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1. CORPORATE INFORMATION

COFCO International Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the year, the Group was involved in the following principal activities:

- oilseed processing;
- wineries;
- beverage processing;
- confectionery;
- wheat processing;
- production and sale of brewing materials;
- processing and trading of rice;
- production and sale of biofuel and biochemicals;
- distribution of consumer-pack edible oil; and
- trading of non-rice foodstuffs 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 (formerly known as China National Cereals, Oils & Foodstuffs Corporation) ("COFCO"), which is a state-owned enterprise registered in the People's Republic of China (the "PRC").

2. CORPORATE REORGANISATION

Pursuant to the reorganisation as detailed in the Company's circular dated 28 October 2006 (the "Circular"), the Company (1) acquired from COFCO (HK) the entire equity interests in Jumbo Team Group Limited ("Jumbo Team") and its subsidiaries (collectively the "Jumbo Team Group") and Full Extent Group Limited ("Full Extent") and its subsidiaries (collectively the "Full Extent Group") with an aggregate consideration of HK$5,333,700,000 (the "Acquisition"); (2) disposed to COFCO (HK) of the Company's entire equity interests in Seabase International (BVI) Limited, COFCO (BVI) No. 99 Limited and First Reward Limited, and their respective subsidiaries (collectively the "Disposal Group") (the "Disposal") with an aggregate consideration of HK$715,100,000; and (3) proposed, upon the completion of the Acquisition and the Disposal, to spin off the Group's existing interests in oilseed processing, wheat processing and rice trading businesses together with the businesses carried out by the Full Extent Group (the "Spin-Off") through a separate listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (collectively the "Reorganisation").

The Jumbo Team Group is principally engaged in beverage processing, and production and distribution of Chinese yellow rice wine businesses.

The Full Extent Group is principally engaged in agricultural products processing businesses which include oilseed processing, wheat processing, the production and sale of brewing materials, processing of rice, and the production and sale of biofuel and biochemicals.

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2. CORPORATE REORGANISATION (continued)

The Disposal Group is principally engaged in the trading of non-rice foodstuffs, provision of management service to COFCO and investment in marketable securities.

The Acquisition was satisfied by the Company's issue of 879,739,382 new ordinary shares of HK$0.1 each at a price of approximately HK$5.25 per share, representing HK$4,618,632,000 of the total consideration payable for the Acquisition. The remaining amount of HK$715,100,000 payable for the Acquisition was settled by the consideration receivable by the Company in respect of the Disposal. The Acquisition and the Disposal were completed on 31 December 2006.

As the Company, the Jumbo Team Group and the Full Extent Group are all ultimately controlled by COFCO, before and after the Acquisition, the financial statements of the Group have been prepared based on the principles of merger accounting in accordance with Accounting Guideline ("AG") 5 *Merger Accounting for Common Control Combinations* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), as if the Acquisition had occurred from the date when the combining entities first came under the control of the COFCO because the Acquisition should be regarded as a business combination under common control.

In accordance with AG 5, the comparative amounts of the financial statements of the Group are restated to include the financial statement items of the Jumbo Team Group and the Full Extent Group. The effects of the Acquisition to the Group's comparative financial statements are as follows:

(a) Effect on the consolidated balance sheet as at 31 December 2005

	As previously reported	Jumbo Team Group	Full Extent Group	Total	Consolidation adjustments	Reclassi-fications	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS							
Property, plant and equipment	3,315,407	558,848	1,180,468	5,054,723	–	(20,921)	5,033,802
Investment properties	50,562	–	–	50,562	–	–	50,562
Prepaid land premiums	192,324	46,741	75,800	314,865	–	20,921	335,786
Deposit for purchase of property, plant and equipment	107,861	–	–	107,861	–	–	107,861
Goodwill	481,995	489,723	3,183	974,901	–	–	974,901
Interests in associates	548,218	159,463	77,779	785,460	–	–	785,460
Available-for-sale investments and related advances	43,890	329,128	2,387	375,405	–	–	375,405
Deferred tax assets	6,491	1,156	2,613	10,260	–	–	10,260
Biological assets	35,840	–	–	35,840	–	–	35,840
Total non-current assets	4,782,588	1,585,059	1,342,230	7,709,877			7,709,877

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2. CORPORATE REORGANISATION (continued)

(a) Effect on the consolidated balance sheet as at 31 December 2005 (continued)

	As previously reported	Jumbo Team Group	Full Extent Group	Total	Consolidation adjustments	Reclassi-fications	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	4,782,588	1,585,059	1,342,230	7,709,877			7,709,877
CURRENT ASSETS							
Inventories	2,891,776	342,901	360,381	3,595,058	–	–	3,595,058
Accounts and bills receivable	1,120,330	48,208	151,319	1,319,857	–	–	1,319,857
Prepayments, deposits and other receivables	835,887	120,501	83,337	1,039,725	–	–	1,039,725
Due from fellow subsidiaries	79,686	79,294	23,531	182,511	(918)	8,340	189,933
Due from related companies	107,826	–	–	107,826	(66,670)	(8,340)	32,816
Tax recoverable	3,409	–	–	3,409	–	–	3,409
Investments at fair value through profit or loss	79,925	–	–	79,925	–	–	79,925
Derivative financial instruments	12,314	–	–	12,314	–	–	12,314
Pledged deposits	402,000	–	2,905	404,905	–	–	404,905
Cash and cash equivalents	983,367	203,559	44,243	1,231,169	–	–	1,231,169
Total current assets	6,516,520	794,463	665,716	7,976,699			7,909,111
CURRENT LIABILITIES							
Accounts and bills payable	688,000	320,598	113,184	1,121,782	–	–	1,121,782
Other payables and accruals	712,095	199,762	144,929	1,056,786	339	–	1,057,125
Due to fellow subsidiaries	9,526	3,598	131,270	144,394	(67,110)	17,212	94,496
Due to the immediate holding company	705	4,079	–	4,784	711,021	–	715,805
Due to the ultimate holding company	197,247	5,547	181,168	383,962	–	–	383,962
Due to related companies	559,017	–	–	559,017	(817)	(21,486)	536,714
Due to minority shareholders of subsidiaries	–	–	–	–	–	4,274	4,274
Interest-bearing bank and other borrowings	3,403,269	40,346	186,320	3,629,935	–	–	3,629,935
Deferred income	–	–	1,705	1,705	–	–	1,705
Tax payable	24,408	379	4	24,791	–	–	24,791
Total current liabilities	5,594,267	574,309	758,580	6,927,156			7,570,589
NET CURRENT ASSETS/ (LIABILITIES)	922,253	220,154	(92,864)	1,049,543			338,522
TOTAL ASSETS LESS CURRENT LIABILITIES	5,704,841	1,805,213	1,249,366	8,759,420			8,048,399

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2. CORPORATE REORGANISATION (continued)

(a) Effect on the consolidated balance sheet as at 31 December 2005 (continued)

	As previously reported HK$'000	Jumbo Team Group HK$'000	Full Extent Group HK$'000	Total HK$'000	Consolidation adjustments HK$'000	Reclassi-fications HK$'000	As restated HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	5,704,841	1,805,213	1,249,366	8,759,420			8,048,399
NON-CURRENT LIABILITIES							
Interest-bearing bank and other borrowings	–	52,834	363,473	416,307	–	–	416,307
Due to minority shareholders of subsidiaries	69,140	–	36,487	105,627	–	–	105,627
Due to a fellow subsidiary	–	–	182,117	182,117	(182,117)	–	–
Due to the immediate holding company	–	449,299	460,157	909,456	(909,456)	–	–
Due to the ultimate holding company	–	19,212	–	19,212	–	–	19,212
Deferred income	–	–	27,478	27,478	–	–	27,478
Deferred tax liabilities	5,339	–	–	5,339	–	–	5,339
Total non-current liabilities	74,479	521,345	1,069,712	1,665,536			573,963
Net assets	5,630,362	1,283,868	179,654	7,093,884			7,474,436
EQUITY							
Equity attributable to equity holders of the Company							
Issued capital	175,845	–	–	175,845	87,974	–	263,819
Share premium account	2,776,042	–	–	2,776,042	–	–	2,776,042
Employee share-based compensation reserve	31,093	–	–	31,093	–	–	31,093
Capital reserve	134,267	48,131	252,941	435,339	292,578	–	727,917
Reserve funds	148,319	938	3,387	152,644	–	–	152,644
Exchange fluctuation reserve	61,984	7,308	(14,482)	54,810	–	–	54,810
Investment revaluation reserve	(2,077)	–	–	(2,077)	–	–	(2,077)
Retained profits/ (accumulated losses)	1,284,141	584,245	(119,321)	1,749,065	–	–	1,749,065
Proposed final dividend	76,614	–	–	76,614	–	–	76,614
	4,686,228	640,622	122,525	5,449,375			5,829,927
MINORITY INTERESTS	944,134	643,246	57,129	1,644,509			1,644,509
TOTAL EQUITY	5,630,362	1,283,868	179,654	7,093,884			7,474,436

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2. CORPORATE REORGANISATION (continued)

(b) Effect on the consolidated income statement for the year ended 31 December 2005

	As previously reported	Jumbo Team Group	Full Extent Group	Total	Consolidation adjustments	Reclassi- fications	Discontinued operations	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (note 13)	HK$'000
CONTINUING OPERATIONS								
REVENUE	17,587,574	1,941,891	2,347,370	21,876,835	(365,632)	–	(1,950,785)	19,560,418
Cost of sales	(15,867,507)	(1,385,232)	(2,151,050)	(19,403,789)	365,632	–	1,850,683	(17,187,474)
Gross profit	1,720,067	556,659	196,320	2,473,046				2,372,944
Other income and gains	187,462	56,405	19,933	263,800	–	80,935	(82,189)	262,546
Distribution costs	(986,915)	(366,627)	(85,475)	(1,439,017)	–	134	13,481	(1,425,402)
Administrative expenses	(289,428)	(118,422)	(54,171)	(462,021)	–	(7,443)	47,533	(421,931)
Other operating income	81,058	–	–	81,058	–	(81,058)	–	–
Other expenses	(28,157)	(10,484)	(4,772)	(43,413)	–	7,432	377	(35,604)
Finance costs	(135,708)	(8,225)	(29,001)	(172,934)	–	–	1,814	(171,120)
Share of profits and losses of associates	79,127	55,430	3,044	137,601	–	–	–	137,601
PROFIT BEFORE TAX	627,506	164,736	45,878	838,120				719,034
Tax	(138,933)	(11,684)	(2,267)	(152,884)	–	–	20,700	(132,184)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	488,573	153,052	43,611	685,236				586,850
DISCONTINUED OPERATIONS								
Profit for the year from discontinued operations	–	–	–	–	–	–	98,386	98,386
	488,573	153,052	43,611	685,236				685,236
Attributable to:								
Equity holders of the Company	429,166	85,965	47,711	562,842	–	–	–	562,842
Minority interests	59,407	67,087	(4,100)	122,394	–	–	–	122,394
	488,573	153,052	43,611	685,236				685,236
DIVIDENDS	153,107	48,313	–	201,420	–	–	–	201,420

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2. CORPORATE REORGANISATION (continued)

In respect of the Spin-Off, subsequent to the balance sheet date, on 8 February 2007, the Company declared a special dividend to distribute the Company's interest in China Agri-Industries Holdings Limited ("China Agri-Industries"), a subsidiary incorporated in Hong Kong on 18 November 2006 for the purpose of acting as the investment holding company of the subsidiaries under the Spin-Off and for the purpose of separate listing on the Stock Exchange. The special dividend was conditional upon approval by the Stock Exchange. Following the approval by the Stock Exchange, the Spin-Off and the listing of the shares of China Agri-Industries was completed on 21 March 2007. Further details of the Spin-Off are set out in note 46 to the financial statements.

3.1 BASIS OF PREPARATION

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

The financial statements of the Group have been prepared based on the principles of merger accounting in accordance with AG 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA, as if the Acquisition had occurred from the date when the combining entities first came under the control of the COFCO because the Acquisition should be regarded as a business combination under common control as the Company, the Jumbo Team Group and the Full Extent Group are all ultimately controlled by COFCO, before and after the Acquisition.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. 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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

Apart from the Acquisition, 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. Acquisitions of minority interests are 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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3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for giving rise to new and revised accounting policies and additional disclosures in certain cases, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) **HKAS 21** *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) **HKAS 39** *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) **HK(IFRIC)-Int 4** *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

3.3 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:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment shall be applied for accounting periods beginning on or after 1 January 2007. This revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for accounting periods beginning on or after 1 January 2007. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for accounting periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

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

HK(IFRIC)-Int 8 applies to transactions under the scope of HKFRS 2 when the identifiable consideration received (or to be received) by the entity, including cash and the fair value of identifiable non-cash consideration (if any), appears to be less than the fair value of the equity instruments granted or liability incurred. The interpretation states that typically this circumstance indicates that other consideration (i.e., unidentifiable goods or services) has been (or will be) received. The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received), at the grant date. However, for cash-settled transactions, the liability shall be remeasured at each reporting date until it is settled. This interpretation shall be applied for accounting periods beginning on or after 1 May 2006.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for accounting periods beginning on or after 1 March 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

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 HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) an associate, if the Group does not have unilateral or joint control, 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.

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 share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. 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. 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 net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

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.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (continued)

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. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

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.

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.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against consolidated retained profits

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 *Business Combinations* ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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, biological assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however 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 impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 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.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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	2.8% to 16.2%
Plant, machinery and equipment	4.5% to 25%

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, 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 direct costs of construction and capitalised borrowing costs on related borrowed funds incurred during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

Biological assets

Grape vines are measured at their fair value less estimated point-of-sale costs. The fair value of grape vines is determined based on the present value of expected net cash flows from the grape vines discounted at a current market-determined pre-tax rate. Grape vines are perennial plants which have growth cycles of more than one year. Gain or loss arising on initial recognition of grape vines at fair value less estimated point-of-sale costs is dealt with in the income statement when it arises.

Agricultural product comprises grapes. Self-grown grapes are measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of grapes is determined based on market prices in the local area, which represents the estimated purchase cost that the Group has to procure such raw materials in the market on an arm's length basis.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investments 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.

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.

Investments at fair value through profit or loss

Investments at fair value through profit or loss include 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. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

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. 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in unlisted equity and debt securities 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.

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 recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

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 either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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. 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) 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 on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in the income statement.

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.

3.4 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 trade and other payables, amounts due to the group companies, due to minority shareholders of subsidiaries and related parties, 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.

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.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

The Group uses derivative financial instruments such as commodity future contracts to hedge its risks associated 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 when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of commodity future contracts is calculated by reference to current commodity prices for contracts with similar maturity profiles.

Inventories

Inventories, other than the agricultural product, which is measured in accordance with the accounting policy for "Biological assets" above, 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 statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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, and assets similar in nature to cash, 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

- 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.

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.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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) from the sale 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) rental income, in the period in which the assets are leased and on a time proportion basis over the lease terms;

(c) agency commission, on an accrual basis;

(d) 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 is established;

(g) dividend income, when the shareholders' right to receive payment is established;

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

(i) tax refunds, when the acknowledgement of refunds from the tax bureau is received.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 an external valuer using Black-Scholes model. 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.

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.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes and other retirement benefits

Retirement benefits are provided to certain staff employed by the Group. In accordance with the Mandatory Provident Fund Schemes Ordinance, the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO Scheme, or the Mandatory Provident Fund Scheme under which employer contributions have to be made. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to both schemes are at a maximum of 10% of the monthly salaries of the employees. When an employee leaves employment prior to his or her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of the forfeited contributions, in accordance with the rules of the Mandatory Provident Fund Exempted ORSO Scheme. However, in respect of the Mandatory Provident Fund Scheme, only the employer voluntary contribution amounts are refundable to the Group when the members leave employment prior to their contributions vesting fully. The Group's mandatory contributions vest fully with the employees when the employees leave employment.

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

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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 are approved by the shareholders and declared, they are recognised as a liability.

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 date 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.

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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 2006 was HK$1,477,691,000 (2005 (restated): HK$974,901,000). More details are given in note 19.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

The carrying amount of investment properties at 31 December 2006 was HK$52,389,000 (2005: HK$50,562,000).

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5. 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 over 90% 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. Summary details of the business segments are as follows:

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

(b) the wineries segment engages in the production, sale and trading of grape wine and other relevant beverage products;

(c) the confectionery segment engages in the production and distribution of chocolate and other related products;

(d) the beverages segment engages in the processing and distribution of carbonated beverages;

(e) the consumer-pack edible oil segment engages in the distribution of retail package cooking oil;

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

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

(h) the biofuel and biochemical segment engages in the production and sale of bio-ethanol and related products;

(i) the brewing materials segment engages in the processing of malt;

(j) the trading of non-rice foodstuffs segment engages in the trading of food commodities, animal feedstock, and agricultural and aquatic products; and

(k) the corporate and others segment comprises the Group's management services business, which provides management services relating to imports and exports, together with 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.

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5. 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 2006 and 2005.

	Continuing operations												Discontinued operations			
Year ended 31 December 2006	Oilseed processing	Wineries	Confect-ionery	Beverages	Consumer-pack edible oil	Wheat processing	Rice processing and trading	Biofuel and biochemical	Brewing materials	Corporate and others	Eliminations	Total	Trading of non-rice foodstuffs	Others	Total	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:																
Sales to external customers	11,880,797	1,803,215	420,936	2,431,022	1,842,280	1,764,426	2,065,982	1,304,620	878,835	–	–	24,392,113	1,619,490	–	1,619,490	26,011,603
Intersegment sales	1,608,661	–	–	–	11,934	–	–	–	–	–	(1,620,595)	–	–	–	–	–
Other revenue	117,081	6,629	9,602	11,161	486	63,662	1,003	206,881	364	18,903	–	435,772	27,451	59,956	87,407	523,179
Segment results	**462,002**	**319,366**	**(8,543)**	**108,535**	**63,240**	**76,035**	**128,735**	**228,206**	**71,262**	**(49,956)**	**–**	**1,398,882**	**66,784**	**50,075**	**116,859**	**1,515,741**
Interest and dividend income												74,109			19,601	93,710
Loss on disposal of subsidiaries												–			(106,848)	(106,848)
Finance costs												(245,889)			(9,958)	(255,847)
Share of profits and losses of associates	175,026	–	–	49,624	–	3,373	–	22,646	–	–	–	250,669	–	–	–	250,669
Profit before tax												1,477,771			19,654	1,497,425
Tax												(235,475)			(37,283)	(272,758)
Profit for the year												1,242,296			(17,629)	1,224,667
Assets and liabilities																
Segment assets	6,488,176	2,310,789	595,905	1,970,506	404,339	934,444	1,215,422	2,601,419	1,297,652	3,385,090	(4,062,497)	17,141,245	832,327	–	832,327	17,973,572
Interests in associates	743,716	–	–	153,971	2,244	51,582	–	284,928	–	–	–	1,236,441	–	–	–	1,236,441
Unallocated assets												2,382,979			205,305	2,588,284
Total assets												20,760,665			1,037,632	21,798,297
Segment liabilities	2,094,939	1,345,915	262,290	534,665	332,133	704,113	764,669	1,089,287	592,211	70,114	(4,062,497)	3,727,839	423,638	–	423,638	4,151,477
Unallocated liabilities												5,483,567			601,124	6,084,691
Total liabilities												9,211,406			1,024,762	10,236,168
Other segment information:																
Depreciation	175,984	52,601	16,493	57,174	5,173	25,673	12,724	64,630	29,335	333	–	440,120	1,066	330	1,396	441,516
Impairment losses/ (write-back of impairment losses) recognised in the income statement	2,255	1,725	5,013	3,679	–	217	845	(646)	–	19,310	–	32,398	–	–	–	32,398
Capital expenditures	185,347	149,956	21,497	83,690	12,965	48,438	5,591	802,026	172,678	109	–	1,482,297	109	94	203	1,482,500

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5. SEGMENT INFORMATION (continued)

Year ended 31 December 2005	Continuing operations												Discontinued operations			
	Oilseed processing	Wineries	Confectionery	Beverages	Consumer-pack edible oil	Wheat processing	Rice processing and trading	Biofuel and biochemical	Brewing materials	Corporate and others	Eliminations	Total	Trading of non-rice foodstuffs	Others	Total	Consolidated
	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)
Segment revenue:																
Sales to external customers	9,971,610	1,550,041	381,236	1,916,976	1,898,994	1,662,160	1,314,343	–	865,058	–	–	19,560,418	1,950,785	–	1,950,785	21,511,203
Intersegment sales	1,696,382	–	–	–	–	–	–	–	–	–	(1,696,382)	–	–	–	–	–
Other revenue	127,492	22,089	20,438	8,349	16	9,331	764	–	39	1,328	–	189,846	13,407	50,596	64,003	253,849
Segment results	**141,110**	**295,368**	**25,052**	**68,122**	**12,546**	**22,760**	**117,451**	**–**	**46,112**	**(46,547)**	**–**	**681,974**	**64,486**	**38,228**	**102,714**	**784,688**
Interest and dividend income												64,482			18,186	82,668
Unallocated gains and expenses, net												6,097			–	6,097
Finance costs												(171,120)			(1,814)	(172,934)
Share of profits and losses of associates	81,151	–	–	55,430	–	1,020	–	–	–	–	–	137,601	–	–	–	137,601
Profit before tax												719,034			119,086	838,120
Tax												(132,184)			(20,700)	(152,884)
Profit for the year												586,850			98,386	685,236
Assets and liabilities																
Segment assets	5,532,293	1,834,913	584,506	1,897,513	274,020	807,663	651,811	–	874,725	1,405,750	(1,935,380)	11,927,814	637,793	618,178	1,255,971	13,183,785
Interests in associates	568,129	–	–	159,462	8,185	49,690	(6)	–	–	–	–	785,460	–	–	–	785,460
Unallocated assets												1,327,963			321,780	1,649,743
Total assets												14,041,237			1,577,751	15,618,988
Segment liabilities	1,995,558	1,069,068	257,909	439,410	213,778	274,752	199,021	–	299,200	307,649	(1,935,380)	3,120,965	388,929	558,287	947,216	4,068,181
Unallocated liabilities												4,076,075			296	4,076,371
Total liabilities												7,197,040			947,512	8,144,552
Other segment information:																
Depreciation	189,268	55,043	13,097	75,931	955	17,012	10,167	–	29,897	334	–	391,704	661	337	998	392,702
Impairment Losses/(write-back of impairment losses) recognised in the income statement	(994)	(84)	–	8,594	–	2,132	–	–	–	19,310	–	28,958	–	377	377	29,335
Capital expenditures	411,031	175,643	15,436	111,002	2,426	76,423	35,409	–	137,386	–	–	964,756	1,022	20	1,042	965,798

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6. 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:

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Other income		
Gross rental income	**8,172**	5,340
Agency commission	**23,194**	12,946
Management fee income from COFCO	**31,576**	37,623
Bank interest income	**40,063**	33,960
Interest income from a fellow subsidiary	**4,831**	3,116
Dividends from available-for-sale investments and listed securities	**48,816**	45,592
Government grants*	**191,807**	8,200
Compensation income	**56,607**	–
Rental of containers	**6,541**	8,102
Tax refund	**26,725**	–
Others	**47,691**	44,840
	486,023	199,719
Gains		
Gain on disposal of by-products and scrap items	**30,223**	50,911
Gain on partial disposal of an interest in a subsidiary	**–**	8,218
Foreign exchange differences, net	**59,164**	68,582
Fair value gains on investments at fair value through profit or loss	**38,768**	8,875
Fair value gains on derivative financial instruments	**2,174**	3,149
Others	**537**	5,281
	130,866	145,016
	616,889	344,735
Represented by:		
Other income and gains attributable to discontinued operations (note 13)	**107,008**	82,189
Other income and gains attributable to continuing operations reported in the consolidated income statement	**509,881**	262,546
	616,889	344,735

6. REVENUE, OTHER INCOME AND GAINS (continued)

* Various government grants have been received for investments in certain provinces in Mainland China, for generating revenue in foreign currencies and 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 in the PRC for fuel ethanol producers, a subsidiary of the Company engaged in the production and sale of biofuel and biochemicals, which was acquired during the year, is entitled to a financial subsidy based on a fixed amount per metric ton of fuel ethanol produced and sold until the end of 2008. An amount of HK$176,566,000 (2005: Nil) 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.

7. PROFIT BEFORE TAX

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

	Notes	**2006**	2005
		HK$'000	HK$'000
			(Restated)
Cost of inventories sold		**22,650,000**	19,117,007
Realised fair value gains of derivative instruments transactions not qualifying as hedges	27	**(121,380)**	(65,491)
Unrealised fair value losses/(gains) of derivative instruments transactions not qualifying as hedges	27	**11,966**	(11,382)
Provision against inventories		**2,892**	240
Gain arising from changes in fair value of biological assets		**(9,565)**	(2,217)
Cost of sales		**22,533,913**	19,038,157
Auditors' remuneration		**9,308**	4,797
Depreciation	16	**441,516**	392,702
Minimum lease payments under operating leases in respect of land and buildings		**60,515**	46,489
Staff costs (including directors' remuneration – note 9):			
Wages and salaries		**508,576**	399,007
Equity-settled share option expenses		**5,696**	13,202
Pension scheme contributions*		**40,963**	29,575
		555,235	441,784

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7. PROFIT BEFORE TAX (continued)

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Other expenses, net, including:			
Loss on disposal of items of property, plant and equipment		**16,789**	2,876
Loss on disposal of subsidiaries	36	**106,848**	–
Loss on additional contribution to an existing subsidiary		**–**	2,121
Impairment of goodwill	19	**20,324**	19,310
Fair value losses on investment properties	17	**–**	1,650
Impairment of available-for-sale investments		**–**	2,949
Impairment of receivables		**9,881**	9,929
Impairment of items of property, plant and equipment	16	**2,193**	96

* At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

The disclosures presented in this note include those amounts charged/credited in respect of discontinued operations.

8. FINANCE COSTS

	Group 2006 HK$'000	Group 2005 HK$'000 (Restated)
Interest on:		
Bank loans wholly repayable within five years	**160,120**	93,398
Loans from holding companies and a fellow subsidiary	**100,319**	70,834
Others	**3,135**	8,702
Total interest	**263,574**	172,934
Less: Interest capitalised	**(7,727)**	–
	255,847	172,934
Attributable to discontinued operations (note 13)	**9,958**	1,814
Attributable to continuing operations reported in the consolidated income statement	**245,889**	171,120
	255,847	172,934

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9. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	HK$'000
Fees:		
Executive directors	**1,258**	1,367
Independent non-executive directors	**600**	616
	1,858	1,983
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	**5,861**	6,423
Discretionary bonuses	**325**	–
Equity-settled share option expenses	**2,963**	7,407
Pension scheme contributions	**237**	289
	9,386	14,119
	11,244	16,102

In prior years, certain directors were granted share options, 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 33 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of the grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2006	2005
	HK$'000	HK$'000
Mr. Stephen Edward Clark	**200**	187
Mr. Tan Man Kou	**200**	164
Mr. Yuen Tin Fan, Francis	**200**	200
Mr. Liang Shangli	**–**	65
	600	616

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

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9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006						
Mr. Ning Gaoning	200	1,300	–	–	60	1,560
Mr. Liu Fuchun	200	1,950	–	1,229	90	3,469
Mr. Qu Zhe	200	1,770	229	96	55	2,350
Mr. Xue Guoping	200	–	–	819	–	1,019
Mr. Liu Yongfu	200	–	–	819	–	1,019
Mr. Yu Xubo	200	–	–	–	–	200
Mr. Mak Chi Wing, William	48	187	96	–	–	331
Mr. Yu Guangquan	10	654	–	–	32	696
	1,258	5,861	325	2,963	237	10,644
2005						
Mr. Ning Gaoning	187	867	–	–	25	1,079
Mr. Liu Fuchun	200	1,950	–	2,334	90	4,574
Mr. Yu Guangquan	200	2,834	–	1,556	131	4,721
Mr. Xue Guoping	200	–	–	1,556	–	1,756
Mr. Liu Yongfu	200	–	–	1,556	–	1,756
Mr. Qu Zhe	200	–	–	182	–	382
Mr. Ng Eng Leong	167	772	–	223	43	1,205
Mr. Zhou Mingchen	13	–	–	–	–	13
	1,367	6,423	–	7,407	289	15,486

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2005: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one non-director, highest paid employee for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**984**	1,014
Discretionary bonuses	**96**	–
Equity-settled share option expense	**–**	161
Pension scheme contributions	**47**	47
	1,127	1,222

In prior years, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are set out in note 33 to the financial statements. The fair value of such 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 year is included in the above non-director, highest paid employee's remuneration disclosures.

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11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	HK$'000
		(Restated)
Group:		
Current – Hong Kong		
Charge for the year	**11,954**	1,970
Underprovision in prior years	**12,447**	–
Current – Elsewhere in the PRC		
Charge for the year	**252,787**	147,377
Underprovision in prior years	**281**	3
Tax rebate	**(11,054)**	–
Deferred (note 31)	**6,343**	3,534
Tax charge for the year	**272,758**	152,884
Represented by:		
Tax charge attributable to discontinued operations (note 13)	**37,283**	20,700
Tax charge attributable to continuing operations reported in the consolidated income statement	**235,475**	132,184
	272,758	152,884

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the country/jurisdiction 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:

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11. TAX (continued)

Group – 2006

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax #	(22,728)		1,520,153		1,497,425	
Tax at the statutory tax rates	(3,977)	17.5	501,650	33.0	497,673	33.2
Lower tax rate for specific provinces or local authority *	–	–	(108,170)	(7.1)	(108,170)	(7.2)
Profit not subject to tax due to concessions **	–	–	(55,275)	(3.6)	(55,275)	(3.7)
Profits attributable to associates	–	–	(79,770)	(5.3)	(79,770)	(5.3)
Income not subject to tax	(20,739)	91.2	(25,312)	(1.7)	(46,051)	(3.1)
Expenses not deductible for tax	37,122	(163.3)	27,441	1.8	64,563	4.3
Adjustment in respect of current tax of previous periods	12,447	(54.8)	281	–	12,728	0.8
Tax rebate	–	–	(11,054)	(0.7)	(11,054)	(0.7)
Tax losses utilised from previous periods	(455)	2.0	(16,779)	(1.1)	(17,234)	(1.1)
Tax losses not recognised	3	–	15,345	1.0	15,348	1.0
Tax charge at the Group's effective rate	24,401	(107.4)	248,357	16.3	272,758	18.2

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11. TAX (continued)

Group – 2005

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
	(Restated)		(Restated)		(Restated)	
Profit before tax #	40,213		797,907		838,120	
Tax at the statutory tax rates	7,037	17.5	263,309	33.0	270,346	32.2
Lower tax rate for specific provinces or local authority *	–	–	(87,148)	(10.9)	(87,148)	(10.4)
Profit not subject to tax due to concessions **	–	–	(13,297)	(1.7)	(13,297)	(1.6)
Profits attributable to associates	–	–	(19,297)	(2.4)	(19,297)	(2.3)
Income not subject to tax	(14,642)	(36.4)	(25,924)	(3.2)	(40,566)	(4.8)
Expenses not deductible for tax	9,826	24.4	28,792	3.6	38,618	4.6
Adjustment in respect of current tax of previous periods	–	–	3	–	3	–
Tax losses utilised from previous periods	(269)	(0.6)	(12,580)	(1.6)	(12,849)	(1.5)
Tax losses not recognised	18	–	17,056	2.1	17,074	2.0
Tax charge at the Group's effective rate	1,970	4.9	150,914	18.9	152,884	18.2

* Under the PRC income tax laws, enterprises are subject to corporate income tax ("CIT") at rate of 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 the 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.

Included profit before tax from discontinued operations.

The share of tax attributable to associates amounting to HK$26,862,000 (2005 (restated): HK$15,310,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a profit of HK$98,685,000 (2005: HK$472,076,000) which has been dealt with in the financial statements of the Company (note 34(b)).

13. DISCONTINUED OPERATIONS

Pursuant to the Reorganisation as detailed in note 2 to the financial statements, the Group discontinued its businesses of trading of non-rice foodstuffs, provision of management services to COFCO and investment in marketable securities carried out by the Disposal Group. The transaction was completed on 31 December 2006.

The results of the Disposal Group for the year are presented below:

	2006	2005
	HK$'000	HK$'000
Revenue	**1,619,490**	1,950,785
Cost of sales	**(1,524,739)**	(1,850,683)
Gross profit	**94,751**	100,102
Other income and gains	**107,008**	82,189
Expenses	**(65,299)**	(61,391)
Loss on disposal of subsidiaries	**(106,848)**	–
Finance costs	**(9,958)**	(1,814)
Profit before tax from discontinued operations	**19,654**	119,086
Tax related to pre-tax profit	**(37,283)**	(20,700)
Profit/(loss) for the year from discontinued operations	**(17,629)**	98,386

Except for certain assets and liabilities of the trading of non-rice foodstuffs business of the Disposal Group which will be recovered/settled by the Group, the remaining assets and liabilities of the Disposal Group were disposed of during the year, and accordingly no assets or liabilities were classified as held for sale.

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13. DISCONTINUED OPERATIONS (continued)

The net cash flows incurred by the Disposal Group are as follows:

	2006	2005
	HK$'000	HK$'000
Operating activities	(463,329)	(12,580)
Investing activities	70,144	223,121
Financing activities	468,027	(116,000)
Net cash inflow	74,842	94,541

	2006	2005
Earnings/(loss) per share:		
Basic, from discontinued operations	HK(0.66) cents	HK 3.73 cents
Diluted, from discontinued operations	HK(0.66) cents	HK 3.72 cents

The calculation of basic and diluted earnings per share from discontinued operations are based on:

Profit/(loss) attributable to ordinary equity holders of the Company from discontinued operations	(HK$17,629,000)	HK$98,386,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,655,640,814	2,637,993,329
Weighted average number of ordinary shares used in the diluted earnings per share calculation	2,669,546,723	2,642,360,891

14. DIVIDENDS

	2006	2005
	HK$'000	HK$'000
		(Restated)
Interim – HK4.50 cents (2005: HK4.35 cents) per ordinary share	79,256	76,493
Proposed final – Nil (2005: HK4.35 cents) per ordinary share	–	76,614
Dividends paid by the subsidiaries acquired under the Acquisition to their then shareholders	4,578	48,313
	83,834	201,420

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

The calculations of basic and diluted earnings per share are based on:

	2006	2005
	HK$'000	HK$'000
		(Restated)
Earnings		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the earnings per share calculation		
From continuing operations	**1,007,693**	464,456
From discontinued operations	**(17,629)**	98,386
	990,064	562,842

	Number of shares	
	2006	2005
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,655,640,814**	2,637,993,329
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**13,905,909**	4,367,562
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,669,546,723**	2,642,360,891

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16. PROPERTY, PLANT AND EQUIPMENT

	Group				Company
	Buildings	Plant, machinery and equipment	Construction in progress	Total	Plant and equipment
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Restated)	(Restated)	(Restated)	(Restated)	
31 December 2005					
At 1 January 2005:					
Cost	2,109,795	3,372,585	546,759	6,029,139	1,814
Accumulated depreciation and impairment	(393,151)	(1,109,292)	–	(1,502,443)	(1,108)
Net carrying amount	1,716,644	2,263,293	546,759	4,526,696	706
At 1 January 2005, net of accumulated depreciation and impairment	1,716,644	2,263,293	546,759	4,526,696	706
Additions	47,478	142,666	737,903	928,047	–
Impairment	–	(96)	–	(96)	–
Disposals	(47,212)	(72,011)	(5)	(119,228)	–
Depreciation provided during the year	(89,346)	(303,356)	–	(392,702)	(333)
Transfer from investment properties (note 17)	4,849	–	–	4,849	–
Transfers	356,249	495,983	(852,232)	–	–
Exchange realignment	31,729	43,268	11,239	86,236	–
At 31 December 2005, net of accumulated depreciation and impairment	2,020,391	2,569,747	443,664	5,033,802	373
At 31 December 2005:					
Cost	2,491,689	3,948,136	443,664	6,883,489	1,814
Accumulated depreciation and impairment	(471,298)	(1,378,389)	–	(1,849,687)	(1,441)
Net carrying amount	2,020,391	2,569,747	443,664	5,033,802	373

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16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group				Company
	Buildings	Plant, machinery and equipment	Construction in progress	Total	Plant and equipment
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2006					
At 1 January 2006:					
Cost	2,491,689	3,948,136	443,664	6,883,489	1,814
Accumulated depreciation and impairment	(471,298)	(1,378,389)	–	(1,849,687)	(1,441)
Net carrying amount	2,020,391	2,569,747	443,664	5,033,802	373
At 1 January 2006, net of accumulated depreciation and impairment	2,020,391	2,569,747	443,664	5,033,802	373
Additions	18,161	252,024	1,121,848	1,392,033	–
Acquisition of subsidiaries (note 35)	150,882	431,280	31,761	613,923	–
Impairment	–	(2,193)	–	(2,193)	–
Disposals	(8,198)	(36,039)	(526)	(44,763)	–
Disposal of subsidiaries (note 36)	–	(2,313)	–	(2,313)	–
Depreciation provided during the year	(110,533)	(330,983)	–	(441,516)	(333)
Transfers	309,887	163,210	(473,097)	–	–
Exchange realignment	84,836	109,530	39,922	234,288	–
At 31 December 2006, net of accumulated depreciation and impairment	2,465,426	3,154,263	1,163,572	6,783,261	40
At 31 December 2006:					
Cost	3,062,946	4,862,731	1,163,572	9,089,249	1,814
Accumulated depreciation and impairment	(597,520)	(1,708,468)	–	(2,305,988)	(1,774)
Net carrying amount	2,465,426	3,154,263	1,163,572	6,783,261	40

All of the Group's buildings are held outside Hong Kong under medium term leases.

At 31 December 2006, certain of the Group's property plant and equipment with a net book value of approximately HK$1,146,409,000 (2005 (restated): HK$309,011,000) were pledged to secure banking facilities granted to the Group (note 30).

As at 31 December 2006, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net book value of HK$60,344,000 (2005 (restated): HK$36,006,000) 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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17. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**50,562**	56,038
Net loss from a fair value adjustment	**–**	(1,650)
Transfer to owner-occupied properties (note 16)	**–**	(4,849)
Exchange realignment	**1,827**	1,023
Carrying amount at 31 December	**52,389**	50,562

All of the Group's investment properties are held outside Hong Kong under medium term leases.

The Group's investment properties were revalued on 31 December 2006 by BMI Appraisals Limited, independent professionally qualified valuers, at HK$52,389,000 (2005: HK$50,562,000) on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

At 31 December 2006, the Group's investment properties with a carrying value of HK$52,389,000 (2005: HK$50,562,000) were pledged to secure banking facilities granted to the Group (note 30).

18. PREPAID LAND PREMIUMS

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 January	**344,077**	308,542
Additions	**90,467**	37,751
Acquisition of subsidiaries (note 35)	**39,338**	–
Recognised during the year	**(11,119)**	(8,269)
Exchange realignment	**15,753**	6,053
Carrying amount at 31 December	**478,516**	344,077
Current portion included in prepayments, deposits and other receivables	**(12,016)**	(8,291)
Non-current portion	**466,500**	335,786

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

At 31 December 2006, certain of the Group's land use rights with a net book value of approximately HK$103,113,000 (2005 (restated): HK$41,068,000) were pledged to secure bank loans granted to the Group (note 30).

18. PREPAID LAND PREMIUMS (continued)

As at 31 December 2006, certificates of land use rights in respect of certain land of the Group in Mainland China with an aggregate net book value of HK$33,417,000 (2005 (restated): HK$15,502,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

19. GOODWILL

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
At 1 January:		
Cost	**994,211**	992,466
Accumulated impairment	**(19,310)**	–
Net carrying amount	**974,901**	992,466
Cost at 1 January, net of accumulated impairment	**974,901**	992,466
Acquisition of subsidiaries (note 35)	**338,451**	–
Acquisition of additional interests in existing subsidiaries	**277,996**	–
Disposal of subsidiaries (note 36)	**(93,333)**	–
Impairment during the year	**(20,324)**	(19,310)
Exchange realignment	**–**	1,745
At 31 December	**1,477,691**	974,901
At 31 December:		
Cost	**1,478,705**	994,211
Accumulated impairment	**(1,014)**	(19,310)
Net carrying amount	**1,477,691**	974,901

The amounts of the goodwill remaining in the consolidated reserve, arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 2001, were HK$89,540,000 as at 31 December 2005 and 2006. The amount of goodwill is stated at its cost of HK$261,897,000, less cumulative impairment of HK$172,357,000 which arose in prior years.

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19. GOODWILL (continued)

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;
- Wineries cash-generating unit;
- Confectionary cash-generating unit;
- Beverages cash-generating unit;
- Rice processing and trading cash-generating unit;
- Wheat processing cash-generating unit;
- Biofuel and biochemicals cash-generating unit; and
- Management services cash-generating unit.

The recoverable amount of each of the above cash-generating units is determined based on a value in use calculation using cash flow projections based on financial budgets covering periods ranging from one to five years approved by senior management. The discount rates applied to the cash flow projections ranged from 10% to 12%.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2006	2005
	HK$'000	HK$'000
		(Restated)
Oilseed processing	**103,658**	103,658
Wineries	**404,306**	139,514
Confectionary	**11,610**	12,624
Beverages	**502,927**	489,723
Rice processing and trading	**113,556**	113,556
Wheat processing	**3,183**	3,183
Biofuel and biochemicals	**338,451**	–
Management services	**–**	112,643
	1,477,691	974,901

Key assumptions were used in the value in use calculation of the cash-generating units for 31 December 2006 and 31 December 2005. 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.

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19. GOODWILL (continued)

Impairment testing of goodwill (continued)

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.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**8,398,558**	2,359,796
Due from subsidiaries	**953,843**	2,251,187
Due to subsidiaries	**(501,890)**	(575,358)
	8,850,511	4,035,625
Provision for impairment	**(140,824)**	(128,100)
	8,709,687	3,907,525

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

The value of the unlisted shares is based on:

(a) the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date when the Company became the holding company of the Group pursuant to the group reorganisation in 1991;

(b) the costs of acquisitions of certain subsidiaries in 2001; and

(c) the costs of acquisition of certain subsidiaries in 2006.

Particulars of the Company's principal subsidiaries as at 31 December 2006 are set out in note 43 to the financial statements.

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21. INTERESTS IN ASSOCIATES

	Group 2006 HK$'000	Group 2005 HK$'000 (Restated)
Share of net assets	**1,032,275**	574,402
Due from associates	**32,461**	48,863
Loans to associates	**156,283**	155,776
Goodwill	**26,653**	14,939
Due to associates	**(11,231)**	(8,520)
	1,236,441	785,460

The amount of goodwill arising from acquisition of an associate in the current year is as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
At 1 January:		
Cost and net carrying amount	**14,939**	14,939
Net carrying amount at 1 January	**14,939**	14,939
Acquisition of an associate	**11,714**	–
At 31 December	**26,653**	14,939
At 31 December:		
Cost and net carrying amount	**26,653**	14,939

The balances with associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

In the opinion of the Company's directors, the loans to associates are considered as quasi-equity loans to the associates. The balances are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values.

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21. INTERESTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2006 HK$'000	2005 HK$'000 (Restated)
Assets	**7,735,298**	6,665,460
Liabilities	**4,022,934**	4,505,636
Revenue	**13,464,093**	14,000,077
Profit	**778,505**	525,917

Particulars of the Group's principal associates as at 31 December 2006 are set out in note 44 to the financial statements.

22. AVAILABLE-FOR-SALE INVESTMENTS AND RELATED ADVANCES

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
Unlisted equity investments elsewhere than Hong Kong, at fair value	**8,441**	28,210
Unlisted equity investments elsewhere than Hong Kong, at cost	**285,490**	282,102
Unlisted debt investments elsewhere than Hong Kong, at fair value	**–**	13,624
Loans to investee companies	**36,113**	49,413
Amount due from an investee company	**2,641**	2,056
	332,685	375,405

The loans to investee companies are unsecured, interest-free and not repayable within one year from the balance sheet date. The carrying amounts of the loans to investee companies approximate to their fair values.

The amount due from an investee company is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from an investee company approximates to its fair value.

During the year, the gross gain of the Group's available-for-sale equity investments recognised directly in equity amounted to HK$303,000 (2005; gross loss of HK$2,077,000). Unrealised loss of HK$1,774,000 was released to retained profits during the year upon the disposal of subsidiaries.

As at 31 December 2006, certain unlisted equity investments with carrying amount of HK$285,490,000 (2005 (restated): HK$282,102,000) were stated at cost less impairment because the directors are of the opinion that their fair value cannot be measured reliably.

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23. BIOLOGICAL ASSETS

	Group	
	2006	2005
	HK$'000	HK$'000
At beginning of year	**35,840**	33,623
Decrease due to harvest	**(17,412)**	(14,813)
Additions during the year	**8,179**	–
Gains arising from changes in fair value attributable to physical changes	**26,977**	17,030
At 31 December	**53,584**	35,840

The Group harvested 5,052,398 kg of grapes with a fair value less estimated point-of-sale costs of HK$17,412,000 in the year ended 31 December 2006.

Significant assumptions made in determining the fair value of the biological assets are as follows:

(a) the grape vines will continue to be competently managed and remain free from irremediable diseases in the remaining estimated useful lives;

(b) the expected prices of grapes are based on the past actual average district prices; and

(c) the future cash flows have been discounted at the target rate of return on equity of the wineries segment.

24. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Raw materials	**2,901,803**	2,035,337
Work in progress	**223,021**	212,210
Finished goods	**1,762,090**	1,347,511
	4,886,914	3,595,058

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25. ACCOUNTS AND BILLS RECEIVABLE

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 and has a credit control department 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 receivable are non-interest-bearing.

An aged analysis of the accounts and bills receivable as at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Outstanding balances with ages:		
Within 6 months	**1,511,028**	1,264,912
6 to 12 months	**68,084**	57,315
1 to 2 years	**16,999**	13,619
Over 2 years	**19,096**	15,710
	1,615,207	1,351,556
Less: Impairment	**(38,479)**	(31,699)
	1,576,728	1,319,857

The carrying amounts of the accounts and bills receivable approximate to their fair values.

26. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Listed equity securities in Hong Kong, at fair value	**48,300**	10,925	**48,300**	345
Unlisted portfolio funds, at fair value	**–**	4,555	**–**	–
Unlisted debt securities, at fair value				
Hong Kong	**–**	24,669	**–**	–
Elsewhere	**–**	39,776	**–**	–
	48,300	79,925	**48,300**	345

The above investments at 31 December 2005 and 2006 were classified as held for trading.

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27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Commodity future contracts	**537**	12,314

The Group has entered into various commodity future contracts to manage its price exposure in future purchases or sales of soybean meal which did not meet the criteria for hedge accounting. Changes in fair value of non-hedging derivative financial instruments amounting to HK$109,414,000 (2005: HK$76,873,000) were credited to the consolidated income statement during the year.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
	Note	**2006**	2005	**2006**	2005
		HK$'000	HK$'000	**HK$'000**	HK$'000
			(Restated)		
Cash and bank balances		**1,770,362**	1,127,453	**24,183**	6,922
Time deposits		**799,794**	508,621	**646,505**	47,735
		2,570,156	1,636,074	**670,688**	54,657
Less: Time deposits pledged for short term bank loans	30	**(54,183)**	(404,905)	**–**	–
Cash and cash equivalents		**2,515,973**	1,231,169	**670,688**	54,657

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28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

At the balance sheet date, the cash and cash equivalents and pledged deposits balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,767,610,000 (2005 (restated): HK$1,240,463,000). 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 carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

29. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Outstanding balances with ages:		
Within 3 months	**1,335,812**	1,060,367
3 to 12 months	**35,562**	47,720
1 to 2 years	**4,753**	9,365
Over 2 years	**430**	4,330
	1,376,557	1,121,782

The accounts payable are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the accounts and bills payable approximate to their fair values.

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30. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006			2005		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000 (Restated)
Current						
Bank loans – secured	**3.00 – 7.01**	**2007**	**624,520**	4.09 – 6.90	2006	546,516
Bank loans – unsecured	**5.02 – 6.30**	**2007**	**2,616,916**	4.54 – 7.56	2006	1,193,751
Other loans – unsecured	**4.86 – 5.85**	**2007**	**657,193**	2.50 – 5.58	2006	1,889,668
			3,898,629			3,629,935
Non-current						
Bank loans – unsecured	**5.67 – 6.00**	**2008-2011**	**1,106,349**			–
Other loans – unsecured	**5.18 – 6.30**	**2009**	**958,736**	2.75 – 5.58	2007 – 2009	416,307
			2,065,085			416,307
			5,963,714			4,046,242

	2006	2005
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**3,241,436**	1,740,267
In the second year	**598,026**	–
In the third to fifth years, inclusive	**508,323**	–
	4,347,785	1,740,267
Other loans:		
Within one year or on demand	**657,193**	1,889,668
In the second year	**–**	264,944
In the third to fifth years, inclusive	**958,736**	151,363
	1,615,929	2,305,975
	5,963,714	4,046,242

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

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

(i) a charge over the Group's investment properties held outside Hong Kong with a carrying value at the balance sheet date of HK$52,389,000 (2005: HK$50,562,000) (note 17);

(ii) a charge over certain of the Group's property, plant and equipment with a net book value of approximately HK$1,146,409,000 (2005 (restated): HK$309,011,000) (note 16);

(iii) a charge over certain of the Group's land use rights with a net book value of approximately HK$103,113,000 (2005 (restated): HK$41,068,000) (note 18); and

(iv) the pledge of certain of the Group's time deposits amounting to HK$54,183,000 (2005 (restated): HK$404,905,000) (note 28).

(b) Except for bank and other borrowings of HK$2,318,821,000 (2005 (restated): HK$1,606,919,000) which are denominated in United States dollars, all borrowings are in RMB.

In addition, the ultimate holding company and an associate of the Group had guaranteed certain of the Group's unsecured bank loans up to HK$1,135,345,000 as at 31 December 2005. No guarantee was given by the ultimate holding company and an associate of the Group as at 31 December 2006.

The other loans represent loans of HK$1,615,929,000 (2005 (restated): HK$2,295,159,000) from COFCO and a financial institution in the COFCO group. These balances are unsecured and bear interest at rates ranging from 4.86% to 6.3% (2005 (restated): 2.5% to 5.58%) per annum.

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

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000 (Restated)	Floating rate HK$'000 (Restated)
Bank loans – unsecured	**1,515,741**	**2,207,524**	138,426	1,055,325
Bank loans – secured	**513,223**	**111,297**	69,739	476,777
Other loans – unsecured	**1,615,929**	**–**	2,231,158	74,817

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31. DEFERRED TAX

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

Deferred tax liabilities

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
At 1 January	**5,339**	4,893
Acquisition of subsidiaries (note 35)	**12,029**	–
Deferred tax charged to the income statement during the year (note 11)	**11,188**	357
Exchange realignment	**826**	89
At 31 December	**29,382**	5,339

Deferred tax assets

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
At 1 January	**10,260**	13,254
Deferred tax credited/(charged) to the income statement during the year (note 11)	**4,845**	(3,177)
Exchange realignment	**460**	183
At 31 December	**15,565**	10,260

The Group has tax losses arising in Hong Kong and Mainland China of nil (2005 (restated): HK$53,304,000) and HK$203,179,000 (2005 (restated): HK$206,195,000), respectively, that are available for offsetting against future taxable profits 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.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

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

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32. SHARE CAPITAL

Shares

(a) **Company**

	2006	2005
	HK$'000	HK$'000
Authorised:		
4,000,000,000 (2005: 2,500,000,000) ordinary shares of HK$0.10 each	**400,000**	250,000
Issued and fully paid:		
2,791,383,356 (2005: 1,758,449,974) ordinary shares of HK$0.10 each	**279,138**	175,845

During the year, the movements in share capital were as follows:

(i) Pursuant to an ordinary resolution passed on 21 November 2006, the authorised share capital of the Company was increased from HK$250,000,000 to HK$400,000,000 by the creation of 1,500,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

(ii) The subscription rights attaching to 53,194,000 share options were exercised at subscription prices ranging from HK$3.05 to HK$3.644 per share (note 33), resulting in the issue of 53,194,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$177,848,000.

(iii) Pursuant to a placing agreement dated 24 November 2006, 100,000,000 new ordinary shares of HK$0.10 each were issued by the Company at a price of HK$6.94 per share for a total cash consideration, before expenses, of HK$694,000,000.

(iv) Pursuant to the Reorganisation as detailed in note 2 to the financial statements, 879,739,382 new ordinary shares of HK$0.10 each were issued by the Company to its immediate holding company at a price of HK$5.25 per share for an amount before expenses, of HK$4,618,632,000 for the Acquisition. The amount of approximately HK$4,530,658,000 in excess of the nominal value of the shares issued was credited to the Company's contributed surplus.

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32. SHARE CAPITAL (continued)

Shares (continued)

(a) Company (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued share capital	Share premium account	Total
			HK$'000	HK$'000	HK$'000
At 1 January 2005		1,757,099,974	175,710	2,771,258	2,946,968
Share options exercised, net of share issue expenses		1,350,000	135	4,784	4,919
At 31 December 2005 and 1 January 2006		1,758,449,974	175,845	2,776,042	2,951,887
Share options exercised, net of share issue expenses	(ii)	53,194,000	5,319	172,529	177,848
Placing of shares, net of share issue expenses	(iii)	100,000,000	10,000	675,072	685,072
Issue of shares, net of share issue expenses	(iv)	879,739,382	87,974	–	87,974
At 31 December 2006		2,791,383,356	279,138	3,623,643	3,902,781

(b) Group

For the purpose of presenting the financial statements of the Group based on the principles of merger accounting as set out in note 3.1 to the financial statements, the shares issued for the Acquisition were presented as if the Acquisition had occurred at the earliest date presented in the financial statements.

A summary of the movements in the Group's issued share capital for the purpose of presentation in the consolidated financial statements is as follows:

	Number of shares in issue	Issued share capital
		HK$'000
At 1 January 2005:		
As previously reported	1,757,099,974	175,710
Issue of shares for the Acquisition	879,739,382	87,974
As restated	2,636,839,356	263,684
Share options exercised	1,350,000	135
At 31 December 2005 and 1 January 2006, as restated	2,638,189,356	263,819
Share options exercised	53,194,000	5,319
Placing of shares	100,000,000	10,000
At 31 December 2006	2,791,383,356	279,138

32. SHARE CAPITAL (continued)

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

The Company has implemented a share option scheme (the "Old Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme became effective on 23 June 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date and will expire on 22 June 2007. In 2002, the Old Scheme was amended to comply with certain amendments to the Listing Rules which came into effect on 1 September 2001.

The maximum number of unexercised share options currently permitted to be granted under the Old Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under the share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to any director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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 the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Old Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, 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; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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33. SHARE OPTION SCHEME (continued)

	Number of share options									Price of Company's shares[3]	
Name or category of participant	At 1 January 2006	Granted during the year	Exercised during the year	Foreited during the year	Lasped during the year	At 31 December 2006	Date of grant of share options[1]	Exercise period of share options	Exercise price of share options[2]	At grant date of options	At exercise date of options
									HK$	HK$	HK$
Directors											
Mr. Liu Fuchun	4,050,000	–	(4,050,000)	–	–	–	10.9.2003	10.9.2004 – 9.9.2008	3.644	2.525	5.310
	4,500,000	–	(4,500,000)	–	–	–	20.8.2004	20.8.2005 –19.8.2009	3.050	3.050	7.130
	8,550,000	–	(8,550,000)	–	–	–					
Mr. Yu Guangquan	2,700,000	–	(1,890,000)	(810,000)	–	–	10.9.2003	10.9.2004 – 9.9.2008	3.644	2.525	4.275
	3,000,000	–	(900,000)	(2,100,000)	–	–	20.8.2004	20.8.2005 – 19.8.2009	3.050	3.050	4.275
	5,700,000	–	(2,790,000)	(2,910,000)	–	–					
Mr. Xue Guoping	2,700,000	–	(2,700,000)	–	–	–	10.9.2003	10.9.2004 – 9.9.2008	3.644	2.525	5.310
	3,000,000	–	(3,000,000)	–	–	–	20.8.2004	20.8.2005 – 19.8.2009	3.050	3.050	7.130
	5,700,000	–	(5,700,000)	–	–	–					
Mr. Liu Yongfu	2,700,000	–	(2,700,000)	–	–	–	10.9.2003	10.9.2004 – 9.9.2008	3.644	2.525	5.310
	3,000,000	–	(3,000,000)	–	–	–	20.8.2004	20.8.2005 – 19.8.2009	3.050	3.050	7.130
	5,700,000	–	(5,700,000)	–	–	–					
Mr. Qu Zhe	320,000	–	(320,000)	–	–	–	10.9.2003	10.9.2004 – 9.9.2008	3.644	2.525	5.310
	350,000	–	(350,000)	–	–	–	20.8.2004	20.8.2005 – 19.8.2009	3.050	3.050	7.130
	670,000	–	(670,000)	–	–	–					
Other employees:											
In aggregate	1,000,000	–	–	–	(1,000,000)	–	3.10.2001	3.10.2002 – 2.10.2006	1.370	1.370	–
	14,614,000	–	(14,614,000)	–	–	–	10.9.2003	10.9.2004 – 9.9.2008	3.644	2.525	5.310 – 7.100
	15,170,000	–	(15,170,000)	–	–	–	20.8.2004	20.8.2005 – 19.8.2009	3.050	3.050	5.250 – 7.130
	30,784,000	–	(29,784,000)	–	(1,000,000)	–					
	57,104,000	–	(53,194,000)	(2,910,000)	(1,000,000)	–					

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33. SHARE OPTION SCHEME (continued)

Notes to the reconciliation of share options outstanding during the year:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

(3) The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

Pursuant to a ordinary resolution passed on 21 November 2006, the terms of 7,716,000 share options granted in prior years which are not exercisable until 20 August 2007 were amended and the options became exercisable. These share options were subsequently exercised before 31 December 2006.

The 53,194,000 share options exercised during the year resulted in the issue of 53,194,000 ordinary shares of the Company and new share capital of HK$5,319,000 and share premium of HK$172,529,000 (before issue expenses), as further detailed in note 32 to the financial statements.

At the balance sheet date, there were no share options outstanding under the Old Scheme.

Pursuant to a ordinary resolution passed on 21 November 2006 (the "Adoption Date"), the Company has conditionally adopted a new share option scheme (the "New Scheme"), of which the terms of the New Scheme are set out in the Circular. The New Scheme will be in effect for 10 years from the Adoption Date. Upon the adoption of the New Scheme, the Old Scheme ceased to operate on the same date.

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34. RESERVES

(a) **The Group**

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of certain of the Company's subsidiaries and associates in Mainland China has been transferred to reserve funds which are restricted as to use.

The Group's capital reserve includes the contributed surplus which represents:

(i) the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor under the group reorganisation in 1991, less the goodwill arising on the acquisition of subsidiaries and associates which remains eliminated against the capital reserve, as explained in note 19 to the financial statements; and

(ii) the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor under the Reorganisation, as explained in note 2 to the financial statements.

(b) **The Company**

	Notes	Share premium account HK$'000	Employee share-based compensation reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005		2,771,258	17,891	498,184	83,398	3,370,731
Issue of shares		4,784	–	–	–	4,784
Equity-settled share option arrangements		–	13,202	–	–	13,202
Profit for the year		–	–	–	472,076	472,076
Dividends	14	–	–	–	(153,107)	(153,107)
At 31 December 2005 and 1 January 2006		2,776,042	31,093	498,184	402,367	3,707,686
Issue of shares, net of issue expenses	32	847,601	–	4,530,626	–	5,378,227
Equity-settled share option arrangements		–	5,696	–	–	5,696
Release upon exercise of share options		36,789	(36,789)	–	–	–
Profit for the year		–	–	–	98,685	98,685
Dividends	14	–	–	–	(79,256)	(79,256)
At 31 December 2006		3,660,432	–	5,028,810	421,796	9,111,038

34. RESERVES (continued)

(b) The Company (continued)

The contributed surplus of the Company represents:

(i) the difference between the underlying net assets of subsidiaries and nominal value of the Company's shares issued in exchange therefor under a group reorganisation in 1991; and

(ii) the difference between the consideration payable in respect of the Acquisition and the nominal value of the Company's shares issued in exchange therefor under the Reorganisation.

In addition to the retained profits of the Company, under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is also available for distribution to its shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of its contributed surplus, if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

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35. BUSINESS COMBINATION

On 27 January 2006, the Group acquired a 100% interest in Techbo Limited, which has 100% and 65% equity interests in COFCO Bio-Energy (Zhaodong) Co., Ltd. (formerly known as China Resources (Heilongjiang) Alcohol Co., Ltd.) ("Zhaodong Bio-Energy") and China Resources Winery (Heilongjiang) Co., Ltd. ("Heilongjiang Winery"), respectively, from an independent third party. Zhaodong Bio-Energy is engaged in the production and sale of biofuel and biochemical products and Heilongjiang Winery is engaged in wine brewery.

The fair values of the identifiable assets and liabilities of Techbo Limited and its subsidiaries (collectively the "Techbo Group") 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 16)	613,923	594,536
Prepaid land premiums (note 18)	39,338	31,691
Inventories	194,844	194,844
Accounts and bills receivable	99,649	99,649
Prepayments, deposits and other receivables	74,223	74,223
Tax recoverable	2,054	2,054
Cash and cash equivalents	240,141	240,141
Interest-bearing bank and other borrowings	(615,029)	(615,029)
Accounts payable	(25,236)	(25,236)
Due to minority shareholders	(520)	(520)
Other payables and accruals	(65,747)	(65,747)
Deferred income	(10,995)	(10,995)
Due to fellow subsidiaries	(125,760)	(125,760)
Deferred tax liabilities (note 31)	(12,029)	(12,029)
Minority interests	(4,729)	(2,578)
	404,127	379,244
Goodwill on acquisition (note 19)	338,451	
	742,578	
Satisfied by:		
An amount due to the immediate holding company	742,578	

35. BUSINESS COMBINATION (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

	HK$'000
Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	240,141

During the year, the Techbo Group generated revenue and net profit of HK$1,405,432,000 and HK$199,826,000, respectively. Since the acquisition of the Techbo Group, the Techbo Group contributed HK$1,304,620,000 to the Group's revenue and HK$183,959,000 to the Group's consolidated profit for the year.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$24,492,925,000 and HK$1,005,931,000, respectively.

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36. DISPOSAL OF SUBSIDIARIES

Pursuant to the Reorganisation as set out in note 2 to the financial statements, the Group disposed of the Disposal Group to its immediate holding company during the current year. An analysis of the assets and liabilities of the Disposal Group is as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment (note 16)	2,313
Goodwill (note 19)	93,333
Available-for-sale investments	33,909
Inventories	46,861
Accounts receivable	17,817
Prepayments, deposits and other receivables	22,966
Due from fellow subsidiaries	381,281
Due from the ultimate holding company	69,199
Investments at fair value through profit or loss	38,943
Cash and cash equivalents	197,045
Accounts payable	(28,810)
Other payables and accruals	(7,005)
Due to fellow subsidiaries	(33,051)
Due to the ultimate holding company	(869)
Tax payable	(11,984)
	821,948
Loss on disposal of subsidiaries (note 7)	(106,848)
	715,100
Satisfied by:	
An amount due to the immediate holding company	715,100

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the Disposal Group is as follows:

	HK$'000
Cash and bank balances disposed of and net outflow of cash and cash equivalents in respect of the disposal of the Disposal Group	(197,045)

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) During the year, the Group acquired a 20% interest in an associate with a total consideration of HK$254,106,000, which was settled by the Group's immediate holding company on behalf of the Group.

(b) During the year, the Group acquired a 100% interest in a subsidiary with a total consideration of HK$742,578,000, which was settled by the Group's immediate holding company on behalf of the Group. Further details of the acquisition of the subsidiary are set out in note 35 above.

(c) During the year, the Group disposed of the Disposal Group to its immediate holding company pursuant to the Reorganisation with a total consideration of HK$715,100,000, which was settled against the current account with the immediate holding company. Further details of the disposal of the Disposal Group are set out in note 36 above.

(d) During the year, an amount of HK$125,883,000 due to immediate holding company was capitalised to the consolidated capital reserve of the Group. There was no cash involved in this transaction.

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38. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2006	2005
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**312,000**	312,000

As at the balance sheet date, none of the above facilities were utilised by the subsidiaries.

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 17 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**5,559**	4,729
In the second to fifth years, inclusive	**2,655**	4,818
	8,214	9,547

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39. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to thirty years.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Within one year	**43,588**	20,786
In the second to fifth years, inclusive	**39,292**	26,077
After five years	**70,468**	45,880
	153,348	92,743

40. CAPITAL COMMITMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**395,307**	236,111
Contracted, but not provided for	**869,064**	223,480
	1,264,371	459,591

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41. OTHER COMMITMENTS

Commitments under future contracts

	Group	
	2006	2005
	HK$'000	HK$'000
Sale of soybean meal	**873,943**	80,120
Sale of soybean	**298,992**	127,134

Other than disclosed above, neither the Group, nor the Company, had any significant capital or other commitments as at the balance sheet date.

42. 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:

		Group	
	Notes	**2006**	2005
		HK$'000	HK$'000
			(Restated)
Transactions with fellow subsidiaries:			
Sales of goods *	(i)	**664,331**	396,182
Purchases of goods *	(i)	**28,684**	136,677
Operating lease rentals paid **	(i)	**8,765**	9,357
Interest expenses **	(ii)	**84,472**	55,684
Interest income	(iv)	**4,831**	3,116
Commission paid	(i)	**4,760**	1,127
Management fee paid	(i)	**–**	3,327
Transactions with the ultimate holding company:			
Sales of goods *	(i)	**431,065**	458,643
Purchases of goods *	(i)	**38,656**	23,155
Royalty paid	(i)	**–**	17,766
Management fee income *	(v)	**31,576**	37,623
Management fee paid **	(i)	**7,575**	8,357
Interest expenses *	(ii)	**15,847**	434
Transactions with immediate holding company:			
Interest expenses	(ii)	**–**	14,716

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42. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	Group 2006 HK$'000	2005 HK$'000 (Restated)
Transactions with associates:			
Sales of goods *	(i)	**128,604**	94,534
Purchases of goods *	(i)	**97,148**	3,270
Purchases of steel barrel	(i)	**22,960**	44,187
Processing fee expenses	(i)	**14,980**	15,911
Reimbursement of advertising expenses	(iii)	**4,185**	4,485
Transactions with minority shareholders			
Sales of goods	(i)	**–**	159
Purchases of goods *	(i)	**29,489**	218,879
Operating lease rentals paid	(i)	**–**	804
Consultancy fees paid	(i)	**–**	321
Transactions with related companies:			
Sales of goods	(i)	**7,666**	67,016
Purchases of goods *	(i)	**7,542,999**	6,964,683

* These related party transactions also constituted connected transactions disclosable in accordance with the Listing Rules.

** Certain amounts of these related party transactions also constituted connected transactions disclosable in accordance with the Listing Rules.

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42. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(i) These 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) Interest expenses arose from the loans from the ultimate holding company and COFCO Finance Corporation Limited ("COFCO Finance"), a wholly-owned subsidiary of COFCO , are unsecured, bear interest at rates ranging from 4.86% to 6.3% per annum and of which HK$657,193,000 is repayable within one year.

(iii) The reimbursement of advertising expenses was calculated with reference to the actual advertising expenses incurred for the year ended 31 December 2006.

(iv) The interest income arose from the deposits placed with COFCO Finance. COFCO Finance is a non-banking finance company regulated by the People's Bank of China (the "PBOC") and China Banking Regulatory Commission in the PRC, and its deposit rates are set by the PBOC which are applicable to all financial institutions. The interest rates offered by COFCO Finance are the same as the rates promulgated by the PBOC which were applicable to account deposits with banks and finance companies in the PRC and ranged from 0.72% to 2.25% per annum. No deposits placed with COFCO Finance by the Group as at 31 December 2006 (2005 (Restated): HK$100,605,000).

(v) The management fee incomes was calculated with reference to the actual management service expenses incurred for the year ended 31 December 2006.

In addition to the above connected transactions, the sales and purchases of edible oils and oil-related products and the resale of soybean with a total value of approximately HK$195,079,000 were made by certain subsidiaries of the COFCO Oils & Fats Group to another subsidiaries within the COFCO Oils & Fats Group. These transactions have been eliminated on consolidation but still constituted connected transactions under the Listing Rules.

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42. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(b) Transaction with a related party

Pursuant to certain licensing agreements entered into between the Group and a related party, the Group has been granted the exclusive rights to use certain trademarks for its edible oils, soybean meal and related products businesses. The licensings fees for the current year and prior year were waived by the related party.

(c) Outstanding balances with related parties

Except for (1) the loans of HK$1,615,929,000 (2005 (Restated): HK$2,295,159,000) from the ultimate holding company and COFCO Finance, the terms of which are detailed in note 30 to the financial statements, (2) the amounts due to minority shareholders of HK$147,496,000 (2005 (Restated): HK$105,627,000) which are not repayable within one year from the balance sheet date and (3) an amount due to the ultimate holding company of HK$19,906,000 (2005 (Restated): HK$19,212,000), which are not repayable within one year from the balance sheet date, the remaining balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group's subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Salaries, allowances and benefits in kind	**1,868**	1,664
Discretionary bonuses	**262**	232
Equity-settled share option expenses	**181**	450
Pension scheme contributions	**59**	59
Total compensation paid to key management personnel	**2,370**	2,405

Further details of directors' emoluments are included in note 9 to the financial statements.

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43. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2006 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Jumbo Team Group Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US$3	**100**	–	Investment holding
Full Extent Group Limited	BVI/Hong Kong	Ordinary US$3	**100**	–	Investment holding
China Agri-Industries Holdings Limited	Hong Kong	Ordinary HK$1	**100**	–	Investment holding
China Agri-Industries Limited	Bermuda/ Hong Kong	Ordinary HK$269,238,336	**100**	–	Investment holding
COFCO Coca-Cola Beverages Limited	Hong Kong	Ordinary HK$2,463,217,002	**65**	–	Investment holding
Techbo Limited	BVI/Hong Kong	Ordinary US$1	**100**	–	Investment holding
中國長城葡萄酒有限公司 China Great Wall Wine Co., Ltd. *	The PRC/ Mainland China	RMB130,000,000	**100**	100	Production and sale of wine and beverage products

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43. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
中糧艾地盟糧油工業(荷澤)有限公司 COFCO ADM Oils and Grains Industries (Heze) Co., Ltd. *	The PRC/ Mainland China	US$22,400,000	**70**	70	Production and sale of edible oils
中糧國際(北京)有限公司 COFCO International (Beijing) Co., Ltd. *	The PRC/ Mainland China	RMB60,000,000	**100**	100	Trading of rice, cereals, oils feedstuffs, fruits, vegetables and aquatic products
中糧煙台長城葡萄酒有限公司 COFCO Greatwall Winery (Yantai) Co., Ltd. *	The PRC/ Mainland China	RMB64,000,000	**100**	60	Production and sale of grape wine
中糧華夏長城葡萄酒有限公司 COFCO Huaxia Greatwall Wine Co., Ltd. *	The PRC/ Mainland China	RMB200,000,000	**100**	100	Production and sale of grape wine
中糧華夏紅酒業(深圳)有限公司 COFCO Huaxiahong Wines and Spirits (Shenzhen) Co., Ltd. **	The PRC/ Mainland China	RMB3,000,000	**80**	80	Wholesale of grape wine
中糧南王山谷君頂酒莊有限公司 COFCO Navavalley Jundung Vineyard Co., Ltd.	The PRC/ Mainland China	RMB60,000,000	**55**	–	Not yet Commenced business
中糧金帝食品(深圳)有限公司 COFCO Le Conte Food (Shenzhen) Co., Ltd. *	The PRC/ Mainland China	US$15,000,000	**100**	100	Production and distribution of chocolate products
中糧酒業有限公司 COFCO Wines and Spirits Co., Ltd. *	The PRC/ Mainland China	RMB11,760,000	**100**	100	Provision of management services
中糧祥瑞糧油工業(荊門)有限公司 COFCO Xiangrui Oils and Grains Industries (Jingmen) Co., Ltd *	The PRC/ Mainland China	US$7,500,000	**100**	100	Production and sale of edible oils
東洲油脂工業(廣州)有限公司 Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd.*	The PRC/ Mainland China	RMB51,700,000	**89.36**	84	Processing and refining of edible oils and fats

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43. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
東海糧油工業(張家港)有限公司 East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. *	The PRC/ Mainland China	US$113,000,000	**54**	54	Production and sale of edible oils, and trading of soybeans and rapeseed
秦皇島華夏長城酒業有限公司 Qinhuangdao Huaxia Greatwall Wines and Spirits Co., Ltd.	The PRC/ Mainland China	RMB1,000,000	**100**	100	Wholesale of grape wine
深圳市金帝營銷有限公司 Shenzhen Le Conte Marketing Services Co., Ltd.**	The PRC/ Mainland China	RMB15,000,000	**90**	90	Distribution of chocolate products
廈門海嘉麵粉有限公司 Xiamen Haijia Flour Mills Co., Ltd.**	The PRC/ Mainland China	RMB71,325,000	**60**	60	Wheat processing
煙台長城酒業有限公司 Yantai Greatwall Wines and Spirits Co., Ltd.	The PRC/ Mainland China	RMB1,000,000	**100**	60	Wholesale of grape wine
黃海糧油工業(山東)有限公司 Yellowsea Oils and Grains Industries (Shandong) Co., Ltd.*	The PRC/ Mainland China	US$47,773,776	**72.94**	72.94	Production and sale of edible oils
鄭州海嘉食品有限公司 Zhengzhou Haijia Food Co., Ltd.**	The PRC/ Mainland China	RMB30,000,000	**55**	55	Wheat processing
海南中糧可口可樂飲料有限公司 Hainan COFCO Coca-Cola Beverages Company Limited *	The PRC/ Mainland China	US$11,700,000	**65**	–	Beverage processing
湖南中糧可口可樂飲料有限公司 Hunan COFCO Coca-Cola Beverages Co. Ltd. *	The PRC/ Mainland China	US$8,000,000	**65**	–	Beverage processing
吉林中糧可口可樂飲料有限公司 Jilin COFCO Coca-Cola Beverages Limited *	The PRC/ Mainland China	US$8,000,000	**65**	–	Beverage processing

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43. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
中糧可口可樂飲料(中國)投資有限公司 COFCO Coca-Cola Beverages (China) Investment Limited *	The PRC/ Mainland China	US$30,000,000	**65**	–	Investment holding
新疆中糧可口可樂飲料有限公司 Xinjiang COFCO Coca-Cola Beverages Co., Ltd. **	The PRC/ Mainland China	RMB3,000,000	**52**	–	Sales of beverage products
天津可口可樂飲料有限公司 Tianjin Coca-Cola Beverages Co., Ltd. **	The PRC/ Mainland China	US$15,500,000	**32.5**	–	Beverage processing
甘肅中糧可口可樂飲料有限公司 Gansu COFCO Coca-Cola Beverages Co. Ltd. *	The PRC/ Mainland China	US$5,000,000	**65**	–	Beverage processing
湛江中糧可口可樂飲料有限公司 Zhanjiang COFCO Coca-Cola Beverages Limited *	The PRC/ Mainland China	RMB23,000,000	**65**	–	Beverage processing
中糧紹興酒有限公司 COFCO Shaoxing Winery Co., Ltd. *	The PRC/ Mainland China	RMB68,670,000	**100**	–	Production and sale of Chinese yellow rice wine
中糧豐通(北京)食品有限公司 COFCO TTC (Beijing) Foods Co., Ltd. *	The PRC/ Mainland China	US$5,450,000	**51**	–	Production and sale of wheat products
瀋陽東大糧油食品實業有限公司 Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd. **	The PRC/ Mainland China	RMB55,000,000	**66.9**	–	Production and sale wheat products
濮陽中糧麵業有限公司 Puyang COFCO Flour Industry Co., Ltd. *	The PRC/ Mainland China	RMB35,000,000	**80**	–	Production and sale of wheat products
山東中糧魯德食品有限公司 Shandong COFCO Lude Foods Co., Ltd **	The PRC/ Mainland China	RMB43,533,000	**55**	–	Production and sale of wheat products
瀋陽香雪麵粉股份有限公司 Shenyang Xiangxue Flour Limited Liability Company **	The PRC/ Mainland China	RMB80,350,000	**69.3**	–	Production and sale of wheat products

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43. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
中糧麵業(秦皇島)鵬泰有限公司 COFCO Industry (Qinhuangdao) Pangthai Co., Ltd. *	The PRC/ Mainland China	US$17,340,000	**100**	–	Production and sale of wheat products
中糧江西米業有限公司 COFCO (Jiangxi) Rice Processing Limited **	The PRC/ Mainland China	RMB60,200,000	**83.47**	–	Processing and trading of rice
中糧麥芽(江陰)有限公司 COFCO Malt (Jiangyin) Co., Ltd. *	The PRC/ Mainland China	US$15,000,000	**100**	–	Production and sale of brewing materials
大連中糧麥芽有限公司 Dalian COFCO Malt Co., Ltd. *	The PRC/ Mainland China	US$30,000,000	**100**	–	Production and sale of brewing materials
上海中糧啤酒原料有限公司 Shanghai COFCO Brewing Materials Co., Ltd. *	The PRC/ Mainland China	RMB1,000,000	**100**	–	Production and sale of brewing materials
中糧生化能源(榆樹)有限公司 COFCO Bio-Chemical Energy (Yushu) Co., Ltd.	The PRC/ Mainland China	US$38,000,000	**100**	–	Production and sale of biofuel and biochemicals
中糧生化能源(公主嶺)有限公司 COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd. *	The PRC/ Mainland China	US$71,880,000	**100**	–	Production and sale of biofuel and biochemicals
廣西中糧生物質能源有限公司 Guangxi COFCO Bio-Energy Co., Ltd. *	The PRC/ Mainland China	RMB100,000,000	**100**	–	Production and sale of biofuel and biochemicals
中糧生化能源(衡水)有限公司 COFCO Biochemical Energy (Hengshui) Co., Ltd. *	The PRC/ Mainland China	RMB230,000,000	**88**	–	Production and sale of biofuel and biochemicals
中糧生化能源(肇東)有限公司 (前稱為黑龍江華潤酒精有限公司) COFCO Bio-Energy (Zhaodong) Co., Ltd. (formerly known as China Resources (Heilongjiang) Alcohol Co., Ltd.)*	The PRC/ Mainland China	RMB380,000,000	**100**	–	Production and sale of biofuel and biochemicals
黑龍江華潤釀酒有限公司 China Resources Winery (Heilongjiang) Co., Ltd. **	The PRC/ Mainland China	RMB5,000,000	**65**	–	Wine brewery

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43. PRINCIPAL SUBSIDIARIES (continued)

Except for Jumbo Team, China Agri-Industries Holdings Limited and China Agri-Industries Limited, all of the above principal subsidiaries are indirectly held by the Company.

* Wholly-foreign-owned enterprises

** Sino-foreign equity joint ventures

Except for China Agri-Industries Holdings Limited, the statutory audits of the above subsidiaries were not performed by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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.

44. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates as at 31 December 2006 are as follows:

Name	Nominal value of ordinary issued/ registered capital	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group 2006	2005	Principal activities
大海糧油工業(防城港)有限公司 Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co., Ltd.	US$44,500,000	The PRC	**40**	40	Soya bean oil extraction, refining and packaging, and production of soybean meal
萊陽魯花濃香花生油有限公司 Laiyang Luhua Fragrant Peanut Oil Co., Ltd.	US$19,219,300	The PRC	**24**	24	Production and sale of peanut oil
北海糧油工業(天津)有限公司 Northsea Oils and Grains Industries (Tianjin) Co., Ltd.	US$51,557,000	The PRC	**50**	50	Production and sale of edible oils
Lassiter Limited	Ordinary US$100	Samoa	**49**	49	Investment holding
深圳南天油粕工業有限公司 Shenzhen Nantian Oilmills Co., Ltd.	RMB10,000,000	The PRC	**20**	20	Oilseed processing

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44. PRINCIPAL ASSOCIATES (continued)

Name	Nominal value of ordinary issued/ registered capital	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group 2006	2005	Principal activities
吉林燃料乙醇有限責任公司 Jilin Fuel Ethanol Co., Ltd.	RMB1,200,000,000	The PRC	**20**	–	Production and sale of biofuel and biochemical products
南京中萃食品有限公司 Nanjing BC Foods Co., Ltd.	US$19,000,000	The PRC	**13**	13	Beverage processing
杭州中萃食品有限公司 Hangzhou BC Foods Co., Ltd.	US$20,000,000	The PRC	**13**	13	Beverage processing
北京可口可樂飲料有限公司 Beijing Coca-Cola Beverage Company Limited	US$19,500,000	The PRC	**22.8**	22.8	Beverage processing
CBPC Limited	Ordinary HK$10,000	Hong Kong	**16.3**	16.3	Procurement of raw materials for Coca-Cola bottlers in Mainland China
溫州太古可口可樂飲料有限公司 Swire Coca-Cola Beverages Wenzhou Limited	RMB49,800,000	The PRC	**4.1***	–	Procurement of raw materials for Coca-Cola bottlers in Mainland China
杭州中萃儲運有限公司 Hangzhou BC Warehousing & Transportation Co., Ltd.	RMB3,300,000	The PRC	**6.5***	–	Provision of warehousing and transportation services

* In the opinion of the directors, the Group is able to exercise significant influence over these companies as the boards of directors of these companies comprise representatives of the Group, who participate in the policy-making processes. Accordingly, they are treated as associates of the Group.

Except for Jilin Fuel Ethanol Co., Ltd., Lassiter Limited and Shenzhen Nantian Oilmills Co., Ltd., the above associates are held through non-wholly-owned subsidiaries of the Company.

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45. 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 time 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 receivables and accounts payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk, liquidity risk and market price risk associated with price fluctuations in future purchases and/or sales of the related commodities. 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 Group uses certain derivative financial instruments to hedge certain risk exposures, with material impact.

The Group enters into derivative transactions, including principally (i) forward foreign exchange contracts, swaps and options; and (ii) future contracts of soybean meal. The purpose of entering into forward exchange contracts, swaps and options is to manage the currency risk arising from the Group's operations and its source of finance. The purpose of entering into future contracts of soybean meal is to manage the market price risk arising from the Group's edible oils, soybean meal and related products operation. The accounting policies in relation to derivatives are set out in note 3.4 to the financial statements.

Cash flow interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The effective interest rates and terms of repayment of bank loans and other loans of the Group are disclosed in note 30. The Group has not used any derivative to hedge its exposure to cash flow interest rate risk.

Foreign currency risk

The Group mainly operates in the PRC with most of the Group's monetary assets, liabilities and transactions principally denominated in Hong Kong dollars, Renminbi and United States dollars. Foreign currency risk arises from future commercial transactions from operations and borrowings and net investments of operations, which are denominated in currencies other than the functional currency of the Group. To minimise the Group's foreign exchange exposure, the Group enters into forward foreign exchange contracts, swaps and options to reduce foreign currency risk.

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 has policies in place to ensure that sales are made to customers with an appropriate credit history.

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45. FINANCIAL RISK MANGEMENT 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.

Market price risk
The raw material cost and product selling price of the Group's operation of edible oils, soybean meal and related products are substantially correlated to the prices of 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 future contracts of soybean meal.

46. POST BALANCE SHEET EVENTS

(a) Pursuant to the Reorganisation, on 8 February 2007, the Company declared a special interim dividend to distribute the Company's entire equity interest in China Agri-Industries for the purpose of the Spin-Off. The distribution of the shares of China Agri-Industries are conditional upon the approval by the Stock Exchange on the proposed listing of China Agri-Industries shares. Upon the approval by the Stock Exchange, the distribution and the listing of the shares of China Agri-Industries were completed and commenced on 21 March 2007. Upon the completion of the Spin-Off, the Group no longer carries out the following businesses, which are to be carried out by China Agri-Industries and its subsidiaries (the "China Agri-Industries Group"):

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

(b) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC CIT Law ("the New CIT Law") was approved and will become 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%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New CIT Law to the Group cannot be reasonably estimated at this stage.

47. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of AG 5 for the Acquisition during the current year, and to conform with the current year's presentation, comparative amounts have been restated and reclassified.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2007.