FINANCIAL REVIEW

Group results

For the financial year ended 31 December 2005, the Group's turnover was approximately HK$3,639,763,000 (2004: HK$4,569,022,000). Loss attributable to Shareholders of the Company was approximately HK$312,173,000 (2004: (restated) HK$100,584,000 profit attributable to Shareholders). Loss per Share of the Company amounted to HK39.0 cents (2004: (restated) HK16.4 cents earnings per Share).

Selling and distribution expenses

During the year, the Group's selling and distribution costs amounted to approximately HK$74,789,000 (2004: HK$60,035,000), representing an increase of approximately 24.6% over last year. The increase was resulted from the additional distribution costs attributable to the distribution centres, most of which were established in mid 2004.

Administrative expenses

Administrative expenses increased to approximately HK$79,719,000 (2004: (restated) HK$43,660,000), 82.6% higher than that in last year. This was mainly due to the new plant in Dongguan which commenced commercial operation in the fourth quarter of 2004. In addition, the administrative expenses for the financial year ended 31 December 2005 included an amount of approximately HK$11,200,000 which was the fair value of the share options granted to employees recognized as an expense during the year (2004: (restated) HK$2,728,000).

Finance costs

The Group's finance costs for the year amounted to approximately HK$54,870,000 (2004: HK$36,918,000), mainly comprising interest expenses on bank loans and discounting charges. The increase in finance costs was mainly due to the increase of bank loans.

Liquidity and financial resources

As at 31 December 2005, the Group's total Shareholders' equity amounted to HK$258,956,000 (2004: (restated) HK$612,454,000). As at 31 December 2005, the Group's cash and bank deposits amounted to HK$199,985,000 (2004: HK$479,747,000). The Group's net current liabilities were approximately HK$426,119,000 (2004: (restated) HK$148,747,000 net current assets).

As at 31 December 2005, the Group had total available banking facilities amounted to HK$1,426,340,000 of which HK$963,312,000 has been utilized. As such, the Group had remaining available banking facilities of HK$463,028,000 as at that date.

On 24 March 2006, China Force Oils & Grains Industrial Limited and China Force (Dongguan) entered into an agreement (the "**Subscription Agreement**") with Central Grain Reserve Guangdong Xingshagang Depot (the "**Investor**"). Pursuant to the Subscription Agreement, the Investor agreed to subscribe the proposed increase in the registered capital of China Force (Dongguan) which will represent 49% of the enlarged registered capital of China Force (Dongguan). The net proceeds to be received by China Force (Dongguan) in relation to the Subscription Agreement are expected to be approximately RMB55,680,000 which will be applied as general working capital of China Force (Dongguan). In addition, the Company is considering other means of financing which will be announced in full compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), as and when required. Based on the above, the Directors believe that the Group has sufficient financial resources, unutilized credit facilities and reserves for the funding requirements of the Group's daily operations.

As the Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi and United States dollars, its exposure to exchange rate risk is limited. The Directors are of the opinion that the new Renminbi exchange rate arrangement introduced in July 2005 will not have any material negative impact on its liquidity and financial resources.

Capital structure

The share capital of the Company remained unchanged during the year. As at 31 December 2005, the Group's net worth was approximately HK$258,956,000 (2004: (restated) HK$612,454,000), and the net debts were HK$763,327,000 (2004: HK$174,316,000). Based on the above, the Group's net gearing ratio was approximately 294.8% (2004: 28.5%).

OPERATIONAL REVIEW

Soyabean oil business

Adversely affected by the unexpected fluctuations in the spot and the futures soyabean oil prices in the PRC domestic and international markets, the Group's business development experienced huge challenges in 2005. Throughout the first half of the year, the prices of edible oils in the PRC continuously decreased. The selling prices of refined soyabean oil, for example, decreased from RMB6,100 per tonne at the beginning of 2005 to approximately RMB5,300 per tonne by the end of June 2005, plunging as much as 13.1%. In the second quarter of 2005, the selling prices of soyabean oil in the PRC were even lower than the prices of imported crude soyabean oil. Despite that selling prices of soyabean oil in the PRC remained at approximately RMB5,300 to RMB5,500 since the third quarter of 2005, the Group's spot soyabean oil business reported a gross loss for the whole year of approximately HK$158,372,000.

In addition, since mid February this year, a rare guiding factor emerged in the international market - index funds participated and intervened the futures market of international agricultural products. The Chicago Board of Trade (the "**CBOT**") started to see the rising of the futures prices of international agricultural products. However, at this stage, the PRC market still operated under the influence of domestic supply and demand and as such, it did not closely follow the unexpected and uncontrollable dramatic change in the international market, resulting in a gap between the domestic prices and the international prices.

Despite that, during the year, the Group resorted to strict risk management procedure as in the past and hedged with futures contracts of soyabeans and soyabean oils traded on the CBOT to reduce the risk of the fluctuation of raw material prices, such hedging activities had been ineffective during the period from February to April 2005. That was the result of the opposite price movements between the spot prices of refined soyabean oils in the PRC and the futures prices of soyabean oils quoted on the CBOT. The Group's risk management and hedge mechanism ceased to function under such exceptional circumstances.

In view of such differences in the two markets, the Group had started to square off the hedge futures contracts since February 2005. As at 30 April 2005, most of the hedge futures contracts were closed out, and the market difference was confirmed in May and June 2005. As such, the Group's financial performance during the year was adversely affected, and the futures transactions, which were intended for hedging the spot prices, reported a loss. The total amount of realised loss and changes in fair value of commodity derivative contracts entered into during the year was approximately HK$53,969,000, causing additional setback to the Group's results.

Consequently, the total loss attributable to the spot and futures of the Group's soyabean oil business was HK$212,341,000, representing a gross loss of HK$426 per tonne (2004: HK$230 gross profit per tonne).

Influenced by the above unfavorable and unexpected market factors, the Group's sales volume of soyabean oil did not record any growth. During the year, the Group's sales volume of soyabean oil was approximately 498,000 tonnes (2004: 530,000 tonnes).

Palm oil business

During the year, the turnover of palm oil products amounted to HK$1,172,359,000 (2004: HK$1,519,000,000), representing a decrease of 22.8% as compared with last year and accounted for approximately 32.2% (2004: 33.2%) of the Group's total turnover. With respect to sales volume, the Group sold approximately 319,000 tonnes of palm oil products during the year (2004: 351,000 tonnes), representing a decrease of approximately 9.1% as compared with last year.

With regard to profitability, the Group's palm oil products recorded a gross profit of approximately HK$19,100,000 (2004: HK$88,400,000) during the year. The profitability of palm oil products was generally better than soyabean oil. One of the reasons was that the procurement cycle for palm oil was shorter. Moreover, palm oil is primarily purchased for industrial use and is therefore less sensitive to price fluctuations. As such, the Directors believe that it is important for the Group to increase the proportion of palm oil sales to mitigate its overall risk level.

PROSPECTS

The Group is among the few suppliers who can provide one-stop service from import, customs clearance, refinery, fractionation, storage and delivery, selling and trading of soyabean oil and palm oil products. Equipped with carefully located production plants, complementary logistics facilities and distribution centres, the Group is able to effectively control costs and achieve maximum economies of scale. These high value adding services has satisfied all customer requirements and helped fortified customer loyalty for the Group.

Despite that last year was the most challenging in the history of the Group, the management was able to immediately review the Group's risk management functions under its competitive mode of operation. These functions are executed by the Transaction Policy Committee, the Risk Management Committee and different business divisions which are responsible for formulating, executing and monitoring different risk management programmes. In its bid to effectively lower operational risks, the Group will step up monitoring of the different systems and continue to diligently implement related measures such as increasing purchase of raw materials from domestic sources, strengthening the efforts for palm oil sales, enhancing cash flow management, trimming costs and adjusting capital expenditure plan, etc.

To reap maximum economies of scale benefits, the Group will speed up the launching of small pack oil products. In 2005, the Group launched two brands (four product items) of small pack oil products in northern China, targeting the general household and the health conscious customers respectively. The eastern and southern China markets are the Group's next targets. The Group will also continue to introduce new types of product to meet different market needs.

Furthermore, the Group is committed to honouring its obligations stated in the Subscription Agreement with the ultimate aim of creating the most value for the Shareholders.