Liu Fuchun
Vice-Chairman & Managing Director

FOOD TRADING

The Group is engaged in the trading of cereals, oils, foodstuffs and animal feedstock through China Foods Trading Limited ("China Foods Trading"), a wholly owned subsidiary of the Company. The Group mainly focused on trading of maize in the Asia-Pacific region during the year.

China Foods Trading proactively sought out sales opportunities during the year and posted a turnover of approximately HK$778,502,000, representing a 218% increase over previous year. In order to enhance our competitiveness during the year, the Group offers a more advantageous pricing scheme and additional service packages to customers.

Since September 2000, China Foods Trading commenced trading of raw sugar and white sugar. The Group also plans to begin the trading of feedstock and other cereals, oils and foodstuffs in 2001. Management believes that a diversified food trading business will help broaden the Group's profitability base.

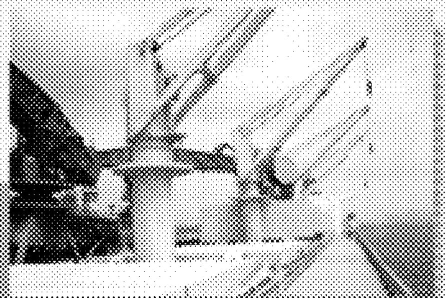
EDIBLE OILS REFINING

During the year, the Group operated edible oils refining business through Eastbay Oils and Fats Industries (Guangzhou) Co., Ltd. ("EOFI") and Southseas Oils & Fats Industrial (Chiwan) Ltd. ("SOFI"). The Group holds an effective equity interest of about 84% in the former and an effective equity interest of about 32% in the latter.

The Chinese government's policy on quota scheme for imported crude oils affected the turnover and profitability of EOFI's edible oils refining business. Furthermore, the Mainland's stringent control over the import and export of edible oils, over-supply of edible oils and fall of oils' price adversely affected the profitability of EOFI. To counteract the aforementioned factors and the decline in gross margin of drum packed edible oils, EOFI launched edible oils in new smaller size consumer packaging to the market under the "Fortune" brandname. The move aims to improve the profitability of EOFI in the future.

During the year, SOFI improved its net profit through sales of small package of edible oils. This further strengthened the Group's profitability in the business.

The Group's edible oils refining business registered a turnover of approximately HK$233,812,000, compared with HK$282,215,000 achieved last year. Management believes that the import quota problem will be resolved or eased as a result of China's entry into the World Trade Organisation ("WTO"). There may be a chance for reduction in import duty leading to lower cost and improvement of profit margin of the Group's edible oils refining business.



Export of maize

Edible oils in drum packs

Edible oils in consumer packs under the "Fortune" brand

In January 2001, the Company announced its proposed acquisition of the entire issued share capital of COFCO Oils & Fats Holdings Limited ("COFCO Oils & Fats") from COFCO (Hong Kong) Limited ("COFCO HK"). COFCO Oils & Fats holds equity interests in a number of companies which are principally engaged in the business of extraction, refining and sale of edible oils, trading of soyabean, rapeseeds, foodstuffs, soyabean meal and flour products in the Mainland. The Company also entered into another sale and purchase agreement with COFCO HK under which the Company will procure COFCO Oils & Fats to acquire a 40% equity interest in Great Ocean Oil & Grain Industries (Fang Cheng Gang) Company Limited ("Great Ocean") through an intermediate holding company. Great Ocean is a Sino-foreign joint venture engaged in the business of soyabean oil extraction, refinery and packaging, and the production of soyabean meal feedstock. Through the acquisition of the edible oils operation, the Group can consolidate and strengthen its interest in the production and sales of edible oils and substantially increase its market share in this industry.

WINE MAKING

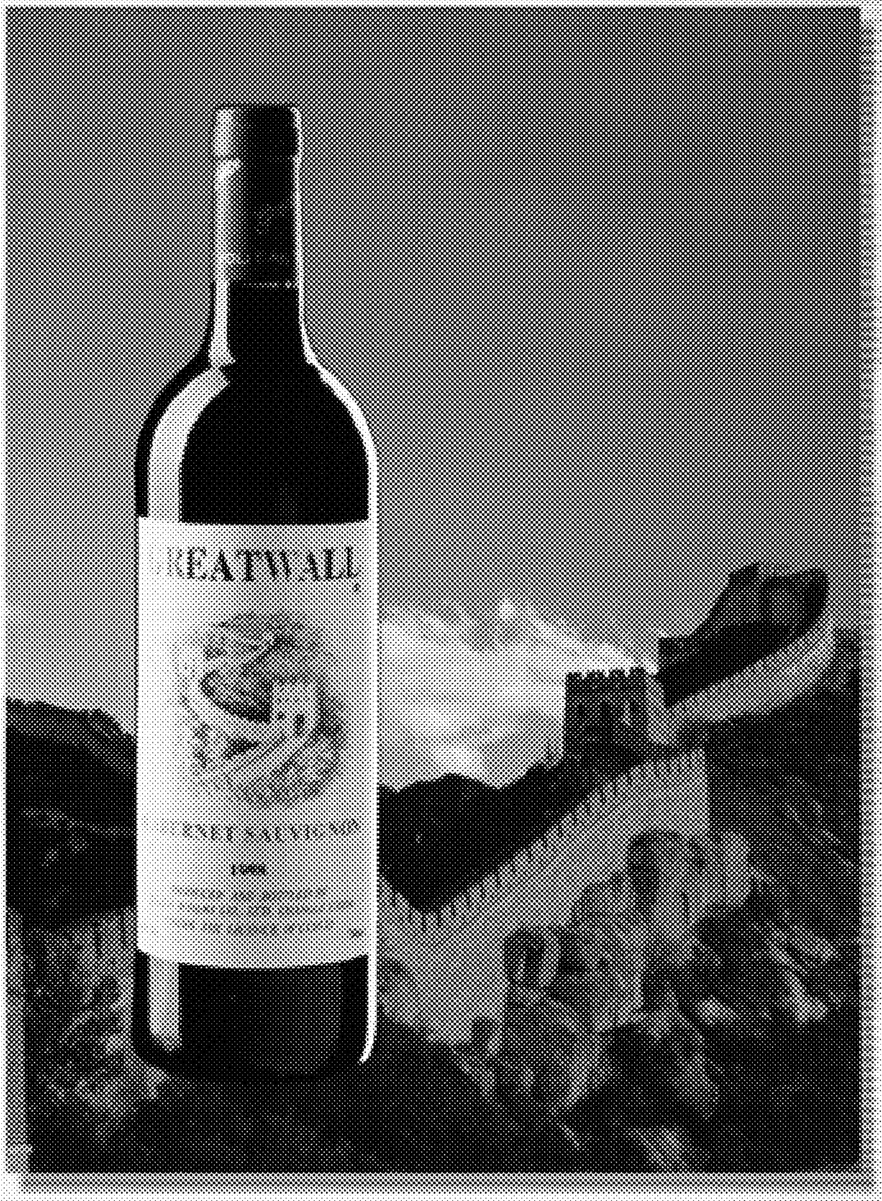
During the year, the Group participated in the wine business through China Great Wall Wine Co., Ltd. ("Great Wall Wine"), in which it holds a 25% equity interest.

Great Wall Wine's profit after tax contribution to the Group amounted to approximately HK$5,591,000, an increase of 26% over the previous year.

Great Wall Wine recorded a steady profit, attributable mainly to: (i) stable economy in the Mainland which has boosted demand for domestically produced quality wine; (ii) the Group's continual improvement in wine production technology, marketing strategies and operations; and (iii) the popularity of the "Great Wall" brand.

Total wine production and sales volume for the year reached 18,700 tonnes and 18,500 tonnes respectively, compared with the previous year's 17,000 tonnes (production) and 13,700 tonnes (sales volume). The proportion of sales of red wine to white wine was changed to 88:7 from 85:11 for the previous year. This change reveals a booming demand for red wine leading to the corresponding production adjustments of Great Wall Wine.

Throughout the year, the Group expanded its wine brewing production lines to raise capacity and meet its growth in market share. Management is optimistic that the wine making business will bring satisfactory and consistent profit contribution to the Group. In January 2001, the Group announced its proposed acquisition of the entire issued share capital of COFCO Wines & Spirits Holdings Limited ("COFCO Wines & Spirits") from COFCO HK. COFCO Wines & Spirits holds equity interests in a number of companies that are principally engaged in the manufacturing, sales and trading of grape wine, and other relevant beverage products in the Mainland. Upon completion of the acquisition, the Group will increase its stake in Great Wall Wine to 50% and acquire two additional wineries and a wines and spirits import and distribution operation. The Group's market share in the wine business in the Mainland will then be expanded significantly.



Great Wall Wine

Vineyard

FLOUR MILLING

The Group is engaged in the flour milling business primarily through its two joint ventures, namely Zhengzhou Haijia Food Co., Ltd. ("Zhengzhou Haijia") and Xiamen Haijia Flour Mills Co., Ltd. ("Xiamen Haijia"), in which the Group holds a 55% and 60% equity interests respectively.

Zhengzhou Haijia implemented effective cost controls and product quality control during the year and improved its turnover and profit over the previous year. Currently, the flour milling business brings a stable profit contribution to the Group. In pursuit of bigger market share and profitability, management has already planned to strengthen operations and implement more stringent quality control.

Xiamen Haijia's annual turnover registered a modest growth. Effective cost control measures were introduced during the year. However, due to the downward pressure on flour price and pending improvement on product quality, Xiamen Haijia's profitability was affected.

OTHER INVESTMENTS

The Group holds a 28.6% and 50% equity interests in Jiangsu Jiangshan Pharmaceutical Company Limited ("Jiangshan Pharmaceutical") and Jiangsu Jiang Yuan Thermal Power Company Limited ("Jiang Yuan Thermal Power") respectively. These companies are principally engaged in the production of Vitamin C and the operation of a thermal power plant in the Mainland respectively.

During the year, notwithstanding the fall in price of Vitamin C products, Jiangshan Pharmaceutical recorded a turnover of about RMB418,000,000, dropped less than 1% against last year. Due to the improved profit margin and reduced operating cost, profit after tax attained was RMB25,000,000 representing an increase of 10% against last year. Meanwhile, Jiang Yuan Thermal Power brought a stable dividend yield for the Group of approximately HK$4,070,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position is healthy and stable. At the end of December 2000, the Group's consolidated shareholders' equity was HK$1,421,067,000, representing a 2.6% growth over the prior year. As at 31 December 2000, the Group's cash and non-secured bank deposits reached HK$1,060,927,000 (1999: HK$905,340,000). Bank borrowings rose by 9.3% over the year to approximately HK$42,594,000.

The business operation was generally financed by the Group's internal funding. For the year, the Group's net cash inflow from operating activities totalled approximately HK$107,719,000 (1999: HK$ 59,659,000).

The Group's monetary assets are principally denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rate between Hong Kong dollars and the United States dollars is pegged, together with the minimal fluctuation in exchange rate between the Hong Kong dollars and Renminbi, the Group believes its exposure to exchange rate risk is not material.

Flour

Xiamen Haijia Flour Mills Co., Ltd.

CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Group. As at 31 December 2000, apart from certain bank loans and advances from minority shareholders of the Group's subsidiaries, with an aggregate amount of approximately HK$70,950,000 (1999: HK$73,846,000), the Group had no other material borrowings. The Group's operation was financed by shareholders' equity.

As at the end of December 2000, consolidated shareholders' equity reached HK$1,421,067,000 (1999: HK$1,384,512,000) and aggregated long term interest-bearing borrowings was approximately HK$54,276,000 (1999: HK$50,661,000). Based on the aforesaid, the Group's debt to equity ratio was approximately 3.8% (1999: 3.7%).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

Details are set out in notes 20 and 25 to the financial statements.

EMPLOYMENT AND REMUNERATION POLICY

At the end of 2000, the total number of staff of the Group in the Mainland and Hong Kong was 764. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set up share options scheme and provided retirement benefits, in the form of either Mandatory Provident Fund Exempted ORSO or Mandatory Provident Fund entitlement to Hong Kong's employees with similar scheme covering the Mainland's employees. Further details concerning remuneration and other relevant matters are set out in notes 2 and 22 to the financial statements.

OUTLOOK

The proposed acquisition of equity interests in COFCO Oils & Fats, COFCO Wines & Spirits and Great Ocean, was approved by the independent shareholders on 19 March 2001. Completion of the acquisitions will take place when all legal requirements have been fulfilled. Completion of the acquisition of COFCO Oils & Fats and COFCO Wines & Spirits is expected by 30 April 2001 while that of Great Ocean by 31 July 2001, unless otherwise extended by mutual agreement. The name of the Company was also proposed to change to COFCO International Limited to better reflect its status as the listed flagship for the cereals, oils and foodstuffs businesses of China National Cereals, Oils & Foodstuffs Import & Export Corporation.

Currently the Group's liquidity position is strong. During this regional economic recovery period, the Group will continue to seek out new investment opportunities and strengthen our ties with strategic partners to jointly explore the Mainland market. Management believes that through the Group's resources and the opportunities brought by China's eventual admission to the WTO, the Group will develop into one of the most influential cereals, oils and foodstuffs enterprises in Mainland China and even the Asia-Pacific region.

Liu Fuchun
Vice-Chairman & Managing Director

Beijing, 6 April 2001