance sheet date of 2002 and as of the date of this report, an aggregate of 13,275,000 share options, which were granted prior to 2002, were exercised by certain Executive Directors and employees of the Company. Additional details of the Scheme have been duly disclosed in this Annual Report in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

CHANGE IN THE GROUP'S STRUCTURE

There was no material change in the structure of the Group during the year under review.

On 16 March 2003, a wholly owned subsidiary of the Company entered into a share transfer agreement with an independent third party in respect of the acquisition of a 50% interest in China Great Wall at a consideration of RMB$185,000,000 (equivalent to HK$174,528,000), the approval of which was granted by the relevant government authorities in China on 19 March 2003. China Great Wall has become a wholly owned subsidiary of the Group.

PROSPECTS

Since the completion of business reorganization of the Company undertook in 2001, the Group has established leading positions in several industry sectors in which it has already penetrated. China's accession to the WTO has a significant deep impact on the overall business environment. The opening up of the Chinese market, the lifting of trading restrictions as well as the threat from the expected entry of foreign companies into the Chinese market will have impact on the Group's existing business framework and leading position, on the other hand, this situation should create unlimited business opportunities. The Group is well positioned to cater for the anticipated demand through its range of branded premium products.

The Group is currently the leading oils and foodstuffs processing manufacturer in China. In order to maintain its leading position, the Group will fully capitalize on its abundant liquidity to enhance its productivity and cost effectiveness. It will also strive to further strengthen its brands and devote greater efforts in marketing for the consolidation of its core businesses, so as to improve the Group's profit and returns for shareholders.

Following its reorganization, the Group has well positioned itself as the leader in the China's consumer foodstuffs market. Looking ahead, the Group will continue to strengthen its brands and increase its market share to achieve sales growth, in order to improve returns for shareholders. Moreover, the Group will keep on seeking potential acquisition to enhance its outward growth momentum, making the Group a famous international foodstuffs enterprise and the major access to China's foodstuffs market for foreign investors.

Ma Lishan
Managing Director

Hong Kong, 7 April 2003