



Xue Guoping
Vice-Chairman & Managing Director

BUSINESS REVIEW

Properties Investment

Hong Kong

Over the last three years, the property market in Hong Kong had peaked and gradually stabilized. Due to the unfavorable global economic situation, the pace of recovery remained slow.

The rental rates of office building in Hong Kong has begun to rebound. The Group's Top Glory Tower is situated in Causeway Bay. With its superior location, high standard of management and reasonable rental rates, the occupancy rate has been unaffected by the indifferent economic conditions. Similar to last year, the occupancy rate was maintained at over 90%, contributing a stable profit to the Group.

Mainland China

The Group has an extensive portfolio of properties in Mainland China, including residential apartment complexes, commercial buildings and shopping malls located in major cities such as Beijing, Shenyang, Shanghai and Guangzhou which enjoy a strong reputation. The

Group monitors the market conditions closely and responds with flexible and dynamic operation strategies, thereby achieving satisfactory sales and rental rate, despite a sluggish market. During the year, the Group has a stable profit contribution from its property portfolio.

The progress of the Group's principal development projects and investment properties is as follows:

- **Beijing Capital Paradise**

Providing residential facilities to both Chinese nationals and foreign families, Beijing Capital Paradise is one of the landmark residential communities for expatriates in Beijing. The sales performance of Phase 4 development was satisfactory while Phase 5 units have already been launched to the market after its completion in late 2000. The occupancy rate of the apartment section is approximately 75% which represents a 7% improvement over previous year. In the coming year, the Group will continue to sell the villas and rent out the apartment units to strengthen the revenue base.

- **Shanghai Pudong Gloria Harbour View**

Shanghai Pudong Gloria Harbour View is located at the Lujiazui Financial District, Pudong, Shanghai, overlooking the Huangpu River and the Bund. The project is currently in the construction planning stage. It is expected that upon its completion, the project will become a well-known deluxe residential complex in Shanghai.



Beijing Capital Paradise



Beijing Capital Paradise



Shenyang Top Glory Square

- **Shenyang Top Glory Square**

Shenyang Top Glory Square was officially opened at the end of 1998. It is a well-equipped shopping mall providing dining and entertainment facilities. Due to its location in a densely populated area and its high publicity, it has become a popular shopping and entertainment spot in Shenyang.

During the year, the rental rates sustained at the Square were satisfactory. The Group entered into a 15 year lease agreement with Wal-Mart, a well-known department store in the United States. Wal-Mart will occupy Phase 2 of the Square for the operation of a department store retail business. The operation is expected to commence in the second half of 2001.

Following the transaction with Wal-Mart, a number of internationally recognized companies, including famous US fast food chains, have initiated negotiations with the Group on potential joint ventures in the Square. Upon the opening of Wal-Mart in the Square, it is expected more lessees and shoppers will be attracted to the Square. This will benefit the Group's future residential development project in Shenyang. The residential project is planned to commence construction in the second half of 2001.

Hotel Investments

Currently, the economies of the Asia-Pacific region are progressively rebounding. Following the economic recovery and general deflation of consumer prices, the number of foreign tourists has gradually increased. As the Chinese economy stabilized, average income per capita improved. Leisure travel thus has become part of the consumer pattern. This change is most advantageous to the hotel industry.

Comparing to the year 1999, the total number of tourists visiting the Group's hotels increased by around 8% in 2000. Although the number of tourists has increased, supply of rooms also continued to increase. Excess supply of available hotel rooms makes the hotel industry even more competitive.

Despite the continuous industry challenges, the overall occupancy rate of the Group's hotels is not materially affected. The Group's Gloria hotel chain has properties located in Beijing, Shenyang, Dalian and Sanya. During the year, the average occupancy rate was 76%, 77% and 78% for Beijing Gloria Plaza Hotel, Shenyang Gloria Plaza Hotel and Gloria Resort, Sanya respectively while the occupancy rate of Dalian Gloria Plaza Hotel decreased slightly to 51%. Comparing to the previous year, the overall occupancy rate of the Group's hotels has improved.

Looking forward, the Group will strive to explore the high-end customer base and sales of business conference services in order to increase its market share. The Group also plans to renovate Beijing Gloria Plaza Hotel and Gloria Resort, Sanya to enhance their competitiveness and attractiveness to tourists. In addition, the Group will set up an online reservation system, organize promotional roadshow activities and establish collaboration arrangement with international airlines. Through these efforts, the Group will expand its sales target population and meet the requirements of existing customers and tourists.



Gloria Resort, Sanya



Gloria Plaza Hotel, Beijing

Foodstuffs & Edible Oils Processing and Manufacturing

The Group's foodstuffs and edible oils businesses are operated by its subsidiary, China Foods Holdings Limited ("China Foods"), which is also listed on The Stock Exchange of Hong Kong Limited.

Food Trading

China Foods Trading Limited ("China Foods Trading"), a wholly owned subsidiary of China Foods, operates the foodstuffs and feedstock trading business.

China Foods Trading actively seeks additional sales opportunities and successfully attained a turnover of about HK\$778,502,000 in 2000. This represented an increase of 218% over the previous year.

Edible Oils Refining

During the year, the edible oils refining business of the Group was operated by Eastbay Oils and Fats Industries (Guangzhou) Co., Ltd. and Southseas Oils & Fats Industrial (Chiwan) Limited. China Foods holds a 84% equity interest in the former and about 32% in the latter.

Turnover of edible oils refining business totalled approximately HK\$233,812,000, compared with HK\$282,215,000 recorded in the previous year. Management is optimistic that China's eventual admission to the World Trade Organization ("WTO") will resolve or ease the problem caused by the quota system for imported crude oils. Moreover, there may be a chance for dramatically lowered tariffs leading to lowered costs and improved margins for the edible oils refining business.

In January 2001, China Foods announced the proposed acquisition from COFCO (Hong Kong) Limited ("COFCO HK") of the entire issued share capital of COFCO Oils & Fats Holdings Limited and an equity interest of 40% in Great Ocean Oil & Grain Industries (Fang Cheng Gang) Company Limited through an intermediate holding company. China Foods expects the acquisitions will consolidate and solidify its interest in the edible oils business and thus further expand its market share.

Wine Making

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

Profit of Great Wall Wine after tax attributed to China Foods was around HK\$5,591,000, an increase of 26% over the previous year. 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.

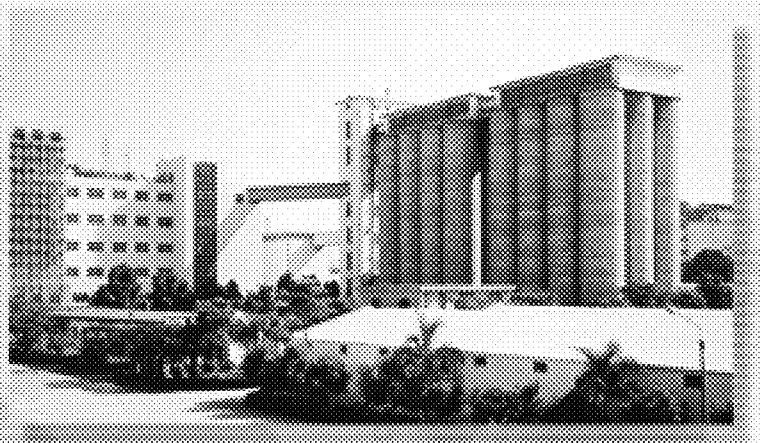
In January 2001, China Foods announced the proposed acquisition of the entire issued share capital of COFCO Wines & Spirits Holdings Limited from COFCO HK. Upon completion of the acquisition, China Foods will increase its equity interest in Great Wall Wine to 50% and facilitate its expansion of its market share in the wine industry in China.



Edible oils in consumer packs under the 'Fortune' brand



Great Wall Wine



Xiamen Haijia Flour mills Co., Ltd.



Export of maize

Flour Milling

China Foods is engaged in the flour milling business through the operations of Zhengzhou Haijia Food Co., Ltd. and Xiamen Haijia Flour Mills Co., Ltd.. China Foods holds a 55% equity interest in the former and a 60% equity interest in the latter.

The flour milling business provided a stable contribution of profit during the year. In order to increase market share, Management has strengthened the areas of operation management and quality control. Management also expects to improve the overall profitability of the flour milling business.

LIQUIDITY AND CAPITAL STRUCTURE

As at 31 December 2000, the Group's total net assets was HK\$5,296,950,000, increased by 2% over prior year. Bank borrowings amounted to HK\$862,680,000 (1999: HK\$983,195,000). The portion repayable on demand or within one year was HK\$492,062,000 (1999: HK\$406,606,000) while long-term loans have been reduced to HK\$370,618,000 (1999: HK\$576,589,000). The gearing ratio (total liabilities/total assets) was 19% (1999: 21%).

CONTINGENT LIABILITY

As at 31 December 2000, there were no significant or contingent liabilities. The Group provided guarantees totalling HK\$279,450,000 (1999: HK\$301,501,000) to banks in connection with facilities granted to an associated company and an investment company. The associated company had fully repaid the bank loan of HK\$270,550,000 in the prior year.

SECURED ASSETS

As at 31 December 2000, part of the Group's bank loans were secured by charges over portion of the fixed assets of the Group with net book value of approximately HK\$107,746,000 (1999: HK\$112,334,000) and a pledge of bank deposits of approximately HK\$9,589,000 (1999: HK\$13,052,000).

EMPLOYEES' REMUNERATION POLICY

As at 31 December 2000, the Group hired a total of 3,837 full-time staff in Mainland China and Hong Kong. The remuneration policy was periodically reviewed by Management.

PROSPECTS

Despite the slow pace of recovery in the economies of the Asia-Pacific region, the encouraging news of China's possible admission to the WTO and stable growth of the Chinese economy led to vast business opportunities for the Group in China. Upon the completion of the restructuring of China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), the controlling shareholder of the Company, the Group will be able to concentrate on the property and hotel businesses.

Within the coming two to three years, COFCO plans to inject appropriate properties and hotels investments to the Group, the listed flagship of COFCO in the property and hotel businesses, with a view to generating value for shareholders. Management believes that the restructuring of COFCO and the consolidation campaign will benefit the Group by strengthening its competitiveness and operation advantages.

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Vice-Chairman & Managing Director

Hong Kong, 6 April 2001