Management's Discussion and Analysis

During the year under review, the Company completed the acquisition of certain businesses of its parent company, COFCO (HK). The Company's core activities now encompass five large-scale food-related businesses, namely, edible oils, wineries, trading, confectionery and flour milling.

Details of the performance of the Group's respective core businesses and other relevant information are set out below:

Liu Fuchun
Vice-Chairman

EDIBLE OILS

On 16 May 2001, the Company completed the acquisition of the entire issued share capital of COFCO Oils & Fats Holdings Limited ("COFCO Oils & Fats") from COFCO (HK). COFCO Oils & Fats and its subsidiaries ("COFCO Oils & Fats Group") are principally engaged in the extraction, refining and sales of edible oils, trading of soyabeans, rapeseeds, foodstuffs and soyabean meal in China. On 4 September 2001, the Group also successfully acquired through COFCO Oils & Fats a 40% equity interest in Great Ocean Oil & Grain Industries (Fang Cheng Gang) Company Limited ("Great Ocean") from COFCO (HK). Great Ocean, a wholly foreign owned company, is engaged in the business of soyabean oil extraction, refining and packaging, as well as the production of soyabean meal.

Following the acquisition of COFCO Oils & Fats and Great Ocean, and taking into account the Group's equity interests in Eastbay Oils and Fats Industries (Guangzhou) Co. Ltd. ("EOFI"), the Group has become the largest edible oils producer in China, equipped with an annual soyabeans extraction capacity of approximately 3,300,000 tonnes and an annual edible oils and fats refining capacity of approximately 1,200,000 tonnes. Through these acquisitions, the Group is able to consolidate and strengthen its interests in the production and sales of edible oils and thereby increase its market share in China on a nationwide basis.

The post-acquisition performance of COFCO Oils & Fats Group was very satisfactory. The extraction, refining and sales of the edible oils as well as other related businesses, in particular branded consumer pack edible oils, all recorded a considerable increase in turnover. In view of this, COFCO Oils & Fats Group will further consolidate and strengthen the distribution network of branded consumer pack edible oils with a view to expanding its market share. Moreover, in order to focus its resources on the management and development of the merchandising and distribution of consumer pack edible oils under the "Fortune" brand, the exclusive license of which belongs to the Group, the Group disposed of its 49% of interest in Ermine Silk Company Limited for a cash consideration of HK$380,000,000 on 30 November 2001.

The audited consolidated profit and loss of COFCO Oils & Fats Group from the date of completion of the acquisition of COFCO Oils & Fats to the end of the financial year in 2001 are summarized as follows:

	HK$'000
Turnover	3,077,735
Profit from operating activities	199,337
Net profit attributable to shareholders	86,820

The audited consolidated assets and liabilities of COFCO Oils & Fats Group (including the minority interests) at the balance sheet date were HK$2,343,543,000 and HK$1,478,158,000 respectively.

During the year under review, EOFI returned to profitability. This was principally attributable to the prudent strategies adopted by the management, a stabilized market environment, as well as the introduction of the "Fortune" branded consumer pack edible oils.

China's accession to the WTO would impact on the edible oils industry. As the Group enjoys an established position, economies of scale, brand recognition and a comprehensive distribution network in China, it is well placed to take full advantage of the opportunities arising from China's membership of the WTO. Further, the resolution of the current issues relating to import quotas and tariffs would be beneficial to the Group.

WINERIES

On 16 May 2001, the Company completed the 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 engaged in the making, sales and trading of wines in China. COFCO Wines & Spirits and its subsidiaries ("COFCO Wines & Spirits Group") market and sell their wines in the Chinese market under the "Great Wall" brand name. As a result of the acquisition, the Group has increased its stake in China Great Wall Wine Co., Ltd. from 25% to 50%. In addition, it has acquired interests in two other wineries producing "Great Wall" wines, namely, a 100% interest in Huaxia Winery Co., Ltd. and a 60% interest in Yantai COFCO Winery Co., Ltd. The Group also acquired a wholly-owned subsidiary engaged in the import and distribution of wines and spirits.

During the year under review, the wine market in China experienced substantial growth and there was an immense demand for "Great Wall" wines. Following the acquisition of COFCO Wines and Spirits, the Group implemented a series of measures to improve market penetration and profitability. These measures included the introduction of new strategies in marketing, purchasing and production management and the launch of a nationwide marketing campaign to enhance the image and sales of "Great Wall" wines.

Edible oils in consumer packs
under the "Fortune" brand

"Le Conte" Chocolate

Great Wall Red Wine

The audited consolidated profit and loss of COFCO Wines & Spirits Group from the date of acquisition of COFCO Wines & Spirits to the end of the financial year in 2001 are summarized as follows:

	HK$'000
Turnover	248,920
Profit from operating activities	54,776
Net profit attributable to shareholders	36,222

The audited consolidated assets and liabilities of COFCO Wines & Spirits Group (including the minority interests) at the balance sheet date were HK$473,989,000 and HK$284,502,000 respectively.

The acquisition of COFCO Wines & Spirits Group has significantly increased the Group's market share. With China's accession to the WTO, the wine market in China will experience further growth and development and competition will intensify. Management is of the view that, capitalizing on the well-established and strong reputation of the "Great Wall" brand name as well as its significant market penetration throughout the country, COFCO Wines & Spirits Group is fully geared to further expand and develop the Chinese market to the benefit of the Group.

TRADING

The Group continues to be engaged in the international trading of foodstuffs and animal feedstock through its wholly owned subsidiary, China Foods Trading Limited ("China Foods Trading"). During the year under review, China Foods Trading is principally engaged in the bulk trading of commodities such as raw sugar, white sugar, maize, fish meal, cotton meal and vegetable meal.

During the year under review, the demand for import sugar increased significantly and the sugar trading market in China became increasingly active. With China Foods Trading's solid experience and diverse trading channels, it recorded a turnover of HK$1,978,874,000, representing a year-on-year increase of 154%, contributing substantial profits to the Group.

In addition, the Company completed the acquisition of the entire issued share capital of COFCO (BVI) NO. 100 Limited ("COFCO (BVI)") from COFCO (HK) on 26 October 2001. COFCO (BVI) and its subsidiaries are mainly engaged in the domestic trading, as well as international import and export trading business of certain agricultural and aquatic products. They also provide customer management services and other relevant market intelligence for the sugar and maize trading business of COFCO and its subsidiaries. Following the completion of the acquisition, COFCO (BVI) and its subsidiaries are mainly engaged in the domestic and international trading of cereals, soyabeans, redbeans, chestnuts, seaweeds and animal feedstock, etc.

The acquisition of COFCO (BVI) had not only expanded and diversified the Group's existing trading business, but had also further strengthened and reinforced the Group's profitability. Notwithstanding the global economic slowdown, management believes that with China's accession to the WTO, more trading opportunities will result as the import and export trading market will open up albeit gradually.

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

Flour

The audited consolidated profit and loss of COFCO (BVI) and its subsidiaries from the date of acquisition of COFCO (BVI) to the end of the financial year in 2001 are summarized as follows:

	HK$'000
Turnover	361,757
Profit from operating activities	18,634
Net profit attributable to shareholders	13,566

The audited consolidated assets and liabilities of COFCO (BVI) and its subsidiaries at the balance sheet date were HK$701,206,000 and HK$372,946,000 respectively.

CONFECTIONERY

On 26 October 2001, the Company completed the acquisition of the entire issued share capital of Prized Development Limited ("COFCO Chocolate") and certain shareholders' loan from COFCO (HK). COFCO Chocolate and its subsidiaries ("COFCO Chocolate Group") are mainly engaged in the manufacture and distribution of chocolate products under the brand name of "Le Conte".

Upon the acquisition of COFCO Chocolate Group, the Company proactively promoted and marketed the "Le Conte" products, explored new product offerings and expanded its distribution network with a view to increasing market share and profitability. Management firmly believes that the market potential of chocolates in China is enormous. Therefore, the Group aims to increase the market share of "Le Conte" products so as to further consolidate its earnings. At the same time, in line with the aforementioned strategies, COFCO Chocolate Group will increase its production capacity so as to meet the rising market needs.

FLOUR MILLING

During the year under review, the Group is engaged in the flour milling business through its two Sino-foreign joint ventures, namely Zhengzhou Haijia Food Co., Ltd and Xiamen Haijia Flour Mills Co., Ltd, in which the Group holds 55% and 60% equity interests respectively. The Group also conducts its business in the flour milling industry through a subsidiary of COFCO Oils & Fats, i.e. East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd, in which the Group holds a 54% equity interest.

During the year under review, in spite of an extremely challenging business environment, the Group's flour milling business recorded a considerable increase in turnover. However, overall profits declined as compared with the previous year due to intense competition and higher production and raw material costs.

The Group will continue to adopt effective cost control measures and strengthen the management and quality control of its products.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position and cash flow status are sound and stable. As at the end of December 2001, the Group's consolidated shareholders' equity amounted to HK$3,261,719,000, representing a 125% growth as compared to the same period last year on an adjusted basis. As at 31 December 2001, the Group's cash and non-secured bank deposits reached HK$1,738,844,000 (31 December 2000: HK$1,060,927,000) and the Group's total net current assets were approximately HK$1,744,813,000. (31 December 2000: HK$985,279,000 (adjusted)). Taking into consideration the above as well as bank loans and other facilities currently available to the Group, 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. Besides, the Group also has sufficient internal resources to settle the payment of HK$41,264,000, being the acquisition cost of an extra 5.37% equity interest in an associate of the Group, Northsea Oils & Gains Industries (Tianjin) Co. Ltd.

The Group's monetary assets, debts and transactions are principally denominated in Hong Kong dollars, Renminbi and United States dollars. Given the fact that the exchange rate between Hong Kong dollars and the United States dollars is pegged, and that 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 immaterial.

CAPITAL STRUCTURE

In May and September 2001, the Company issued a total of 716,858,947 new shares of HK$0.10 each at a price of HK$ 1.60 per share to COFCO (HK) as consideration for the acquisitions of COFCO Oils & Fats, COFCO Wines & Spirits, and the 40% equity interest in Great Ocean through COFCO Oils & Fats.

In May and June 2001, the Company conducted top-up placements under which a total of 192,000,000 shares of the Company were placed at HK$1.65 and HK$1.975 per share to independent investors. The net proceeds raised amounted to approximately HK$353,689,000 and were used for general corporate purposes as well as providing part of the consideration for acquiring the entire issued share capital of COFCO (BVI) and COFCO Chocolate.

Apart from the above, there was no change to the share capital of the Company during the year under review.

As part of the consideration for the Company's acquisition of the entire issued share capital of COFCO (BVI) and COFCO Chocolate, in October 2001, the Company issued HK$301,000,000 nominal value convertible notes (the "Convertible Notes") at par to COFCO (HK). Effective from the date of issuance up to its third anniversary, the holder(s) of the Convertible Notes has the right to convert in full or in part of the Convertible Notes into the Company's shares at a price of HK$ 2.15 per share. Such right of conversion had not been exercised in 2001. The Convertible Notes carry a fixed yield of 2% per annum payable semi-annually in arrears.

As at 31 December 2001, other than the abovementioned, certain bank loans, advances from minority shareholders of the Group's subsidiaries and that from COFCO, which in total amounted to HK$1,250,598,000 (31 December 2000: HK$ 70,950,000), 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 7% p.a. (31 December 2000: from 1.8% to 7% p.a.). Other advances, in contrast, were either interest-free or charged at fixed annual rates of 5.6%, 5.9% and 6.4%. (31 December 2000: 6.4% p.a.)

As at the end of December 2001, the Group's consolidated shareholders' equity reached HK$3,261,719,000 (31 December 2000: HK$1,447,482,000 (adjusted)), and the aggregate interest-bearing borrowings were HK$1,123,480,000 (31 December 2000: HK$54,276,000). Based on the above, the Group's debt to equity ratio was approximately 34% (31 December 2000: 3.8%)

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 31 December 2001, the Group provided a bank guarantee of HK$15,566,000 (31 December 2000: HK$8,900,000) in connection with the facilities granted to a minority shareholder of a subsidiary (31 December 2000: an investee company).

As at 31 December 2001, part of the Group's bank loans were secured by charges over its fixed assets valued at a net book value of approximately HK$112,515,000 (31 December 2000: HK$107,746,000), its investment properties with a carrying value of HK$60,962,000 (31 December 2000: Nil) and a pledge of bank deposits of approximately HK$5,442,000 (31 December 2000: HK$9,589,000).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2001, the Group employed a total of approximately 3,496 employees in China and Hong Kong (31 December 2000: 764 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 the Group's Annual Report 2001.

In addition, the Group has already implemented a share options scheme (the "Scheme") to reward individual employees (including Executive Directors) for their outstanding performance. During the year under review, a total of 37,650,000 share options were granted to Executive Directors and other qualified employees. 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.

Further details of the Scheme (including the share options awarded before 2001) are set out in the Annual Report 2001. During the year under review, no share options had been exercised.

CHANGE IN THE GROUP'S STRUCTURE

Apart from the abovementioned, there was no change in the structure of the Group during the year under review.

PROSPECTS

China's accession to the WTO officially proclaimed on 11 December 2001 will have significant impact on its overall business environment. Food is essential part of life and as the population becomes more affluent, it will demand better quality and premium food products. The Group is well positioned to cater for the anticipated demand through its range of branded and premium products.

At present, the Group's liquidity is strong. The Group will reinforce its core businesses by raising cost effectiveness and further expanding market share. Capitalizing on its market position, the brand recognition of its products and its sound financial position, the Group will continue to seek out new acquisition and merger opportunities. It will also explore strategic alliance with major companies to expand the Group's business in China, and strive to become one of the most influential food and beverage enterprises in the Asia-Pacific region.

Liu Fuchun
Vice-Chairman

Hong Kong, 8 April 2002