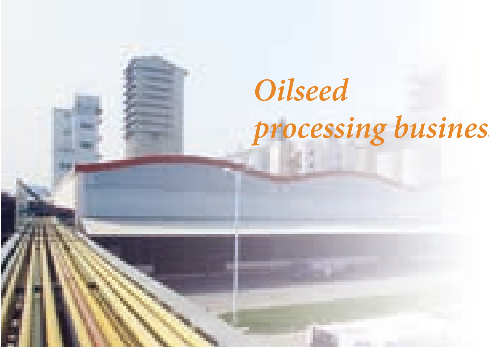
CHINA AGRI-INDUSTRIES HOLDINGS LIMITED
中 國 糧 油 控 股 有 限 公 司
A COFCO Company 中糧集團成員企業
Stock Code : 606

Building on Fundamentals

Annual Report 2008

China Agri at a glance



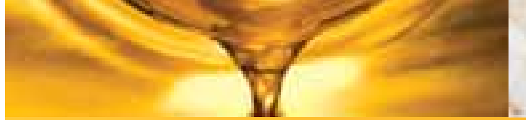
Oilseed processing business

Rice trading and processing business

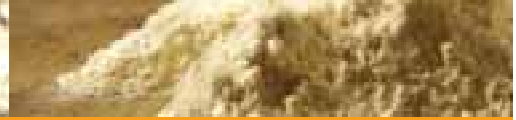
Biofuel and biochemical business

Brewing material business

Wheat processing business

	Oilseed processing business	Rice trading and processing business	Biofuel and biochemical business
Company Information			
Business Description	The second largest edible oil and oilseed meal producer in China	China's largest rice exporter, primarily engaging in the trading and processing of white and parboiled rice	A leading fuel ethanol producer with the first and only non-food grain production line in China. One of the largest biochemical producers in China
Products	Edible oils and oilseed meals	Parboiled rice, white rice	Biofuel: Fuel ethanol, consumable ethanol Biochemical: Corn starch, sweetener and feed ingredients
Brands	四海(Four Seas), 福掌櫃, 椰皇, 五湖(Five Lakes Feed), 天耕, 艾維(Avalon), 大一, 福之源, 谷花, 魯蒙, 香谷坊, 祥瑞, 喜盈盈	五湖(Wuhu), 薪(Xin), 東海明珠(Donghai Mingzhu), 紅楓 (Hongfeng)	
2008 Performance			
2008 Operating Highlights	• The biggest contributor to the Company's business, accounting for 65.9% of revenue and 72.0% of operating profit • The business posted above market average gross profit margin at 11.5% on prudent hedging activities in the agricultural commodities market	• Enhance own branded direct sales to retail consumers in China and overseas • Strengthen own branded rice for sales to supermarkets in Hong Kong	• The first non-food grain biofuel plant to commence operations in Guangxi in March 2008; the overall annual production capacity for fuel ethanol was doubled to 380,000 tonnes from 180,000 tonnes • Sales of fuel ethanol and anhydrous ethanol improved on growing demand; sales of food and feed incgredients also reached new heights this year
2008 Revenue	• HK$27,539.5 million	• HK$3,383.0 million	• HK$5,824.5 million
2008 GP Margin	• 11.5%	• 22.8%	• 10.4%
2008 OP Margin	• 11.8%	• 14.2%	• 9.5%
2009 Outlook			
Mission for Year 2009	Focus on capacity expansion to take advantage of preferential government policy and strong growth in demand	Drive the sales in China to exceed that of the overseas market in next few years	Prepare for approval of new biofuel license by NDRC, upon which the efficiency for biofuel business will be enhanced; continue to improve efficiency of existing capacity, to transform and upgrade to downstream high-value added products in biochemical business
2009 Disclosed Projects	• Acquired Kindgain Limited, an investment holding company of COFCO Xinsha Oils & Grains Industrial (Dongguan) Co., Ltd., for a consideration of HK$592,798,843 (in 160,650,093 Company Shares at an issue price of HK$3.69 each) • Acquired Uptech Investments Limited, an investment holding company of Fei County COFCO Oils & Fats Industrial Co., Ltd., for a consideration of HK$55,770,568 (in 15,113,975 Company Shares at an issue price of HK$3.69 each) Establishment of new JVs with COFCO Limited • Zhangjiagang COFCO East Ocean Storage Co., Ltd. (Total investment and the registered capital: RMB336,000,000; total commitment of the Company: RMB241,050,000) • Hubei COFCO Xiangrui Oils & Grains Industries Co., Ltd. (Total investment and the registered capital: RMB35,600,000; total commitment of the Company: RMB26,110,000) Establishment of new JV with COFCO Limited and Tianjin Lingang Industry Port Corporation • Tianjin COFCO Excel Joy Oils and Grains Terminal Co., Limited (Total investment: RMB409,830,000; the registered capital: RMB260,000,000; total commitment of the Company: RMB136,000,000)		• Acquired Cheerlink International Limited, an investment holding company of Huanglong Food Industry Company Limited, for a consideration of HK$271,175,683 (in 73,489,345 Company Shares at an issue price of HK$3.69 each) • Acquired Parkwing Limited, an investment holding company of Jilin CRC Biochemistry Packaging Company Limited, for a consideration of HK$53,036,628 (in 14,373,070 Company Shares at an issue price of HK$3.69 each) • COFCO Gongzhuling, a wholly-owned subsidiary of the Company acquired assets, comprising of the land, buildings, structures and equipment and machinery for a consideration of HK$127,893,229



	Brewing material business	Wheat processing business
Company Information		
Business Description	The second largest brewing material supplier in China engaging in the production and distribution of malt from barley	The largest wheat processor in China engaging in the processing and distribution of flour and other flour products such as bread and noodles
Products	Malt	Flour, noodles, bread
Brands		香雪(Xiangxue), 神象(Shenxiang)
2008 Performance		
2008 Operating Highlights	• Phase 2 of the Jiangyin facilities completed in October 2008, boosting annual production capacity to 660,000 tonnes from 480,000 tonnes	• The "sole" supplier for bread to the Beijing Olympics • Strengthen own branded products such as bread, high end specialized flour and noodles for sales directly to retail consumers
2008 Revenue	• HK$1,806.2 million	• HK$3,248.9 million
2008 GP Margin	• 17.1%	• 9.6%
2008 OP Margin	• 11.0%	• 3.2%
2009 Outlook		
Mission for Year 2009	Expand capacity to meet strong growth in beer consumption in Mainland China. China has been the largest beer consuming country in the world since 2007	Continue to increase market shares for bread, high and customized flour and noodles
2009 Disclosed Projects		

Contents

Corporate Information

Directors

Chairman of the Board and Non-executive Director
NING Gaoning

Executive Directors
YU Xubo *(Managing Director)*
LU Jun *(Vice President)*
YUE Guojun *(Vice President)*

Non-executive Directors
CHI Jingtao
MA Wangjun

Independent Non-executive Directors
LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Audit Committee
LAM Wai Hon, Ambrose *(Chairman)*
Victor YANG
MA Wangjun
CHI Jingtao
Patrick Vincent VIZZONE

Remuneration Committee
CHI Jingtao *(Chairman)*
MA Wangjun
LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Nomination Committee
NING Gaoning *(Chairman)*
CHI Jingtao
LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Qualified Accountant
WONG Kwok Ho

Company Secretary
CHO Wing Han

Auditors
Ernst & Young
Certified Public Accountants

Legal Advisor
Herbert Smith LLP

Compliance Advisor
BOCOM International (Asia) Limited

Principal Bankers
Industrial and Commercial Bank of China Limited
China Construction Bank Corporation
Bank of China Limited
Agricultural Bank of China Limited
Industrial and Commercial Bank of China (Asia) Limited
Rabobank International (Hong Kong Branch)
Bank of China (Hong Kong) Limited
ING Bank N.V. Hong Kong Branch
Australia and New Zealand Banking Group Limited

Registered Office
33rd Floor
Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Head Office
31st Floor
Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Hong Kong Principal Share Registrar and Transfer Office
Tricor Progressive Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Investor Relations
LI Wai Kwan
Telephone: +852 2833 0606
Facsimile: +852 2833 0319
E-mail: ir@cofco.com

Company Website
http://www.chinaagri.com

Five-Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated is set out below:

	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)	(Restated)	(Restated)
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**41,802,056**	28,869,244	17,899,323	13,813,171	13,193,232
PROFIT FROM OPERATING ACTIVITIES	**4,604,226**	1,325,771	978,554	343,631	219,670
Finance costs	**(388,964)**	(320,416)	(200,463)	(132,636)	(96,923)
Share of profits of associates	**133,403**	269,568	201,045	82,172	17,581
PROFIT BEFORE TAX	**4,348,665**	1,274,923	979,136	293,167	140,328
Tax	**(883,516)**	(25,500)	(129,598)	(51,370)	(30,338)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**3,465,149**	1,249,423	849,538	241,797	109,990
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	–	–	64,541	41,558	48,945
PROFIT FOR THE YEAR	**3,465,149**	1,249,423	914,079	283,355	158,935
Attributable to:					
Equity holders of the Company	**2,624,937**	1,100,363	755,416	254,879	130,724
Minority interests	**840,212**	149,060	158,663	28,476	28,211
	3,465,149	1,249,423	914,079	283,355	158,935
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**28,266,528**	21,600,468	15,461,037	10,200,516	8,129,718
TOTAL LIABILITIES	**(12,321,097)**	(9,848,087)	(8,371,870)	(7,304,786)	(5,444,394)
MINORITY INTERESTS	**(2,343,009)**	(1,352,110)	(1,120,240)	(903,633)	(859,048)
	13,602,422	10,400,271	5,968,927	1,992,097	1,826,276

Financial Highlights

During the year under review, there is a 44.8% increase in revenue to HK$41,802.1 million. All the five major businesses experience sales growth and oilseed processing unit was the largest revenue contributor.

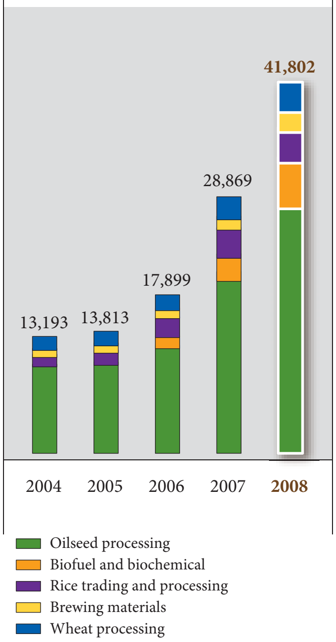
Operating profit for the year ended 31 December 2008 was HK$4,524.8 million, representing an increase of 292.1% compared with a year earlier. Operating margin improved from 4.0% to 10.8%.

Profit attributable to equity holders of the Company surged by 138.6% over the previous corresponding year, reaching HK$2,624.9 million. Basic earnings per share was HK73.0 cents.

The Board of Directors recommends the payment of a final dividend of HK13.6 cents (2007: Nil) per share.

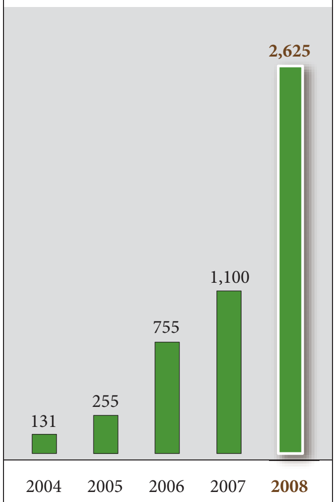
Revenue for Continuing Operations

HK$ million



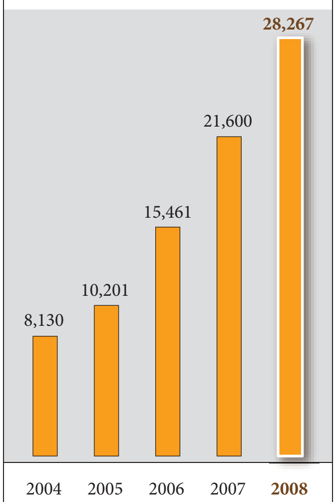
Profit Attributable to Equity Holders of the Company

HK$ million



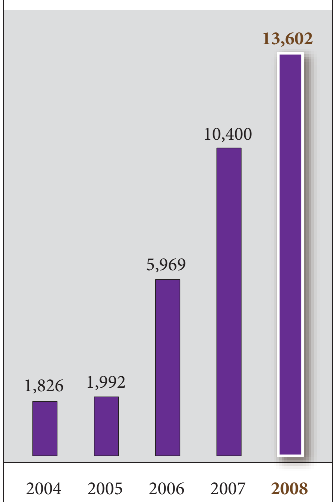
Total Assets

HK$ million

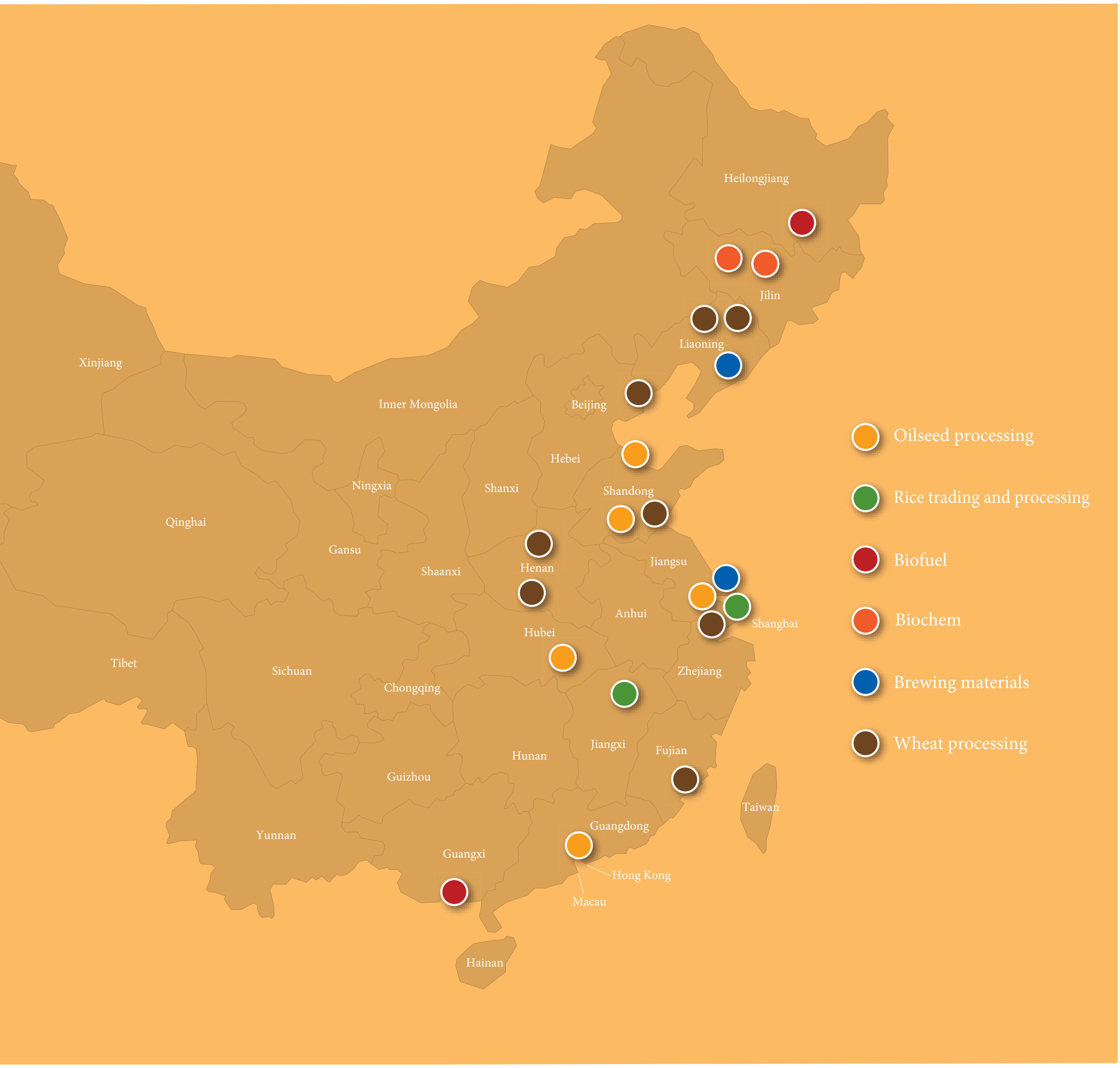


Equity Attributable to Equity Holders of the Company

HK$ million



Capacity Distribution



Capacity Distribution

2008 Capacity

Unit: metric ton'000

Oilseed Processing Business	
Crushing Capacity	4,860
Jingmen, Hubei	240
Rizhao, Shandong	660
Heze, Shandong	360
Zhangjiagang, Jiangsu	3,600
Refining Capacity	1,170
Jingmen, Hubei	120
Zengcheng, Guangdong	120
Rizhao, Shandong	240
Heze, Shandong	120
Zhangjiagang, Jiangsu	570
Biofuel and Biochemical Business	
Fuel Ethanol Capacity	380
Zhaodong, Heilongjiang	180
Beihai, Guangxi	200
Consumable Ethanol and Anhydrous Ethanol Capacity	400
Zhaodong, Heilongjiang	400
Biochem (Corn Processing Capacity)	1,200
Gongzhuling, Jilin	600
Yushu, Jilin	600
Rice Trading and Processing Business	
Rice Processing Capacity	340
Nanchang, Jiangxi	220
Zhangjiagang, Jiangsu	75
Dalian, Liaoning	45
Brewing Materials Business	
Malt Processing Capacity	660
Dalian, Liaoning	360
Jiangyin, Jiangsu (Phases I & II)	300
Wheat Processing Business	
Wheat Processing Capacity	1,586
Qinhuangdao, Hebei	340
Puyang, Henan	110
Shenyang, Liaoning	180
Dongda, Shenyang	100
Xiamen, Fujian	100
Dezhou, Shandong	170
Zhengzhou, Henan	220
Zhangjiagang, Jiangsu	216
Luohe, Henan	150
Dried Noodle Capacity	59.7
Puyang, Henan	24
Shenyang, Liaoning	22.5
Dezhou, Shandong	7.2
Zhengzhou, Henan	6
Bakery Capacity	2
Beijing	2

Chairman's Letter

NING Gaoning, *Chairman*

" At China Agri, we think big. We plan for the future, move towards our business goals and are committed to continuous improvement of our business capabilities."

Dear Shareholders,

The year 2008 was an extraordinary one for the agricultural and food processing industry in China, during which China Agri-Industries Holdings Limited ("China Agri or the "Company") encountered abundant opportunities and exceptional challenges. The dynamic nature of the industry has accentuated the importance for China Agri to be attentive to risk management and be diligent to sustain our solid foundation. Leveraging our experienced management team, substantial asset network and dominant market position in China, we have been able to achieve outstanding revenue growth despite volatile market conditions in recent times.

Through the deployment and execution of market strategies, China Agri managed to capture opportunities arising from the growing demand for high quality staple foods in China and the surging agricultural commodities prices experienced in the first half of the year. Although the world economy has been hard hit by the financial turmoil since the second half of 2008, China Agri's business performance remained solid as we continued to achieve excellent earnings and record segment operating profits on the strength of our proven business model.

While we acknowledge that 2009 will be a challenging year we are confident that we shall turn these challenges into opportunities. In our key market of China, the central government has pledged to give priority to maintaining steady rural and agricultural development, ensuring supplies of farm produce and facilitating income increases for farmers.

The Chinese government has continued raising minimum purchasing price for grains, increasing subsidies for agricultural production, raising main agricultural product reserves, stabilizing prices of agricultural products and giving top priority to the employment of returning migrant workers from cities.

Whilst these policies do not have direct impacts on China Agri, their implications are enormous. About 55% of China's total population lives in rural areas. The potential consumption power among them will give lasting momentum to China's economic growth.

The policies will also help modernize the agricultural industry and improve the production and quality of crops. Building a more solid foundation for the agriculture sector and stabilizing agricultural production would further increase agricultural yield and supply. It will be more cost effective for agricultural and food processing companies in China such as China Agri to utilize domestic crops when their prices become more competitive. Having efficient access to more raw material supplies will help China Agri further capitalize on its strengths and hence build a more sustainable business.

At China Agri, we think big. We plan for the future, move towards our business goals and are committed to continuous improvement of our business capabilities.

On behalf of China Agri, I would like to extend my gratitude to our shareholders, customers and business partners for the ongoing support and guidance, and to fellow board members, the management and colleagues for their contributions and diligence over the past year. We shall continue to work hard to fulfill our responsibilities to China Agri's shareholders and to keep the trust and confidence placed in us.

NING Gaoning
Chairman

Hong Kong, 14 April 2009

Managing Director's Message

Yu Xubo, *Managing Director*

"China Agri is committed to become one of the most eminent agricultural processing companies in China through diligently developing our five core businesses."

Financial Results

Revenue of China Agri in 2008 was HK$41,802.1 million, up 44.8% from HK$28,869.2 million in the previous year. Profit attributable to equity holders of the Company surged by 138.6% year-on-year to HK$2,624.9 million. The Board has recommended a final dividend for 2008 of HK13.6 cents per share. The Board has proposed a regular dividend policy from 2009 with a preliminary payout ratio set between 20% and 30%. The dividend recommendation is in line with our longstanding policy of providing consistent increases in ordinary dividend, linked to the underlying earnings performance of the business.

A Closer Look

China Agri is committed to becoming one of the most eminent agricultural processing companies in China through diligently developing its five core businesses namely oilseed processing, rice trading and processing, biofuel and biochemical, brewing materials and wheat processing. Our efforts in implementing prudent operational strategies have once again delivered remarkable revenue growth for the Company for the year under review.

Risk Management

To control risks the Company has carried out hedging activities as an effective measure to prevent China Agri from being adversely impacted by wild swings in the prices of agricultural commodities in 2008. Our hedging activities are managed by a team of professionals overseen by the top executives. They work closely with our operational team to devise strategies on the helping China Agri to hedge against negative market movements on the one hand while seeking to outperform the market on the other. We do not engage in speculative activities and are not exposed to structured products. We will discuss in detail our hedging strategies under the Oilseed Processing business section.

In view of the lack of clarity in the global economic outlook, China Agri adopted a particularly prudent approach in its expansion plans in 2008. We believe liquid flexibility is paramount for protecting shareholder value and sustaining future growth. We spent HK$1,065.3 million on capital expenditure and have approximately HK$4,958.0 million in cash and cash equivalents and pledged deposits.

Oilseed Processing

Oilseed processing remained the largest contributor of our business in 2008, with a revenue of HK$27,539.5 million and operating profit (representing segment result) of HK$3,257.8 million respectively. We are one of the largest edible oil and oilseed meal producers in China and are committed to expanding further our market share through organic growth. In August 2008, the National Development and Reform Commission released Guiding Opinions on Promoting the Sound Development of Soybean Processing Industry (《促進大豆加工業健康發展指導意見》) to encourage consolidation among domestic soybean oil processors so as to cultivate larger enterprises that would better integrate production, processing and sales with enhanced competitiveness. China Agri endeavors to capture this opportunity through leveraging our experienced management team, substantial asset network and dominant market position in China. We are spending the majority of our capital expenditure on increasing our oilseed processing capacity by 50% to about 8 million metric tons by 2011.

Wheat Processing

Our wheat processing business recorded a 3.2% increase in gross profit margin in 2008, attributable to the success of our strategy of adjusting the product mix and migrating to higher-end products. During the year, China Agri entered the domestic retail market by selling directly to supermarkets packaged flour products under our own brands and supplying restaurants and shops a variety of freshly baked goods.

Rice Trading and Processing

China Agri has also further broadened the market reach of its own-branded packaged rice in the Chinese market. Currently, there are over 2,543 supermarkets in 256 cities selling our own-branded packaged rice and we expect their sales will continue to increase.

Brewing Materials

With the commencement of operations at Phase II of the Jiangyin malt processing facility in Jiangyin, Jiangsu province, the annual malt processing capacity has increased to 660,000 metric tons. We are focusing on capitalizing the growing demand for high quality brewing materials in China and around the world and are committed to becoming a leading regional player in that area.

Biofuel and Biochemical

Furthermore, our fuel ethanol business has benefited from the Chinese government's initiative to encourage investment in the industry in the form of subsidies from the Ministry of Finance. That support has enabled China Agri to continue to maintain a steady profit margin.

The performance of our business in each of the five sectors is explained in detail in the Business Review section of this annual report.

Look Ahead into 2009

Edible oil, noodles and rice are staple Chinese foods. As the public is becoming more aware of the issue of food safety, we believe China Agri's high quality staple food products will continue to be in strong demand. Oilseed processing business will remain the key driver for the Group's business in 2009, with support especially from the increasing edible oil consumption.

Taking into account the current global climate, 2009 will be another challenging year for the Group. Nevertheless, we are well-prepared and determined to take China Agri to grow further and create additional value for the shareholders.

YU Xubo
Managing Director

Hong Kong, 14 April 2009

Oilseed processing business

Oilseed processing business

The Company is one of the largest bulk edible oil and oilseed meal producers in China, processing mainly soybean oil, palm oil and rapeseed oil, among which soybeans are the most important raw material for the manufacture of oilseed products. The oilseed processing business is the biggest revenue contributor to the Company, accounting for 65.9% of total revenue and 72.0% of total operating profit (representing segment result) for 2008. This represented an increase of 42.1% and 469.3% respectively compared with 2007.

Products	2008		2007		Change	
	Volume *metric ton'000*	Revenue *HK$ million*	Volume *metric ton'000*	Revenue *HK$ million*	Volume	Revenue
Bulk edible oils	1,512.8	14,064.6	1,445.5	10,793.0	4.7%	30.3%
• Soybean oil	505.0	4,848.3	682.1	5,098.9	-26.0%	-4.9%
• Palm oil	405.0	3,298.7	262.6	1,733.4	54.2%	90.3%
• Rapeseed oil	67.1	691.1	48.8	393.8	37.5%	75.5%
• Small Pack oil	395.9	4,247.8	337.1	3,017.5	17.4%	40.8%
• Others	139.8	978.7	114.9	549.4	21.7%	78.1%
Oilseed meal and feeds	3,152.8	10,982.5	3,258.2	7,933.0	-3.2%	38.4%
Others	–	2,492.4	–	660.8	–	277.2%
Total		**27,539.5**		**19,386.8**		**42.1%**

The products processed by the Company include bulk edible oils, specialty oils and fats, oilseed meal, small pack oil and other products. These products are sold primarily under the Sihai (四海) and Xiyingying (喜盈盈) brands. Customers include renowned companies such as Unilever, Yili Industrial, Tingyi, WantWant, Pepsi Foods and Guangzhou Uni-President. Following the consolidation of the oilseed processing industry in China in 2007 and 2008, the Company's market share and pricing ability have increased significantly.

The Company imports raw materials from overseas and adjusts product prices according to changes in cost. In response to the fluctuations in global soft commodity prices in 2008, we adjusted our product prices and minimized the impact of fluctuating raw material prices through hedging.

Hedging to reduce risk

Most of the raw materials the Company purchased were from overseas suppliers, mainly in the United States, Brazil and Argentina. As soybeans are an international commodity, their price is more volatile and experienced historical fluctuations in 2008. Taking first class soybean oil in China as an example, prices reached RMB17,100 per metric ton in March before dropping to approximately RMB6,800 per metric ton at one point in October. Hedging is a necessary measure for international trade, and thus we have established a team of over ten experienced personnel who report directly to our senior management. They communicate with the production departments and adopt proactive measures in accordance with our actual production needs, in order to manage and minimize exposure to risks from product price fluctuations and to lock up profits.

The Company has adopted a prudent attitude when conducting these hedging activities, which are performed out of operating needs only but not to engage in speculation or trading of relevant structured financial products. This essentially reflects the conservative yet flexible financial policies we have adopted over the years.

Solid foundation to capture the enormous market demand

As at the end of 2008, we had an annual crushing and refining capacity of approximately 4,860,000 and 1,170,000 metric tons respectively. The oilseed production facilities in which we have controlling interests are located strategically in the regions along the coast and the Yangtze River in China, which enable us to source domestic and imported raw materials in a more cost-effective manner.

As consumer spending in China and expenditure on food grains increase, so will the demand for edible oils and oilseed meal. Additionally, as China consumes more and more meat, the demand for edible oils for cooking is also rising. The growing frequency of dining-out also contributes to higher consumption of edible oils in restaurants and by food manufacturers. This market trend will create a solid foundation for the future growth of our business.

Crushing capacity

Name of Plant	Location	Products	Production Capacity *(metric ton'000)*
COFCO Xiangrui Oils & Grains Industries (Jingmen) Co., Ltd.	Jingmen, Hubei	Rapeseed oil and meal	240
COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd.	Rizhao, Shandong	Soybean oil and meal	660
COFCO ADM Oils & Grains Industries (Heze) Co., Ltd.	Heze, Shandong	Soybean oil and meal	360
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.	Zhangjiagang, Jiangsu	Soybean oil and meal	3,600
		Total Production Capacity	**4,860**

Refining capacity

Name of Plant	Location	Products	Production Capacity *(metric ton'000)*
COFCO Xiangrui Oils & Grains Industries (Jingmen) Co., Ltd.	Jingmen, Hubei	Rapeseed oil	120
COFCO Eastbay Oils & Grains Industries (Guangzhou) Co., Ltd.	Zengcheng, Guangdong	Soybean oil and palm oil	120
COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd.	Rizhao, Shandong	Soybean oil and palm oil	240
COFCO ADM Oils & Grains Industries (Heze) Co., Ltd.	Heze, Shandong	Soybean oil and peanut oil	120
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.	Zhangjiagang, Jiangsu	Soybean oil and palm oil	570
		Total Production Capacity	**1,170**

Government policies create positive business environment

The year 2008 was filled with opportunities and challenges for the grain industry in China. In September 2008, the National Development and Reform Commission ("NDRC") issued the *Guiding Opinions on Promoting the Sound Development of Soybean Processing Industry* (促進大豆加工業健康發展的指導意見) ("*Guiding Opinions*"), which stated that the production volume of soybeans in China now ranks number four in the world, that soybean processing and consumption volume ranks second in the world and that China has become the largest soybean importing country. In recent years, as the living standard of the urban population has improved, the demand for edible vegetable oils and meat has increased rapidly. Along with the rising consumption of soybean oil and soybean meal in China, this has facilitated the rapid growth of the soybean processing industry. The consumption of vegetable oils and soybean meal in China will continue to grow, and the demand for soybean will increase as a result.

Among the various policy measures introduced in the *Guiding Opinions* are the acceleration of structural adjustments, enhancement of operations upgrade, and key support on the formation of cross-regional soybean oil and fat processing enterprises with integration of production, processing and sales through consolidation, mergers and reorganization. It also encourages enterprises to purchase domestic soybeans. With the introduction of these policies and the continued consolidation of the industry, a more favourable business environment will be created for the stable development of our oilseed processing business.

The Company has formulated a long-term development strategy and plan to utilize the majority of the capital expenditure on expanding the oilseed processing business. We will seize this favourable timing to further develop our oilseed processing business by enhancing production capacity, exerting economies of scale and production efficiency, increasing our market share and consolidating our market leading position. The Company will gradually implement this strategic plan and make dynamic adjustments in accordance with market changes. Under the plan, we will increase our production capacity to approximately 8 million metric tons by 2011 in order to meet the huge market demand.

Q&A

Question: Why does China Agri perform hedging and how does it do so? Why was there such a large unrealised loss?

Answer: Most of the raw materials purchased by China Agri, such as soybeans and crude palm oil, are sourced overseas. To reduce the risk from price fluctuations, it is necessary to perform hedging to lock up our profits.

China Agri enters into hedging positions for raw materials purchased and products being sold, which means that when the raw material is purchased, the corresponding amount of that commodity is sold in the futures market, so that the processing profits can be locked up at a stable level.

The Group has considered various market factors and relevant accounting requirements, and did not select to adopt hedge accounting. The Group recorded an unrealised loss of HK$498.3 million at 31 December 2008 as a result of the "mark-to-market" requirement of Hong Kong Financial Reporting Standards ("HKFRSs"). The unrealised losses represent the difference between the initial contract price and the market price of the unsettled future contracts as at 31 December 2008. The substantial loss recorded was the result of the market price at 31 December 2008 being higher than the initial contracted selling price of the unsettled future contracts.

The following examples of hedging activities illustrate how we lock up profit through hedging and explains the rationale behind the unrealised gain/loss booking.

Description of hedging

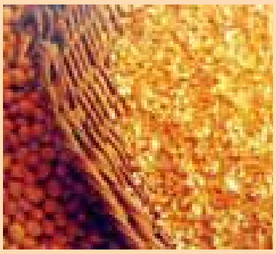
(Productions costs and other relevant costs are not included in the calculation, these figures are hypothetical examples and are for reference only)

31 October of Year 1		Three-month future price
• China Agri entered into a soybean purchase contract and sold a soybean oil and soybean meal future contract at the same time on 31 October of Year 1	Soybean	$5,000
• The locked-up profit is calculated as $6,000-$5,000 = $1,000 (Income-cost = gross profit)	Soybean oil and soybean meal	$6,000

31 December of Year 1		Scenario 1	Scenario 2
Market price of soybean oil and soybean meal future contract as at 31 December of Year 1		**$5,000**	**$7,000**
Profit and loss for Year 1 Pursuant to HKFRSs, China Agri should mark the unsettled future contracts to the market price as at 31 December of Year 1	Accounted for the unrealised gain and loss in the cost of sales, affecting our gross profit	$6,000 – $5,000 = $1,000 (unrealised gain)	$6,000 – $7,000 = $1,000 (unrealised loss)

31 January of Year 2		Scenario 1A	Scenario 1B	Scenario 2A	Scenario 2B
Market price of soybean oil and soybean meal future contract as at 31 January of Year 2		$4,500	$5,500	$5,500	$8,500
Part one When the future contract expires and to be settled by cash	Realised gain or loss of the future contract	$5,000-$4,500 = $500 (realised gain) (As the price is $500 lower than that as of 31 December of Year 1, a gain of $500 is recorded)	$5,000-$5,500 =$500 (realised loss) (As the price is $500 higher than that as of 31 December of Year 1, a loss of $500 is recorded)	$7,000-$5,500 = $1,500 (realised gain) (As the price is $1,500 lower than that as of 31 December of Year 1, a gain of $1,500 is recorded)	$7,000-$8,500 = $1,500 (realised loss) (As the price is $1,500 higher than that as of 31 December of Year 1, a loss of $1,500 is recorded)
Part two Products are delivered at spot price of soybean oil and soybean meal	Profit and loss for physical delivery of products (The spot price – purchase cost fixed on 31 October of Year 1)	$4,500-$5,000 =$500 (loss)	$5,500-$5,000 =$500 (profit)	$5,500-$5,000 =$500 (profit)	$8,500-$5,000 = $3,500 (profit)
Sub-total profit and loss for Year 2	Part one + Part two = financial effect for Year 2	$0	$0	$2,000 (profit)	$2,000 (profit)
Total profit and loss for Year 1 and Year 2	**Total profit and loss of the whole transaction**	**$1,000 (profit)**	**$1,000 (profit)**	**$1,000 (profit)**	**$1,000 (profit)**

Products

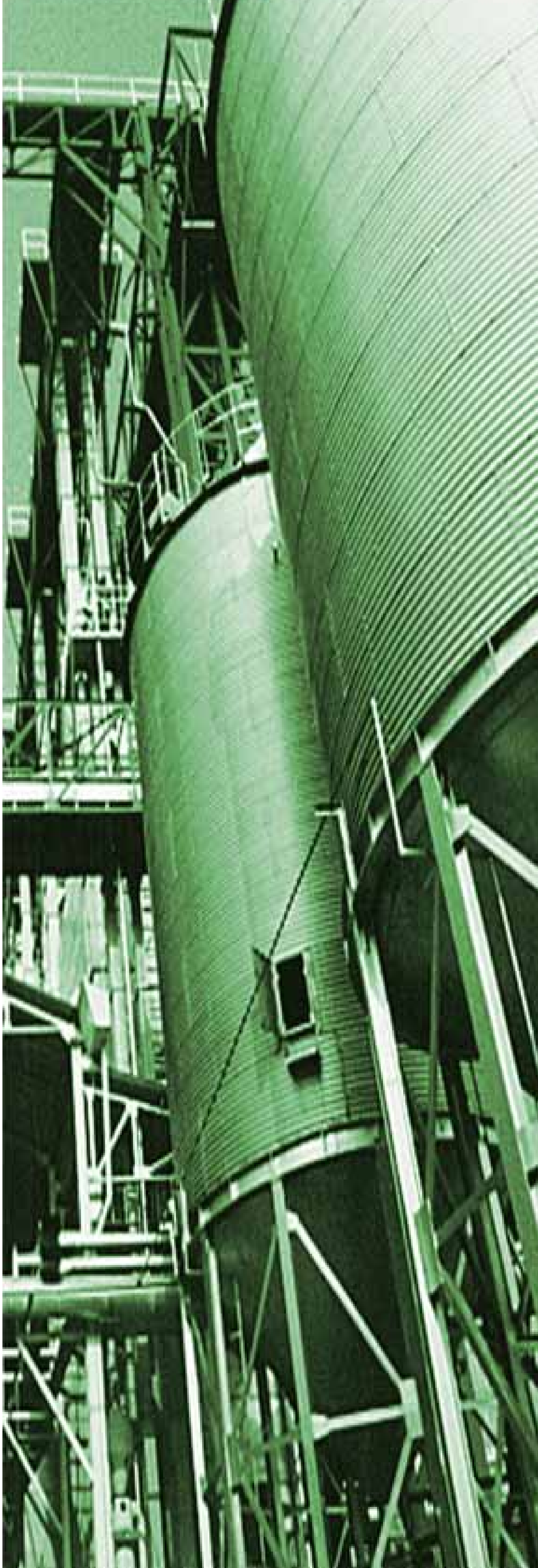
Category	Product
Meals	Major products include soybean meal, rapeseed meal, peanut meal, cottonseed meal and others. 
Small pack oil products	Small pack oil products include, vitamin-A soybean oil (維 A 大豆油), peanut oil (花生油), sunflower oil (葵花籽油), rapeseed oil (菜籽油) and other edible oils.  **Vitamin-A Soybean Oil (維 A 大豆油)** Using high technology to refine vitamin A protoplasm, solution in advance, dissolution and homogenization, the protoplasm is fully dissolved in salad oil, which can be absorbed by the human body more evenly and effectively. This process complies with the strict requirements of the Chinese Nutrition Improvement Project (國家公眾營養改善項目). **Peanut Oil (花生油)** Made from selected raw materials to ensure purity and quality. By adopting unique technology, we do not pursue aroma traits narrowly or overcook which would otherwise result in loss of preserved nutrition. This technology also prevents the production of harmful substances. Our peanut oil has an original moderate fragrance free of cholesterol and aflatoxin and contains vitamins A, B and E as well as unsaturated fatty acid. It is tasty and shiny. **Sunflower Oil (葵花籽油)** Produced using modern technology and physically refined with strict quality management in accordance with international control standards. Our sunflower oil is natural and healthy with a fresh taste. The aroma of sunflowers provides a natural aftertaste. **Rapeseed Oil (菜籽油)** Made from domestic fine rapeseed from Hubei province. The raw material is full in shape and nutritious, containing rich unsaturated fatty acid. As it is extracted from seed cone, its components usually contain certain phospholipids from seeds, which are very important for the development of blood vessels, nerves and cerebrum.

Category	Product	
Oils for special use	There are various kinds of oils for special use, include: Shortening (起酥油), Margarine (人造奶油), Frozen Fat (速凍油), Frying Fat (煎炸油), Soybean Milk Fat (豆奶油), Cream Fitting (夾心奶油), Pop Corn Fat (爆米花油), Chinese Cake Oil (中式點心專用油), Filling Oil (餡料專用油), Moon Cake Oil (月餅專用油), Cocoa Butter Substitute (代可可脂), Hydrogenated Palm Oil (氫化棕櫚油), Hydrogenated Coconut Oil (氫化椰子油), Hydrogenated Soybean Oil (氫化大豆油), Hydrogenated Palm Stearin (氫化棕櫚硬脂), Non-dairy Cream (植脂鮮奶油專用油) and others.	
Lecithin	These products mainly include lecithin for stock feed.	
Specialty oils	Camellia Oil (山茶油), Olive Oil (橄欖油) and others. **Olive Oil (橄欖油)** The best quality extra virgin olive oil extracted from the essence of the prime olives from Spain, the world's biggest olive oil producing country.	

Quality Control

The oilseeds processing division has set up a comprehensive quality control system for the entire production process, including sourcing, production, processing, packaging, storage, distribution and logistics. Most of our subsidiaries under this division are accredited with ISO 9001 and HACCP certifications. COFCO East Ocean Oils & Grain Industries (Zhangjiagang) Co., Ltd has been accredited with three other certifications – ISO14001, OHSMS18001 and AIB (USA).

Rice trading and processing business



Rice trading and processing business

The Company is the largest rice exporter in China, engaged primarily in the trading and processing of white and parboiled rice. At the end of 2008, export and domestic sales of rice (including white rice and parboiled rice) amounted to approximately 791,200 metric tons and 124,100 metric tons respectively. According to the statistics of China Customs, the total export volume of rice in 2008 was 946,000 metric tons, of which the Company exported a total of 791,200 metric tons, representing 83.6% of the country's total export volume. In 2008, revenue from the rice trading and processing business of the Company (excluding intersegment sales) increased from HK$3,110.1 million in 2007 to HK$3,383.0 million in 2008, representing an increase of 8.8%.

Product	2008		2007		Change	
	Volume *metric ton'000*	Revenue *HK$'M*	Volume *metric ton'000*	Revenue *HK$'M*	Volume	Revenue
White rice	738.3	2,576.8	908.3	2,634.1	-18.7%	-2.2%
Parboiled rice	177.0	806.2	223.7	528.1	-20.9%	52.7%
		3,383.0		3,162.2		7.0%
Intersegment sales		–		(52.1)		
Total		**3,383.0**		**3,110.1**		**8.8%**

Export of Rice

In 2008, given the tightened demand and supply situation in the international grain market, the Chinese government adopted measures to limit the export of grains, and still the Company was able to maintain stable exports of specialty rice, including parboiled rice and rotation rice and has maintained stable export to traditional markets like Japan, Korea, Hong Kong, Macau and other markets. The export quota granted by the Chinese government reinforced the position and role of the Company as a leading export channel of China.

Export and domestic sales volume of white rice and parboiled rice

			metric ton'000
Export	White rice Parboiled rice		615.2 176.0
		Total	**791.2**
Domestic sales	White rice Parboiled rice		123.1 1.0
		Total	**124.1**

The export volume of rice in 2008 dropped by 27.1% as compared with 2007 (1,085,000 metric tons), mainly due to the restrictive measures adopted by the Chinese government in rice exports. However, the Company was able to offset the effect of the decrease in trading volume caused by the government's policies by taking advantage of price hikes in the international market for rice, allowing it to realize higher transaction prices and a substantial increase in gross profit margin of rice export business, and record a new high in earnings.

Rice processing

As at the end of 2008, the rice processing capacity of the Company was 340,000 metric tons. The utilization rate of the rice processing plants located in Jiangxi, Jiangsu and Liaoning was 100%. In terms of production capacity, our parboiled rice processing facilities are one of the largest in Asia.

Rice processing capacity

Name of Plant	Location	Product	Production Capacity *(metric ton'000)*
COFCO Jiangxi Rice Processing Ltd	Nanchang, Jiangxi	Parboiled rice and white rice	220
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd	Zhangjiagang, Jiangsu	White rice	75
COFCO Dalian Rice Processing Ltd	Dalian, Liaoning	White rice	45
		Total Production Capacity	**340**

To further consolidate its position in the export and domestic sales of rice, in 2008 the Company established COFCO Dalian Rice Processing Limited ("Dalian Rice Processing"). Located at the DCT Cargo Terminal in Dayaowan Port, Dalian, this facility is China's first port-neighboring integrated rice processing enterprise with 200,000 metric tons capacity.

The products of Dalian Rice Processing comprise high-quality short grain rice from the northeast of China for export to high-end international markets such as Japan and Korea as well as for domestic sales in markets such as the Yangtze River Delta and North China.

Processing + Sales + Brand = Our Successful Business Model

With production as its foundation and market scale and branding as its core competitive advantage, the Company operates its rice trading and processing business in both domestic and overseas markets, with a focus on building and enhancing its competitiveness in the domestic market. This "Processing + Sales + Brand" business model has enabled the Company to maintain its position as China's largest rice exporter and among the top three in terms of processing capacity and domestic sales volume.

Over the past three years, the Company has been developing the domestic market through the establishment of sales distribution network and branding. In 2008, the Company accelerated the pace of development, with products covering the high- and mid-end to the mass consumer markets. During the year, the Company sold 124,100 metric tons of rice to domestic consumers, an significant increase of 164.6% as compared with 2007, which laid a strong foundation for the rapid development of our domestic business.

With respect to geographic reach of sales network, the Company shifted its focus from the original regional markets of the Yangtze River Delta and Xinjiang to nationwide markets. The Company has rapidly expanded its reach to the northern, southern, south-western and north-western parts of China with a rapid development of its sales network. Currently, there are over 2,543 supermarkets in 256 cities selling our own-branded packaged rice. Looking forward, the Company will continue to extend its footprint to cover all provinces across the country, with over 10 provinces planned to be added and the number of distributors to be increased to nearly 400.

Increasing awareness in brand by consumers presents vast business opportunity. By establishing its own brand and leveraging on its competitive edge in sourcing, production management and capital, the Company added value to its rice products and has been successful in enhancing its profit margins. Given the huge scale of the rice market in China, there is enormous potential for continued expansion. The Company, in anticipation of rising domestic sales volumes of rice in 2009, will continue to increase investment in the domestic market in order to enlarge its market share and increase the proportion of operating income and profit from domestic sales. Domestic sales is expected to be a growth driver of the rice-trading and processing business.

Q&A

Question 1: Will the Chinese government ban the export of rice?

Answer: Currently, the Chinese government does not ban the export of rice. China is the largest rice producing country in the world and is consistently a net exporting country. Exports account for less than 1% of the total production volume of rice in the country with little impact on supply in the domestic rice market. Pursuant to the agreement entered into under the World Trade Organization ("WTO") by the Chinese, Japanese and Korean governments, Japan and Korea import rice in quantities determined by their commitment under the agreement. In order to fulfill the WTO agreement, China will maintain continuity in exporting rice to the Japanese and Korean markets. The central government will also maintain rice exports to Hong Kong and Macau to ensure stability of rice supply in both markets.

Question 2: Demand for rice in China has been very stable. What are the reasons for developing your own brand?

Answer: Rice is the most important staple food in China, and demand for rice is huge and has been increasing steadily with the growth of the population. China Agri has developed its own brand for the domestic rice market based on the following strategies:

Firstly, China has seen accelerated integration of the domestic rice market and growing brand awareness. There are now many enterprises in the domestic rice industry and competition is fierce. However, the increasing impact of the financial crisis and the entry of large enterprises in the domestic rice market have accelerated the industry's consolidation which is favourable to the expansion of large enterprises. At the same time, brand awareness among domestic consumers has been on the rise, which has prompted demands for small pack branded rice, setting the required market conditions for the development of a rice brand.

Secondly, monitoring of the food industry in China has grown stronger, creating a need for distinctive brand names. Recent food safety concerns of Chinese consumers has grown along with the economic development and enhanced living standard which have led to strengthened controls of the food industry and tightened regulations on the transportation, sales and packaging of food products by the relevant Chinese authority. Therefore, small pack rice will become an important product in China's rice industry and will see a boost in sales in the years to come.

Thirdly, modern retail channels such as supermarkets and megastores, which offer more convenient and comfortable and a one-stop shopping experience are becoming the preferred choice of urban consumers with faster pace of living. Small pack rice is sold mainly through these retail channels and therefore has great potential for future growth.

Business Review

Products

Category	Product
	Our main products include short grain rice from north-eastern China and Jiangsu Province, long grain rice of southern origin and parboiled rice (all from selected high-quality paddy fields), and imported rice.
White Rice	Our products are divided into the domestic and imported categories: Our domestic product categories of rice include Dao Hua Xiang (稻花香), Crystal Rice (水晶米), Golden Classic Dongbei rice (金典東北米), and Golden Classic Chang Li Xiang (金典長粒香). Our imported rice includes Thai-Hom Mali Rice, Akitakomachi and Koshihikari.  **Dao Hua Xiang (稻花香)** Originated from Wuchang, Heilungjiang Province, and grown in non-polluted dark soil. It is long, thin and transparent with natural freshness when raw, and has bright white, fragrant, soft but chewy characteristics when cooked. **Crystal rice (水晶米)** Originating from Panjin in north-eastern China, and is grown in saline soil. It is small, transparent and full in shape, and has a unique sweet, soft and juicy taste when cooked. **Golden Classic Dongbei rice (金典東北米)** Origininating from the finest rice growing regions of north-eastern China and is grown in dark fertile soil. It has a full shape and a glowing clear white colour with natural fragrance and softness when cooked. **Golden Classic Chang Li Xiang (金典長粒香)** Originating from the finest rice growing regions of north-eastern China, ChangLixiang rice is grown in dark fertile soil. It has a full, fine shape and a natural fragrance with good texture when cooked.

Category	Product
Parboiled rice	Using advanced western parboiling technology, our parboiled rice retains maximum nutrition levels. It is rich in iron, zinc and vitamin B and has a light yellow crystal colour and natural fragrance. 

Quality Control

As quality is a competitive advantage in the industry, the Company have adopted a Total Quality Management strategy to ensure the highest quality output at every stage of our production process. Our products are well recognized by the government and consumers worldwide.

Quality certifications obtained by the rice trading and processing business are as follow:

In May 2006, COFCO Jiangxi Rice Processing Limited obtained ISO9001: 2000 certification and, in August 2006, HACCP certification. We were the first production facility in Jiangxi Province to receive the HACCP accreditation. We also received a QS certificate in August 2004 and a certificate of hygiene for food export in December 2006.

The rice processing production line at COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd has been awarded an ISO 9001 in January 2001 and ISO 14001 certificate in January 2002 from SGS, a QS certificate and ‘C’ logo from Jiangsu Province Quality and Technology Supervision Bureau in 2003, and HACCP certification from China Quality Certification Centre in 2004 and AIB (USA) in 2006.

Since commencement of operations in 2008, the production line acquired by COFCO Dalian Rice Processing Limited has received QS certification and a hygiene license. Preparation for ISO/HACCP certification is underway simultaneously with the construction of a new production line.

Biofuel and biochemical business

Biofuel business

The Company is one of the major fuel ethanol producers in China, with a total annual production capacity of 380,000 metric tons from COFCO Bio-Energy (Zhaodong) Co., Ltd. ("Zhaodong Bio-Energy") and Guangxi COFCO Bio-Energy Co., Ltd. ("Guangxi Bio-Energy").

In 2008, the Company sold a total of 303,700 metric tons of fuel ethanol, of which 180,300 metric tons were sold by Zhaodong Bio-Energy and 123,400 metric tons by Guangxi Bio-Energy. During the year, revenue from the biofuel business amounted to HK$3,667.1 million, representing an increase of 95.9% compared with HK$1,872.1 million in 2007.

Product	2008		2007		Change	
	Volume *metric ton'000*	Revenue *HK$ million*	Volume *metric ton'000*	Revenue *HK$ million*	Volume	Revenue
Fuel ethanol	303.7	1,562.3	160.4	645.7	89.3%	142.0%
Consumable ethanol*	87.8	419.7	72.9	327.8	20.4%	28.0%
Anhydrous ethanol	67.6	387.4	56.2	272.6	20.3%	42.1%
Crude corn oil	57.7	462.2	29.7	195.7	94.3%	136.2%
Corn DDGS	294.3	497.6	227.2	290.0	29.5%	71.6%
Others*		337.9		140.3		140.8%
Total		**3,667.1**		**1,872.1**		**95.9%**

* *In order to classify our products in more detail, the HK$252 million revenue which was disclosed under the "others" category of biochemical business in the interim report for the six months ended 30 June 2008 and included distribution of alcohol in biofuels, is now reclassified under the "others" category of biofuel business as above.*

Adjustments in business direction in line with state policy

In response to changes made in the national fuel ethanol development strategy, the Company adjusted the direction of the fuel ethanol business to focus on fuel ethanol produced from non-food feedstock. With the establishment of Guangxi Bio-Energy which officially commenced production in March 2008, The Company became the only non-food feedstock fuel ethanol enterprise in China. This marked an important milestone in the strategic development of fuel ethanol from non-food feedstock. We will further strengthen cooperation, research and development among domestic and foreign scientific research units and large enterprises, as well as develop using cellulosic biomass to produce fuel ethanol in order to maintain our leading position.

Located in Beihai, Guangxi, Guangxi Bio-Energy is the first state-approved fuel ethanol production project making use of non-food feedstock as raw material. It uses tapioca as raw material and has an annual production capacity of 200,000 metric tons. The products are mainly sold to large enterprises such as Sinopec and PetroChina. In 2008, the Guangxi Bio-Energy production line recorded production of 126,000 metric tons. As 2008 was the first year of operation, production adjustments and testing kept capacity at a relatively low level during the first half of the year. In the second half of the year, the production line has operated at full capacity. Currently it is in smooth operation.

In 2008, the Ministry of Finance ("MOF") continued to provide subsidies to fuel ethanol producers. The Company regularly submitted the costs of its authorized production to the MOF and NDRC. The company receives the subsidies on a flexible basis, after the information submitted is verified and a review conducted by the MOF. As the selling price of fuel ethanol is pegged to the wholesale price of No. 90 gasoline and the government offers a sales discount, and since the domestic gasoline prices are not fully integrated with the international market, occasionally the gasoline prices in China will move against prices in the international market. In addition, raw materials for fuel ethanol are transacted at market prices which are subject to fluctuation, subsidies granted by the government to fuel ethanol production enterprises, therefore, were mainly for covering possible losses and ensuring a reasonable profit and stable supply of fuel ethanol. At the same time, the fuel ethanol subsidy also reflects the government's policy of supporting clean energy and a low-carbon, recycle economy. Tax concessions, including exemption from sales tax and refunds of paid value-added tax, are also provided to fuel ethanol production enterprises.

The NDRC adjusted the ex-factory prices of gasoline twice in 2008, and corresponding adjustments were made to the settlement prices of fuel ethanol (value-added tax included). Ex-factory prices of No. 90 gasoline and prices of fuel ethanol in 2008 are set out below:

Date	Ex-factory price of No. 90 gasoline *(RMB)*	Price of fuel ethanol *(RMB)*
20 June 2008	6,480	5,904
19 December 2008	5,580	5,084

Currently, biofuel ethanol projects in six provinces and city, namely, Wubei, Hebei, Jiangsu, Jiangxi, Chongqing and Sichuan, have passed the preliminary planning evaluation conducted by the NDRC. In the provinces and city approved for such evaluation, companies have to consider market demand and growth trends to facilitate project approval and accelerate development of the fuel ethanol industry. The Company will closely monitor the project development progress in those provinces and city and capture growth opportunities in a timely manner.

Fuel ethanol capacity

Name of Plant	Location	Product	Production Capacity *(metric ton'000)*
COFCO Bio-Energy (Zhaodong) Co., Ltd.	Zhaodong, Heilongjiang	Fuel ethanol	180
Guangxi COFCO Bio-Energy Co., Ltd.	Beihai, Guangxi	Fuel ethanol	200
		Total Production Capacity	**380**

Consumable ethanol and anhydrous ethanol capacity

Name of Plant	Location	Product	Production Capacity *(metric ton'000)*
COFCO Bio-Energy (Zhaodong) Co., Ltd.	Zhaodong, Heilongjiang	Consumable ethanol and anhydrous ethanol	400*
		Total Production Capacity	**400**

* *including the fuel ethanol capacity*

In 2009, fuel ethanol from non-food feedstock will become the focus of our fuel ethanol business. To that end, we are carrying out extensive research to expand our ethanol enterprises that use non-food feedstock as raw material when the opportunity arises.

Biochemical business

Our production lines at Yushu and Gongzhuling, Jilin Province, have a total annual corn processing capacity of 1,200,000 metric tons. Key products comprise corn starch, sweeteners (maltodextrin, fructose syrup and malt syrup), feed ingredients and crude corn oil. In 2008, our biochemical production facilities have made steady progress, with gradual increases of production loading and decreases of unit and energy consumption compared with 2007, the first year of production, and overall efficiency has improved.

Products	2008		2007		Change	
	Volume *metric ton'000*	Revenue *HK$ million*	Volume *metric ton'000*	Revenue *HK$ million*	Volume	Revenue
Corn Starch	755.4	1,537.2	271.3	531.0	178.4%	189.5%
Corn Meal and Feed	298.5	626.6	107.9	159.4	176.6%	293.1%
Others*	–	–	–	33.8	–	-100.0%
		2,163.8		724.2		198.8%
Intersegment sales		(6.4)		(5.0)		
Total		**2,157.4**		**719.2**		**200.0%**

* *In order to clasify our products in more detail, the HK$252 million revenue which was disclosed under the "others" category of biochemical business in the interim report for the six months ended 30 June 2008 and included distribution of alcohol in biofuels, is now reclassified under the "others" category of biofuel business as above.*

The biochemical business plays a key role in the strategic development of the Company. Although the biochemical business is currently in the trough of the industrial cycle, the Company maintained performance levels considerably above its peers average. This was achieved through various measures, including strict cost controls, optimization of management, and the expansion of sales to internationally renowned food enterprises. The Company is confident that when the market recovers, our biochemical business will gain a leading position in the industry by capitalizing on its outstanding quality, technology and management.

In 2008, corn starch, a major product in the biochemical business, ended three consecutive years of price rises and had been declining during the year. However, as the Chinese government has formulated policies to stimulate domestic demand and consumption, it is believed that such initiative will be favourable to the long-term growth of the biochemical business.

The Company has obtained State approval for the Yushu phase II project, Suihua project and Longjiang project, and following an analysis of the market environment, we adjusted the pace of new project development. Construction of these projects, therefore, is still pending. However, as the biochemical business is a strategic and core business of the Company, we will seek opportunities based on changes in external market conditions and the development of new biotechnologies such as polylactic acid. We will conduct indepth survey and study, and adopt prudent conclusion to expand into markets at the right time.

Biochemical (Corn processing capacity)

Name of Plant	Location	Product	Production Capacity *(metric ton'000)*
COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd.	Gongzhuling, Jilin	Sweeteners, corn starch, crude corn oil, corn meal and feed	600
COFCO Bio-Chemical Energy (Yushu) Co., Ltd	Yushu, Jilin	Starch, crude corn oil, corn meal and feed	600
		Total Production Capacity	**1,200**

Q&A

Question 1: Why is the government providing a flexible subsidy?

Answer: The selling price of fuel ethanol is pegged to the wholesale price of No. 90 gasoline, and the gasoline prices in China may move against prices in the international market, as the domestic gasoline prices are not fully integrated with the international market. Moreover, the raw material for fuel ethanol is transacted at market price, which also fluctuates and may cause fuel ethanol production enterprises to incur losses. Therefore, the subsidies granted by the government is mainly for covering the possible losses suffered by fuel ethanol production enterprises, so as to ensure a reasonable profit and secure a stable supply of fuel ethanol. In addition, as fuel ethanol is a clean energy that can help create a low-carbon, recycling economy, subsidies reflect the policy direction of government.

Question 2: How can China Agri benefit from the flexible grant?

Answer: Currently, the flexible subsidy is calculated as the sum of sales income from fuel ethanol, income from by-products and a reasonable profit less the total cost (average cost for advanced technology of each fixed unit). The financial subsidy ensures the stable supply of clean fuel to the market from fuel ethanol production enterprises, even under adverse economic conditions (such as decline in oil prices).

Products

The Biofuel and Biochemical Division of the Company is primarily engaged in the production and sales of fuel ethanol, consumable ethanol, anhydrous ethanol, consumable cornstarch, fructose syrup, maltose syrup, maltodextrin, crude corn oil, corn DDGS, corn protein feed, corn gluten feed, liquefied carbon dioxide in food additives, and more. We promote research, development and production of alternative energy to encourage environmental protection and energy safety, as well as to provide consumers with biochemical products that meet their demand for a better quality of life.

Category	Product	
Fuel ethanol	Fuel ethanol refers to anhydrous ethanol that can be used as fuel without adding denaturants. When denaturant-free and gasoline components are mixed at a certain proportion, anhydrous ethanol is converted into ethanol oil, a new type of clean fuel.	
Consumable ethanol	Our products are made from corn grown at green facilities via fermentation and distillation which meet the national standard of the People's Republic of China for consumable ethanol (GB10343-2002). With quality ethanol as a major raw material, our consumable ethanol is transparent and odourless. Our product categories include; premium grade consumable ethanol, ordinary ethanol and customized super and premium grades of ethanol produced at the request of consumers. We also produce medical ethanol which meets the standard of the 2005 version of Pharmacopoeia of China.	

Category	Product	
Anhydrous ethanol	It is a type of low water content ethanol, produced by dehydrating 95% (V/V) proof aqueous ethanol. Anhydrous ethanol is an important organic chemical. It is primarily used as an underlying raw material and solvent in the chemical reagent, pharmaceutical, cosmetics and fragrance industries. Using advanced techniques, we produce anhydrous ethanol with over 99.9% (V/V) purity.	
Consumable corn starch	A reliable product of advanced technology, produced from the corn wet milling process and closed-loop production process. Our high-quality product has few impurities and is an essential raw material in the food, medical, textile, paper and chemical industries.	
Fructose syrup	Made from corn starch milk, with enzymatic conversion and heterogeneous technology, and with the world's most advanced micro-filtration membrane technology, our fructose syrup products are available in two categories, F42 and F55, depending on the fructose content.	
Maltose syrup	This maltase-based, colourless and transparent viscous liquid is produced by a hydrolysis enzymatic process. With low sweetness and a malty aroma, it is mainly applied in the production of toffee, beverages, bakery products and beer.	
Maltodextrin	With high solubility, good taste, excellent thickening capabilities and an emulsifying qualities, maltodextrin is an ideal carrier in food processing. In milk powder, it helps remove the mutton smell, guarantees nutrition, and maintains taste to improve product quality. In cereal and soymilk, it helps combine the materials and remove odours. In egg and fat powder products, it helps enhance the stability of protein and fat, increases solubility, and improves product taste.	

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Category	Product
Corn DDGS	A kind of animal feed with high protein produced during the yeast fermentation of grain to ethanol in a process that includes distillation, evaporation and drying. The feed is not only rich in protein but also amino acids, vitamins and various minerals that benefit the growth of animals. It contains no anti-nutritional factors. With a protein content of over 22%, DDGS has become a widely used ingredient in the animal feed industry all over the world. DDGS is beneficial in the growth and health of poultry, livestock, aquatic products and special animals. In livestock feed and aquatic products, it is normally used as a substitute for soybean meal or fishmeal in the proportion of up to 25%. Furthermore, DDGS can be fed directly to ruminants. 
Corn gluten feed	Corn gluten feed is produced in the wet process during the production of cornstarch. Made from corn after it has been separated from the germ, endosperm and other organisms, the processed materials are then added into corn steep liquor and dried. Corn gluten feed contains polysaccharides such as starch and cellulose, and is rich in soluble protein and degradation products such as peptides and various amino acids. In addition, it contains lactic acid, phytic acid calcium, phytic acid magnesium and soluble carbohydrate that have high nutritional value. Corn gluten feed is not only suitable for herbivorous animals, such as cattle, sheep and herbivorous fish, but also a good ingredient for feed for monogastric animals, such as pigs and chickens. When added to feed at a 3-5% proportion, it provides essential nutrients beneficial to maintaining the healthy function of an animal's digestive system.
Corn protein feed	It is the remaining part of corn after it has been separated from germ and bran and extracted from starch during the wet processing of corn. Mainly used as feed for poultry and aquatic animals, it is rich in lutein, which helps the colouring of the skin and eggs of poultry when added to their feed in a certain proportion. Over the long term, corn protein feed helps increase the speed of growth and quality of poultry, as well as reduces the cost and maximizes the efficiency of animal feed.
Corn gem meal	It is made from corn germ after compression, solvent extraction and drying. Corn meal and corn germ meal differ based on nutritional ingredients. Corn meal is a palatable feed of high energy and nutritional efficiency, but with a protein content of about 8.4%, and no lysine or tryptophan. Corn germ meal is even more palatable, and is expanded to improve the physical properties of compound feed. The protein content of corn germ meal is about 10% higher than that of corn meal. Furthermore, corn germ meal is rich in essential amino acids, and its protein quality is better than that of corn meal. The energy and protein content of corn germ meal addresses the nutritional needs of livestock and poultry diets. Hence, corn germ meal can be easily added to mixed feed and helps lower the overall cost of feed itself. It is best used by commercial breeders.

Category	Product	
Crude corn oil can be further processed into corn	It can be further processed into corn salad oil. It contains a high level of linoleic acid (58.7%), a type of unsaturated yet indispensable fatty acid with an absorption rate of 95%. Linoleic acid in corn oil is essential in human diets and cannot be synthesized within the human body. Linoleic acid helps lower blood cholesterol and soften blood vessels to help prevent or treat cardiovascular disease. The chemical stability of corn oil makes it a good ingredient for deep-frying as it is less harmful to health.	
Corn oil	Carried under the green "Tiancaogang" trademark, has high nutrition value. It is rich in unsaturated fatty acids and can prevent arteriosclerosis or high blood pressure. It has become the top choice in edible oils among consumers.	
Liquefied carbon dioxide in food addictives	Liquefied carbon dioxide, which is used in food additives, is made by purifying, condensing and compressing the carbon dioxide gas derived from corn fermentation during the production of alcohol. In strict accordance with the Regulations on Liquefied Carbon Dioxide as Food Additive GB10621-2006 and the standards of Coca Cola and Pepsi Cola, this product has been widely used to maintain the freshness of various beverages and foods.	

Quality control

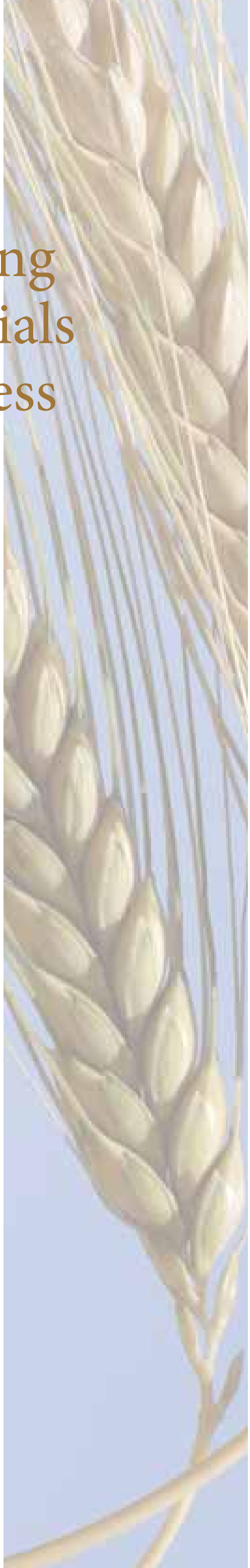
The Company consistently attaches great importance to product quality control, which is reflected in the state mandatory certification we have received, as well our quality systems and laboratory certification, enforcement of high business standards, and compliance with the regulations and measures recognized by government institutions and consumers.

COFCO Bio-Chemical Energy (Zhaodong) Co., Ltd.
Awarded Quality Management System Certification (Registration No. 00608Q10025R2L), and Good Standardizing Practice Certification (Certificate No. GPS(23L)003-2005).

COFCO Bio-Chemical Energy (Yushu) Co., Ltd.
Awarded Quality Safety Certification, Production Permit of Food Product No. QS2201 2301 0013 and ISO 9001 Quality Management System Certification (Certificate No. 00207Q14154ROM).

COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd.
Awarded Sanitation Permit No. (Ji) WSZZ (2007) No. 220381-SC0005 Certification from Jilin CIQ Certificated Laboratory (No. IRS 018), Export Sanitation Permit of P.R. China (No. 2200/15036), Quality Safety Certification, Production Permit of Food Product (No. QS2203 2301 0012) (for starch) and Production Permit of Food Product (No. QS2203 2302 0004) (for starch sugar).

Brewing materials business



Brewing materials business

The Company's brewing materials business primarily covers the production and sales of malt. The product quality has always been recognized by premium beer breweries in China and overseas. The Company owns the largest single malt production plant in China, enjoying leading market position and brand advantage for years.

China is the largest beer-consuming country in the world with 41.03 million metric tons of beer consumed in 2008, an increase of 4.4% from 2007. Revenue from the Company's brewing materials business increased 62.3% from HK$1,112.6 million in 2007 to HK$1,806.2 million in 2008, driven by the continuing passion of Chinese consumers for beer, growing market demand and the rising price of malt. During the year, malt export volume also increased significantly by 100.3% to 197,500 metric tons.

Product	2008		2007		Change	
	Volume *metric ton'000*	Revenue *HK$ million*	Volume *metric ton'000*	Revenue *HK$ million*	Volume	Revenue
Malt	388.3	1,786.7	331.7	1,095.8	17.1%	63.0%
• Domestic Sales	190.8	911.9	233.1	741.1	-18.1%	23.0%
• Export	197.5	874.8	98.6	354.7	100.3%	146.6%
Malting barley	–	–	0.4	1.0	–	–
Others	–	19.5	–	15.8	–	23.4%
Total		**1,806.2**		**1,112.6**		**62.3%**

Capacity enhancement for consolidating market share

The construction of the malt production plant phase II in Jiangyin, Jiangsu Province, was completed and in operation as scheduled in October 2008. The additional production capacity of 180,000 metric tons has increased the Company's total production capacity to 660,000 metric tons by the end of 2008. Despite the adverse effects of significant rises in construction materials and labour costs during 2008, the average metric ton capacity investment of Jiangyin facilities phase I and II were much lower than other domestic producers that adopted the tower malting system. This was achieved through the optimization of the infrastructure construction, equipment, technology and logistic plans.

Located in the Yangtze River region, the malt production plant in Jiangyin has its own deep-water berth, which allows the direct delivery of raw materials (barley) purchased to be delivered directly to the the production facilities for greater operating efficiency. The plant's geographical position matches the Company's long-term strategic goal of expanding malt market shares in the eastern and southern regions of China.

The Company's plant in Dalian, Liaoning Province is the largest single malt production facility in China in terms of annual production capacity. It covers the vast north-eastern China market, the country's most important area in both beer production and consumption, and fortifies the Company's leading position in the industry.

At the same time, the Company aims to develop the market potential of using domestic malt and become one of the largest malt producers in China. The Company's compelling edge of economies of scale will bring more bargaining power for purchasing barley, which will enable a further control in production costs and enhance corporate competitiveness.

Malt processing capacity

Name of Plant	Location	Product	Production Capacity *(metric ton'000)*
Dalian COFCO Malt Co., Ltd.	Dalian, Liaoning Province	Malt	360
Phase I in COFCO Malt (Jiangyin) Co., Ltd.	Jiangyin, Jiangsu Province	Malt	120
Phase II in COFCO Malt (Jiangyin) Co., Ltd.	Jiangyin, Jiangsu Province	Malt	180
		Total Production Capacity	**660**

Strict quality control gains trust of customers

The Company complies with stringent internal quality control guidelines across the entire purchasing and production process of malt. The production facilities in Dalian and Jiangsu are ISO9001:2000 and HACCP certified. The Company's commitment to quality has allowed us to gain the recognition and trust of the customers, which include large domestic and foreign-invested breweries such as China Resources Snow Breweries, Carlsberg Group, Anheuser-Busch InBev, Tsingtao Brewery, Beijing Yanjing Brewery, Suntory, Kirin Brewery, Asahi, San Miguel and Blue Ribbon Beer.

The brewing materials business of the Company also covers malt exports. In 2008, the Company exported products to Russia, Korea, Malaysia, Vietnam, Thailand, Brazil, Taiwan and other regions. Last year, when the supply of malt experienced cyclical shortages and price increases around the world, the Company seized this timely opportunity and increased export volume, which accounted for approximately 50.9% of the Company's total malt sales. The Company's export volume in 2008 amounted to 197,500 metric tons, representing 62.9% of the total export volume of 314,000 metric tons in China.

Overcoming challenges

As the global financial crisis took hold in the second half of 2008, the world economy slowed down and food prices dropped. Despite the slowed growth rate of beer consumption and raw material demand, China maintained its leading position in beer consuming. As the downstream continues to develop, excess production capacity will be absorbed through optimization, integration and other means, and the brewing materials industry will gradually enter a healthy development stage in the long run. In the face of keen market competition, the Company will control raw material price risk through the stringent dynamic matching of purchases and sales volumes. At the same time, the Company will further broaden its purchasing channels, control the purchase cost of raw materials and improve product structure to enhance competitiveness.

Q&A

Question 1: Why was there no hedging in your brewing materials business?

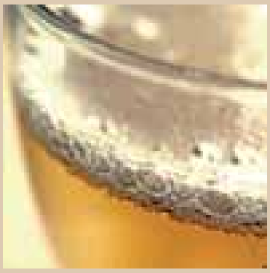
Answer: There is no futures market for malt barley or malt in China or abroad for the time being, and therefore there was no mechanism for hedging.

Question 2: The financial turmoil will have an impact on global consumption. Will demand for brewing materials be affected?

Answer: We think that the financial turmoil will not have a significant impact on the total demand. On the contrary, there are predictions that the demand for alcoholic drinks will increase during this recessionary period.

Products

Product Category	Product
Malt	Malt is the essence of beer and the main raw material of brewing. Malt contains rich hydorlases and significant quantities of carbohydrates, amino acid and plant gallate, which provide the nutrition required for yeast to ferment. It is widely used by brewers around the world. After steeping, germinating and kilning, a chemical change takes place in barley kernel and rich nutritional enzymes, carbohydrates and amino acids are produced. At the same time, the excess vapour and grassy aroma are eliminated and a special fragrance is produced. In the final stage of processing, barley malt is created which plays the most critical role in the brewing process, as it directly affects the texture, colour and clarity of beer. Only very fine malt can produce high quality beer. Our core products include the following: **Australian Barley Malt** Processed from fine Australian two-row malt barley, the first choice of world-famous breweries. **Canadian Barley Malt** Processed from fine Canadian malt barley. Thanks to its unique character, it is widely used by international brewers such as Anheuser-Busch InBev and Suntory. **Specially Selected Domestic Barley Malt** Specially processed from high-quality malt barley selected from Xinjiang and Gansu. **Premium Barley Malt** Combining the special requirements of texture and perfection of quality control to ensure stability and evenness characterized by high quality malt for premium beer.



Quality Control

Our production facilities at COFCO Malt (Dalian) Co., Ltd. and COFCO Malt (Jiangyin) Co., Ltd. have been accredited with ISO9001:2000 and HACCP certifications.

The Company pursue the concept of “Customer First, Quality First”, combining our quality management system, food safety system and production procedures to provide excellent brewing materials to our customers.

Wheat processing business

Wheat processing business

As one of the largest wheat processors in China, the Company processes and distributes a broad range of flour (including general purpose flour and customized flour) as well as other flour products such as noodles. In 2008, the Company expanded market share and enhanced profitability by taking full advantage of economies of scale, meeting customer demand, developing retail and related markets, adjusting product structure and diversifying product range. Income from the wheat processing business rose from HK$2,668.5 million in 2007 to HK$3,248.9 million in 2008, representing an increase of 21.8%.

Product	2008		2007		Change	
	Volume *metric ton'000*	Revenue *HK$ million*	Volume *metric ton'000*	Revenue *HK$ million*	Volume	Revenue
Flour	1,071.3	2,572.8	988.8	2,119.4	8.3%	21.4%
• customized	751.3	1,902.3	600.2	1,375.5	25.2%	38.3%
• general purpose	320.0	670.5	388.6	743.9	-17.7%	-9.9%
Noodles	49.4	154.6	45.1	115.0	9.5%	34.4%
Others	–	521.5	–	434.1	–	20.1%
Total		**3,248.9**		**2,668.5**		**21.8%**

As at the end of 2008, the Company had a total of 1,586,000 metric tons of annual wheat processing capacity with an average utilization rate of 96%, reflecting the high market demand for the Company's products. The 9 processing factories in Shenyang, Shandong, Hebei, Henan, Jinagsu and Fujian are strategically located and divided into five operational zones: northeastern China, Beijing-Tianjin-Tanggu, central China, the Yangtze River Delta region and the Pearl River Delta region. All areas of China were covered through our nationwide distribution network.

The Company's customized flour is produced from high-quality wheat to customer specifications, and its quality is widely recognized by leading food brands in China and around the world, including Danone, Nabisco, Tingyi and Hualong.

Building our own consumer brand

The Company produces a wide and diverse variety of dried noodle products, with enhanced processing technologies at all of the production facilities. In 2008, the Company speeded up the development of the noodle production business, extended production chain, added value to our products and launched new categories to satisfy the changing tastes of consumers and the huge demand for quality foods. To maximize the brand potential, the Company now processes and produces noodle products in four series under Xiangxue (香雪) brand.

Xiangxue series and target consumers

Series	Target Group
Gift series	Consumers with distinctive characters
Noble series	High income families
Original series	White collars
Popular series	Mass market

The latest overseas proprietary technologies are adopted in the production of noodles. The high added value resulted in a higher gross profit margin for the Company.

The distribution network of our noodle products covers a majority of provinces and cities in China, except the Xinjiang and Tibet autonomous regions. Leading customers in China include Carrefour, Wal-Mart, Loogoo, Wu Mart Vanguard and others. The Company's products are also exported to markets in the USA and Canada. As at the end of 2008, the Company had a total dried noodle production capacity of 59,700 metric tons.

Developing bread and cake business

With rising consumption and changing food and drink habits in China, the Company established a joint venture, COFCO TTC (Beijing) Foods Co., Ltd. ("COFCO TTC"), with Toyota Tsusho in 2008, to develop the bread business and produce Chinese and western styles of bread and cake as part of our long term strategic plan of extending our production chain. The Company diversified the distribution channels to include supermarkets and convenience stores. The Company supplied breads for 7-Eleven convenience stores to be sold under their own brands and also set up own counters in supermarkets as well as established business arrangements with companies, schools and other institutions. Currently, the Company sells bread products mainly to customers in Beijing and began supplying Starbuck shops in Shenyang and Dalian in February 2009 which will be expanded to other cities and provinces in the future. In line with the continued pursuit of quality, the Company was successful at winning the trust of leading customers for the bread business. During the Beijing Olympics, the Company provided all freshly-baked bread for the opening and closing ceremonies, as well as supplied bread during the games. Moreover, the Company was cooperated with the Great Hall of the People to process moon cakes. COFCO TTC has an annual baking production capacity of 1,980 metric tons.

The Company also engages in the production and distribution of bran. Bran, a by-product in wheat processing, is what remains after the extraction of wheat endosperm. It is used as a gradient in feed for pigs, chicken, cattle and other livestock. Bran is also used as a food additive (bread, cakes, biscuits) and in the fermenting process of soy, vinegar and other seasonings in place of corn steep liquor. The Company has been selling bran through intermediaries to breeders and directly to large feed producers in high seasons.

The demand for quality flour and other flour products has been increasing in China with the rise in living standards. Although the flour industry in China has experienced oversupply, small scale producers with backward facilities were eliminated or integrated into larger enterprises, resulting in a healthier market environment for the Company. This has allowed us to develop and produce high end products with a higher profit margin. Through the strong nationwide brand, economies of scale, concern for food safety and continued investment in new technologies, we have been able to form a solid foundation on which to become an industry leader in the country.

Wheat processing capacity

Name of Plant	Location	Products	Production Capacity *(metric ton'000)*
COFCO Flour Industry (Qinhuangdao) Pangthai Co., Ltd.	Qinhuangdao, Hebei	Flour and bran	340
COFCO Flour Industry (Puyang) Co., Ltd.	Puyang, Henan	Flour and bran	110
Shenyang Xiangxue Flour Limited Liability Company	Shenyang, Liaoning	Flour and bran	180
Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd.	Dongda, Shenyang	Flour and bran	100
Xiamen Haijia Flour Mills Co., Ltd.	Xiamen, Fujian	Flour and bran	100
COFCO Flour Industry Foods (Dezhou) Co., Ltd.	Dezhou, Shandong	Flour and bran	170
Zhengzhou Haijia Food Co., Ltd.	Zhengzhou, Henan	Flour and bran	220
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.	Zhangjiagang, Jiangsu	Flour and bran	216
COFCO Flour Industry (Luohe) Co., Ltd.	Luohe, Henan	Flour and bran	150
		Total Production Capacity	**1,586**

Dried noodle capacity

Name of Plant	Location	Product	Production Capacity *(metric ton'000)*
COFCO Flour Industry (Puyang) Co., Ltd.	Puyang, Henan	Dried noodle	24
Shenyang Xiangxue Flour Limited Liability Company	Shenyang, Liaoning	Dried noodle	22.5
COFCO Flour Industry Foods (Dezhou) Co., Ltd.	Dezhou, Shandong	Dried noodle	7.2
Zhengzhou Haijia Food Co., Ltd.	Zhengzhou, Henan	Dried noodle	6
		Total Production Capacity	**59.7**

Bakery capacity

Name of Plant	Location	Product	Production Capacity *(metric ton'000)*
COFCO TTC (Beijing) Foods Co., Ltd.	Beijing	Bread	1.98
		Total Production Capacity	**1.98**

Q&A

Question 1: Why did China Agri start its own branded noodles in 2008 and expand into the bread and cake business?

Answer: In recent years, the noodle and cake business has developed rapidly in China, offering huge market potential. China Agri started its own branded noodles and expanded into the bread and cake business in 2008 in order to extend the wheat processing value chain and strengthen profitability. The result has been encouraging.

Question 2: Agricultural provinces experienced droughts in the previous months, and wheat production volumes declined as a result. Will the wheat processing business in 2009 be affected by rising costs caused by the shortage of wheat?

Answer: We have implemented a centralized purchasing strategy by establishing cooperative relationships with a large number of high quality suppliers, which has allowed us to lower our purchasing costs effectively. We also persist in following the B2B business model and are focusing on growing our premium customer base and entering into strategic cooperation agreements with them to shift the cost burden downstream. Therefore, the drought will not affect our business.

Products

Category	Product
Wheat flour	Three major types of flour with different gluten levels: strong, medium and weak, produced for bread, dumplings, steamed buns, noodles and cake purposes. Products are under the Xiangsue (香雪) brand. **Xiangxue Flour** Main products include Prime Flour (極品雪花粉), Self-raising Flour (麥香自發粉), Bread Flour (家用麵包粉), Plain Flour (麥純富強粉), Whole-Wheat Flour (全麥粉) and Dumpling Flour (筋爽餃子粉). Xiangxue flour uses 100% premium imported wheat and the latest flour production technology. It is processed with the highest precision in a fully enclosed production environment. The flour has moderate gluten levels with fine texture, natural colour and a strong aroma. *Prime Flour (極品雪花粉)* Exceptional quality for steaming with translucent, chewy and delectable textures. *Self-raising Flour (麥香自發粉)* With quality yeast added, it meets all requirements for making steamed buns and bread. An ideal ingredient for cooking noodles at home. *Bread Flour (家用麵包粉)* With strong gluten and a rich aroma, it has good baking characteristics and is ideal for baking bread at home. *Plain Flour (麥純富強粉)* This flour has good steaming characteristics and is ideal for cooking at home. It has a strong wheat aroma and chewy texture. *Whole-wheat Flour (全麥粉)* This high fiber, nutritious and healthy flour is ideal for cooking noodle dish at home. *Dumpling Flour (筋爽餃子粉)* This flour meets all requirement for making Chinese dumplings. Chewy and translucent when cooked.

Business Review

Category	Product
Noodle	Products are mainly sold under Xiangxue brand, with four series targeting different groups of consumers.  Gift series: Consumers with distinctive Characters Noble series: High income families Original series: White collars Popular series: The mass market **Xiangxue Noodles** Main products include Buckwheat Noodle (蕎麥麵), Egg Noodle (雞蛋龍鬚麵), Yangchun Noodle (爽滑陽春麵), Spirulina Noodle (螺旋藻麵), Wheat Noodle (純麥筋爽麵) and High Gluten Noodle (高筋海撈麵). Xiangxue series noodles contain natural color, aroma and taste. They are nutritious, healthy and of high quality. The innovative technologies used have solved the limitation of thickness, cracking and short shelf life of traditional Chinese noodles. Various shapes, standards and texture of noodles are available to suit the preferences of different consumers. Products are also sold in North America, Japan, Korea and Southeast Asia. *Buckwheat Noodle (蕎麥麵)* Characteristics: soft, delectable, easy multipurpose. Cooking method: noodles in soup. *Egg Noodle (雞蛋龍鬚麵)* A high starch food containing nutrition from eggs to give more energy and replenish strength. Highly nutritious. *Yangchun Noodle (爽滑陽春麵)* Characteristics: thin, smooth and delectable. Cooking method: mixing fried noodles and in soup. *Spirulina Noodle (螺旋藻麵)* Selected original ecological spirulina from Chenghai Lake, Yunnan, one of the three largest wild spirulina areas in the world. It is added to high-quality specific flour for noodles and pure water from deep underground. The most advanced proprietary technology from Japan is used, ensuring preservation of the primary composition of spiralina. *Wheat Noodle (純麥筋爽麵)* Characteristics: smooth, chewy Cooking method: mixing noodles, noodles with gravy and cool braised noodles. *High Gluten Noodle (高筋海撈麵)* Characteristics: chewy, firm and stand continuous boiling and soaking. Cooking method: mixing noodles, noodles with gravy and cool braised noodles.

Category	Product	
Bread	We produce a variety of freshly baked bread and cakes, including fruit bread, prepared bread, staple bread, puff bread and cakes, which are mainly sold under the Xiangxue brand. **Xiangxue Bread** Using purified air leaching technology, this bread meets international hygiene management standards. It uses pure water at the molecular level to protect bread from impurities such as heavy metals. Made from flour using 100% imported fine wheat, which have passed strict inspections. Baked with supreme technology that meets the international health trend.	

Quality control

Member companies in the Company's wheat processing business put a premium on product quality and implement the quality management concept and flow to ensure full control over the production process. The quality control system undergoes continuous improvement.

Shenyang Xiangxue Flour Company Limited Liability Company
Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

COFCO Industry (Qinhuangdao) Pangthai Co., Ltd.
Awarded ISO9001: 2000 International Quality Management system Certification, HACCP Food Safety System Certificate, ISO14001 Environmental Management System Certification, QS Certification and Export Hygiene Certifications.

COFCO Flour Industry (Dezhou) Co., Ltd.
Awarded ISO9000 Quality Management System, ISO14000 Environmental Management System, HACCP Food Safety System, QS Certification and Export Hygiene Certifications.

Zhengzhou Haijia Food Co., Ltd.
Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

Puyang COFCO Flour Industry Co. Ltd.
Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

COFCO Flour Industry (Luohe) Co., Ltd.
Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.
Awarded ISO9000 Quality Management System, ISO14000 Environmental Management System, ISO18000 Occupational Safety System, HACCP Food Safety System, QS and Export Hygiene Certifications.

Xiamen Haijia Flour Mills Co., Ltd.
Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

COFCO TTC (Beijing) Foods Co., Ltd.
Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS Certifications.

Management Discussion and Analysis

Our Group follows a clear and focused strategy to fulfil our goal of being a leading integrated agricultural and food processor, providing quality products to our customers at reasonable prices.

Financial review

We are pleased to report the third consecutive year of robust financial performance of the Group. For the financial year ended 31 December 2008, the Group's revenue increased 44.8% year-on-year to HK$41,802.1 million, from HK$28,869.2 million in 2007, reflecting the growth in the sales volume and the impact of increasing prices. Our Group's profit attributable to the equity shareholders of the Company once again reached a record level of HK$2,624.9 million, representing a 138.6% increase from HK$1,100.4 million in 2007. This was achieved with the Group's moderate operations strategy and conservative hedging policy in the oilseed processing business operated effectively in the context of the significant fall in relevant commodity prices in the third quarter of 2008.

Out of the five major businesses, the oilseed processing unit remains the largest revenue generators of our Group. Its exceptional performance was mainly caused by robust demand for our edible oil and oilseed meal during the year. For the full year of 2008, oilseed processing business accounted for 65.9% of total revenue and 72.0% of segment results for the year, versus 67.2% and 49.6% in 2007, respectively.

Turnover of oilseed processing business rose 42.1% year-on-year in 2008 to HK$27,539.5 million. It was mainly due to the prices of our edible oils and oilseed meals increasing has over 2007. Since we import raw materials from overseas, we adjusted the prices of products according to the change of costs. Facing with worldwide fluctuation in prices of soft commodities in 2008, we also adjusted the prices accordingly and reduced the impact from fluctuating prices of raw materials by hedging, which improved the gross profit margin of the business to 11.5%, from 4.0% last year.

Turnover of rice trading and processing business rose 8.8% to HK$3,383.0 million mainly because we gripped the opportunity of rising prices in international market and transacted with high prices which resulting in an increase of gross margin from 12.7% to 22.8% in 2008. Domestic sales business developed rapidly, its business share and business scale had a larger increase comparing to last year. Rice unit became the third largest unit, in terms of the total operating results in 2008.

Operation in the biofuel and biochemical business, Guangxi Bio-Energy commenced in 2008, while companies COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd and COFCO Bio-Chemical Energy (Yushu) Co., Ltd operated for whole year, resulting in increase of 124.8% from last year to HK$5,824.5 million in the sales volume of biofuel and biochemical business. As the increase in costs was greater than the increase in income, the gross margin decreased, from 13.1% to 10.4%.

Jiangyin Phase I of our brewing materials business operated throughout 2008, with an operating scale increased of 62.3%, to HK$1,806.2 million. Under the impact of financial turmoil in second half of 2008, the consumption of beer increased slowly, and the competition of the industry was more violent. Decline in raw material prices lagged behind the drop in product prices, which resulted in decrease in gross margin from 27.6% to 17.1% for 2008.

Our advantages of scale and brand in our wheat processing business were fully exploited in 2008. Sales of wheat processing business increased 21.8%, to HK$3,248.9 million, due to adjustment of product structure, promotion of the extension of product chain, development of products with high additional value and expansion of market share. Gross margin was edged up from 6.4% a year earlier to 9.6%.

Group earnings

Operating profit (represented by segment result) was HK$4,524.8 million, representing an increase of 292.1% on a year-on-year basis.

Finance costs increased by 21.4%, to HK$389.0 million, during the year, fuelled by the increase in PRC borrowings costs, the increase in loans to finance working capital, and the new investment requirements.

Tax expense surged 3,364.8%, because our company had an increase in operations pre-tax profits, and the preferential tax policies for the subsidiaries of the company are expiring, such as tax credits for buying Mainland-made manufacturing equipment, tax credits and tax cuts for foreign-invested enterprises.

Liquidity and financial resources

As at 31 December 2008, the total assets of the Group amounted to HK$28,266.5 million (2007: HK$21,600.5 million). The equity attributable to equity holders of the Company was HK$13,602.4 million, a 30.8% rise from HK$10,400.3 million as at 31 December 2007.

In terms of available financial resources as at 31 December 2008, the Group had total available cash and bank deposits (including pledged deposits) of HK$4,958.0 million.

Interest-bearing borrowings (current) increased by HK$539.3 million, due mainly to the higher utilisation of bank borrowings for working capital, as a result of the rising commodity prices and higher sales volume of the Group. Out of the Group's total bank loans and other borrowings of HK$6,376.1 million, HK$5,220.1 million (approximately 81.9%) was repayable within one year and HK$1,156.0 million (approximately 18.1%) was repayable within two to five years. The Group's 69.6% of total bank loans and other borrowings, amounted to HK$4,440.4 millions are at fixed interest rates. As at 31 December 2008, the Group pledged assets with aggregate carrying value of HK$1,473.9 million (2007: HK$1,430.7 million) to secure bank loans and facilities of the Group.

As at 31 December 2008, the net gearing ratio for the Group was 10.4%, based on net debt of HK$1,418.1 million (representing the Group's interest-bearing bank and other borrowings less cash and cash equivalents and pledged deposits) and shareholders' equity of HK$13,602.4 million. The Group services its debts primarily with recurring cash flow generated from its stable operation. The Board is confident that the Group has adequate financial resources to support its working capital requirement, future expansion and meet its future debt repayment requirements.

The Group planned to centralise funding for all its operation at the Group level. This policy accomplishes better control of treasury operations and lower average funding cost. The Group uses derivative financial instruments, such as commodity futures contracts, to hedge its risks associated with price fluctuations in future purchases or sales of the related commodities.

Capital expenditures, commitments and contingencies

During the year ended 31 December 2008, the total capital expenditures were HK$1,065.3 million, of which HK$563.0 million (approximately 52.8%) was made by our biofuel and biochemical business, HK$104.7 million (approximately 9.8%) was made by our oilseed processing business, HK$313.1 million (approximately 29.4%) was made by our brewing materials business, HK$22.5 million (approximately 2.1%) was made by our wheat processing business, HK$61.7 million (approximately 5.8%) was made by our rice trading and processing business, and the remainder was for corporate and others.

Up to 31 December 2008, the future capital expenditure for property, plant and equipment which the Group had contracted but not provided for, and which the Group had authorized but not yet contracted, amounted to approximately HK$1,680.3 million. The capital commitments for investments were HK$556.2 million. Other than the commitments for commodity and currency forward contracts disclosed in note 37 to the financial statements under the sub-heading of "Other Commitments" on page 147, the Group had no material commitments or contingent liabilities.

Human resources

As at 31 December 2008, the Group employed 15,081 staff (2007: 14,177) of whom 3,602 (2007: 3,572) were employed in the oilseed processing business, 7,105 (2007: 6,583) in the biofuel and biochemical business, 726 (2007: 656) in the rice trading and processing business, 496 (2007: 436) in the brewing materials business and 3,075 (2007: 2,875) in the wheat processing business. The Group's employees are remunerated according to the nature of their jobs, individual performance and market trends, with built-in merit components. Total remuneration for the year ended 31 December 2008 was approximately HK$667.3 million (2007: approximately HK$465.6 million). Employees in Hong Kong receive retirement benefits, mostly in the form of a Mandatory Provident Fund entitlement, and a similar scheme is offered to employees in Mainland China. Of the total remuneration, pension scheme contribution amounted to approximately HK$44.0 million (2007: approximately HK$28.6 million).

Use of proceeds from the issue of new shares

The net proceeds from the issue of new shares were approximately HK$2,872 million, and approximately HK$1,307 million has been used for a number of projects.

Details of the use of proceeds are as follows:

	Planned amount HK$'million	Amount utilized up to 31 December 2008 HK$'million	Balance as at 31 December 2008 HK$'million
Capex for biofuel and biochemical business			
– Guangxi Zhuang Autonomous Region project	226	217	9
– Heilongjiang Zhaodong project	184	184	–
– Jilin Gongzhuling Biochemical project	226	209	17
– Eastern China Region Biochemical project	125	–	125
– Jilin Yushu Biochemical project phase I	108	108	–
– Jilin Yushu Biochemical project phase II	270	–	270
– Heilongjiang Longjiang Biochemical project	356	–	356
– Heilongjiang Suihua Biochemical project	356	–	356
Subtotal	**1,851**	**718**	**1,133**
Capex for oilseed processing business	**551**	**228**	**323**
Capex for rice trading and processing business	**172**	**102**	**70**
Capex for brewing materials business	**86**	**47**	**39**
Working capital	**212**	**212**	**–**
Grand total	**2,872**	**1,307**	**1,565**

Corporate Governance Report

Introduction

The Company recognises the importance of corporate transparency and accountability. The Directors are committed to achieving high standards of corporate governance practices and procedures and to striving for a transparent and accountable management framework to enhance the interests of shareholders. The corporate principles of the Company emphasize on upholding sound ethics and integrity in all aspects of its businesses, and ensuring that affairs are conducted in accordance with all applicable laws and regulations.

The Company has complied, throughout the year ended 31 December 2008, with all the applicable code provisions and, where appropriate, the applicable recommended best practices of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange Limited (the "Listing Rules") except for the absence of the Chairman of the Board at the annual general meeting of the Company on 26 May 2008, due to other official duties.

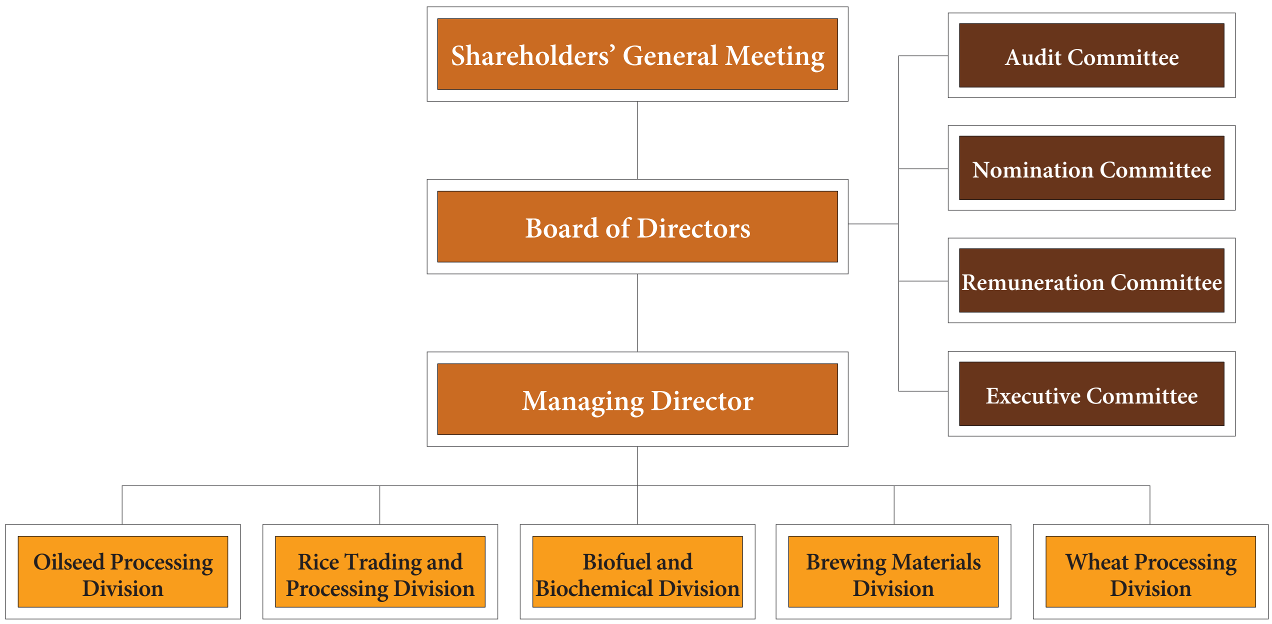
Corporate Governance Event Calendar

Jun 2008	Commencement of the reengineering of the Company's Risk Management System. Details of the risk management system are disclosed in the Risk Management section of the annual report at page 60.
Sep 2008	Standardisation and consolidation of the Company's policies and procedures of the following departments: a. Managing Director's Office and General Administration Department* b. Human Resources Department** c. Audit Department d. Strategic Development Department e. Legal Department f. Finance Department
Oct 2008	Adoption of the Company's revised Code of Practice of the Board (the "Board Code")
Feb 2009	Establishment of the Company's Executive Committee, provision of Board training in respect of the new amendments to the Listing Rules and adoption of the revised Codes of Securities Transactions by Directors and Relevant Employees (the "Securities Transactions Codes")

* *including policies regarding documents flows and approval procedures, information disclosures, senior management itinerary, and production and environment safety*

** *including policies on employee personal conduct and ethics*

Corporate Governance Structure



Securities Transactions by Directors and Relevant Employees

The Company adopted the Securities Transactions Codes, which incorporates all of the provisions in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the principal standards for securities transactions for the Directors. Upon specific enquiries to all the Directors, each of them confirmed that they had complied with the required standards set out in the Model Code during the year ended 31 December 2008 in relation to their securities dealings, if any.

The Securities Transactions Codes also applied to specified employees who are likely to be in possession of unpublished price-sensitive information related to the Group and its activities. These employees must also comply with guidelines in the Securities Transaction Codes as exacting as those set out in the Model Code. During the reporting period, the Company has not received any non-compliance report from any of such employees.

The Board

The Board is responsible for the leadership and control of the Company and overseeing the Group's business, strategic decisions and performance. The management is delegated with the authority and responsibility by the Board for the daily management of the Group. The functions reserved to the Board and those delegated to the management are specified in section C.2 of the Board Code. In addition, the Board has established various Board committees and delegated various responsibilities to the Board committees, including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the executive committee (the "Executive Committee") (together, the "Board Committees") according to section C.2.2 of the Board Code. All the Board Committees perform their distinct roles in accordance with their respective terms of reference. Further details of these committees are set out below.

Other than resolutions passed by means of resolutions in writing of all Directors, the Board held 16 meetings during the reporting period to, among other things, consider and approve the interim and final results of the Group, and discuss business strategy.

The Company adopts the practice of holding regular Board meetings at least four times a year. Notice of each meeting is sent to Directors at least 14 days prior to a regular Board meeting, and Directors may request inclusion of matters in the agenda for Board meetings. For ad hoc Board meetings, reasonable notices are given.

According to section B.3.3 of the Board Code, minutes of meetings of the Board and Board Committees should be recorded in sufficient detail of the matters considered by the Board and Board Committees, decisions reached, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of minutes of the Board and/or Board Committees (as the case may be) are sent to the Directors for their comments and records respectively. The decisions of the Board can be made via written resolutions authorised by all Directors.

As specified in section D.1 of the Board Code, all Board members have access to the advice and services of the company secretary. Minute books (including minutes of all Board Committees) are kept by the company secretary and are open for inspection during office hours on reasonable notice by any Director.

If necessary, Directors also have access to external professional advice at the Company's expense.

Chairman and Managing Director

The Chairman of the Board is Mr. Ning Gaoning, and the chief executive officer (or Managing Director, in the case of the Company) is Mr. Yu Xubo. The Chairman's and the Managing Director's roles are clearly defined in section C.1 of the Board Code to ensure their respective independence.

The Chairman takes lead in formulating the overall strategies and policies of the Group, and ensures effective performance by the Board of its functions, including compliance with good corporate governance practices, and encourages and facilitates active contribution of Directors in Board activities and constructive relations between executive and non-executive Directors. The Chairman also ensures that a system of effective communication with shareholders of the Company and receipt by the Directors of adequate and complete information is in place.

The Managing Director, supported by other Board members and the senior management, is responsible for the daily business operations and management of the Group. He is accountable to the Board for the implementation of the Group's overall strategies as well as co-ordination of overall business operations.

Board Composition

The Board currently comprises nine Directors, namely, Mr. Ning Gaoning as the chairman and non-executive Director; Mr. Yu Xubo (Managing Director), Mr. Lu Jun and Mr. Yue Guojun as executive Directors; Mr. Chi Jingtao and Mr. Ma Wangjun as non-executive Directors; and Mr. Lam Wai Hon, Ambrose, Mr. Victor Yang and Mr. Patrick Vincent Vizzone as independent non-executive Directors ("INEDs").

The Board members have no financial, business, family or other material or relevant relationships with each other. The composition of the Board has met the standard of recommended best practice under the CG Code for the Board to have at least one-third of its members comprising INEDs.

The Company has received annual written confirmations from each of the INEDs confirming their independence in accordance with section B.1.3 of the Board Code and Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the INEDs are independent within the definition of the Listing Rules.

Appointment, Re-election and Removal

Currently, each of the non-executive and INEDs has a specific term of appointment for three years.

Pursuant to Article 106 of the articles of association of the Company ("Articles of Association"), at every annual general meeting, one-third of the Directors or, if their number is not a multiple of three, then the number nearest to and at least one-third shall retire from office by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company considers that sufficient measures have been taken to ensure that the Company's practices in appointment of Directors are no less exacting than those set out in the CG Code.

Mr. Ning Gaoning, Mr. Lu Jun and Mr. Victor Yang shall retire at the forthcoming annual general meeting of the Company and being eligible, each of them will offer himself for re-election pursuant to Article 106 of the Articles of Association.

To enable shareholders of the Company to make an informed decision on the re-election of Directors, the biographies of the retiring Directors are set out in this annual report under the section headed "Directors and Senior Management Profile", which demonstrates a diversity of skills, expertise, experience and qualifications among the Directors.

Responsibilities of Directors

The Company ensures that every newly appointed Director has a proper understanding of the operations and businesses of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. The Company sponsors Directors to attend professional development seminars where necessary. In addition, the Company's professional adviser would provide training (including any update) on the Listing Rules and regulatory requirements (if required) to the Directors.

The INEDs take an active role in Board meetings, contribute to the development of strategies, internal control and policies and make independent judgment on issues relating to the Group. They will take lead where potential conflicts of interest arise. The INEDs are also members of the various Board Committees (except for the Executive Committee).

Board Committees

Nomination Committee

The Nomination Committee was established on 16 February 2007 with specific written terms of reference in accordance with the requirements of the CG Code. The terms of reference of the Nomination Committee are available in writing upon request to the company secretary and on the Company's website. The Nomination Committee currently comprises Mr. Ning Gaoning (the Chairman of the Company and non-executive Director) as the chairman of the Nomination Committee, Mr. Chi Jingtao (non-executive Director), Mr. Lam Wai Hon, Ambrose, Mr. Victor Yang and Mr. Patrick Vincent Vizzone (INEDs).

The Nomination Committee is primarily responsible for the procedure of nominating appropriate persons and appointing its members, either to fill a casual vacancy or as an addition to the Board.

During the reporting period, the Nomination Committee held one meeting to review the composition of the Board Committees and to consider the rotation of retirement of Directors at the 2008 annual general meeting of the Company.

The existing executive Directors were appointed based on their qualifications and experience in relation to the Group's businesses. The existing non-executive Directors were appointed based on their qualifications and experience within COFCO Limited ("COFCO") and its subsidiaries ("COFCO Group"). The existing INEDs were appointed based on their professional qualifications and experience in their respective areas.

A circular of the Company providing detailed information on re-election of Directors, including biographies of those Directors standing for re-election, is to be sent to the shareholders of the Company to enable their informed decisions.

Remuneration Committee

The Remuneration Committee was established on 16 February 2007 with specific written terms of reference in accordance with the requirements of the CG Code. The terms of reference of the Remuneration Committee are available in writing upon request to the company secretary and on the Company's website. The Remuneration Committee currently comprises Mr. Chi Jingtao (non-executive Director) as the chairman of the Remuneration Committee, Mr. Ma Wangjun (non-executive Director), Mr. Lam Wai Hon, Ambrose, Mr. Victor Yang and Mr. Patrick Vincent Vizzone (INEDs).

The primary role of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for remuneration of Directors and senior management.

The Remuneration Committee may consult with the Chairman and Managing Director of the Company regarding proposals for the remuneration of other executive Directors. The remuneration of the non-executive Directors is determined by the Chairman of the Company (except for his own remuneration) and the executive Directors. Where necessary, the Remuneration Committee may have access to external professional services at the Company's expenses.

The existing remuneration policy of the executive Directors is determined by the Remuneration Committee, having considered the qualifications and experience of each of the executive Directors and with reference to the remuneration policy of other listed companies of similar business and size. The remuneration policy of the non-executive Directors and the INEDs is determined by their participation in the Board and the Board Committees.

During the report period, the Remuneration Committee held one meeting to review the existing remuneration packages of the executive Directors and senior management as well as to consider the grant of share options to the relevant Directors and the employees.

Audit Committee

The Audit Committee was established in February 2007 with specific written terms of reference which clearly deal with its authority and duties. The terms of reference of the Audit Committee are available in writing upon request to the company secretary and on the Company's website. The Audit Committee currently comprises Mr. Lam Wai Hon, Ambrose (INEDs) as the chairman of the Audit Committee, Mr. Ma Wangjun and Mr. Chi Jingtao (non-executive Directors), Mr. Victor Yang and Mr. Patrick Vincent Vizzone (INEDs). In compliance with Rule 3.21 of the Listing Rules, the chairman of the Audit Committee possesses the appropriate professional and accounting qualifications.

Under its terms of reference, the Audit Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control, risk management and external audit functions. Although it is the management's duty to ensure the Company's accounting and financial reporting function maintains an adequate number of qualified and experienced staff. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and may make recommendations to the Board to take appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel, records, external auditors and senior management, as may be appropriate in discharging its functions.

Certified/Chartered Accountants in the Company:

Name of Professional Institution	No. of staff
The Chinese Institute of Certified Chartered Accountants	16
Association of Certified Chartered Accountants	4*
American Institute of Certified Public Accountants	1**
Hong Kong Institute of Certified Public Accountants	4
Institute of Chartered Accountants in England and Wales	1**

* *Three out of these four individuals are also members of the Hong Kong Institute of Certified Public Accountants.*

** *This individual is also a member of the Hong Kong Institute of Certified Public Accountants.*

Other Qualifications:

Name of Professional Institution	No. of staff
Institute of Certified Management Accountants	1
Certified General Accountants of Canada	1
Chartered Financial Analyst Institute	2

During the reporting period, the Audit Committee held four meetings with the external auditors and the senior management of the Company, in February, April, September, and December 2008, to review and discuss, among other things, the financial reporting and audit planning, internal control and the financial results of the Group.

Executive Committee

The Executive Committee was established on 27 February 2009, with specific written terms of reference. The Executive Committee currently comprises Mr. Yu Xubo (Managing Director) as the chairman of the Executive Committee, Mr. Lu Jun and Mr. Yue Guojun as executive Directors.

Under its terms of reference, the primary responsibility of the Executive Committee is to deal with and supervise the day-to-day business operations, management and administration of the Company.

Attendance Records at the Board and Committees Meetings

The attendance records of the individual Directors at the Board, Nomination Committee, Remuneration Committee and Audit Committee meetings for the year ended 31 December 2008 are set out in the following table:

	Board			Committee		
Name of Director	Regular meeting	meetings of independent non-executive Directors*	Other meetings	Nomination	Remuneration	Audit
Chairman and Non-executive Director						
NING Gaoning	4/4	N/A	2/7	1/1	N/A	N/A
Executive Directors						
YU Xubo	3/4	N/A	4/7	N/A	N/A	N/A
LU Jun	2/4	N/A	5/7	N/A	N/A	N/A
YUE Guojun	3/4	N/A	4/7	N/A	N/A	N/A
Non-executive Directors						
CHI Jingtao	3/4	N/A	4/7	1/1	1/1	2/4
MA Wangjun	4/4	N/A	4/7	N/A	0/1	2/4
Independent Non-executive Directors						
LAM Wai Hon, Ambrose	4/4	5/5	7/7	1/1	1/1	4/4
Victor YANG	4/4	5/5	7/7	1/1	1/1	4/4
Patrick Vincent VIZZONE	4/4	5/5	6/7	1/1	1/1	4/4

* *Meetings according to Article 131A of the Articles of Association of the Company held by INEDs to decide matter relating to the connected transactions between the Company and/or any of its subsidiaries, on the one part, and COFCO Group (other than the Company), on the other.*

Auditors' Remuneration

During the reporting period under review, the remuneration paid or payable to Ernst & Young in respect of its audit services and its non-audit services for the year ended 31 December 2008 was approximately HK$5,150,000 and HK$2,740,000 respectively.

Accountability and Audit

The Directors acknowledge their responsibilities for preparing all information and representations contained in the financial statements of the Company for the year under review. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting principles in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board, and the management with appropriate enquires, were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The Company's operating results for the year ended 31 December 2008 were reviewed by the management during the annual management meeting. General Managers of all business units and functional departments of the Company attended the meeting, and the Managing Director presented the Company's overall and divisional operating results during the meeting. Variations from the budget and from the previous year's results were reviewed and analysed. In this review process, the management identified the effects of the key risk factors that affected the Company's businesses during the reporting period and consolidated them with their expectations of the business performance they accumulated during their daily management of the businesses to form a basis for comparison and verification of the details of the reported operating results for the year.

Based on the results of the above management review and the business risks identification, an overall business strategy of the Company for the coming year was also developed during this annual management meeting. To ensure the achievement of the goals and objectives set for the coming year, this overall business strategy also includes plan for continuing risks assessment and the development of the necessary internal control procedures.

The Company has announced its annual results for the financial year ended 31 December 2008 on 14 April 2009. A statement by the external auditors on its reporting responsibility is included in this annual report.

Internal Audit

The Company's Audit Department is led by the Head of Audit Department and includes over 30 other professional staff. The Head of Audit Department reports directly to the Audit Committee, and the Managing Director and attends all Audit Committee meetings.

The Audit Department's primary responsibilities include:

- Assist the Audit Committee in its review of the Company's overall system of internal controls;
- Perform reviews of the design and the proper implementation of policies, procedures and controls of all major business units and functional departments;
- Perform reviews of the compliance status of rules and regulations that are relevant to the Company's businesses;
- Perform efficiency and compliance reviews of major investment and construction projects; and
- Perform special reviews of areas of concern identified by the Audit Committee or the management.

An annual internal audit plan is prepared by the Audit Department based on a risk-based auditing approach. The approach focuses on the internal controls of material transactions, business units and functional departments. The annual internal audit plan is reviewed and approved by the Audit Committee at the beginning of each year.

Internal Control

The Board acknowledges that a properly designed internal control system is one of the key elements to monitor and safeguard the resources of the Group, to produce reliable financial reports for the stakeholders of the Company, and to enhance better corporate governance and compliance in order to reduce the possibility of significant errors and irregularities by timely detection.

The COSO (Committee of Sponsoring Organisation of the Treadway Commission) framework has been adopted by the Company in developing its internal control system. The major elements of the governance framework include a stable control environment that supports sustainable growth, a comprehensive risk management system, a system of effective control activities, an efficient information and communications system, and a management monitoring process. The Board empowered the management with the responsibilities and the necessary authorities to develop and implement an effective system of internal controls.

Business objectives set by the Board were fully discussed among the management team during the annual management meeting. Risks associated with achieving or not achieving these objectives were identified and assessed during these management discussions. Based on the results of these discussions, the management developed detailed business strategies for the year. These strategies include the plan for the development and the implementation of the necessary control activities and management monitoring process. Periodic review on the effectiveness of these business strategies are performed by the management to ensure the necessary adjustments are made to accommodate the changes in the internal and external environment. The Company's risk management committee, which reports directly to the managing director, is responsible for overseeing the Company's overall risk management practice and the related policies setting process. Please refer to the Risk Management section on page 60 of this annual report for further details.

Internal Control Review

The Board assesses the effectiveness of the overall system of internal control by considering reviews performed by the Audit Committee, as well as reviews by both internal and external auditors with the understanding that such system is an ongoing process to identify, evaluate and manage significant risks faced by the Group. The internal control system of the Group has been in place and was functioning effectively for the year under review, and the process is regularly reviewed.

Whistle-Blowing Policy

A whistle-blowing policy was set up and incorporated in the Board Code by the Company in 2008 to ensure inappropriate business practices and behaviors are properly reported and handled. The policy includes the establishment of an electronic reporting mailbox. The Audit Committee and the Managing Director have full and direct access to this mailbox. Follow-up review will be performed by the Audit Department upon the request of the Audit Committee or the Managing Director. Procedures and controls are in place to ensure the informant's identity is kept confidential.

Investor Relations

The Company believes effective communications and sound relationships with its existing and potential investors are essential for creating sustainable shareholder value. To this end, we are striving to enhance corporate transparency and facilitate communications with the investment community in a timely manner through proactive, open and ongoing dialogues.

We provide a number of platforms, such as webcast, conference calls, and face-to-face meetings, to facilitate communications and exchange between the Company and investors from different geographic regions. We also participate in investor conferences organized by securities houses, luncheons and non-deal investor roadshows on a regular basis.

We understand the importance of keeping the investment community fully informed of the Company's latest strategies and business developments. Therefore, we revamped our website in February 2008 in order to provide more relevant and detailed information to the public.

The proactive communication approach has ensured the Company's overall performance was widely recognized by different professional bodies in 2008. In May, the Company was named in "**Recognition Awards 2008 – The Best of Asia (China)**" by one of the region's most authoritative journals on corporate governance, *Corporate Governance Asia*. China Agri was the only newly-listed company in 2007 to have been included on the list. In November, China Agri won the title of "**Top 1,000 Chinese Enterprises in the Globe – Best Results Enterprise Award**" from *Yazhou Zhoukan*, a respected international Chinese-language magazine on current affairs. In addition, we were voted as "**One of the Best Companies in China**", in terms of corporate governance in *The Asset Magazine*'s annual "**Triple A Corporate Governance Awards 2008**".

The recognitions reflect the Company's commitment to maintain high standards of ethics, corporate governance, and effective accountability mechanisms in every aspect of business operations. We are committed to safeguarding shareholder value, instilling investor confidence and upholding sustainable development of businesses.

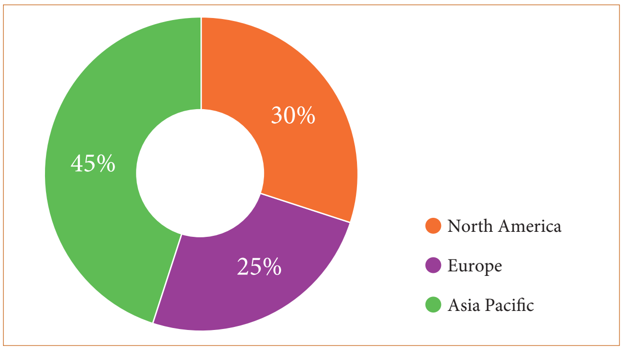
As part of our ongoing efforts to enhance communication with stakeholders through investor relations activities, the Company intends to organize corporate days for investors, analysts and the financial media in the first half of 2009.

We listen to the market and value the feedback we receive from investment professionals. That is why we have taken steps to maintain dialogue with the investment community and the public. Our business performance is covered by a host of investment firms. In 2008, five analysts at BNP Paribas, Morgan Stanley, HSBC, Nomura and Tanrich initiated coverage on China Agri, bringing the total number of analysts covering the Company to 11. For a complete list of the analysts, please visit our website at www.chinaagri.com.

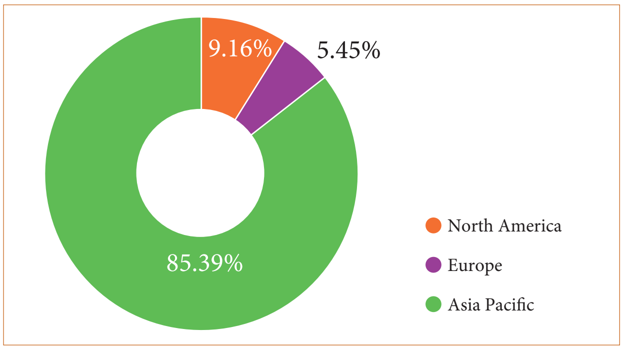
We review the Company's ownership structure on a regular basis to identify the mix of institutional and retail shareholders.

The geographical distribution of our top 20 investors is shown below:

By number of investors



By number of shares



Risk Management

Our philosophy

We believe that risk management is the key to the survival and long-term success of an organisation. This is specially true in an ever changing economy like the one we are facing now. We also believe that risk management is the responsibility of all management personnel at all level of the organisation. Risk management is an integral and inseparable part of the duty of management's daily businesses.

Our objectives

The objectives of our risk management system are: to control the risks which may hamper the achievement of our strategic and operational goals within a level acceptable to our management through reasonable, standardised and scientific risk management and monitoring processes; to ensure compliance with the relevant laws and regulations of the state and of the relevant authorities; to ensure the proper implementation of key measures in achieving our strategic goals; and to enhance our operation efficiency; and to minimise the uncertainty in achieving our strategic goals.

The Company formulates specific working targets of risk management in stages according to the actual operating environment and conditions. Such targets are determined and implemented by our risk management committee (the "Risk Management Committee") which reports directly to the Managing Director.

The establishment of our risk management system

In June 2008, the Company engaged a professional risk management consultance, Protiviti Shanghai Co. Ltd. ("Protiviti"), to act as our risk management advisor for the risk management system establishment project. With the assistance of Protiviti, our audit department established a risk management system of the Company based on the COSO framework, and formulated the "Basic Standards of Risk Management of China Agri-Industries Holdings Limited" (the "Standards") in 2008. The Standards mainly include the following key aspects:

- definition, principles and objectives of our risk management;
- organisational structure of risk management and the basic duties of each component;
- standardised risk management procedures;
- proposed list of persons responsible for major risks area ("Process Owners") and their designation procedures;
- explanations on the method of implementing risk control strategies;
- mechanism and procedures for daily reporting and early warning;
- the plan for incorporating risk management objectives into Process Owner's efficiency appraisals.

The following stages of the establishment of our risk management system were completed during 2008:

First stage: Information collection and preliminary training

- Information collection: Before the establishment of our risk management system, information was collected from both internal and external sources, they included relevant documents regarding rules, policies and procedures, strategic and financial information of the Company (internal), and data regarding the relevant industries and available information about our competitors (external).
- Preliminary training: We set up a risk management system establishment team, organised an initial training and kick-off meeting for the risk management system establishment project. During the meeting, we specifically explained to our senior management the reason and meaning of embarking on the risk management project as well as our action plan within 2008. An explanation on the basic knowledge of comprehensive risk management was also given at the meeting.

Second stage: Research and study

- Interviewing the management: In order to collect the management's opinion on the current status of our risk management and on the establishment of the system, the team interviewed our Managing Director, general managers of each business unit and each functional department. The interviews seek to understand the management's views and concerns on risks and the current status of our risk management in respect of six areas, namely operating strategies, procedures, personnel and organisational structure, methodology, management reporting, and system and data. Fourteen management interviews were performed, information including the management's understanding of the risks that the Company are currently facing, and the current status of risk management in the operations under their supervision are recorded in details. Such interview records formed the important foundation for the identification of risks the Company is currently facing, and embodied valuable suggestion for the establishment and future growth of our risk management system.

- Site study of major profit centers: On-site studies were conducted at the major profit centers of each of the five business units of the Company to further understand the risk management situation at the profit center level and the risks of various operations. The method of the review included interviews management and walk-through tests. Interviews were conducted to understand risks that are specific to certain operations, the major risks they were facing and the current status of risk management. Walk-through tests were conducted on typical operating procedures such as sales, purchase and financial issues to understand the design and actual implementation of the procedures and the risks involved. More than 80 interviews were performed at the profit center level. Such records provided the basic information for identifying the risks faced by the industry and the Company, and the current status of risk management.

Third stage: Risk assessment and handling

- Categorisation of risks: Through consolidating the information of the above research and studies, the risks faced by the Company were categorised, and such risks were consolidated and a preliminary risk model of the Company was formed, underlying which was a risk database with 34 types of risks. On such foundation and based on the results of the above analysis and the industry analysis, 27 risks were selected for further evaluation.

- Inherent risks evaluation: A risk assessment meeting was convened with the participation of the Managing Director, general managers of all business units and functional departments. During the meeting, inherent risks evaluation was conducted in respect of the probability of risks occurrence and their impacts, risks identified are prioritised according to the likelihood of occurrence and the impact to the organisation on occurrence to form a risk heat diagram. The nominations of the Process Owner for each major risk were also confirmed at the meeting.

- Matching key risks with control activities: A risk and control matrix was designed to match all risks to their corresponding operating processes and control activities, enabling the assessment of whether the current process and control activities can maintain the risks within an acceptable level.

Fourth stage: Establishment of risk management system

- The Standards was formulated.

- Protiviti, our risk management adviser, issued a report on the assessment of the current status of our risk management establishment. The report evaluated the risk management capabilities of the Company and planned our future risk management system under six areas, namely the operating strategies, procedures, personnel and organisation, management report, methodology, and system and data.

Our development approaches and missions for 2009

Since the beginning of 2009, our management has been, and will continue to be, committed to advance the implementation of a comprehensive risk management system, and requires each of the five major business units and each functional department of the Company to comply with the Standards. The Risk Management Committee, will oversee the overall execution and improvement of our risk management. Our managing director, through acting as the chairman of the Risk Management Committee, directly supervises and participates in the implementation of the system. Each Process Owner undertakes the daily supervision and management responsibilities of major risks area and prepares the quarterly risk report. Such reports will be consolidated and submitted to the Risk Management Committee for their review. Meanwhile, our audit department will further develop the risk management system based on the foundation built up in 2008 and evaluated the effectiveness of the system. The major tasks include:

- Establishment of key risk indicator system.

- Matching and refining the control of key risks, and evaluating residual risks on such basis.

- Provide risks management training to management personnel at all level of the Company.

Corporate Social Responsibility

Protect our environment

There is only one earth. In face of today's intensifying global environment issues, we have the responsibilities and obligations to care about, protect and build our homeland together. Protecting our environment and saving resources are our primary social responsibilities. We strictly observe laws and regulations, actively protect the environment, strive to build an environmental-friendly enterprise and facilitate the harmonious development between human and nature.

We put emphasis on energy conservation and emission reduction in all aspects of our processing, production and logistic processes. Through increasing funding on environmental protection, we have introduced clean production technology which improved our production workflow and management, minimised the impact of our production towards the environment, raised the efficiency in use of resources and protected the ecological environment. We took advantage of the renewable bio-energy to produce fuel ethanol, which has significant implications in building a sustainable and clean energy system and facilitating environmental protection.

We have formulated comprehensive environmental protection policies and programs and incorporate them into our environmental management system. We actively implemented the ISO14001 environmental management system and continued to improve our environmental management performance. We took the construction of the safety performance evaluation system as an opportunity to implement integrated management of environmental protection and safe production.

We strictly implement the "Three Simultaneous" environmental protection system in undertaking construction projects: i) impacts on the environment are assessed before the construction commence; ii) effective environmental protection monitoring system are established during operations; and iii) real-time monitoring of pollutants emission. Energy consumption and emission indicators are some of the key performance indicators ("KPIs") for the Company. These KPIs include comprehensive energy consumption for every RMB10,000 of production value, COD (Chemical Oxygen Demand) and SO2 (Sulfur Dioxide) emission level etc. The targets and responsibilities of energy conservation and consumption reduction are undertaken to the specific production lines, units and individuals so as to ensure our people observe the environmental management in the entire operating process.

Through untiring efforts, one of the our subsidiaries, COFCO Bio-Energy (Zhaodong) Co., Ltd., also being one of the "1,000 energy conservation enterprises" in the People's Republic of China (the "PRC" or the "State"), has outperformed the energy conservation target set by the National Development and Reform Commission through upgrading of their energy conservation technology and quality management in 2008. Two other subsidiaries, COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd. and COFCO Bio-Chemical Energy (Yushu) Co., Ltd. have also upgraded their energy conservation technology which was approved by the National Development and Reform Commission and Ministry of Finance. Together, these three enterprises can save up to approximately 62,000 tonnes of standard coal every year.

Development through production safety

Production safety is the primary responsibility of an enterprise. It is a component of the enterprise's core competitiveness and a prerequisite for its healthy development. It is also a key element to our health, life and property security, as well as social harmony. Our goal in production safety is to achieve "zero injury, zero loss and zero accident". We have always focused on the prevention and control of production incident and occupational disease through continuous identification, prevention, control and elimination of the related risk factors. This process helps us in lowering and maintaining the risks of staff injury and property losses to acceptable levels so as to ensure production safety.

Corporate Social Responsibility

Having taken management accountability into consideration, we have established a comprehensive management structure, policies and procedures for production safety. We have also established an "all-encompassing" production safety responsibility structure. Process owners at all level are required to provide their superior with a signed letter of responsibilities which listed out all of the individual's responsibilities in respect of production safety. Such responsibilities also form part of the individual's core targets in his/her performance appraisal. We encourage our subsidiaries to adopt advanced safety management method, to establish occupational health and safety management system, to qualify for the OHSMS 18001 system certification and to receive internal and third party annual review. In addition, we have also established a contingency management system and formulated a well-coordinated and quick responding contingency mechanism.

To enhance the overall standard of our production safety management, in 2008, we began to establish and implement a production safety performance evaluation system for the Company based on the structure of the International Safety Rating System. Through this system, we are aiming at building a long-term risk based production safety management system that will be participated by all staff and covering all operating processes.

Ensuring food safety

Ensuring food safety and protecting the physical health and safety of the public are the primary obligations of an agricultural product processing company. It is an important component of the Company's core value and our social responsibility. Our mission is to offer natural, nutritious and healthy raw materials and food. We have been managing food safety seriously, preventing the production of hazardous products, fulfilling our commitment of honesty and morality and protecting the interest of consumers.

We have established a complete organisation structure for food safety where targets and responsibilities at all level are clearly set out. Through formulating the necessary policies and procedures and standardised management, we were able to minimise the risks retaining to food safety from the very source, strengthen our food safety contingency system, enhance contingency handling capability and achieve risk control on food safety in all aspect of the production process.

We insist on taking care of food safety from the very source, implementing whole production chain and whole process control and have established systems for product tagging and quality tracing. We have established comprehensive quality management systems in purchasing, manufacturing, processing, packaging, storage, sales, logistics, etc. We strictly observed requirements of the ISO9001 international quality management system and HACCP food safety management system and established the whole process food safety monitoring and management system. Currently, 27 subsidiaries of the Company have qualified for ISO9001 certification, 23 subsidiaries have qualified for QS certification and HACCP certification, 3 subsidiaries have qualified for ISO22000 certification and COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. has also been awarded the AIB accreditation in the United States.

The Company has maintained an excellent food safety record and will continue to do so in the future.

Promoting the establishment of new villages

Our business characteristics (including primary and advance processing of agricultural products, domestic and international trading) and our leading position in agriculture industrial, constitute our unique advantages in linking the industrial and agricultural businesses in the urban and rural areas and extending them to the international market. Therefore, we are well positioned to make our contributions towards the establishment of new villages which can be translated into the promotion of internationalised agriculture in China, the coordination between developments in urban, and rural areas in different regions, and the opening up of the country.

We have established more than 40 food processing enterprises in 16 provinces across the country, and engaged in the areas of wheat, rice, corn, oils and barley processing. Through the extension to the upper stream of our value chain, we have organized small and separated farmers, achieved regional distribution of raw materials, specialized agricultural production and reached appropriate level of economy of scale, and achieved the bridging of "thousands of small farmers" operating on their own with the "ever changing big market". We have realised steady supply and quality control of raw materials from the right source, reduced unplanned agriculture production, and formed the necessary material foundation for the establishment of new villages.

Our agricultural product processing enterprises throughout the country have provided ample employment opportunities for the local population, especially rural residents. We also promoted the industrialisation of villages and the steady transfer of a large quantity of surplus rural labor force, thus indirectly promoted the establishment of small towns in rural areas, and contributed for a coordinated urban and rural development.

Actively participating in community work

As a leading bulk agricultural product processing enterprise in the PRC, we understand that harmony and development of the society are the basic criteria and foundation for the Company's growth. We actively participate in community work such as charities and donations. We also care and support public welfare work including education, cultural and medical care so as to contribute to the establishment of a harmonious society.

When the country suffers from major natural disasters, we actively provide financial, materials and manpower support to the needed.

At the beginning of 2008, rain and snowstorm disasters hit certain provinces in the south. Guangxi COFCO Bio-Energy Co., Ltd. of our Biofuel and Biochemical Division has purchased RMB7 million worth of quality tapioca seedlings from overseas and delivered them to local farmers for free to solve the immediate production needs of the farmers; while Jiangxi Rice of our Rice Trading and Processing Division donated 240 tonnes of parboiled rice to the affected area in Hunan. After the Wenchuan earthquake on 12 May 2008, the Company and its subsidiaries donated over RMB10 million of cash and materials through different channels under the names of the employees and their operating units. We also eagerly supported the blood donation activities in provinces where our subsidiaries are located to provide the basic necessities of the people in the disaster areas and support for reconstruction.

We encourage our staff to join volunteering work in serving the society and living out the "devotion, love, mutual assistance and progressing" spirit.

During the Beijing Olympics, we were chosen to provide voluntary service for the Olympic Games as voluntary shuttle drivers at the Olympic Park Station. Upon successfully completing the mission of serving the Olympics, we were awarded the title of gold medal voluntary drivers as an honor to the Company.

We care about and support education and provide material help and love to the children in need.

The Company actively participated in the charitable donations and subsidizing activities organized by the PRC Government, aiming to help the poor children to go back to school and solve their other problems in life. COFCO Bio-Energy (Zhaodong) Co., Ltd. of our Biofuel and Biochemical Division actively organized "Spring Bud Bridge" activity by which dozens of poor students are subsidized on a 1 on 1 basis to finish their education in high schools and universities and the children in the "Sunshine Orphanage" receive basic necessities such as rice, noodle and oil on a monthly basis. Female staff of COFCO Flour Industry (Qinhuangdao) Pangthai Co., Ltd. of the wheat processing department participated in the "Loving Activities of Loving Mothers" and signed an agreement of union and assistance with children receiving the donation so as to provide the necessary material and spiritual assistance to these children to improve their learning and living conditions.

Directors and Senior Management Profile

(from left to right)

Chairman and Non-executive Director

Mr. NING Gaoning, aged 50, was appointed as a non-executive Director and the chairman of the Company in January 2007. Since December 2004, Mr. Ning has been the chairman of COFCO Limited and its subsidiaries (other than the Company and China Foods Limited ("China Foods")) (collectively referred to as "COFCO Group") and since January 2005, the chairman of the board of directors of COFCO (Hong Kong) Limited ("COFCO (HK)") and China Foods, a publicly listed company in Hong Kong. Mr. Ning is also a director of Wide Smart Holdings Limited ("Wide Smart") and a chairman of COFCO (Hong Kong) Limited ("COFCO HK"). Both Wide Smart and COFCO HK are substantial Shareholders of the Company.

Mr. Ning holds a Bachelor's degree in Economics from Shandong University in China and a Master of Business Administration degree from the University of Pittsburgh in the United States.

Before joining COFCO, Mr. Ning held various positions such as vice-chairman, director and general manager of the China Resources (Holdings) Company Limited and its subsidiaries. He also acted as general manager of the China Resources National Corporation from June 1999 to December 2004. Mr. Ning previously held directorships in various Hong Kong-listed companies, including China Resources Enterprise Limited, China Resources Logic Limited, China Resources Land Limited, China Resources Power Holdings Company Limited, as well as in a number of private and state-owned companies that include China Resources (Holdings) Company Limited, Tate's Cairn Tunnel Investment Holdings Company Limited, Tate's Cairn Tunnel Company Limited, Hutchison Ports Yantian Investments Limited, China Resources National Corporation and China Resources Co., Limited. Currently, he is also a non-executive director of Lippo China Resources Limited (a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")), a director of BOC International Holdings Limited., and an independent director of Huayuan Property Co., Limited (a company listed on the Shanghai Stock Exchange).

Executive Directors

Mr. YU Xubo, aged 43, was appointed as an executive Director and the managing director of the Company in January 2007. Mr. Yu joined COFCO Group in 1988, and he has been the president of COFCO Group since April 2007. He has held various other positions in the COFCO Group including general manager of COFCO Futures Co., Ltd. (中糧期貨經紀有限公司) and vice president of COFCO Group. He was also executive director of COFCO International Co., Limited (currently China Foods) from January 2006 to March 2007. Mr. Yu is also a director of Wide Smart, COFCO (BVI) No. 108 Limited and COFCO HK, all of which are substantial Shareholders of the Company.

Mr. Yu holds a Bachelor's degree in Economics from the University of International Business and Economics in Beijing and an Executive Master of Business Administration degree from China Europe International Business School in Shanghai.

Mr. LU Jun, aged 41, was appointed as executive Director and vice-president of the Company in January 2007. Mr. Lu is also the general manager of the oilseed processing division of the Company. Mr. Lu joined COFCO Group in 1993. He has been the assistant president of COFCO Group since March 2003. He has been acting as general manager of COFCO Futures Co., Ltd. (中糧期貨經紀有限公司), taking charge of the Group's oilseeds-related futures business. Mr. Lu is currently the chairman of COFCO ADM Oils & Grains Industries (Heze) Co., Ltd. (中糧艾地盟糧油工業(菏澤)有限公司) and a director of East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. (中糧東海糧油工業(張家港)有限公司), Yellowsea Oils & Grains Industries (Shandong) Co., Ltd. (中糧黃海糧油工業(山東)有限公司), COFCO Eastbay Oils and Grains Industries (Guang Zhou) Co., Ltd. (中糧東洲糧油工業(廣州)有限公司), all of which are non-wholly owned subsidiaries of the Company and COFCO Xiangrui Oils and Grains Industries (Jinmen) Co., Ltd. (中糧祥瑞糧油工業(荊門)有限公司), which is a wholly owned subsidiary of the Company.

Mr. Lu holds a Bachelor's degree and a Master's degree in Engineering from China Agricultural University in Beijing.

Mr. YUE Guojun, aged 46, was appointed as executive Director and the vice-president of the Company in January 2007. Mr. Yue is also the general manager of the Company's biofuel and biochemical division. Mr. Yue joined COFCO Group in November 2005. He has been the assistant president of COFCO Group since February 2007. He has also acted as a director and the chairman of the board of Anhui BBCA Biochemical Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since November 2007. He was elected as one of the deputies of the 11th National People's Congress of the People's Republic of China in February 2008.

Mr. Yue holds a Bachelor's degree from Chemical Engineering Department of Jilin Institute of Chemical Technology and a Master's degree from Environmental Engineering from Harbin Institute of Technology in Harbin. He has over 20 years of experience in the production and sales of chemical products.

(from left to right)

Non-executive Directors

Mr. CHI Jingtao, aged 46, was appointed as a non-executive Director of the Company in January 2007. Mr. Chi joined COFCO Group in August 2003. He has been COFCO Group's head of human resources since October 2004. From June 1993 until March 2003, Mr. Chi held various positions in China Minmetals Corporation (中國五礦集團公司) (formerly known as China National Metals & Minerals Import & Export Corporation (中國五金礦產進出口總公司)), including his position as general manager of human resources.

Mr. Chi holds a Bachelor's degree in Engineering from the Academy of Armored Forces Engineering in Beijing and an Executive Master of Business Administration degree from the University of International Business and Economics in Beijing.

Mr. MA Wangjun, aged 44, was appointed as a non-executive Director of the Company in January 2007. Mr. Ma joined COFCO Group in August 1988. He has been the head of the finance department of COFCO Group since December 2005. He previously held other positions in COFCO Group, including those of deputy head of the finance department, general manager of asset management and deputy general manager of finance and planning. He was a director of Xinjiang Tunhe Investment Co., Ltd. (a company listed on the Shanghai Stock Exchange) from July 2005 to January 2007. He is also a director of East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. (東海糧油工業(張家港)有限公司) and Shandong COFCO Lude Foods Co., Ltd. (山東中糧魯德食品有限公司), both are non-wholly owned subsidiaries of the Company.

Mr. Ma holds a Bachelor's degree in Economics from the Beijing Technology and Business University, and a degree in Executive Master of Business Administration from the Cheung Kong Graduate School of Business.

Independent Non-executive Directors

Mr. LAM Wai Hon, Ambrose, aged 55, was appointed as an independent non-executive Director of the Company in January 2007. Mr. Lam is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts (Honours) degree from University of Newcastle Upon Tyne in England. Mr. Lam is a Director and a co-founder of Access Capital Limited. He has over two decades of experience in corporate finance and advisory transactions in investment banking institutions.

Prior to co-founding Access Capital Limited in 2000, Mr. Lam was the managing director and head of Global Investment Banking for Greater China of Deutsche Bank AG (Hong Kong). He was also the managing director and head of Greater China Investment Banking of the Bankers Trust Company, and the managing director of Yuanta Securities (Hong Kong) Company Limited. Mr. Lam started his investment banking career with Kleinwort Benson Group (in London and Hong Kong) before joining Standard Chartered Asia Limited in Hong Kong where he held the position of managing director in corporate finance. Mr. Lam is also a director of Hong Kong Professional Consultants Association Limited and an independent non-executive director of Shenzhen Expressway Company Limited (a listed company).

Mr. Victor YANG, aged 63, was appointed as an independent non-executive Director of the Company in January 2007. Mr. Yang holds a Bachelor of Laws and a Bachelor of Commerce degree from the University of British Columbia, Canada. He is a founding partner of Boughton Peterson Yang Anderson, a Canadian based law firm, and is presently the managing partner of Boughton Peterson Yang Anderson in Hong Kong. He is a solicitor of the Supreme Court of Hong Kong, a barrister and solicitor in British Columbia, Canada and a solicitor in England and Wales.

Mr. Yang is presently a governor of the Canadian Chamber of Commerce in Hong Kong and a member of the Major Sports Committee of the Home Affairs Bureau, Hong Kong. He is an independent non-executive director of Media Chinese International Limited, Playmates Toys Limited and Singamas Container Holdings Limited, all of which are companies, shares of which are listed on the Stock Exchange. He is also a non-executive director of Lei Shing Hong Limited, shares of which were listed on the Stock Exchange up to 17 March 2008 before their withdrawal on that date. Mr. Yang was also a director of Eupa International Corporation, shares of which were listed on the NASDAQ (Over-the-Counter Bulletin Board).

Mr. Patrick Vincent VIZZONE, aged 37, was appointed as an independent non-executive Director of the Company in June 2007. Mr. Vizzone holds a Bachelor's degree in history and political science from Monash University, Australia and a Master of Business Administration degree in finance from Manchester Business School, the United Kingdom.

Presently, Mr. Vizzone is a vice president of GE Capital in Hong Kong. Prior to joining GE Capital, Mr. Vizzone was regional head of Food & Agribusiness of Rabobank International Asia and assistant general manager of Rabobank International Hong Kong Branch. Mr. Vizzone has over a decade of experience working in China's agribusiness arena. Commencing with Shanghai Asia-Pac International Vegetable Co., where he was a founding director and deputy general manager and as a cofounder of China Green Concepts, and has over 15 years experience working in the food and agribusiness arena.

Directors and Senior Management Profile

(from left to right)

Senior Management

Mr. YU Xubo, the managing director of the Company, see the profile of "Executive Directors" on page 66.

Mr. LU Jun, the executive director and vice president of the Company, see the profile of "Executive Directors" on page 66.

Mr. YUE Guojun, the executive director and vice president of the Company, see the profile of "Executive Directors" on page 66.

Ms. YANG Hong, aged 45, is the vice president of the Company and the general manager of the rice division of the Company. Ms. Yang joined COFCO Group in August 1989 and was appointed as the general manager of the rice division of COFCO Group in July 2000, prior to which she held various positions in COFCO Group, including department manager and deputy division chief. Ms. Yang was appointed as the vice-chairman of COFCO Jiangxi Rice Processing Limited (中糧江西米業有限公司), a non-wholly owned subsidiary of the Company, in August 2001 and was promoted as the chairman of the same company in November 2006. Ms. Yang holds a Bachelor's degree in economics from the University of International Business and Economics in Beijing and a degree in Executive Master of Business Administration from China Europe International Business School.

Mr. JIANG Guojin, aged 41, is the vice president of the Company and the general manager of the brewing materials division of the Company. Mr. Jiang joined COFCO Group in August 1989, and was appointed as the general manager of the brewing materials division of COFCO Group in July 2000, prior to which he was the general manager of COFCO Malt (Dalian) Co., Ltd. (中糧麥芽(大連)有限公司). Mr. Jiang was also the chairman of COFCO Malt (Dalian) Co. Ltd. (中糧麥芽(大連)有限公司) and COFCO Malt (Jiangyin) Co., Ltd.(中糧麥芽(江陰)有限公司). Mr. Jiang holds a Bachelor's degree in Engineering from the Beijing College of Light Industry and a degree in Executive Master of Business Administration from China Europe International Business School.

Mr. LI Wai Kwan, Andy, aged 37, is vice president of the Company. Mr. Li joined the Company in October 2006. He has held positions in government and statutory bodies, as well as multinational conglomerates and Fortune 500 companies. Mr. Li graduated with distinction in commerce from the University of Toronto and holds a Master of Business Administration degree from the Schulich School of Business, York University. He is a chartered/certified member of each of the CFA Institute, ICAEW, HKICPA, ICMA, CGA-Canada and ACCA. Mr. Li is currently the chair of investor relations committee and a general committee member of the Chamber of Hong Kong Listed Companies, as well as the honorary agricultural advisor to the Monte Jade Science and Technology Association. Mr. Li is a qualified member of the HKIOD, HKMC, HKMA, HKGCC and YAA. In the area of public and academic services, Mr. Li is a guest speaker at a number of universities in Hong Kong.

Mr. WANG Zhen, aged 48, is vice president of the Company and the general manager of the wheat processing division of the Company. Mr. Wang joined COFCO Group in December 1986 and was the deputy general manager of the fruits, vegetables and aquatic products division of COFCO Group. He is also the chairman of Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd. (瀋陽東大糧油食品實業有限公司), Shenyang Xiangxue Flour Limited Liability Company (瀋陽香雪麵粉股份有限公司), Puyang COFCO Flour Industry Co. Ltd. (濮陽中糧麵業有限公司) and Shandong COFCO Lude Foods Co., Ltd. (山東中糧魯德食品有限公司), all of which are non-wholly owned subsidiaries of the Company. Mr. Wang holds an associate degree in Japanese literature from the Luoyang University of Foreign Languages.

(from left to right)

Senior Management

Mr. LEUNG Wai Fung, Joseph, aged 38, is the head of audit department of the Company. Mr. Leung has extensive corporate governance and auditing experience. Before joining the Company in 2007, Mr. Leung headed the internal audit department of USI Holdings Limited, a company listed on the Stock Exchange. Mr. Leung started his professional career with PricewaterhouseCoopers and specialised in financial and Sarbane-Oxley compliance audit of China state-owned enterprise and multinational companies. Mr. Leung holds a Bachelor's degree of Commerce from the Concordia University, majoring in Accountancy. He is a member of each of the Hong Kong Institute of Certified Public Accountants, American Institute of Certified Public Accountants, Washington State Board of Accountants and Association of Certified Fraud Examiners.

Ms. NIU Yanxia, aged 43, is the general manager of the general administration department of the Company. Ms. Niu joined the COFCO Group in 1999 and served as assistant to general manager of the general administration office of COFCO Top Glory International (Beijing) Ltd. (中糧鵬利國際(北京)有限公司), assistant to general manager of the state-owned assets administration division under the finance department of the COFCO Group, deputy director of the general administration office of COFCO Grain & Oil Imp. & Exp. Co. (中糧糧油進出口公司), deputy general manager of the secretarial department and the public relations department under the COFCO Group's office. Ms. Niu holds a Bachelor's degree in economics from Jilin Institute of Finance and Trade.

Ms. LIU Yong, aged 36, is the general manager of legal department of the Company. Ms. Liu joined the COFCO Group in 1995. She was then the deputy general manager of the contract and company law division under the legal affairs department of the COFCO Group. Ms. Liu holds a LLB degree from the University of International Business and Economics in Beijing and a LLM degree from Northwestern University, School of Law, of the United States. She possesses bar qualifications in China and the New York State of the United States.

Mr. SHI Bo, aged 42, is the general manager of the finance division of the Company. Mr. Shi joined the COFCO Group in 2005 and was the deputy general manager of the biofuel and biochemical division of COFCO. Prior to this, Mr. Shi was the financial controller of CR Alcohol. He has also held various positions in Shougang Group, including assistant general manager of group finance, and director and general manager of finance and planning of Shougang Hierro Peru SA. Mr. Shi holds a Bachelor's degree in Accounting from the Anhui University of Finance & Economics. He is a member of The Chinese Institute of Certified Public Accountants.

Mr. GAO Xiang, aged 37, is the general manager of the human resources department of the Company. Mr. Gao joined the COFCO Group in 1993. He had held various positions with China National Native Produce & Animal By-products Import & Export Corporation (中國土畜產進出口總公司) and the COFCO Group, including department manager and training division deputy head. Mr. Gao holds a Bachelor's degree in economics and a Doctoral degree in corporate management from the Renmin University of China.

Mr. HU Changping, aged 38, is the general manager of the audit department of the Company. Mr. Hu joined COFCO Group in 1992. He was the deputy general manager of Beijing Coca-Cola Beverage Company Limited (北京可口可樂飲料有限公司) and previously held other positions in COFCO Group, including manager of the finance department of COFCO Trade Development Company (中糧貿易發展有限公司), deputy general manager of finance and planning of COFCO Group, deputy financial controller of COFCO International and chief financial officer of COFCO Coca-Cola Beverages Limited (中糧可口可樂飲料有限公司). Mr. Hu holds a Bachelor's degree in economics from Zhongnan University of Finance and Economics.

Mr. WANG Pingye, aged 44, is a deputy general manager of the strategic development department of the Company. Mr. Wang joined the COFCO Group in 2006 and was a general manager of the strategic development department of bio-chemical energy division of the Company. Prior to joining the COFCO Group, he was the deputy general manager of the law division of China Resources National Corporation, and the lawyer and partner of Beijing Tianyuan Law Firm during which he has participated in a series of large acquisition projects and public listed company projects. Mr. Wang holds a LLB degree and a LLM degree from the University of International Business and Economics in Beijing.

Report of the Directors

The directors of the Company ("Directors") are pleased to present this annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

Corporate information

The Company was incorporated with limited liability in Hong Kong on 18 November 2006. Pursuant to a shareholders' special resolution passed on 29 December 2006, the name of the Company was changed from Sino Vision Hong Kong Limited to China Agri-Industries Holdings Limited and became effective on 9 January 2007.

The shares of the Company ("Shares") commenced listing on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 March 2007.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates of the Company comprise production, processing and distribution of agricultural products and related businesses. The Group's principal products and businesses are oilseed processing, rice trading and processing, biofuel and biochemical, brewing materials and wheat processing. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 90 to 160.

The Board recommended the payment of final dividend of HK13.6 cents per ordinary share (2007: nil) for the financial year ended 31 December 2008 to the shareholders of the Company whose names appear on the register of members on Tuesday, 9 June 2009.

The recommended final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting for payment on or around Friday, 19 June 2009.

Financial information summary

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, is set out on page 4 of this annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

Share capital

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 29 to the financial statements.

Share option scheme

The Company conditionally adopted a share option scheme on 12 January 2007 which became effective and unconditional upon listing of the Shares on 21 March 2007 (the "Scheme"). The principal terms of the Scheme are as follows:

1. **Purpose of the Scheme**
   To attract, retain and motivate senior management personnel and key employees of the Company, and provide the eligible participants with an opportunity to acquire proprietary interests in the Company and to encourage the eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

2. **Participants in the Scheme**

Participants in the Scheme mean: (i) any executive or non-executive directors of any members of the Group; (ii) any senior executives, key technical staff, professional staff, managers, or employees of any members of the Group; or (iii) any other individuals as may be proposed by the board. For the avoidance of any doubt, participants do not include independent non-executive Directors.

3. **Total number of shares available for issue under the Scheme**

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Scheme and under any other share option schemes of our Company (if any) is in the aggregate equal to 10% of the total number of shares in issue on the date on which dealings in the shares commence on the Stock Exchange (the "Scheme Mandate Limit"), subject to the renewal of the same by prior shareholders' approval, provided always that the Scheme Mandate Limit shall not exceed 10% of the number of shares in issue as at the date of the relevant approval. As at the date of this annual report, if all options which had been granted under the Scheme have been exercised a total of 27,370,000 shares (representing approximately 0.76% of the existing issued share capital of the Company) may be issued by the Company.

4. **Maximum entitlement of each participant under the Scheme**

The total number of Shares issued and to be issued upon exercise of the options granted to any grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue (the "Individual Limit") at the relevant time. Any further grant of options in excess of the Individual Limit shall be subject to shareholders' approval, with such grantee and his associates abstaining from voting.

5. **The period within which the shares must be taken up under an option**

The Directors may in their absolute discretion determine the period during which an option may be exercised and notify the grantee, save that in any event such period of time shall not exceed a period of 7 years, commencing on the date of acceptance of the option and expiring on the last date of such 7 year period, subject to the provisions for early termination thereof contained in the Scheme.

6. **Minimum period for which an option must be held before it can be exercised**

An option must be held for a minimum period of two years, from the date on which it was granted of before it can be exercised. In addition, an option shall be subject to the following vesting schedule ("Vesting Periods"):

Periods	Percentage of an option which may be exercised
Upon and after the second anniversary of the grant but no later than the third anniversary of the grant	33%
Upon and after the third anniversary of the grant but no later than the fourth anniversary of the grant	67%
Upon and after the fourth anniversary of the grant	100%

7. **Time of acceptance and the amount payable on acceptance of the option**
The offer of an option made pursuant to the Scheme may be accepted within 28 days from the date of the offer, and the amount payable on acceptance of the option is HK$1.00.

8. **The basis for determining the exercise price**
The exercise price shall be determined by the Board and shall be the higher of;

(a) the closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of the offer;

(b) the average closing prices of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer; or

(c) the nominal value of a Share.

9. **The remaining life of the Scheme**
The Scheme is valid until 20 March 2017.

10. **Movement of Share options**
Details of the movements in the share options during the year ended 31 December 2008 are as follows:

	Category of participant	Date of grant	Exercise period *(note 1)*	Exercise price *HK$*	Number of share options: At 1 January 2008	Lapsed during the year	Exercised during the year	At 31 December 2008
(A)	Directors							
	Ning Gaoning	7 August 2007	7 August 2009 to 6 August 2014	4.666	700,000	–	–	700,000
	Yu Xubo	7 August 2007	7 August 2009 to 6 August 2014	4.666	700,000	–	–	700,000
	Lu Jun	7 August 2007	7 August 2009 to 6 August 2014	4.666	650,000	–	–	650,000
	Yue Guojun	7 August 2007	7 August 2009 to 6 August 2014	4.666	650,000	–	–	650,000
	Chi Jingtao	7 August 2007	7 August 2009 to 6 August 2014	4.666	600,000	–	–	600,000
	Ma Wangjun	7 August 2007	7 August 2009 to 6 August 2014	4.666	600,000	–	–	600,000
				Subtotal:	**3,900,000**	**–**	**–**	**3,900,000**
(B)	Employees of the Group	7 August 2007	7 August 2009 to 6 August 2014	4.666	23,700,000	(230,000)	–	23,470,000
				Total:	**27,600,000**	**(230,000)**	**–**	**27,370,000**

Notes:

1. *The exercise period for the share options granted to each employee of the Group and Director lasts for 5 years, commencing from the second anniversary of the date of acceptance of the offer by the respective employees and Directors and subject to the Vesting Periods.*

2. *The closing price of the Shares immediately before the date on which the share options disclosed above were granted (that is, 6 August 2007) was HK$4.50. During the year, 230,000 share options lapsed. Save as disclosed above, no share options were granted, exercised, lapsed or cancelled during the year.*

3. *Additional information in relation to the Scheme is set out in note 30 to the financial statements.*

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity on page 93 of this annual report.

Distributable reserves

As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of section 79B of the Companies Ordinance, laws of Hong Kong, amounted to approximately HK$1,445.4 million. In addition, the Company's share premium account in the amount of approximately HK$2,746.3 million may be distributable in the form of fully paid bonus shares.

Major customers and suppliers

The five largest customers of the Group accounted for approximately 15% of the total sales for the year. The five largest suppliers of the Group accounted for approximately 34% of the Group's total purchases for the year, with the largest supplier accounting for approximately 21%.

Apart from the continuing connected transactions with its controlling shareholder, COFCO Limited ("COFCO") and its subsidiaries (other than the Company), and with Archer Daniels Midland Company (a connected person of the Company), as disclosed in the section "Continuing Connected Transactions" below, none of the Directors or any of their associates or any shareholder (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the five largest customers or suppliers of the Group.

Directors

The Directors during the year and up to the date of this report were:

Chairman and Non-executive Director
Ning Gaoning

Executive Directors:
Yu Xubo
Lu Jun
Yue Guojun

Non-executive Directors:
Chi Jingtao
Ma Wangjun

Independent Non-executive Directors:
Lam Wai Hon, Ambrose
Victor Yang
Patrick Vincent Vizzone

In accordance with Article 106 of the articles of association of the Company ("Articles of Association"), Mr. Ning Gaoning, Mr. Lu Jun and Mr. Victor Yang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The non-executive Directors are appointed with a specific term of three years but are subject to retirement by rotation as required by the Articles of Association.

Directors' and senior management's biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 66 to 69 of this 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 terminable by the Company within one year without payment of compensation, other than statutory compensation.

Directors are subject to retirement by rotation at least every three years as required by the Articles of Association.

Directors' interests in contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

Directors' remuneration

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Remuneration Committee pursuant to the Articles of Association with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group.

Management contracts

No contracts for management or administration of the whole or any substantial part of any business of the Company were entered into or existing during the year.

Convertible securities, options, warrants or similar rights

Save as disclosed in the paragraph headed "Share Option Scheme" above, the Company had no other outstanding options, convertible securities, warrants or other similar rights as at 31 December 2008.

Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 2008, the interests and short positions of the Directors in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register to be kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (together, "Discloseable Interests") were as follows:

Interest in underlying shares of the Company

Name of Director	Capacity	Number of share options held in long position	Number of underlying shares held	Approximate percentage of the issued share capital of the Company as at 31 December 2008
Ning Gaoning	Beneficial owner	700,000	700,000	0.02%
Yu Xubo	Beneficial owner	700,000	700,000	0.02%
Lu Jun	Beneficial owner	650,000	650,000	0.02%
Yue Guojun	Beneficial owner	650,000	650,000	0.02%
Chi Jingtao	Beneficial owner	600,000	600,000	0.02%
Ma Wangjun	Beneficial owner	600,000	600,000	0.02%

Interest in shares of the Company

Name of Director	Capacity	Number of shares held in long position	Approximate percentage of the issued share capital of the Company as at 31 December 2008
Patrick Vincent Vizzone	Beneficial owner	80,000	0.00%

Note:

1. *The percentages are calculated based on the total number of shares of the Company in issue as at 31 December 2008, i.e., 3,593,906,356 shares.*

Details of the Directors' interests in share options granted by the Company are set out on page 72 under the heading "Movement of Share Options".

Save as disclosed above, none of the Directors, chief executives or their respective associates have any other Discloseable Interests in the Company.

Interest in underlying shares of associated corporation

Name of Director	Name of associated corporation	Capacity	Number of share options held in long position	Number of underlying shares held	Approximate percentage of the issued share capital of the Company as at 31 December 2008
Ning Gaoning	China Foods Limited	Beneficial owner	880,000	880,000	0.03%

Notes:

1. *The options were granted on 27 September 2007, and the exercise price is HK$4.952 per share.*
2. *The exercise period of the options ranges from 27 September 2009 to 26 September 2014.*
3. *The percentage is calculated based on the total number of shares of China Foods Limited in issue as at 31 December 2008, i.e., 2,791,383,356 shares.*

Save as disclosed above, none of the Directors, chief executives or their respective associates had any other Discloseable Interests in the Company's associated corporations.

Substantial shareholders' and other persons' interests in the shares and the underlying shares

As at 31 December 2008, to the knowledge of the Directors, the following persons (other than the Directors) had an interest or short position in the Shares and underlying shares of the Company which would be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

Substantial shareholders	Capacity	Number of Shares held	*Notes*	Approximate percentage of the issued share capital of the Company as at 31 December 2008 *Note(4)*
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,922,550,331	(1)	53.49%
COFCO (BVI) No. 108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	(1)	3.90%
COFCO (Hong Kong) Limited ("COFCO (HK)")	Beneficial owner	10,138,000	(1)	0.28%
	Interest of controlled corporations	2,062,550,331	(1) & (2)	57.39%
COFCO Limited	Interest of controlled corporations	2,072,688,331	(1) & (3)	57.67%

Notes:

(1) *Long positions in the Shares.*

(2) *COFCO (HK) is deemed to be interested in the 2,062,550,331 Shares in aggregate held by Wide Smart and COFCO BVI, as COFCO (HK) is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart and COFCO BVI.*

(3) *COFCO is deemed to be interested in the 2,072,688,331 Shares in aggregate held by Wide Smart, COFCO BVI and COFCO (HK), as COFCO is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart, COFCO BVI and COFCO (HK).*

(4) *The percentages are calculated based on the total number of shares of the Company in issue as at 31 December 2008, i.e., 3,593,906,356 Shares.*

Save as disclosed above, as at 31 December 2008, so far as was known to the Directors, no other persons had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

Sufficiency of public float

Based on the information that is publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Continuing connected transactions

During the reporting period, the Company and its subsidiaries entered into various transactions with certain connected persons. These transactions are considered to be continuing connected transactions under the Listing Rules, which need to be disclosed herein in compliance with the requirements under Chapter 14A of the Listing Rules or the waivers previously granted by the Stock Exchange.

Details of these transactions are as follows:

1. Mutual Supply of Materials and Ancillary Services

   China Agri-Industries Limited, a wholly-owned subsidiary of the Company, and COFCO entered into an agreement on 8 December 2006 and a supplementary agreement on 12 January 2007 (the "COFCO Mutual Supply Agreement"), to regulate the relationship between COFCO and its subsidiaries (other than the Company and China Foods Limited ("China Foods")) collectively referred to as "COFCO Group" and the Group in respect of the mutual supply of raw materials and products as well as ancillary equipment and services.

   During the reporting period, the aggregate value of raw materials and ancillary equipment and services supplied by COFCO Group to the Group, including soybeans, palm oil, oil tanks, wheat, white rice, barley and other relevant products as well as logistics and support services, was approximately RMB9,720.49 million, while the aggregate value of products supplied by the Group to COFCO Group, including bulk edible oil, soybean feed, soybean meal, alcohol and rice husk powder, malt, feed and other relevant products as well as logistics and support services, was approximately RMB 1,290.61 million.

   As the COFCO Mutual Supply Agreement expired on 31 December 2008, the Company entered into the New COFCO Mutual Supply Agreement on 21 November 2008. Pursuant to the New COFCO Mutual Supply Agreement, the Group and COFCO Group will mutually supply raw materials, products, finance, logistics, agency and other related services. The New COFCO Mutual Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

   Annual caps for the three years ending 31 December 2011 under the New COFCO Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

   According to the Listing Rules, COFCO is the controlling shareholder of the Company, thus, each of the members of COFCO Group is a connected person of the Company.

2. Supply and Packaging of Consumer-pack Edible Oil

   China Foods and China Agri-Industries Limited entered into a supply and packaging agreement on 8 October 2006 and a supplementary agreement on 12 January 2007 ("Supply and Packaging Agreement"), pursuant to which certain members of the Group supplied oil to China Foods and its subsidiaries in consumer packs.

   During the reporting period, the aggregate value of the consumer-pack oil supplied by the Group to China Foods and its subsidiaries was approximately RMB3,213.96 million.

   As the Supply and Packaging Agreement expired on 31 December 2008, the Company and China Foods entered into the China Foods Supply Agreement on 21 November 2008. Pursuant to the China Foods Supply Agreement, the Company and its associates will supply raw materials, products, logistics and other services to China Foods and its subsidiaries with reference to the prevailing market price at the relevant time or at a negotiated price based on the market price. The China Foods Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

   Annual caps for the three years ending 31 December 2011 under the China Foods Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

   According to the Listing Rules, China Foods is a subsidiary of COFCO; thus, China Foods and its associates are connected persons of the Company.

3. Mutual Supply with Wilmar

Wilmar Holdings Pte Ltd. ("Wilmar Holdings") and China Agri-Industries Limited entered into an agreement on 8 December 2006 and a supplementary agreement on 12 January 2007 (the "Oil-related Mutual Supply Agreement"), pursuant to which Wilmar Holdings and its subsidiaries ("Wilmar Holdings Group") supplied products to the Group, including bulk edible oil, refined edible oil and packaging materials, and the Group supplied products to Wilmar Holdings Group, including bulk edible oil, soybean meal and feed, and packaging materials.

During the reporting period, the aggregate value of the products supplied by Wilmar Holdings Group to the Group was approximately RMB 758.57 million. The aggregate value of the products supplied by the Group to Wilmar Holdings Group was approximately RMB 539.75 million.

As the Oil-related Mutual Supply Agreement expired on 31 December 2008, on 21 November 2008, Wilmar International Limited ("Wilmar International") and the Company entered into the Wilmar Mutual Supply Agreement. Pursuant to the Wilmar Mutual Supply Agreement, Wilmar International and its subsidiaries ("Wilmar International Group") and the Group will mutually supply raw materials, products, logistics and other related services. The term of the Wilmar Mutual Supply Agreement is from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the Wilmar Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, Wilmar Holdings is a substantial shareholder of the Company's subsidiary; therefore, Wilmar Holdings and its associates are connected persons of the Company. Wilmar Holdings holds a 48.51% shareholding in Wilmar International, and therefore, Wilmar International is an associate of Wilmar Holdings and a connected person of the Company.

4. Mutual Supply with Dezhou Grains

Shandong COFCO Lude Foods Co., Ltd. (山東中糧魯德食品有限公司) (now known as (中糧麵業德州有限公司))("COFCO Lude") and Shandong Dezhou Grains & Oils Group Corporation (山東省德州糧油集團總公司) ("Dezhou Grains") entered into a wheat purchase agreement on 8 December 2006 and a supplementary agreement on 12 January 2007 (the "Lude Mutual Supply Agreement"), pursuant to which COFCO Lude will purchase wheat from certain subsidiaries of Dezhou Grains.

During the reporting period,, the aggregate expenditure for the wheat purchased by COFCO Lude from certain subsidiaries of Dezhou Grains was RMB14.70 million.

As the Lude Mutual Supply Agreement expired on 31 December 2008, Dezhou Grains and the Company entered into the New Lude Mutual Supply Agreement on 21 November 2008. The Group and Dezhou Grains and its associates will mutually supply raw materials and products with reference to the prevailing market price at the relevant time or negotiated price based on the market price. The New Lude Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the New Lude Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, Dezhou Grains is a substantial shareholder of a subsidiary of the Company and a connected person of the Company.

5. Mutual Supply with No.2 Storage

Shenyang Xiangxue Flour Limited Liability Company (瀋陽香雪麵粉股份有限公司) ("Xiangxue") and Shenyang No. 2 Grains Storage Depot (瀋陽市第二糧食收儲庫) ("No. 2 Storage") entered into a wheat purchase agreement on 8 December 2006 as well as a supplementary agreement on 12 January 2007 (the "No. 2 Storage Mutual Supply Agreement"), to regulate the relationship between the parties in respect of wheat purchases.

During the reporting period, the aggregate expenditure for the wheat purchased by Xiangxue from No. 2 Storage was RMB0.97 million.

As the No. 2 Storage Mutual Supply Agreement expired on 31 December 2008, Dezhou Grains and the Company entered into the New No. 2 Storage Mutual Supply Agreement on 21 November 2008. The Group and No. 2 Storage and its associates will mutually supply raw materials and products with reference to the prevailing market price at the relevant time or at a negotiated price based on the market price. The New No. 2 Storage Mutual Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the New No. 2 Storage Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, No. 2 Storage is a substantial shareholder of a subsidiary of the Company and a connected person of the Company.

6. COFCO ADM Mutual Supply Agreement

On 28 February 2008, COFCO ADM Oils & Grains Industries (Heze) Co., Ltd. (中粮艾地盟粮油工业(菏澤)有限公司) ("COFCO ADM"), and the Company entered into the COFCO ADM Mutual Supply Agreement, to regulate the mutual supply relationship between the Group (other than COFCO ADM) and COFCO ADM in respect of the mutual supply of raw materials, products and ancillary equipment and services.

During the reporting period, the aggregate expenditures of the Group in purchases of products and services provided by COFCO ADM was approximately RMB 18.83 million, and the aggregate revenues of the Group in supplies of products and services to COFCO ADM was approximately RMB 770.17 million.

As the ADM Mutual Supply Agreement expired on 31 December 2008, the Company and COFCO ADM entered into the New COFCO ADM Mutual Supply Agreement on 21 November 2008. The parties to the New COFCO ADM Mutual Supply Agreement will mutually supply edible oils, oilseeds, oilseeds meal, packaging materials, packaging services, finance, and other related materials and services with references to the prevailing market price at the relevant time or at a negotiated price based on the costs of products and services provided. The New COFCO ADM Mutual Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the New COFCO ADM Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, ADM is a substantial shareholder of certain of our subsidiaries, and therefore, a connected person of the Company. As ADM holds a 30% equity interest in COFCO ADM through a trust arrangement, COFCO ADM is an associate of ADM, and therefore, is a connected person of the Company.

Report of the Directors

7. Lease of properties

On 27 June 2008, COFCO Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd. ("Eastbay"), and Zhangjiagang CPMC Co., Ltd. ("Zhangjiagang CPMC"), entered into a lease agreement (the "Eastbay Lease Agreement") for a period of two years, in order to lease the properties owned by Eastbay to Zhangjiagang CPMC for production in relation to its steel barrel businesses. The monthly rental is RMB0.36 million, which was determined on normal commercial terms by reference to current market values.

On 27 June 2008, East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. ("East Ocean"), and Zhangjiagang CPMC entered into a lease agreement (the "East Ocean Lease Agreement") for a period of two years, in order to lease the properties owned by East Ocean to Zhangjiagang CPMC for production in relation to its steel barrel and rectangular can business. The monthly rental is RMB0.22 million, which was determined on normal commercial terms by reference to current market values.

According to the Listing Rules, COFCO is the controlling shareholder of the Company. Zhangjiagang CPMC, a wholly owned subsidiary of COFCO, is, therefore, a connected person of the Company.

8. Supply Agreement

On 27 June 2008, the Company entered into a framework supply agreement with CPMC (Hong Kong) Limited (the "Supply Agreement"). Under the Supply Agreement, the subsidiaries of CPMC (Hong Kong) Limited shall supply to the Group steel barrels and rectangular cans at the prevailing market price for a term of three years. The Supply Agreement was entered into on normal commercial terms and can be renewed by mutual agreement between both parties. The proposed annual caps for the three years ending 31 December 2010 under the Supply Agreement are set. For details, please refer to the announcement issued by the Company on 27 June 2008.

According to the Listing Rules, CPMC (Hong Kong) Limited is wholly-owned by COFCO and therefore is a connected person of the Company.

9. ADM Mutual Supply Agreement

On 20 August 2008, the Company and ADM entered into the ADM Mutual Supply Agreement, in respect of the mutual supply of the raw materials and products, including soybeans, palm oil, wheat, white rice, brewing materials and other relevant products, as well as relevant logistics and services (the "ADM Products"), between the Group and ADM Group.

During the reporting period, the aggregate expenditures of the Group for purchases of ADM Products provided by ADM Group was approximately RMB 1,830.62 million, and the aggregate revenues of the Group from supplies of ADM Products to ADM Group was approximately RMB 133.30 million.

As the ADM Mutual Supply Agreement expired on 31 December 2008, the Company and ADM entered into the New ADM Mutual Supply Agreement on 21 November 2008. ADM products will be mutually supplied between the Group and ADM Group. The prices of the ADM Products to be supplied shall be determined by taking the market prices of equivalent products and other market conditions at the relevant period of time into consideration. The New ADM Mutual Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the New ADM Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, ADM is a substantial shareholder of certain of our subsidiaries, and, therefore, a connected person of the Company.

10. Starch Supply Agreement

Anhui BBCA Biochemical Co. Ltd. (安徽豐原生物化學股份有限公司) ("Anhui BBCA") and Jilin COFCO Bio-Chem & Bio-Energy Marketing Co., Ltd. (吉林中糧生化能源銷售有限公司)("Jilin COFCO BCBE Marketing"), entered into the Starch Supply Agreement on 17 November 2008, for the supply of starch-derived or starch-related products (the "Starch Products") by Jilin COFCO BCBE Marketing to Anhui BBCA.

Pursuant to the Starch Supply Agreement, Jilin COFCO BCBE Marketing has agreed to supply the Starch Products to Anhui BBCA. The Starch Supply Agreement is effective from 17 November 2009 and expired on 31 December 2008.

During the reporting period,, the aggregate expenditure for supply of Starch Products by Jilin COFCO BCBE Marketing to Anhui BBCA was RMB7.82 million.

11. Jilin Packing Supply Agreement

On 26 September 2008, Jilin COFCO Bio-chemical Co., Ltd. (吉林中糧生化有限公司)("COFCO Bio-chemical"), a wholly-owned subsidiary of COFCO (HK), and China Resources (Jilin) Bio-Chemical Co., Ltd. (吉林華潤生化股份有限公司)("Jilin Bio-chemical"), entered into the SPA, whereby COFCO Bio-chemical, directly or indirectly, acquired, among other things, the interest of Jilin China Resources Packaging Co., Ltd. (吉林華潤生化包裝有限公司)("Jilin Packaging"), from Jilin Bio-chemical. The acquisition of the interest of Jilin Packaging was completed on 17 October 2008.

On 1 January 2008, the Company and Jilin Packaging entered into a packing supply agreement (the "Jilin Packaging Supply Agreement"). Pursuant to the Jilin Packaging Supply Agreement, Jilin Packaging has agreed to supply products and services (the "Packaging Products and Services") to the Group and its associates.

The Packaging Products and Services shall be provided with reference to the prevailing market prices at the relevant time. When such market prices are not available, the parties shall negotiate the prices for the Packaging Products and Services based on their reasonable costs. The Jilin Packaging Supply Agreement is effective from 1 January 2008 and will end on 31 December 2012.

According to the Listing Rules, COFCO (HK) is a controlling shareholder of the Company and is, therefore, a connected person of the Company. As an associate of COFCO (HK), Jilin Packaging became, upon completion of the acquisition of the interest of Jilin Packaging, a connected person of the Company for the purposes of the Listing Rules.

12. East Ocean Supply Agreement

On 13 November 2008, ADM Asia Pacific has transferred its 22% equity interest in COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.(中糧東海糧油工業(張家港)有限公司)("East Ocean"), to Kenspot International Pte Limited ("Kenspot International"), and immediately following such equity transfer, Kenspot International holds, in the aggregate, 44% equity interest in East Ocean. Kenspot International is a wholly-owned subsidiary of Wilmar International, a connected person of the Company under the Listing Rules, and Kenspot International is, therefore, also a connected person of the Company under the Listing Rules. Immediately following the equity transfer, East Ocean became an associate of the Kenspot International and a connected person of the Company for the purposes of the Listing Rules.

On 1 January 2008, the Company and East Ocean entered into a supply agreement (the "East Ocean Supply Agreement"). Pursuant to the East Ocean Supply Agreement, East Ocean Group has agreed to supply to the Group soybeans, oilseeds, oils and soybean meal products, wheat, rice and their related products, financing and services, and the Group has agreed to supply to the East Ocean Group soybeans, oilseeds, oils and soybean meal products, wheat, rice and their related products, financing and services, with reference to the prevailing market prices at the relevant time. When such market prices are not available, the parties shall negotiate the prices for the products and services based on their reasonable costs. The East Ocean Supply Agreement is effective from 1 January 2008 and will end on 31 December 2012.

13. Sinopec Framework Agreement

On 20 November 2008, Pioneer City Investments Limited ("Pioneer City"), an indirect wholly-owned subsidiary of the Company, and China Petroleum & Chemical Corporation ("Sinopec Corp") completed the Guangxi COFCO Bio-Energy Co., Ltd. (廣西中糧生物質能源有限公司)("Guangxi Bio-Energy") acquisition where Sinopec Corp acquired 15% equity interest in Guangxi Bio-Energy from Pioneer City. Immediately upon completion of the Guangxi Bio-Energy Acquisition, Sinopec Corp became a substantial shareholder of Guangxi Bio-Energy, a non-wholly owned subsidiary of the Company, and is therefore a connected person of the Company pursuant to the Listing Rules.

On 1 January 2008, the Company and Sinopec Corp entered into a framework agreement (the "Sinopec Framework Agreement"). Pursuant to the Sinopec Framework Agreement, the Group and its associates have agreed to supply alcohol and other related products and services to Sinopec Corp and its subsidiaries ("Sinopec Corp Group") , and Sinopec Corp Group has agreed to supply gasoline, diesel fuel, and other related products and services to the Group and its associates. The Sinopec Framework Agreement is effective from 1 January 2008 and will end on 31 December 2011.

14. Toyota Tsusho Mutual Supply Agreement

On 21 November 2008, the Company and Toyota Tsusho entered into the Toyota Tsusho Mutual Supply Agreement, to regulate the mutual supply relationship between the Group and Toyota Tsusho in respect of the mutual supply of raw materials, products, technology and the related services.

Under the Toyota Tsusho Mutual Supply Agreement, the Group and Toyota Tsusho and its associates will mutually supply raw materials, products, technology and services including bread, rice, yeast, other related products, technology and services. The Toyota Tsusho Mutual Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the Toyota Tsusho Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, Toyota Tsusho is a substantial shareholder of a subsidiary of the Company and a connected person of the Company.

15. Hakubaku Mutual Supply Agreement

On 21 November 2008, the Company and Hakubaku entered into the Hakubaku Mutual Supply Agreement, to regulate the mutual supply relationship between the Group and Hakubaku in respect of the mutual supply of raw materials, products and related services.

Under the Hakubaku Mutual Supply Agreement, the Group and Hakubaku and its associates will mutually supply raw materials, products, technology and services, including bread, rice, yeast, other related products, technology and services. The Hakubaku Mutual Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the Hakubaku Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, Hakubaku is a substantial shareholder of a subsidiary of the Company and a connected person of the Company.

16. Xiamen Seashine Mutual Supply Agreement

On 21 November 2008, the Company and Xiamen Seashine entered into the Xiamen Seashine Mutual Supply Agreement, to regulate the mutual supply relationship between the Group and Xiamen Seashine in respect of the mutual supply of raw materials, products, technology and the related services.

Under the Xiamen Seashine Mutual Supply Agreement, the Group and Xiamen Seashine and its associates will mutually supply raw materials, products and related services. The Xiamen Seashine Mutual Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the Xiamen Seashine Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, Xiamen Seashine is a substantial shareholder of a subsidiary of the Company and a connected person of the Company.

17. Zhengzhou Flour Mutual Supply Agreement

On 21 November 2008, the Company and Zhengzhou Flour entered into the Zhengzhou Flour Mutual Supply Agreement, to regulate the mutual supply relationship between the Group and Zhengzhou Flour in respect of the mutual supply of raw materials, products, technology and the related services.

Under the Zhengzhou Flour Mutual Supply Agreement, the Group and Zhengzhou Flour and its associates will mutually supply raw materials, products and related services. The Zhengzhou Flour Mutual Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the Zhengzhou Flour Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, Zhengzhou Flour is a substantial shareholder of a subsidiary of the Company and a connected person of the Company.

18. No.5 Storage Mutual Supply Agreement

On 21 November 2008, the Company and Shenyang No. 5 Grains Storage Depot (瀋陽市第五糧食收儲庫) ("No. 5 Storage") entered into the No.5 Storage Mutual Supply Agreement, to regulate the mutual supply relationship between the Group and No.5 Storage in respect of the mutual supply of raw materials, products, technology and related services.

Under the No.5 Storage Mutual Supply Agreement, the Group and No.5 Storage and its associates will mutually supply raw materials, products and related services. The No.5 Storage Mutual Supply Agreement is for a term commencing from 1 January 2009 to 31 December 2011.

Annual caps for the three years ending 31 December 2011 under the No.5 Storage Mutual Supply Agreement are set. For details, please refer to the announcement issued by the Company on 21 November 2008.

According to the Listing Rules, No.5 Storage is a substantial shareholder of a subsidiary of the Company and a connected person of the Company.

Other connected transactions

19. Disposal of Assets

On 27 June 2008, COFCO Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd. ("Eastbay"), entered into the Eastbay Asset Sale Agreement with Zhangjiagang CPMC Co., Ltd. ("Zhangjiagang CPMC"). On the same date, East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. ("East Ocean"), entered into the East Ocean Asset Sale Agreement with Zhangjiagang CPMC.

Under the Eastbay Asset Sale Agreement and the East Ocean Asset Sale Agreement (collectively, "Asset Sale Agreements"), Eastbay and East Ocean (collectively, the "Vendors") agreed to sell, and Zhangjiagang CPMC agreed to purchase, certain assets relating to the Vendors' business in the manufacture of steel barrels and rectangular cans. Eastbay and East Ocean are both non wholly-owned subsidiaries of the Company.

The consideration under the Eastbay Asset Sale Agreement is RMB12.46 million, which is payable in cash in two equal tranches: (1) RMB6.23 million before 30 June 2008; and (2) RMB6.23 million before 31 August 2008.

The consideration under the East Ocean Asset Sale Agreement is RMB19.81 million, which is payable in cash in two equal tranches: (1) RMB9.905 million before 30 June 2008; and (2) RMB9.905 million before 31 August 2008.

According to the Listing Rules, COFCO is the controlling shareholder of the Company. Zhangjiagang CPMC, a wholly-owned subsidiary of COFCO, is, therefore, a connected person of the Company.

Annual review of continuing connected transactions

The independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2008 (collectively, the "CCTs") and confirmed that the CCTs were: (a) entered into in the ordinary and usual course of business of the Group; (b) entered into on normal commercial terms; (c) in accordance with the terms of the respective agreements that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) 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. The auditors of the Company have reviewed the CCTs and confirmed that the CCTs:

(a) were approved by the Directors;

(b) were in accordance with the pricing policies of the Group;

(c) were entered into in accordance with the respective agreements governing the transactions; and

(d) have not exceeded the respective annual caps as disclosed in the Prospectus and the relevant annual caps as disclosed or revised in the announcements of the Company dated 8 November 2007, 28 February 2008, 21 August 2008 and 17 November 2008.

Directors' interests in competing business

Pursuant to Rule 8.10 of the Listing Rules, as disclosed below, during the year, the following Directors are considered to have interests in the following companies which are likely to compete directly or indirectly with the business of the Group ("Competing Companies"):

1. COFCO holds approximately 20.74% of the issue share capital of Anhui BBCA Biochemical Co., Ltd. ("Anhui BBCA"), a company mainly engaged in the processing of agricultural products to produce biofuel and biomaterials, which is similar to our biofuel and biochemical business. Mr. Yue Guojun is a director and chairman of the board of Anhui BBCA. COFCO also holds a 49.08% equity interest in Xinjiang Tayuan Safflower Co., Ltd. ("Xinjiang Tayuan"), which is mainly engaged in the business of safflower oil extraction, which is similiar to part of our oilseed processing business. Mr. Lu Jun is a director and chairman of the board of Xinjiang Tayuan.

   Mr. Ning Gaoning is a director and chairman of the board of COFCO. Mr. Yu Xubo is the president and Mr. Lu Jun and Mr. Yue Guojun are assistant presidents of COFCO. Mr. Chi Jingtao and Mr. Ma Wangjun hold positions in COFCO as the head of human resources department and the head of finance department, respectively.

2. China Resources (Jilin) Bio-chemical Co., Ltd. ("Jilin Bio-chemical"), holds certain interests in the business of production of starch, which is similar to our biochemical business. Mr. Yu Xubo was a director and chairman, and Mr. Yue Guojun was a director and vice-chairman of the board of Jilin Bio-chemical. Due to share transfer reason, Mr. Yu Xubo and Mr. Yue Guojun resigned all their positions of Jilin Bio-chemical on August 15, 2008.

3. Dongguan Zhong Gu Oils & Fats Co., Ltd ("Dongguan Zhong Gu"), is principally engaged in oil extraction and soybean meal production business, which is similar to our oilseed processing business. Mr. Lu Jun was a director and chairman of the board of Dongguan Zhong Gu during the year.

4. Wilmar International Holdings Limited ("Wilmar International") holds certain business which is similar to our oilseed processing business. Mr. Yu Xubo is director of Wilmar International. Mr. Lu Jun is a director of Wilmar Holdings Pte. Ltd. which is a substantial shareholder of Wilmar International, Grand Silver (Laiyang) Co., Limited (嘉銀萊陽有限公司), and Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co. Ltd., which are Wilmar International's subsidiaries.

5. Jilin COFCO Bio-chemical Co Ltd ("Jilin COFCO"), a wholly-owned subsidiary of COFCO Hong Kong, holds certain interests in the business of production of starch, which is similar to our biochemical business. Mr. Yue Guojun is a director and chairman of the board of Jilin COFCO.

As the Board of the Company is independent from the boards of Competing Companies, and the above Directors do not control the Board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the businesses of Competing Companies.

Save as disclosed above, no Directors are considered to have interests in any business which is likely to compete directly or indirectly with that of the Group during the year.

Purchase, redemption or sale of the company's listed securities

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

Non-competition deed

As disclosed in the Prospectus, the following interests (the "Retained Interests") were anticipated to be held or acquired by COFCO Group which compete or may compete with the Company's businesses:

(a) a 100% equity interest in each of Fei County Zhong Zhi Oils & Fats Co., Ltd., and Dongguan Zhong Gu Oils & Fats Co., Ltd. (collectively "China Grain Oils"), both of which are principally engaged in oil extraction and soybean meal production business;

(b) a 37.03% interest in Jilin Bio-chemical, a company listed on the Shanghai Stock Exchange, which is primarily engaged in corn processing business;

(c) a 20.74% interest in Anhui BBCA, a company listed on the Shenzhen Stock Exchange, which is involved in bio-chemical business; and

(d) a 49.08% equity interest in Xinjiang Tayuan, the business of which includes edible safflower oil extraction.

COFCO, COFCO (HK) and the Company executed a non-competition deed on 16 February 2007 ("Non-competition Deed"), pursuant to which COFCO and COFCO (HK) have granted to the Company options to acquire all or part of the Retained Interests held by COFCO, on the basis of a valuation to be conducted by an independent valuer, jointly appointed by COFCO and the Company, subject to any relevant laws and applicable rules, relevant authorities' approvals and existing third-party pre-emptive rights (if any). Under the Non-competition Deed, if COFCO or COFCO (HK) intends to transfer, sell, lease, license or dispose to any third party any direct or indirect interest in any of such Retained Interests, then the Company has pre-emptive rights to purchase any Retained Interests on terms no less favorable than those offered to such third party.

A subsidiary of COFCO entered into a share sale and purchase agreement on November 2005 (the "2005 SPA"), to acquire from China Resources Group a 37.03% interest in Jilin Bio-chemical.

In May 2007, the Board was informed by COFCO that the 2005 SPA had been terminated by the parties, due to the change in the share reclassification programme proposal of Jilin Biochemical; therefore, the corresponding option and pre-emption right granted to the Company in this regard has lapsed. Following the termination of the 2005 SPA, COFCO and/or one of its subsidiaries intended to enter into a sale and purchase agreement with Jilin Bio-chemical (the "Proposed SPA"), for the acquisition of certain business/assets of Jilin Bio-chemical (the "New Interests"). The New Interests constitute New Business Opportunities within the meaning of the Non-Competition Deed. Having taken into the account the principal factors and considerations set out in the announcement of the Company dated 9 May 2007, the INEDs are of the opinion that it is not appropriate, and not in the best interests of the Company and the shareholders of the Company as a whole, for the Company to acquire the New Interests on the terms of the Proposed SPA. Accordingly, the Board has given its written consent for COFCO and/or one of its subsidiaries to enter into the Proposed SPA.

On 26 September 2008, the Board was informed by COFCO that a subsidiary of COFCO (HK), and Jilin Bio-chemical, entered into a new sale and purchase agreement ("the New SPA"). Following the New SPA, the transfer of Huanglong Food Industry Company Limited ("Yellow Dragon"), Jilin CRC Biochemistry Packaging Company Limited ("Jilin Packaging") and Land Interest (as defined in the announcement of the Company dated 27 February 2009), three business/assets, among other things, of the New Interests were completed on 26 September 2008, 17 October 2008 and 24 December 2008 respectively, upon which the option to acquire any part or all of the three business/assets became effective.

On 12 February 2009, the Board was informed by COFCO that, COFCO (HK) entered into COFCO Hong Kong Kindgain Share Purchase Agreements (as defined in the announcement of the Company dated 27 February 2009) and COFCO Hong Kong Uptech Investments Share Purchase Agreements (as defined in the announcement of the Company dated 27 February 2009), to purchase China Grain Oils interests. Upon completion of the transfer of the interests in Fei County Zhong Zhi Oils & Fats Co., Ltd. and Dongguan Zhong Gu Oils & Fats Co., Ltd. the option to acquire any part or all of the China Grain Oils interests will become effective.

On 17 February 2009, the Company entered into four conditional Share Purchase Agreements and one conditional Assets Purchase Agreement with COFCO (HK), to purchase Yellow Dragon, Jinlin Packaging, Land Interests and China Grain Oils, from COFCO, which have been approved at the extraordinary general meeting of the Company held on 24 March 2009.

The options of the Company to acquire from COFCO any interest or business in Anhui BBCA and Xinjiang Tayuan (collectively, the "Options") became effective on 3 April 2007 and 10 April 2007, respectively. The INEDs, who attended the Board meeting on 8 July 2008 reviewed information regarding the Options provided to them, which they believe to be sufficient in forming their opinion. Having taken into account the principal factors and considerations set out in the announcement of the Company dated 8 July 2008, the INEDs were of the opinion that it was not appropriate and not in the best interests of the Company and the shareholders of the Company as a whole to exercise such Options at that time. Accordingly, the Board decided not to exercise the Options before the next anniversary of the Options becoming effective.

The Options will remain in effect so long as the Non-Competition Deed remains effective and will be reviewed by the INEDs on an annual basis. A final and definitive decision will be made as to whether to exercise the options or not on the fifth anniversaries of the Options becoming effective, if such decision has not been taken before such time. COFCO has undertaken to the Company that if, on the fifth anniversaries of the Options having become effective, a decision is made not to exercise such Options by the Company, then COFCO will dispose of the interests or businesses in respect of the Options to independent third parties within six months of such decision having become effective. If for any reason additional time after the fifth anniversary is deemed necessary for the proper evaluation of the Options, such decision to extend would be voted on solely by the INEDs and be decided by majority vote.

Corporate governance

The Company is committed to developing good corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 50 to page 59 of this annual report.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$19.89 million.

Post balance sheet events

Details of the post balance sheet events are set out in note 43 to the financial statements.

Review by audit committee

The Audit Committee has reviewed with the auditors of the Company the audited financial statements for the year ended 31 December 2008 and has also discussed auditing, internal control and financial reporting matters, including the review of the accounting practices and principles adopted by the Group.

Auditors

Ernst & Young shall retire at the forthcoming annual general meeting, and a resolution for their reappointment as auditors of the Company will be proposed at the meeting.

On behalf of the Board

YU Xubo
Managing Director

Hong Kong, 14 April 2009

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of China Agri-Industries Holdings Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of China Agri-Industries Holdings Limited set out on pages 90 to 160, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

14 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**41,802,056**	28,869,244
Cost of sales	6	**(36,642,837)**	(26,881,295)
Gross profit		**5,159,219**	1,987,949
Other income and gains	5	**1,876,213**	783,276
Selling and distribution costs		**(1,606,334)**	(824,525)
Administrative expenses		**(773,156)**	(535,736)
Other expenses		**(51,716)**	(85,193)
Finance costs	7	**(388,964)**	(320,416)
Share of profits of associates		**133,403**	269,568
PROFIT BEFORE TAX	6	**4,348,665**	1,274,923
Tax	10	**(883,516)**	(25,500)
PROFIT FOR THE YEAR		**3,465,149**	1,249,423
Attributable to:			
Equity holders of the Company		**2,624,937**	1,100,363
Minority interests		**840,212**	149,060
		3,465,149	1,249,423
DIVIDEND	12	**524,624**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**HK73.0 cents**	HK32.2 cents
Diluted		**N/A**	HK32.2 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	8,266,058	7,373,787
Prepaid land premiums	15	494,702	432,927
Deposits for purchases of items of property, plant and equipment		35,820	14,424
Goodwill	16	644,631	620,443
Interests in associates	18	1,595,695	1,401,404
Available-for-sale investments	19	9,621	8,880
Intangible assets	20	28,489	5,639
Deferred tax assets	28	122,851	105,146
Total non-current assets		11,197,867	9,962,650
CURRENT ASSETS			
Inventories	21	5,248,678	3,556,433
Accounts and bills receivable	22	1,853,560	1,546,664
Prepayments, deposits and other receivables		2,725,340	1,393,110
Derivative financial instruments	23	947	8,531
Due from fellow subsidiaries	38	1,597,700	1,236,427
Due from related companies	38	37,839	8,173
Due from the ultimate holding company	38	161,003	1,895
Due from minority shareholders of subsidiaries	38	101,184	–
Due from associates	18	360,667	243,211
Tax recoverable		23,791	34,213
Liquid investments	24	–	857,157
Pledged deposits	25	63,517	322,518
Cash and cash equivalents	25	4,894,435	2,429,486
Total current assets		17,068,661	11,637,818
CURRENT LIABILITIES			
Accounts and bills payable	26	2,071,654	1,447,637
Other payables and accruals		1,690,218	1,501,911
Deferred income		11,977	7,501
Derivative financial instruments	23	506,934	412,368
Interest-bearing bank and other borrowings	27	5,220,132	4,680,810
Due to fellow subsidiaries	38	156,831	208,862
Due to the ultimate holding company	38	424,605	83,074
Due to related companies	38	195,779	175
Due to minority shareholders of subsidiaries	38	8,807	920
Due to associates	18	5,276	15,431
Tax payable		486,554	96,412
Total current liabilities		10,778,767	8,455,101
NET CURRENT ASSETS		6,289,894	3,182,717
TOTAL ASSETS LESS CURRENT LIABILITIES		17,487,761	13,145,367

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,487,761**	13,145,367
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**1,155,922**	1,137,334
Due to minority shareholders of subsidiaries	38	**129,476**	119,312
Long term payable		**2,470**	14,264
Deferred income		**114,486**	100,687
Deferred tax liabilities	28	**139,976**	21,389
Total non-current liabilities		**1,542,330**	1,392,986
Net assets		**15,945,431**	11,752,381
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	29	**359,391**	359,391
Reserves	31(a)	**12,718,407**	10,040,880
Proposed final dividend	12	**524,624**	–
		13,602,422	10,400,271
Minority interests		**2,343,009**	1,352,110
Total equity		**15,945,431**	11,752,381

Yu Xubo
Director

Lu Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Notes	Issued capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company									
At 1 January 2007		279,138	–	4,754,699	–	98,136	187,912	649,042	5,968,927	1,120,240	7,089,167
Exchange realignment		–	–	–	–	–	497,782	–	497,782	85,325	583,107
Total income and expense for the year recognised directly in equity		–	–	–	–	–	497,782	–	497,782	85,325	583,107
Profit for the year		–	–	–	–	–	–	1,100,363	1,100,363	149,060	1,249,423
Total income and expense for the year		–	–	–	–	–	497,782	1,100,363	1,598,145	234,385	1,832,530
Transfer from retained profits		–	–	–	–	79,934	–	(79,934)	–	–	–
Contribution from a minority shareholder		–	–	–	–	–	–	–	–	4,141	4,141
Disposal of subsidiaries	33	–	–	–	–	–	–	–	–	(414)	(414)
Issue of shares	29	80,253	2,905,133	–	–	–	–	–	2,985,386	–	2,985,386
Share issue expenses		–	(158,834)	–	–	–	–	–	(158,834)	–	(158,834)
Equity-settled share option arrangements	30	–	–	–	6,647	–	–	–	6,647	–	6,647
Dividends paid to minority shareholders of subsidiaries		–	–	–	–	–	–	–	–	(6,242)	(6,242)
At 31 December 2007		359,391	2,746,299*	4,754,699*	6,647*	178,070*	685,694*	1,669,471*	10,400,271	1,352,110	11,752,381

	Notes	Issued capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company										
At 1 January 2008		359,391	2,746,299	4,754,699	6,647	178,070	685,694	1,669,471	–	10,400,271	1,352,110	11,752,381
Exchange realignment		–	–	–	–	–	560,902	–	–	560,902	109,644	670,546
Total income and expense for the year recognised directly in equity		–	–	–	–	–	560,902	–	–	560,902	109,644	670,546
Profit for the year		–	–	–	–	–	–	2,624,937	–	2,624,937	840,212	3,465,149
Total income and expense for the year		–	–	–	–	–	560,902	2,624,937	–	3,185,839	949,856	4,135,695
Transfer from retained profits		–	–	–	–	134,183	–	(134,183)	–	–	–	–
Partial disposal of a subsidiary		–	–	–	–	–	–	–	–	–	54,567	54,567
Equity-settled share option arrangements	30	–	–	–	16,312	–	–	–	–	16,312	–	16,312
Dividends paid to minority shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	(13,524)	(13,524)
Proposed final 2008 dividend	12	–	–	–	–	–	–	(524,624)	524,624	–	–	–
At 31 December 2008		359,391	2,746,299*	4,754,699*	22,959*	312,253*	1,246,596*	3,635,601*	524,624	13,602,422	2,343,009	15,945,431

* These reserve accounts comprise the consolidated reserves of HK$12,718,407,000 (2007: HK$10,040,880,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,348,665	1,274,923
Adjustments for:			
Finance costs	7	388,964	320,416
Write-down of inventories to net realisable value	6	270,319	4,284
Impairment of receivables	6	9,529	10,865
Depreciation and amortisation	6	523,662	365,123
Loss on disposal of items of property, plant and equipment	6	8,384	1,122
Gain on partial disposal of a subsidiary	5	(3,368)	–
Loss on disposal of subsidiaries	6	–	1,917
Impairment of items of property, plant and equipment	6	16,222	56,846
Recognition of prepaid land premiums	6	11,840	10,201
Share of profits of associates		(133,403)	(269,568)
Interest income	5	(76,016)	(173,679)
Unrealised losses on derivative instruments	6	497,708	385,235
Unrealised losses/(gains)on forward currency contracts		6,154	(8,232)
Government grants	5	(690,999)	(269,372)
Equity-settled share option expense	30	16,312	6,647
		5,193,973	1,716,728
Decrease/(increase) in inventories		(1,666,806)	361,385
Increase in accounts and bills receivable		(202,449)	(417,364)
Decrease/(increase) in prepayments, deposits and other receivables		(822,895)	145,464
Increase in amounts due from fellow subsidiaries		(281,757)	(999,361)
Increase in amounts due from associates		(107,787)	(210,722)
Increase in amounts due from related companies		(28,379)	(7,886)
Decrease in derivative financial instruments		(418,864)	–
Decrease/(increase) in amount due from the ultimate holding company		(154,217)	15,215
Increase in amounts due from minority shareholders of subsidiaries		(41,881)	–
Increase in accounts and bills payable		505,130	493,827
Increase in other payables and accruals		96,225	276,171
Decrease in amounts due to fellow subsidiaries		(62,988)	(349,334)
Increase in amount due to the ultimate holding company		326,296	80,155
Decrease in amount due to the immediate holding company		–	(7,883)
Increase/(decrease) in amounts due to related companies		195,446	(392,596)
Increase/(decrease) in amounts due to associates		(10,775)	9,573
Increase/(decrease) in amounts due to minority shareholders of subsidiaries		7,595	(4,286)
Government grants received		281,610	240,056
Cash generated from operations		2,807,477	949,142

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash generated from operations		2,807,477	949,142
Interest received		76,016	42,356
Interest paid		(385,569)	(306,690)
Mainland China tax paid		(387,008)	(114,112)
Net cash inflow from operating activities		2,110,916	570,696
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in pledged deposits		270,557	(257,555)
Acquisition of subsidiaries	32	(6,018)	–
Disposal of subsidiaries	33	–	731
Dividends from associates		27,334	14,853
Purchase of an available-for-sale investment		–	(6,265)
Proceeds from disposal of items of property, plant and equipment		31,882	18,547
Purchases of items of property, plant and equipment		(1,150,088)	(1,385,130)
Additions to prepaid land premiums		(47,887)	(45,917)
Government grants received		21,523	48,056
Additions to intangible assets		(23,451)	(5,639)
Net cash outflow from investing activities		(876,148)	(1,618,319)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(decrease) in amounts due to minority shareholders of subsidiaries		5,586	(319)
New bank loans		29,698,796	17,059,136
New other loans		234,000	471,167
Repayments of bank loans		(29,696,860)	(15,855,068)
Repayments of other loans		–	(1,614,529)
Capital contribution from a minority shareholder		–	4,141
Dividends paid to minority shareholders of subsidiaries		(13,524)	(6,242)
Proceeds from issue of shares		–	2,985,386
Share issue expenses		–	(158,834)
Interest paid		(8,432)	(19,984)
Interest received from subscription monies		–	131,323
Net cash inflow from financing activities		219,566	2,996,177
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,454,334	1,948,554
Cash and cash equivalents at beginning of year		3,286,643	1,249,388
Effect of foreign exchange rate changes, net		153,458	88,701
CASH AND CASH EQUIVALENTS AT END OF YEAR		4,894,435	3,286,643
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	3,728,613	2,323,193
Non-pledged time deposits with original maturity of less than three months when acquired	25	1,165,822	106,293
Liquid investments	24	–	857,157
		4,894,435	3,286,643

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Plant, machinery and equipment	14	**1,573**	2,753
Interests in subsidiaries	17	**7,313,083**	6,913,330
Total non-current assets		**7,314,656**	6,916,083
CURRENT ASSETS			
Due from subsidiaries	17	**1,925,385**	1,092,000
Due from a fellow subsidiary		**77**	–
Prepayments, deposits and other receivables		**2,052**	1,217
Liquid investments	24	**–**	857,157
Cash and cash equivalents	25	**1,130,004**	210,439
Total current assets		**3,057,518**	2,160,813
CURRENT LIABILITIES			
Other payables and accruals		**16,321**	13,461
Due to subsidiaries	17	**92,035**	98,868
Total current liabilities		**108,356**	112,329
NET CURRENT ASSETS		**2,949,162**	2,048,484
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,263,818**	8,964,567
Net assets		**10,263,818**	8,964,567
EQUITY			
Issued capital	29	**359,391**	359,391
Reserves	31(b)	**9,379,803**	8,605,176
Proposed final dividend	12	**524,624**	–
Total equity		**10,263,818**	8,964,567

Yu Xubo
Director

Lu Jun
Director

Notes to the Financial Statements

31 December 2008

1. CORPORATE INFORMATION

China Agri-Industries Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 33rd Floor, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") was involved in the following principal activities:

- oilseed processing;
- production and sale of brewing materials;
- trading and processing of rice;
- wheat processing; and
- production and sale of biofuel and biochemical products.

The Company is a subsidiary of COFCO (Hong Kong) Limited ("COFCO HK"), a company incorporated in Hong Kong. In the opinion of the directors, the ultimate holding company of the Company is COFCO Limited ("COFCO"), which is a state-owned enterprise registered in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and loses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effects on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[*] Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) an associate, if the Group does not have unilateral or joint control/dominant influence, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(c) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination, over the Group's interest in the fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or any of its holding companies;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset, or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3% to 9.5%
Plant, machinery and equipment	4.5% to 50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in unlisted equity that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale investments are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using a discounted cash flow analysis.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to accounts and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including accounts and other payables, amounts due to the group companies, due to minority shareholders of subsidiaries, due to related companies and associates, derivative financial instruments and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and commodity future contracts to hedge its risks associated with foreign currency fluctuations and with price fluctuations in future purchases or sales of the related commodities. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets (classified as financial assets at fair value through profit or loss) when the fair value is positive and as liabilities (classified as financial liabilities at fair value through profit or loss) when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement as the Group does not adopt hedge accounting.

The fair value of forward currency contracts is determined using the rates quoted by the Group's bankers to terminate the contracts at the balance sheet date. The fair value of commodity future contracts is measured by reference to quoted market prices.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from the sale of of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) storage income, on a time proportion basis over the lease terms;

(c) agency commission, when the significant risks and rewards of ownership have passed to the counterparty;

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(d) income from the rendering of services, in the period in which the services are rendered;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(f) compensation income, when the right to receive payment has been established;

(g) proceeds from the sales of investments, on the transaction dates when the relevant contract notes are exchanged; and

(h) tax refunds, when the acknowledgement of refunds from the tax bureau has been received.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by the Group using the Black-Scholes-Merton option pricing model, further details of which are given in note 30 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by either the relevant authorities or the local municipal governments of the provinces in Mainland China in which the Group's subsidiaries are located. The Group is required to contribute to the central pension scheme in respect of its employees in Mainland China and such costs are charged to the income statement as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends. The Group considered that if profits will not be distributed in the foreseeable future, then no withholding tax should be provided. As at 31 December 2008 the deferred tax liabilities arising thereon amounted to HK$119,786,000 (2007: Nil) as set out in note 28 to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was HK$644,631,000 (2007: HK$620,443,000). More details are given in note 16.

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3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2008 was HK$57,223,000 (2007: HK$78,461,000). Further details are contained in note 28 to the financial statements.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in note 2.4 of the financial statements. The recoverable amount of the property, plant and equipment is the greater of the fair value less costs to sell and value in use, the calculations of which involve the use of estimates. Impairment of property, plant and equipment of HK$16,222,000 (2007: HK$56,846,000) was recognised in the consolidated income statement for the year. The carrying amount of property, plant and equipment was HK$8,266,058,000 (2007: HK$7,373,787,000) as at 31 December 2008.

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of accounts and other receivables and the timing of their recovery. The identification of impairment of receivables requires management judgement and estimation. Where the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying values of accounts and other receivables and the amount of impairment/write-back of impairment in the periods in which such estimates have been changed. Impairment of receivables of HK$9,529,000 (2007: HK$10,865,000) was recognised in the consolidated income statement for the year. The aggregate carrying amount of accounts and bills receivable, and prepayments, deposits and other receivables as at 31 December 2008 was HK$4,578,900,000 (2007: HK$2,939,774,000).

4. SEGMENT INFORMATION

Segment information is presented by way of the Group’s primary segment reporting basis, by business segment. In determining the Group’s geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group’s revenue is derived from customers based in Mainland China, and all of the Group’s assets are located in Mainland China.

The Group’s operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Details of the business segments are summarised as follows:

(a) the oilseed processing segment engages in the extraction, refining and trading of edible oil and related businesses;

(b) the brewing materials segment engages in the processing and trading of malt;

(c) the rice trading and processing segment engages in the trading and processing of rice;

(d) the wheat processing segment engages in the production and sale of flour products and related businesses;

(e) the biofuel and biochemical segment engages in the production and sale of biofuel and biochemical and related products; and

(f) the “corporate and others” segment comprises the Group’s corporate income and expense items.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to the Financial Statements

31 December 2008

4. SEGMENT INFORMATION (continued)

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

	Oilseed processing HK$'000	Brewing materials HK$'000	Rice trading and processing HK$'000	Wheat processing HK$'000	Biofuel and biochemical HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Year ended 31 December 2008								
Segment revenue:								
Sales to external customers	27,539,470	1,806,194	3,382,956	3,248,913	5,824,523	–	–	41,802,056
Intersegment sales	–	–	–	–	6,394	–	(6,394)	–
Other revenue	964,641	39,005	53,443	17,015	692,265	30,460	–	1,796,829
Segment results	3,257,819	199,242	479,992	103,944	555,501	(71,656)	–	4,524,842
Interest income								76,016
Gain on partial disposal of a subsidiary	–	–	–	–	3,368	–	–	3,368
Finance costs								(388,964)
Share of profits of associates	88,221	–	–	2,860	42,322	–	–	133,403
Profit before tax								4,348,665
Tax								(883,516)
Profit for the year								3,465,149
Assets and liabilities								
Segment assets	9,781,598	2,064,560	1,939,085	1,324,630	6,653,074	8,265,811	(8,462,519)	21,566,239
Interests in associates	1,170,978	–	–	61,733	362,984	–	–	1,595,695
Unallocated assets								5,104,594
Total assets								28,266,528
Segment liabilities	4,595,516	1,096,398	1,184,852	1,032,303	2,952,147	2,919,816	(8,462,519)	5,318,513
Unallocated liabilities								7,002,584
Total liabilities								12,321,097
Other segment information:								
Depreciation and amortisation	194,325	53,939	21,031	34,140	230,629	1,438	–	535,502
Impairment losses recognised/(reversed) in the consolidated income statement	24,080	(432)	488	4,266	(2,651)	–	–	25,751
Capital expenditure	104,686	313,056	61,745	22,498	562,991	328	–	1,065,304

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4. SEGMENT INFORMATION (continued)

	Oilseed processing HK$'000	Brewing materials HK$'000	Rice trading and processing HK$'000	Wheat processing HK$'000	Biofuel and biochemical HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Year ended 31 December 2007								
Segment revenue:								
Sales to external customers	19,386,808	1,112,559	3,110,086	2,668,472	2,591,319	–	–	28,869,244
Intersegment sales	–	–	52,071	–	4,963	–	(57,034)	–
Other revenue	277,714	9,245	7,271	8,943	272,715	36,161	(2,452)	609,597
Segment results	572,254	203,985	189,798	9,011	209,117	(28,732)	(1,424)	1,154,009
Interest income								173,679
Loss on disposal of subsidiaries	(1,917)	–	–	–	–	–	–	(1,917)
Finance costs								(320,416)
Share of profits of associates	244,094	–	–	2,609	22,865	–	–	269,568
Profit before tax								1,274,923
Tax								(25,500)
Profit for the year								1,249,423
Assets and liabilities								
Segment assets	6,916,352	1,547,496	1,657,846	1,221,316	5,376,516	7,095,447	(6,507,272)	17,307,701
Interests in associates	1,026,202	–	–	56,668	318,534	–	–	1,401,404
Unallocated assets								2,891,363
Total assets								21,600,468
Segment liabilities	2,714,871	573,774	1,174,097	1,136,293	2,724,664	2,095,715	(6,507,272)	3,912,142
Unallocated liabilities								5,935,945
Total liabilities								9,848,087
Other segment information:								
Depreciation and amortisation	182,167	39,971	14,777	31,639	106,714	56	–	375,324
Impairment losses recognised in the consolidated income statement	60,670	405	–	1,502	5,134	–	–	67,711
Capital expenditure	29,840	143,216	12,845	99,447	1,762,942	3,163	–	2,051,453

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of other income and gains is as follows:

	2008 HK$'000	2007 HK$'000
Other income		
Agency commission	388,170	1,339
Bank interest income	76,016	173,679
Investment income from liquid investments	29,331	39,909
Government grants*	690,999	269,372
Compensation income	20,592	4,385
Logistic service and storage income	42,191	16,891
Tax refunds	35,098	14,577
Others	8,948	5,264
	1,291,345	525,416
Gains		
Gain on partial disposal of a subsidiary	3,368	–
Gain on disposal of raw materials, by-products and scrap items	–	39,028
Fair value gains on foreign currency forward contracts	38,831	8,232
Gain on foreign exchange, net	542,669	210,600
	584,868	257,860
	1,876,213	783,276

* Various government grants have been received for investments in certain provinces in Mainland China, for the sale of certain government subsidised products, which are available for industries or locations in which the Company's subsidiaries operate. In addition, pursuant to relevant notices issued by the Finance Bureau of the PRC for fuel ethanol producers, Zhaodong Bio-Energy and Guangxi Bio-Energy (as defined in note 39 to the financial statements) are entitled to a financial subsidy based on the quantity of fuel ethanol produced and sold. An amount of HK$608,280,000 (2007: HK$226,882,000) in relation to such subsidy has been included in the government grants for the year. There are no unfulfilled conditions or contingencies relating to these grants.

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2008 HK$'000	2007 HK$'000
Cost of inventories sold	39,122,436	25,653,271
Write-down of inventories to net realisable value	270,319	4,284
Realised fair value (gains)/losses of derivative instruments	(3,247,626)	838,505
Unrealised fair value losses of derivative instruments	497,708	385,235
Cost of sales	36,642,837	26,881,295
Auditors' remuneration	5,150	4,578
Depreciation (note 14)	522,020	365,123
Amortisation of intangible assets (note 20)	1,642	–
Minimum lease payments under operating leases in respect of land, buildings and steel barrels	25,607	31,982
Recognition of prepaid land premiums (note 15)	11,840	10,201
Employee benefit expenses (excluding directors' remuneration (note 8)):		
Wages and salaries	597,836	424,243
Pension scheme contributions*	43,895	28,555
Equity-settled share option expense	16,312	5,708
	658,043	458,506
Loss on disposal of items of property, plant and equipment	8,384	1,122
Loss on disposal of subsidiaries (note 33)	–	1,917
Loss on disposal of raw materials, by-products and scrap items	11,932	–
Impairment of items of property, plant and equipment (note 14)	16,222	56,846
Impairment of accounts receivable (note 22)	8,561	2,997
Impairment of other receivables	968	7,868

* At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2007: Nil).

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7. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on:		
Bank loans wholly repayable within five years	**382,601**	317,289
Loans from a fellow subsidiary	**11,400**	9,385
Total interest expense on financial liabilities not at fair value through profit or loss	**394,001**	326,674
Less: Interest capitalised	**(8,432)**	(19,984)
	385,569	306,690
Other finance costs:		
Fair value loss on foreign currency forward contracts	**3,395**	13,726
	388,964	320,416

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Fees:		
Independent non-executive directors	**920**	704
Executive directors and non-executive directors	**400**	349
	1,320	1,053
Other emoluments:		
Salaries, allowances and benefits in kind	**3,312**	3,778
Discretionary bonuses	**2,208**	1,320
Equity-settled share option expense	**2,332**	938
Pension scheme contributions	**72**	44
	7,924	6,080
	9,244	7,133

In prior year, certain directors were granted share options of the Company in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of the share options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for current and prior year is included in the above directors' remuneration disclosures.

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8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group 2008 HK$'000	2007 HK$'000
Mr. Lam Wai Hon, Ambrose	310	244
Mr. Victor Yang	310	244
Mr. Patrick Vincent Vizzone	300	147
Mr. Shi Yuanchun	–	69
	920	704

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008						
Executive directors:						
Mr. Yu Xubo	–	1,200	800	418	24	2,442
Mr. Lu Jun	–	1,056	704	389	24	2,173
Mr. Yue Guojun	–	1,056	704	389	24	2,173
	–	3,312	2,208	1,196	72	6,788
Non-executive directors:						
Mr. Ning Gaoning	200	–	–	418	–	618
Mr. Chi Jingtao	100	–	–	359	–	459
Mr. Ma Wangjun	100	–	–	359	–	459
	400	–	–	1,136	–	1,536
	400	3,312	2,208	2,332	72	8,324
2007						
Executive directors:						
Mr. Yu Xubo	–	1,744	–	168	–	1,912
Mr. Lu Jun	–	1,017	660	156	22	1,855
Mr. Yue Guojun	–	1,017	660	156	22	1,855
	–	3,778	1,320	480	44	5,622
Non-executive directors:						
Mr. Ning Gaoning	175	–	–	168	–	343
Mr. Chi Jingtao	87	–	–	145	–	232
Mr. Ma Wangjun	87	–	–	145	–	232
	349	–	–	458	–	807
	349	3,778	1,320	938	44	6,429

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2007: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2007: two) non-director, highest paid employees for the year are as follows:

	Group 2008 HK$'000	Group 2007 HK$'000
Salaries, allowances and benefits in kind	**2,118**	1,816
Discretionary bonuses	**936**	730
Equity-settled share option expense	**628**	253
Pension scheme contributions	**36**	34
	3,718	2,833

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2008	Number of employees 2007
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**2**	1
	2	2

In prior year, share options were granted to two non-director, highest paid employees, held share option of the Company in respect of their service to the Group, further the details of which are included in the disclosures in note 30 to the financial statements. The fair value of the share options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current and prior year was included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

Hong Kong profits has been provided at the rate of 16.5% (2007: Nil) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2008 HK$'000	2007 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**184,690**	–
Current – Mainland China		
Charge for the year	**643,506**	217,121
Underprovision/(overprovision) provision in prior years	**1,524**	(3,497)
Investment tax credits	**(52,674)**	(85,518)
Deferred (note 28)	**106,470**	(102,606)
Total tax charge for the year	**883,516**	25,500

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10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2008

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	1,098,890		3,249,775		4,348,665	
Tax at the statutory tax rate	181,317	16.5	811,657	25.0	992,974	22.8
Lower tax rate for specific provinces or enacted by local authority *	–	–	(107,954)	(3.3)	(107,954)	(2.5)
Profit not subject to tax due to concessions **	–	–	(91,323)	(2.8)	(91,323)	(2.1)
Investment tax credit utilised during the year ***	–	–	(52,674)	(1.6)	(52,674)	(1.2)
Profits attributable to associates	–	–	(22,145)	(0.7)	(22,145)	(0.5)
Income not subject to tax	(9,600)	(0.9)	(7,172)	(0.2)	(16,772)	(0.3)
Expenses not deductible for tax	12,973	1.2	39,874	1.2	52,847	1.2
Effect on deferred tax of change in rates	–	–	1,323	–	1,323	–
Effect of withholding tax at 10% on the distribution profit of the Group's PRC subsidiaries	–	–	125,145	3.9	125,145	2.9
Adjustment in respect of current tax of previous periods	–	–	1,524	–	1,524	–
Tax losses utilised from previous periods	–	–	(600)	–	(600)	–
Tax losses not recognised	–	–	1,171	–	1,171	–
Tax charge at the Group's effective rate	184,690	16.8	698,826	21.5	883,516	20.3

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10. TAX (continued)

Group – 2007

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
Profit before tax	135,789		1,139,134		1,274,923	
Tax at the statutory tax rate	23,763	17.5	375,915	33.0	399,678	31.3
Lower tax rate for specific provinces or enacted by local authority *	–	–	(81,604)	(7.2)	(81,604)	(6.4)
Profit not subject to tax due to concessions **	–	–	(118,167)	(10.4)	(118,167)	(9.3)
Investment tax credit utilised during the year ***	–	–	(85,518)	(7.5)	(85,518)	(6.7)
Profits attributable to associates	–	–	(88,138)	(7.7)	(88,138)	(6.9)
Income not subject to tax	(34,843)	(25.7)	(7,547)	(0.7)	(42,390)	(3.3)
Expenses not deductible for tax	11,080	8.2	43,757	3.8	54,837	4.3
Effect on deferred tax of change in rates	–	–	(13,395)	(1.2)	(13,395)	(1.1)
Adjustment in respect of current tax of previous periods	–	–	(3,497)	(0.3)	(3,497)	(0.3)
Tax losses utilised from previous periods	–	–	(7,219)	(0.6)	(7,219)	(0.5)
Tax losses not recognised	–	–	10,913	1.0	10,913	0.9
Tax charge at the Group's effective rate	–	–	25,500	2.2	25,500	2.0

* During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC corporate income tax ("CIT") law (the "New CIT Law") was approved and became effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the CIT rate for domestic-invested and foreign-invested enterprises at 25% for the year ended 31 December 2008. For the year ended 31 December 2008, enterprises were subject to corporate income tax ("CIT") at rate of 25% (2007: 33%). However, certain of the Group's subsidiaries are operating in specific development zones in Mainland China, and the relevant authorities have granted these subsidiaries preferential CIT rates ranging from 15% to 30%.

** In addition to preferential CIT rates granted to the Group's certain subsidiaries in Mainland China, tax holidays were also granted by the relevant authorities to these subsidiaries, where CIT is exempted for the first two profitable years of the subsidiaries and is chargeable at half of the applicable rate for the subsequent three years.

*** Investment tax credit relating to direct investment in domestically manufactured property, plant and equipment was granted to the Group's certain subsidiaries in Mainland China. The directors are of the opinion that the Group will comply with all the conditions that attached to the investment tax credit.

The share of tax attributable to associates amounting to HK$23,301,000 (2007: HK$22,386,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$19,255,000 (2007: profit of HK$136,736,000) which has been dealt with in the financial statements of the Company.

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12. DIVIDENDS

On 14 April 2009, the board of directors recommended a final dividend of a total of HK$524,624,000 with HK13.6 cents per ordinary share.

The amount of recommended dividend per ordinary share is calculated based on the number of 3,593,906,356 issued ordinary shares as at 31 December 2008 and the 263,626,483 ordinary shares to be issued by the end of April 2009 for the purpose of the acquisitions as mentioned in the announcement dated 17 February 2009.

The recommended final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. No dividend was declared by the Company for the year ended 31 December 2007.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount for the year ended 31 December 2008 is based on the profit for the year attributable to ordinary equity holders of the Company of HK$2,624,937,000 (2007: HK$1,100,363,000), and the weighted average number of 3,593,906,356 ordinary shares (2007: 3,417,628,520 ordinary shares) in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares, calculated as follow:

Weighted average number of ordinary shares:

	Number of shares	
	2008	2007
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share	**3,593,906,356**	3,417,628,520
Weighted average number of ordinary shares:* Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**–**	667,085
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**3,593,906,356**	3,418,295,605

* Diluted earnings per share amount for the year ended 31 December 2008 has not been disclosed as there is an anti-dilutive effect.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant, machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2008				
At 31 December 2007 and at 1 January 2008:				
Cost	3,307,572	5,402,386	974,901	9,684,859
Accumulated depreciation and impairment	(522,752)	(1,788,320)	–	(2,311,072)
Net carrying amount	2,784,820	3,614,066	974,901	7,373,787
At 1 January 2008, net of accumulated depreciation and impairment	2,784,820	3,614,066	974,901	7,373,787
Additions	10,852	135,456	847,658	993,966
Acquisition of a subsidiary (note 32)	1,791	6,432	4	8,227
Impairment	(8,247)	(7,975)	–	(16,222)
Disposals	(4,885)	(35,381)	–	(40,266)
Depreciation provided during the year	(109,132)	(412,888)	–	(522,020)
Transfers	840,097	818,852	(1,658,949)	–
Exchange realignment	194,719	238,734	35,133	468,586
At 31 December 2008, net of accumulated depreciation and impairment	3,710,015	4,357,296	198,747	8,266,058
At 31 December 2008:				
Cost	4,384,903	6,606,760	198,747	11,190,410
Accumulated depreciation and impairment	(674,888)	(2,249,464)	–	(2,924,352)
Net carrying amount	3,710,015	4,357,296	198,747	8,266,058

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings HK$'000	Plant, machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2007				
At 31 December 2006 and at 1 January 2007:				
Cost	2,357,878	3,593,026	1,030,012	6,980,916
Accumulated depreciation	(406,551)	(1,198,159)	–	(1,604,710)
Net carrying amount	1,951,327	2,394,867	1,030,012	5,376,206
At 1 January 2007, net of accumulated depreciation and impairment	1,951,327	2,394,867	1,030,012	5,376,206
Additions	22,646	86,298	1,890,953	1,999,897
Impairment	(1,969)	(54,877)	–	(56,846)
Disposal of subsidiaries (note 33)	–	(1,348)	–	(1,348)
Disposals	(4,026)	(15,643)	–	(19,669)
Depreciation provided during the year	(66,473)	(298,650)	–	(365,123)
Transfers	719,516	1,295,614	(2,015,130)	–
Exchange realignment	163,799	207,805	69,066	440,670
At 31 December 2007, net of accumulated depreciation and impairment	2,784,820	3,614,066	974,901	7,373,787
At 31 December 2007:				
Cost	3,307,572	5,402,386	974,901	9,684,859
Accumulated depreciation and impairment	(522,752)	(1,788,320)	–	(2,311,072)
Net carrying amount	2,784,820	3,614,066	974,901	7,373,787

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Plant, machinery and equipment HK$'000
31 December 2008	
At 31 December 2007 and at 1 January 2008:	
Cost	2,753
Accumulated depreciation	–
Net carrying amount	2,753
At 1 January 2008, net of accumulated depreciation	2,753
Additions	145
Depreciation provided during the year	(1,325)
At 31 December 2008, net of accumulated depreciation	1,573
At 31 December 2008:	
Cost	2,898
Accumulated depreciation	(1,325)
Net carrying amount	1,573

	Plant, machinery and equipment HK$'000
31 December 2007	
Addition and balance at 31 December 2007, net of accumulated depreciation	2,753
At 31 December 2007:	
Cost	2,753
Accumulated depreciation	–
Net carrying amount	2,753

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

All of the Group's buildings are held under medium term leases in Mainland China.

As at 31 December 2008, certain of the Group's property, plant and equipment with a net book value of approximately HK$1,406,004,000 (2007: HK$1,009,459,000) were pledged to secure banking facilities granted to the Group (note 27).

As at 31 December 2008, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net book value of approximately HK$622,384,000 (2007: HK$242,656,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

For the year ended 31 December 2008, an impairment loss was recognised in the income statement in respect of certain items of property, plant and equipment as a result of the dismantlement of an old factory. The recoverable amounts were based on those items' selling prices less cost to sell.

For the year ended 31 December 2007, an impairment loss was recognised in the income statement in respect of certain items of property, plant and equipment as a result of the closure of a production line. The recoverable amount was estimated based on those items' scrap values.

15. PREPAID LAND PREMIUMS

	Group	
	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	443,400	379,273
Additions	47,887	45,917
Recognised during the year (note 6)	(11,840)	(10,201)
Exchange realignment	27,340	28,411
Carrying amount at 31 December	506,787	443,400
Current portion included in prepayments, deposits and other receivables	(12,085)	(10,473)
Non-current portion	494,702	432,927

The leasehold land is held under medium term leases in Mainland China.

As at 31 December 2008, certain of the Group's land use rights with a net book value of approximately HK$67,902,000 (2007: HK$69,112,000) were pledged to secure bank loans granted to the Group (note 27).

As at 31 December 2008, certificates of land use rights in respect of certain land of the Group in Mainland China with an aggregate net book value of HK$23,263,000 (2007: HK$21,022,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

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16. GOODWILL

	Group	
	2008	2007
	HK$'000	HK$'000
Cost and carrying amount at 1 January	620,443	584,806
Acquisition of a subsidiary (note 32)	1,070	–
Exchange realignment	23,118	35,637
Cost and carrying amount at 31 December	644,631	620,443

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Oilseed processing cash-generating unit;
- Rice trading and processing cash-generating unit; and
- Biofuel and biochemical cash-generating unit.

The recoverable amount of the oilseed processing cash-generating unit is determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 12% and cash flows beyond the five-year period are extrapolated using a negative growth rate of 2% in perpetuity because of the long-term perspective within the Group of the business unit.

The recoverable amount of the rice trading and processing cash-generating unit is determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 11% and cash flows beyond the five-year period are extrapolated using a zero growth rate in perpetuity because of the long-term perspective within the Group of the business unit.

The recoverable amount of the biofuel and biochemical cash-generating unit is determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 13% and cash flows beyond the five-year period are extrapolated using a negative growth rate of 2% in perpetuity because of the long-term perspective within the Group of the business unit.

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	2008	2007
	HK$'000	HK$'000
Oilseed processing	116,124	116,124
Rice trading and processing	128,118	127,048
Biofuel and biochemical	397,206	374,088
Others	3,183	3,183
	644,631	620,443

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16. GOODWILL (continued)

Key assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2008 and 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for countries from where raw materials are sourced.

The values assigned to key assumptions are consistent with external information sources.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**6,060,967**	6,060,967
Loans to subsidiaries	**1,252,116**	852,363
	7,313,083	6,913,330

The loans to subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and the Company does not expect to be repaid within the next 12 months. In the opinion of the Company's directors, these loans are considered as quasi-equity loans to the subsidiaries. The carrying amounts of these loans approximate to their fair values.

Except for the following, the amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed term of repayment:

(1) amounts due from subsidiaries of HK$680,000,000 (2007: HK$780,000,000), which are financing in nature and repayable within one year;

(2) an amount due from a subsidiary of HK$800,000,000 (2007: Nil), which is dividend receivable and repayable within one year; and

(3) an amount due from a subsidiary of HK$312,000,000 in 2007, which was repayable within one year and was subject to interest at a rate of 5.832% per annum.

The amounts due to subsidiaries included in the Company's current liabilities are unsecured, interest-free and are repayable on demand.

Particulars of the Company's principal subsidiaries as at 31 December 2008 are set out in note 39 to the financial statements.

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18. INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	**1,394,086**	1,207,958
Goodwill on acquisition	**28,356**	28,356
	1,422,442	1,236,314
Loans to associates	**173,253**	165,090
	1,595,695	1,401,404

The loans to associates are capital in nature. The balances are unsecured, interest-free and the Company does not expect to be repaid within the next 12 months. The carrying amounts of these loans approximate to their fair values.

The balances with associates included in current assets and current liabilities are unsecured, interest-free and repayable within one year.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Oilseed processing cash-generating unit; and
- Biofuel and biochemical cash-generating unit.

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	2008	2007
	HK$'000	HK$'000
Oilseed processing	**16,642**	16,642
Biofuel and biochemical	**11,714**	11,714
	28,356	28,356

Details of the basis of determination of recoverable amounts and assumptions used in the value in use calculation for the above cash-generating units are set out in note 16 to the financial statements.

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18. INTERESTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements, or where appropriate, management accounts:

	2008 HK$'000	2007 HK$'000
Assets	8,582,071	7,971,797
Liabilities	4,081,072	4,202,418
Revenue	20,818,552	13,819,432
Profit	393,518	717,959

Particulars of the Group' principal associates as at 31 December 2008 are set out in note 40 to the financial statements.

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2008 HK$'000	2007 HK$'000
Unlisted equity investments outside Hong Kong, at cost	9,621	8,880

The above available-for-sale investments are stated at cost less any impairment because the directors are of the opinion that their fair values cannot be measured reliably.

20. INTANGIBLE ASSETS

Group

	Golf club membership HK$'000	Others HK$'000	Total HK$'000
31 December 2008			
Cost at 1 January 2008, net of accumulated amortisation	**5,639**	**–**	**5,639**
Additions	**6,069**	**17,382**	**23,451**
Amortisation provided during the year	**–**	**(1,642)**	**(1,642)**
Exchange realignment	**537**	**504**	**1,041**
At 31 December 2008	**12,245**	**16,244**	**28,489**
At 31 December 2008:			
Cost	**12,245**	**17,886**	**30,131**
Accumulated amortisation	**–**	**(1,642)**	**(1,642)**
Net carrying amount	**12,245**	**16,244**	**28,489**
31 December 2007			
Additions	5,639	–	5,639
At 31 December 2007	5,639	–	5,639
At 31 December 2007:			
Cost	5,639	–	5,639
Accumulated amortisation	–	–	–
Net carrying amount	5,639	–	5,639

21. INVENTORIES

	Group	
	2008 HK$'000	2007 HK$'000
Raw materials	**3,441,674**	1,639,814
Work in progress	**149,967**	95,855
Finished goods	**1,657,037**	1,820,764
	5,248,678	3,556,433

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22. ACCOUNTS AND BILLS RECEIVABLE

	Group	
	2008	2007
	HK$'000	HK$'000
Accounts and bills receivable	**1,867,366**	1,552,280
Impairment	**(13,806)**	(5,616)
	1,853,560	1,546,664

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivable are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively.

An aged analysis of the accounts and bills receivable at the balance sheet date, based on the invoice date and bill issued date and net of impairment, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 3 months	**1,572,818**	1,408,224
3 to 12 months	**280,618**	135,226
1 to 2 years	**124**	3,214
	1,853,560	1,546,664

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22. ACCOUNTS AND BILLS RECEIVABLE (continued)

The movements in the provision for impairment of accounts receivable are as follows:

	Group	
	2008 HK$'000	2007 HK$'000
At 1 January	5,616	2,602
Impairment losses recognised (note 6)	8,561	2,997
Amount written off as uncollectible	(942)	(22)
Exchange realignment	571	39
	13,806	5,616

The individually impaired accounts receivable relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the accounts and bills receivable that are not considered to be impaired is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Outstanding balances with ages:		
Neither past due nor impaired	1,826,919	1,529,611
Less than 1 month past due	8,839	4,613
1 to 3 months past due	17,678	9,226
More than 3 months but less than 12 months past due	124	3,214
	1,853,560	1,546,664

Receivables that were neither past due nor impaired relate to bills receivable and a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2008		Group 2007	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
Commodity future contracts	575	500,217	–	398,142
Foreign currency forward contracts	372	6,717	8,531	14,226
	947	506,934	8,531	412,368

The Group has entered into various commodity future contracts to manage its price exposures in future purchases or sales of soybean, soybean meal, barley and corn. The Group does not adopt hedge accounting. Net fair value gain on derivative financial instruments of HK$2,749,918,000 (2007: net losses of HK$1,223,740,000) was credited/charged to the income statement during the year.

In addition, the Group has entered into various foreign currency forward contracts to manage its exchange rate exposures. Net fair value gain of such currency derivatives amounting to HK$35,436,000 (2007: net losses of HK$5,494,000) was credited/charged to the income statement during the year.

24. LIQUID INVESTMENTS

As at 31 December 2007, the Group and the Company placed an aggregate amount of approximately HK$857,157,000 with a money market fund managed by a creditworthy international financial institution. The amount was highly liquid, readily convertible into known amounts of cash and was subject to an insignificant risk of changes in value. The liquid investments had a short maturity of one day when acquired, and formed an integral part of the Group's and the Company's cash management and were stated at fair value as at 31 December 2007. Such investments were fully disposed of during the year ended 31 December 2008.

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25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	3,728,613	2,323,193	63,198	210,439
Time deposits	1,229,339	428,811	1,066,806	–
	4,957,952	2,752,004	1,130,004	210,439
Less: Pledged deposits:				
Pledged for short term bank loans (note 27)	–	(304,670)	–	–
Pledged for bank credit facilities	(63,517)	(17,848)	–	–
Cash and cash equivalents	4,894,435	2,429,486	1,130,004	210,439

At the balance sheet date, the cash and cash equivalents and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to approximately HK$3,292,374,000 (2007: HK$2,492,196,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable at the balance sheet date, based on the invoice date and bill issued date, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 3 months	2,022,663	1,324,436
3 to 12 months	44,374	121,711
1 to 2 years	3,139	963
Over 2 years	1,478	527
	2,071,654	1,447,637

The accounts and bills payable are non-interest-bearing and are normally settled on one to three months.

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2008 Effective interest rate (%)	2008 Maturity	2008 HK$'000	2007 Effective interest rate (%)	2007 Maturity	2007 HK$'000
Current						
Bank loans – secured	1.97-5.81	2009	1,112,884	5.26-7.29	2008	1,308,518
Bank loans – unsecured	1.51-7.98	2009	3,795,248	5.26-6.58	2008	3,294,292
Other loans – unsecured	LIBOR + 1.08	2009	312,000	LIBOR + 0.446	2008	78,000
			5,220,132			4,680,810
Non-current						
Bank loans – secured	BLR-10%	2013	22,007	5.67-6.97	2009-2012	–
Bank loans – unsecured	BLR-10%	2011-2012	1,133,915	5.67-6.97	2009-2012	1,137,334
			1,155,922			1,137,334
			6,376,054			5,818,144

	2008 HK$'000	2007 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	4,908,132	4,602,810
In the second year	–	331,055
In the third to fifth years, inclusive	1,155,922	806,279
	6,064,054	5,740,144
Other loans repayable: #		
Within one year or on demand	312,000	78,000
	6,376,054	5,818,144

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(a) Certain of the Group's bank loans are secured by:

(i) certain property, plant and equipment of the Group with a net book value of approximately HK$1,406,004,000 (2007: HK$1,009,459,000) (note 14);

(ii) certain land use rights of the Group with a net book value of approximately HK$67,902,000 (2007: HK$69,112,000) (note 15);

(iii) a pledge of certain of the Group's time deposits amounting to HK$304,670,000 in 2007 (note 25); and

(iv) certain inventory of the Group amounting to HK$47,411,000 in 2007.

(b) Except for bank and other borrowings of HK$3,575,068,000 (2007: HK$2,735,650,000) which are denominated in United States dollars, all borrowings are in RMB.

The other loans represented loans due to a fellow subsidiary.

The carrying amounts of the Group's bank and other borrowings approximate to their fair values.

28. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Provision against inventories HK$'000	Impairment of receivables HK$'000	Unrealised loss on derivative financial instruments HK$'000	Others HK$'000	Total HK$'000
At 1 January 2007	–	92	–	2,309	2,401
Deferred tax credited to the income statement during the year (note 10)	853	3,072	71,697	23,348	98,970
Exchange realignment	31	118	2,611	1,015	3,775
At 31 December 2007 and at 1 January 2008	884	3,282	74,308	26,672	105,146
Deferred tax credited/(charged) to the income statement during the year (note 10)	**47,472**	**1,075**	**(61,214)**	**26,149**	**13,482**
Exchange realignment	**1,525**	**236**	**2,697**	**2,458**	**6,916**
Gross deferred tax assets at 31 December 2008	**49,881**	**4,593**	**15,791**	**55,279**	**125,544**

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28. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	Accelerated tax depreciation HK$'000	Deferred income HK$'000	Unrealised gain on derivative financial instruments HK$'000	Withholding tax HK$'000	Others HK$'000	Total HK$'000
At 1 January 2007	14,368	6,105	81	–	2,926	23,480
Deferred tax (credited)/charged to the income statement during the year (note 10)	(3,576)	965	1,975	–	(3,000)	(3,636)
Exchange realignment	922	471	78	–	74	1,545
At 31 December 2007 and at 1 January 2008	11,714	7,541	2,134	–	–	21,389
Deferred tax (credited)/charged to the income statement during the year (note 10)	(3,458)	5,553	(1,967)	119,786	38	119,952
Exchange realignment	618	639	71	–	–	1,328
Gross deferred tax liabilities at 31 December 2008	8,874	13,733	238	119,786	38	142,669

For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2008 HK$'000	2007 HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	122,851	105,146
Net deferred tax liabilities recognised in the consolidated balance sheet	(139,976)	(21,389)
	(17,125)	83,757

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28. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

The Group has tax losses arising in Mainland China of HK$57,223,000 (2007: HK$78,461,000) that are available for offsetting against future taxable profits for a maximum period of five years of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

Shares

	2008 HK$'000	2007 HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.1 each	400,000	400,000
Issued and fully paid:		
3,593,906,356 ordinary shares of HK$0.1 each	359,391	359,391

The following changes in the Company's issued share capital took place during current and prior year:

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
Issued:			
At 1 January 2007		10	–
Issued on acquisition of China Agri-Industries Limited	(i)	2,791,383,346	279,138
Issue of new shares	(ii)	697,846,000	69,785
Issue of new shares	(iii)	104,677,000	10,468
As at 31 December 2007 and at 31 December 2008		3,593,906,356	359,391

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29. SHARE CAPITAL(continued)

Shares (continued)

Notes:

(i) On 10 January 2007, pursuant to the reorganisation, the Company acquired from China Foods Limited the entire issued share capital in China Agri-Industries Limited, a limited liability company incorporated in Bermuda, in consideration for the allotment and issue of 2,791,383,346 ordinary shares of HK$0.1 each in the share capital of the Company, credited as fully paid. Further details of the reorganisation are set out in the Company's listing prospectus dated 8 March 2007 (the "Prospectus").

(ii) In connection with the Company's initial public offering, 697,846,000 new shares of HK$0.1 each were issued at a price of HK$3.72 per share for a total cash consideration, before expenses, of approximately HK$2,595,987,000. Dealings in these shares on the Stock Exchange commenced on 21 March 2007.

(iii) In connection with the Company's initial public offering, an over-allotment option was granted to the Global Coordinator (as defined in the Prospectus) whereby the Global Coordinator, on behalf of the International Purchasers (as defined in the Prospectus), has the right to request the Company to issue and allot up to an aggregate of 104,677,000 additional shares of HK$0.1 each to subscribers under the initial public offering. On 26 March 2007, the Global Coordinator exercised the over-allotment option and accordingly, 104,677,000 new shares of HK$0.1 each were issued by the Company at a price of HK$3.72 per share for a total cash consideration, before expenses, of approximately HK$389,398,000. Dealings in these shares on the Stock Exchange commenced on 30 March 2007.

Share options

Details of the Company's share option scheme are included in note 30 to the financial statements.

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30. SHARE OPTION SCHEME

On 12 January 2007, the shareholders of the Company conditionally approved and adopted a share option scheme (the "Scheme") for the purpose of attract, retain and motivate directors and eligible participants to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company. Eligible participants include, but not limited to, any directors, (excluding independent non-executive directors), officers and employees of the Group, or any other person the board of directors (the "Board") may proposed. The Scheme became unconditional and effective upon listing of the shares of the Company on 21 March 2007 and, unless otherwise cancelled, amended or terminated in accordance with the Scheme, will remain in force for 10 years from 21 March 2007.

The maximum number of shares of the Company which may be issued upon exercise of all share options granted under the Scheme and under any other share option scheme shall not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issued and to be issued on exercise of all share options granted and to be granted to each eligible participant in any 12-month period is limited to 1% of the shares in issue at the relevant time unless it is approved by shareholders in a general meeting of the Company.

Any grant of share options under the Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors. Any share options granted to a substantial shareholder of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by each grantee. The exercise period of the share options granted is determinable by the Board.

The exercise price of share options is determinable by the Board, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; or the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 7 August 2007, a total of 27,600,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year. These share options vested in a period from 7 August 2007 to 6 August 2011 and had an exercise price of HK$4.666 per share and an exercise period from 7 August 2009 to 6 August 2014. The price of the Company's shares at the date of grant was HK$4.50 per share.

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30. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

	2008		2007	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	4.666	27,600	–	–
Granted during the year	–	–	4.666	27,600
Forfeited during the year	4.666	(230)	–	–
At 31 December	4.666	27,370	4.666	27,600

The vesting periods, exercise price and exercise periods of the share options outstanding as at balance sheet date are as follows:

2008

Number of options granted to Directors '000	Employees '000	Total '000	Vesting period	Exercise price per share HK$	Exercise period
1,300	7,824	9,124	7-8-2007 to 6-8-2009	4.666	7-8-2009 to 6-8-2014
1,300	7,822	9,122	7-8-2007 to 6-8-2010	4.666	7-8-2010 to 6-8-2014
1,300	7,824	9,124	7-8-2007 to 6-8-2011	4.666	7-8-2011 to 6-8-2014
3,900	23,470	27,370			

2007

Number of options granted to Directors '000	Employees '000	Total '000	Vesting period	Exercise price per share HK$	Exercise period
1,300	7,900	9,200	7-8-2007 to 6-8-2009	4.666	7-8-2009 to 6-8-2014
1,300	7,900	9,200	7-8-2007 to 6-8-2010	4.666	7-8-2010 to 6-8-2014
1,300	7,900	9,200	7-8-2007 to 6-8-2011	4.666	7-8-2011 to 6-8-2014
3,900	23,700	27,600			

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30. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year ended 31 December 2007 was approximately HK$45,700,000 (HK$1.656 each) of which the Company recognised a share option expense of HK$16,312,000 during the year ended 31 December 2008 (2007: HK$6,647,000). There is no share options granted during the year ended 31 December 2008.

The fair value of equity-settled share options granted during the year ended 31 December 2007 was estimated as at the date of grant, using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	1
Expected volatility (%)	42.95
Historical volatility (%)	42.95
Risk-free interest rate (%)	4.369
Expected life of options (year)	5
Weighted average share price (HK$)	4.350

The expected life of the options is determined with reference to the vesting term and original contractual term of the Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At balance sheet date, the Company had 27,370,000 (2007: 27,600,000) share options outstanding under the Scheme. The options outstanding at balance sheet date had a remaining contractual life of 5.59 years (2007: 6.59 years). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 27,370,000 (2007: 27,600,000) additional ordinary shares of the Company and additional share capital of HK$2,737,000 (2007: HK$2,760,000) and share premium of HK$124,971,420 (2007: HK$126,021,600) (before issue expenses).

At the date of the approval of these financial statements, the shares issuable from the above outstanding share options represented approximately 0.76% of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The Group's capital reserve represents the difference between the nominal value of the shares/capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares on 21 March 2007 over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries and associates which are registered in the PRC has been transferred to reserve funds which are restricted as to use.

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31. RESERVES (continued)

(b) Company

	Notes	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2007		–	–	–	(3,123)	(3,123)
Issue of shares	29	2,905,133	–	–	–	2,905,133
Share issue expenses		(158,834)	–	–	–	(158,834)
Acquisition of China-Agri Industries Limited		–	5,689,788	–	–	5,689,788
Equity-settled share option arrangements	30	–	–	6,647	–	6,647
Profit for the year		–	–	–	165,565	165,565
At 31 December 2007 and at 1 January 2008		2,746,299	5,689,788	6,647	162,442	8,605,176
Equity-settled share option arrangements	30	–	–	**16,312**	–	**16,312**
Profit for the year		–	–	–	**1,282,939**	**1,282,939**
Proposed final 2008 dividend	12	–	–	–	**(524,624)**	**(524,624)**
At 31 December 2008		**2,746,299**	**5,689,788**	**22,959**	**920,757**	**9,379,803**

The Company's capital reserve represents the excess of carrying amount of China Agri-Industries Limited acquired pursuant to the Group reorganisation prior to the listing of the Company's shares on 21 March 2007 over the nominal value of the Company's shares issued in exchange therefor.

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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32. BUSINESS COMBINATION

On 11 March 2008, the date of acquisition, the Group acquired the entire equity interest in Dalian Bainong Rice Processing Limited, which subsequently changed name to COFCO Dalian Rice Processing Limited, from independent third parties. COFCO Dalian Rice Processing Limited is engaged in the processing and sale of rice business.

The fair values of the identifiable assets and liabilities of COFCO Dalian Rice Processing Limited as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition HK$'000	**Carrying amount** HK$'000
Property, plant and equipment (note 14)	8,227	7,534
Inventories	31,763	31,763
Accounts and bills receivable	11,622	11,622
Prepayments, deposits and other receivables	311	311
Cash and bank balances	6,345	6,345
Accounts payable	(33,353)	(33,353)
Other payables and accruals	(13,622)	(13,622)
	11,293	10,600
Goodwill on acquisition (note 16)	1,070	
	12,363	
Satisfied by:		
Cash	12,363	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	HK$'000
Cash consideration	(12,363)
Cash and bank balances acquired	6,345
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	(6,018)

Since the acquisition date, the subsidiary contributed HK$275,296,000 to the Group's revenue and HK$21,831,000 to the Group's consolidated profit for the year.

Had the combination taken place at the beginning of the year, the revenue from continuing operation of the Group and the profit of the Group for the year would have been HK$41,810,980,000 and HK$3,465,917,000, respectively.

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33. DISPOSAL OF SUBSIDIARIES

	2008 HK$'000	2007 HK$'000
Net assets disposed of:		
Property, plant and equipment (note 14)	–	1,348
Inventories	–	1,508
Accounts and bills receivable	–	3,073
Prepayments, deposits and other receivables	–	1,284
Due from associates	–	153
Due from fellow subsidiaries	–	1,100
Cash and bank balances	–	3,523
Accounts and bills payable	–	(1,176)
Other payables and accruals	–	(2,929)
Tax payable	–	(1,299)
Minority interests	–	(414)
	–	6,171
Loss on disposal of subsidiaries (note 6)	–	(1,917)
	–	4,254
Satisfied by:		
Cash	–	4,254

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2008 HK$'000	2007 HK$'000
Cash consideration	–	4,254
Cash and bank balances disposed of	–	(3,523)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	731

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34. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and steel barrels under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to eleven years and those for steel barrels for terms ranging from one to nine years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008 HK$'000	2007 HK$'000
Within one year	9,907	18,311
In the second to fifth years, inclusive	9,327	15,562
After five years	612	748
	19,846	34,621

35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2008 HK$'000	2007 HK$'000
Guarantees given to banks in connection with facilities granted to a subsidiary	3,892,200	302,263

As at 31 December 2008, the banking facilities granted to a subsidiary subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$406,998,000 (2007: HK$2,622,000).

36. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the balance sheet date:

	2008 HK$'000	2007 HK$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	1,451,580	215,240
Contracted, but not provided for	228,749	659,837
	1,680,329	875,077
Capital commitments in respect of investments:		
Authorised, but not contracted for	556,151	–

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37. OTHER COMMITMENTS

Commitments under commodity future contracts:

	2008 HK$'000	2007 HK$'000
Sales of soybean meal	89,120	2,454,224
Sales of soybean	2,822,679	1,998,356
Sales of soybean oil	1,858,913	636,752
Sales of rapeseed oil	229,956	90,855
Sales of palm oil	727,351	–
Sales of wheat	–	4,838
	5,728,019	5,185,025
Purchases of soybean	–	121,753
Purchases of corn	51,880	540,966
	51,880	662,719

Commitments under foreign currency forward contracts:

	2008 HK$'000	2007 HK$'000
Sales of United States dollars	1,266,360	304,032
Purchases of United States dollars	–	965,250

Other than disclosed above, the Group did not have any significant commitments or contingent liabilities as at the balance sheet date (2007: Nil).

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38. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Apart from the transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2008 HK$'000	2007 HK$'000
Transactions with fellow subsidiaries:			
Sales of goods**	(i)	7,293,549	3,495,892
Purchases of goods**	(i)	1,827,679	850,990
Operating lease rental paid**	(i)	11,223	11,247
Interest expense	(ii)	11,400	9,385
Commission paid	(i)	–	209
Building management fee paid	(i)	418	191
Brokerage fee paid**	(i)	31,000	14,762
Processing service fee paid*	(i)	–	7,223
Logistic service and storage income	(i)	5,666	–
Disposal of assets	(i)	3,300	–
Transactions with the ultimate holding company:			
Sales of goods*	(i)	246	1,701
Purchases of goods*	(i)	9,863,906	191,165
Operating lease rental received	(i)	–	1,712
Agency income*	(iii)	383,075	–
Logistic service and storage income*	(i)	97,964	–
Transactions with associates:			
Sales of goods**	(i)	570,490	241,566
Purchases of goods**	(i)	86,452	77,989
Purchases of steel barrels	(i)	–	24,494
Agency income*	(i)	110	–
Transactions with related companies: #			
Sales of goods**	(i)	1,034,039	160,248
Purchases of goods**	(i)	2,725,514	9,094,559
Transactions with minority shareholders of subsidiaries:			
Sales of goods**	(i)	144,519	–
Purchases of goods*	(i)	44,034	22,536

* These related party transactions also constituted connected transactions disclosable in accordance with the Listing Rules.

** Certain portion of these related party transactions are connected transactions disclosable in accordance with the Listing Rules.

Related companies are companies under significant influence of the Group's ultimate holding company.

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38. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(i) Except for the transactions with a fellow subsidiary for sales of goods of HK$15,475,000 (2007: Nil) and with an associate for sales of goods of HK$103,871,000 (2007: Nil), which were carried out at cost, other transactions were carried out with reference to the prevailing market prices or, where no market prices were available, at cost plus a percentage of profit mark-up.

(ii) The interest expense arose from the loans from a fellow subsidiary, which were unsecured, bore interest at rates of LIBOR+1.08 per annum (2007: LIBOR+0.446 per annum).

(iii) As disclosed in the Company's announcement dated 21 August 2008, on 1 February 2008, the Group entered into an agency agreement with COFCO pursuant to which the Group engaged in providing import agency services in respect of purchasing certain raw materials for COFCO. The agency fee is calculated at 1% of the total offered contract prices by COFCO of the goods purchased, but subject to agency fee adjustment.

(b) Outstanding balances with related parties

Except for the following, the balances with the ultimate holding company, fellow subsidiaries, related companies, and minority shareholders of the Group's subsidiaries as at the balance sheet date are unsecured, interest-free and have no fixed terms of repayment:

(1) loans due to a fellow subsidiary of HK$312,000,000 (2007: HK$78,000,000), which bore interest at rate of LIBOR+1.08 per annum;

(2) amounts due to minority shareholders of subsidiaries of HK$129,476,000 (2007: HK$119,312,000), which are financing in nature and are not repayable within one year from the balance sheet date.

The carrying amounts of the balances with related parties approximate to their fair values.

(c) Compensation of key management personnel of the Group

	2008 HK$'000	2007 HK$'000
Short term employee benefits	**17,877**	15,087
Post-employment benefits	**310**	257
Equity-settled share option expense	**5,113**	2,059
Total compensation paid to key management personnel	**23,300**	17,403

(d) Transactions with other state-owned enterprises

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the year, the Group had transactions with State-owned Enterprises including, but not limited to, sales and purchases of processed foodstuffs and raw materials. The directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the business, and that dealings of the Group have not been significantly or unduly affected by the fact that the Group and those Stated-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2008 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company	Principal activities
China Agri-Industries Limited	Bermuda/ Hong Kong	Ordinary HK$269,238,336	100	Investment holding
Full Extent Group Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US$3	100	Investment holding
COFCO Oils & Fats Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. (formerly known as East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd) **	The PRC/ Mainland China	US$113,000,000	54	Production and sale of edible oil, and trading of soybean and rapeseed
COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd. (formerly known as Yellowsea Oils & Grains Industries (Shandong) Co., Ltd) **	The PRC/ Mainland China	US$47,773,776	72.94	Production and sale of edible oil
COFCO ADM Oils & Grains Industries (Heze) Co., Ltd. **	The PRC/ Mainland China	US$22,399,989	70	Production and sale of edible oil
COFCO Eastbay Oils & Grains Industries (Guangzhou) Co., Ltd. **	The PRC/ Mainland China	RMB51,700,000	89.36	Processing and refining of edible oil and fat
China Agri Oils Trading Limited	Hong Kong/ Hong Kong	Ordinary HK$1	100	Trading of soybean
COFCO Xiangrui Oils & Grains Industries (Jingmen) Co., Ltd. **	The PRC/ Mainland China	US$25,420,000	100	Production and sale of edible oil
張家港保稅區中糧四海豐貿易有限公司 ***	The PRC/ Mainland China	RMB10,000,000	57.43	Trading of soybean

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2008 are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Excel Joy (Tianjin) Co., Ltd**	The PRC/ Mainland China	US$11,423,550	100	Under construction
COFCO Malt Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
Dalian COFCO Malt Co., Ltd. **	The PRC/ Mainland China	US$32,526,000	100	Production and sale of brewing materials
COFCO Malt (Jiangyin) Co., Ltd. **	The PRC/ Mainland China	US$35,000,000	100	Production and sale of brewing materials
COFCO Malt (Hulunbeier) Co., Ltd **	The PRC/ Mainland China	US$6,000,000	100	Under construction
COFCO International (Beijing) Co., Ltd. **	The PRC/ Mainland China	RMB60,000,000	100	Trading of rice
COFCO (BVI) No. 1 Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
COFCO Jiangxi Rice Processing Limited *	The PRC/ Mainland China	RMB60,200,000	83.47	Trading and processing of rice
COFCO Dalian Rice Processing Limited **	The PRC/ Mainland China	RMB90,000,000	100	Trading and processing of rice
COFCO Biofuel Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
Techbo Limited	BVI/Hong Kong	Ordinary US$1	100	Investment holding
COFCO Bio-Energy (Zhaodong) Co., Ltd. ("Zhaodong Bio-Energy")**	The PRC/ Mainland China	RMB380,000,000	100	Production and sale of biofuel and biochemical
COFCO Heilongjiang Brewery Co., Ltd. ***	The PRC/ Mainland China	RMB5,000,000	65	Wine brewery
Guangxi COFCO Bio-Energy Co., Ltd. ("Guangxi Bio-Energy")*	The PRC/ Mainland China	US$40,205,980	85	Production and sale of biofuel and biochemical

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2008 are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Biochemical Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
COFCO Bio-Chemical Energy (Yushu) Co., Ltd. **	The PRC/ Mainland China	US$38,000,000	100	Production and sale of biofuel and biochemical
COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd. **	The PRC/ Mainland China	US$71,880,000	100	Production and sale of biofuel and biochemical
Jilin COFCO Bio-Chemical Energy Sales and Distributions Co., Ltd. ***	The PRC/ Mainland China	RMB10,000,000	100	Sale of biofuel and biochemical
COFCO Flour Holdings Limited	BVI/Hong Kong	Ordinary US$3	100	Investment holding
Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd. *	The PRC/ Mainland China	RMB55,000,000	66.9	Production and sale of wheat products
COFCO Flour Industry (Puyang) Co., Ltd. **	The PRC/ Mainland China	RMB35,000,000	80	Production and sale of wheat products
COFCO Flour Industry Foods (Dezhou) Co., Ltd. *	The PRC/ Mainland China	RMB43,533,000	55	Production and sale of wheat products
Shenyang Xiangxue Flour Limited Liability Company *	The PRC/ Mainland China	RMB80,350,000	69.3	Production and sale of wheat products
COFCO Flour Industry (Qinhuangdao) Pangthai Co., Ltd. **	The PRC/ Mainland China	US$17,340,000	100	Production and sale of wheat products
COFCO TTC (Beijing) Foods Co., Ltd. **	The PRC/ Mainland China	US$5,450,000	51	Production and sale of wheat products
COFCO Flour Industry (Luohe) Co., Ltd. *	The PRC/ Mainland China	RMB40,000,000	95	Production and sale of wheat products
COFCO Flour Marketing Management (Beijing) Co., Ltd. ***	The PRC/ Mainland China	RMB2,800,000	100	Sale of wheat products

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2008 are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company	Principal activities
Conomer Investments Limited	BVI/Hong Kong	Ordinary US$1	100	Investment holding
Zhengzhou Haijia Food Co., Ltd. *	The PRC/ Mainland China	RMB30,000,000	55	Production and sale of wheat products
Sunny World Limited	BVI/Hong Kong	Ordinary US$1	100	Investment holding
Xiamen Haijia Flour Mills Co., Ltd. *	The PRC/ Mainland China	RMB71,325,000	60	Production and sale of wheat products

* Sino-foreign equity joint ventures
** Wholly-foreign-owned enterprises
*** Domestic-funded enterprises

Except for China Agri Oils Trading Limited, the statutory audits for the above subsidiaries are not performed by Ernst & Young Hong Kong or other member firm of Ernst & Young global network.

Except for China Agri-Industries Limited, all of the above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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40. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates as at 31 December 2008 are as follows:

Name	Particulars of issued and paid-up share/ registered capital	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Great Ocean Oil and Grains Industries (Fang Cheng Gang) Co.,Ltd.	US$69,500,000	The PRC	40	Soybean oil extraction, and refining Packaging and production of soybean meal
Laiyang Luhua Fragrant Peanut Oil Co., Ltd. #	US$19,219,300	The PRC	24	Production and sale of peanut oil
COFCO Northsea Oils & Grains Industries (Tianjin) Co., Ltd. (formerly known as Northsea Oils & Grains Industries (Tianjin) Co., Ltd.)#	US$51,557,000	The PRC	50.44	Production and sale of edible oil
Lassiter Limited #	Ordinary share US$100	Samoa	49	Investment holding*
Shenzhen Nantian Oilmills Co., Ltd. #	US$10,000,000	The PRC	20	Oilseed processing
Jilin Fuel Ethanol Co., Ltd. #	RMB1,200,000,000	The PRC	20	Production and sale of biofuel and biochemical

* Lassiter Limited has a 61.74% equity interest in Shenzhen Southeast Grains Industries Ltd., a Sino-foreign equity joint venture registered in the PRC, the principal activity of which is the production and sale of wheat products in Mainland China.

\# Not audited by Ernst & Young Hong Kong or other member firm of Ernst & Young global network.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

All of the above associates are indirectly held by the Company.

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41. FINANCIAL INSTRUMENTS BY CATEGORY

The financial assets of the Group are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments.

The carrying amount of financial assets at fair value through profit or loss of the Group with an aggregate amount of HK$947,000 (2007: HK$865,688,000) which represent derivative financial instruments and liquid investments, has been disclosed on the consolidated balance sheet and relevant notes to the financial statements.

The carrying amount of financial assets at fair value through profit or loss of the Company, which represent the liquid investment amounting to nil (2007: HK$857,157,000), has been disclosed on the Company's balance sheet and the relevant note to the financial statements.

The carrying amount of loans and receivables of the Group with an aggregate amount of HK$11,334,343,000 (2007: HK$6,684,725,000) including due from and loans to associates, accounts and bills receivable, an aggregate amount of HK$2,091,185,000 (2007: HK$731,261,000) included in prepayments, deposits and other receivables, amounts due from fellow subsidiaries, amounts due from related companies, amounts due from the ultimate holdings company, pledged deposits, and cash and cash equivalents, has been disclosed on the consolidated balance sheet and relevant notes to the financial statements.

The carrying amount of loans and receivables of the Company with an aggregate amount of HK$4,309,634,000 (2007: HK$2,156,019,000) including amounts due from and loans to subsidiaries, and cash and cash equivalents, has been disclosed on the Company's balance sheet and relevant notes to the financial statements.

The carrying amount of available-for-sale investments of the Group amounting to HK$9,621,000 (2007: HK$8,880,000) has been disclosed on the consolidated balance sheet and the relevant note to the financial statements.

The financial liabilities of the Group are classified as financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

The carrying amount of financial liabilities at fair value through profit or loss of the Group, which represent derivative financial instruments, amounting to HK$506,934,000 (2007: HK$412,368,000), has been disclosed on the consolidated balance sheet and the relevant note to the financial statements.

The carrying amount of financial liabilities at amortised cost of the Group with an aggregate amount of HK$10,454,638,000 (2007:HK$7,569,828,000) including, accounts and bills payable, an aggregate amount of HK$1,215,632,000 (2007: HK$1,132,919,000) included in other payables and accruals, interest-bearing bank and other borrowings, amounts due to fellow subsidiaries, an amount due to the ultimate holding company, an amount due to the immediate holding company, amounts due to related companies, amounts due to minority shareholders of subsidiaries, and amounts due to associates, has been disclosed on the consolidated balance sheet and relevant notes to the financial statements.

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments other than derivatives, comprise interest-bearing bank loans and other loans, and cash and bank balances and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable, accounts payable and balances with related parties, which arise directly from its operations.

The Group enters into derivative transactions, including principally foreign currency forward contracts and commodity future contracts for the purpose to hedge its risks associated with foreign currency fluctuations and with price fluctuations in future purchases or sales of the related commodities. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and market price risk. The Group's overall risk management programme focuses on minimising potential adverse effects of these risks with material impact on the Group's financial performance. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term interest-bearing bank and other borrowings with a floating interest rate. The effective interest rates and terms of repayment of the interest-bearing bank and other borrowings of the Group are disclosed in note 27. It is the Group's policy to negotiate the terms of the interest-bearing and other borrowings in order to minimise the respective finance cost. It is also the Group's policy not to use any derivative to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

		Group	
	Increase/ (decrease) in basis points	**(Decrease)/ increase in profit before tax** HK$'000	**(Decrease)/ increase in equity** HK$'000
2007			
	100	(10,842)	(9,293)
	(100)	10,842	9,293
2008			
	100	**(22,930)**	**(18,670)**
	(100)	**22,930**	**18,670**

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group mainly operates in Mainland China with most of the Group's monetary assets, liabilities and transactions principally denominated in Hong Kong dollars, Renminbi and United States dollars. Approximately 16% (2007: 12%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 66% (2007: 54%) of cost are denominated in the units' functional currency. The Group partially hedge purchases and sales that are denominated in United States dollars, at the discretion of management.

The following table indicates the approximate change in the Group's profit before tax and equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	Increase/ (decrease) in HK$/US$ rate %	(Decrease)/ increase in profit before tax HK$'000	(Decrease)/ increase in equity HK$'000
2007			
If Renminbi weakens against Hong Kong dollar	5	–	(471,120)
If Renminbi strengthens against Hong Kong dollar	(5)	–	471,120
If Renminbi weakens against United States dollar	5	(228,603)	(195,936)
If Renminbi strengthens against United States dollar	(5)	228,603	195,936
2008			
If Renminbi weakens against Hong Kong dollar	**5**	**–**	**(389,536)**
If Renminbi strengthens against Hong Kong dollar	**(5)**	**–**	**389,536**
If Renminbi weakens against United States dollar	**5**	**(313,913)**	**(255,593)**
If Renminbi strengthens against United States dollar	**(5)**	**313,913**	**255,593**

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profits before tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date for presentation purpose.

Credit risk

The Group has no significant concentration of credit risk. The carrying amount of the accounts receivable represents the Group's maximum exposure to credit risk in relation to its financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet its working capital requirements.

The contractual maturities of financial liabilities including derivative financial instruments, interest-bearing bank and other borrowings, amounts due to fellow subsidiaries, an amount due to the ultimate holding company, an amount due to the immediate holding company, amounts due to related companies, amounts due to the minority shareholders of subsidiaries and amounts due to associates, have been disclosed in notes 23, 27, 38, 18 to the financial statements. For accounts and bills payable, they are generally on credit terms of one to three months after the invoice date and the bill issued date. For the financial liabilities amounting to HK$1,215,632,000 (2007: HK$1,132,919,000) that are included in the items of other payables and accruals on the consolidated balance sheet, there are generally no specified contractual maturities, and they are paid on a regular basis or upon counterparty's formal notification.

Market price risk

The raw material costs and product selling prices of the Group's edible oil, soybean meal and other related commodity products are substantially correlated to the prices of the future commodities markets. Market price risk arises from price fluctuations of raw material cost and product selling price during the delivery, production and storage processes. To minimise the Group's market price risk exposure, the Group enters into commodities future contracts of soybean, soybean meal, barley and corn.

The following table demonstrates the sensitivity to a reasonably possible change in the Group's major raw material prices, with all other variables held constant and no hedging investments available, of the Group's profit before tax and the Group's equity.

	Group		
	Change in raw materials prices %	**Change in profit before tax** HK$'000	**Change in equity** HK$'000
2007			
Soybean	5	485,218	400,790
Corn	5	86,134	71,663
Rice	5	121,084	86,212
Barley	5	36,202	35,840
Wheat	5	112,937	107,290
2008			
Soybean	**5**	**647,002**	**525,220**
Corn	**5**	**210,414**	**162,751**
Rice	**5**	**117,568**	**100,214**
Barley	**5**	**68,233**	**61,715**
Wheat	**5**	**125,509**	**109,396**

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by the shareholders' equity. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents, pledged deposits and liquid investments. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Interest-bearing bank and other borrowings	**6,376,054**	5,818,144
Less: Cash and cash equivalents	**(4,894,435)**	(2,429,486)
Pledged deposits	**(63,517)**	(322,518)
Liquid investments	**–**	(857,157)
Net debt	**1,418,102**	2,208,983
Equity attributable to equity holders of the Company	**13,602,422**	10,400,271
Gearing ratio	**10.4%**	21.2%

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43. POST BALANCE SHEET EVENTS

(a) On 17 February 2009, the Group proposed to enter into five purchase agreements with COFCO HK and its subsidiary to acquire the 100% equity interests of four subsidiaries engaging in the business of food processing and certain property, plant and equipment for an aggregate consideration of HK$972,782,000 and HK$127,893,000, respectively. The total consideration will be satisfied by the issuance and allotment of an aggregate amount of 263,626,483 ordinary shares and a cash of HK$127,893,000, respectively, to COFCO HK.

Further details of these acquisitions were disclosed by the Company in the announcement dated 17 February 2009. Because these acquisitions had not yet completed up to the date of approval of these financial statements, it is not practicable to disclose further details about these acquisitions.

(b) On 6 February 2009, 26 February 2009, 16 March 2009, and 7 April 2009, the Company announced to establish certain joint venture companies with COFCO with total capital contribution by the Company of RMB546,590,000 (approximately to HK$619,787,000). Further details of these establishments were disclosed by the Company in the announcement dated 6 February 2009, 26 February 2009, 16 March 2009, and 7 April 2009, respectively.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2009.