

Report of the Directors

The directors are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates of the Company involve food processing and related businesses which include edible oils, soybean meal and related products; wineries; confectionery; flour milling; and trading.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group as of that date are set out in the financial statements on pages 35 to 117.

An interim dividend of 4.35 HK cents per share was paid on 5 October 2005. The directors recommend the payment of a final dividend of 4.35 HK cents per share in respect of the year, to shareholders on the register of members on 25 May 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profit within the capital and reserves in the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated and reclassified as appropriate, is set out on page 118. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 14 and 15 of the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options during the year, together with the reasons therefore, are set out in notes 31 and 32 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company’s reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$977,165,000, of which HK\$76,614,000 has been proposed as a final dividend for the year. In addition, the Company’s share premium account, in the amount of HK\$2,776,042,000, may be distributed in the form of fully paid bonus shares.

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MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 9.5% of the total sales for the year with the largest customer accounting for approximately 2.3%. The five largest suppliers of the Group accounted for approximately 39.9% of the Group's total purchases for the year, with the largest supplier accounting for approximately 34.6%.

Apart from the Group's ultimate holding company, China National Cereals, Oils & Foodstuffs Corporation ("COFCO"), which is one of the Group's five largest customers, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's other four largest customers or the Group's five largest suppliers.

DIRECTORS

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

Executive Directors:

Mr. Ning Gaoning	
Mr. Liu Fuchun	
Mr. Qu Zhe	
Mr. Xue Guoping	
Mr. Liu Yongfu	
Mr. Yu Xubo	(appointed on 18 January 2006)
Mr. Ng Eng Leong	(deceased on 31 October 2005)
Mr. Yu Guangquan	(resigned on 18 January 2006)
Mr. Zhou Mingchen	(resigned on 24 January 2005)

Independent non-Executive Directors:

Mr. Stephen Edward Clark	
Mr. Tan Man Kou	
Mr. Yuen Tin Fan, Francis	
Mr. Liang Shangli	(resigned on 28 April 2005)

In accordance with Bye-Law 94 of the Company's Bye-Laws Mr. Yu Xubo will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-Law 111 of the Company's By-Laws, Mr. Liu Fuchun and Mr. Liu Yongfu, both having been the longest in office, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

To ensure full compliance with the Code provision that every director should be subject to retirement by rotation at least every three years, Mr. Xue Guoping and Mr. Yuen Tin Fan, Francis, both having been in office for three years since their last re-election, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are appointed without specific term but subject to retirement by rotation every three years as required by the Company's Bye-Laws.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 22 to 23 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which requires the Company or any of its subsidiaries to give a notice of more than one year or to pay compensation or make other payments equivalent to more than one year's emoluments, other than statutory compensation.

Directors are subject to retirement by rotation as required by Bye-Law 111 of the Company's Bye-Laws.

DIRECTORS' INTEREST IN CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the directors and their associates in the shares, debentures or underlying shares of the Company or any of its associated companies (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") or which are required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company were as follows:

(a) Aggregate long positions in the shares, underlying shares and debentures of the Company and its associated companies

Name of director	Capacity and nature of interest	Number of shares held	Total	Approximate percentage of the issued share capital*
Mr. Liu Fuchun	Beneficial owner	1,350,000 ¹	9,900,000	0.56
	Beneficial owner	8,550,000 ²		
Mr. Yu Guangquan	Beneficial owner	117,000 ¹	5,817,000	0.33
	Beneficial owner	5,700,000 ²		
Mr. Xue Guoping	Beneficial owner	900,000 ¹	6,600,000	0.38
	Beneficial owner	5,700,000 ²		
Mr. Liu Yongfu	Beneficial owner	900,000 ¹	6,600,000	0.38
	Beneficial owner	5,700,000 ²		
Mr. Qu Zhe	Beneficial owner	105,000 ¹	775,000	0.04
	Beneficial owner	670,000 ²		

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(a) Aggregate long positions in the shares, underlying shares and debentures of the Company and its associated companies (continued)

Notes:

- 1 Long positions in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
 - 2 Long positions in the underlying shares of the Company pursuant to share options granted to directors under a share option scheme of the Company, details of which are separately disclosed in note 32 to the financial statements headed "Share Option Scheme".
- * The percentages are calculated based on the total number of shares of the Company in issue as at 31 December 2005, i.e., 1,758,449,974 shares.

Saved as disclosed above, none of the directors and their associates had any other long positions in the shares, underlying shares and debentures of the Company and its associated companies.

(b) Aggregate short positions in the shares, underlying shares and debentures of the Company and its associated companies

As at 31 December 2005, none of the directors and their associates had any short positions in the shares, underlying shares and debentures of the Company and its associated companies.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The interests and short positions of substantial shareholders in the shares and underlying shares of the Company as at 31 December 2005, as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

(a) Aggregate long positions in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares and underlying shares as at 31 December 2005:

Substantial shareholders	Capacity and nature of interest	Number of shares held	Notes	Approximate percentage of the issued share capital*
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,054,810,949	(1)	59.985
COFCO (BVI) No.108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	(1)	7.962

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

(a) Aggregate long positions in the shares and underlying shares of the Company (continued)

Substantial shareholders	Capacity and nature of interest	Number of shares held	Notes	Approximate percentage of issued share capital*
COFCO (HK)	Beneficial owner	10,138,000	(1)	0.577
	Interest of controlled corporations	1,194,810,949	(1)&(2)	67.947
COFCO	Interest of controlled corporations	1,204,948,949	(1)&(3)	68.523

Notes:

1. Long positions in the shares of the Company.
2. COFCO (HK) is deemed to be interested in 1,194,810,949 shares in aggregate held by Wide Smart and COFCO BVI in which COFCO (HK) is entitled to exercise one-third or more of the voting power at general meetings of Wide Smart and COFCO BVI.
3. COFCO is deemed to be interested in 1,204,948,949 shares in aggregate held by Wide Smart, COFCO BVI and COFCO (HK) in which COFCO is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart, COFCO BVI and COFCO (HK).

* The percentages are calculated based on the total number of shares of the Company in issue as at 31 December 2005, i.e., 1,758,449,974 shares.

Save as disclosed above, as at 31 December 2005, the Company had not been notified by any persons other than the substantial shareholders above who had long positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of the SFO.

(b) Aggregate short positions in the shares and underlying shares of the Company

As at 31 December 2005, the Company had not been notified of any short positions held by any substantial shareholder in the shares or underlying shares of the Company.

SUFFICIENT PUBLIC FLOAT

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

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CONNECTED TRANSACTIONS

During the year, the Company and its subsidiaries and associates entered into various transactions with certain connected persons including COFCO and its subsidiaries (collectively referred to as the “COFCO Group”). These transactions are considered to be connected transactions under the Listing Rules, which need to be disclosed herein in compliance with the requirements of Chapter 14A of the Listing Rules or the waivers previously granted by the Stock Exchange. Details of these transactions are as follows:

1. China Foods Trading Limited (“CFTL”), a wholly-owned subsidiary of the Company, entered into various transactions with the COFCO Group during the year in relation to the trading of various commodities and foodstuffs including maize and sugar, with a total value of approximately HK\$394,106,000.
2. COFCO Oils & Fats Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries and associates (collectively referred to as the “COFCO Oils & Fats Group”) entered into various transactions during the year with (i) certain members of the COFCO Group; (ii) Wilmar Trading Pte. Ltd. (“Wilmar”), a company owned by a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group; and (iii) certain companies owned by Archer Daniels Midland Asia-Pacific Limited (“ADM”), a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group, or companies in which ADM has an interest, in relation to the sale of edible oils, oil-related products and soybean products with a total value of approximately HK\$435,359,000.

In addition, the sale of edible oils and oil-related products and the resale of soybean with a total value of approximately HK\$343,487,000 were made by certain subsidiaries of the COFCO Oils & Fats Group to other subsidiaries within the COFCO Oils & Fats Group. These transactions have been eliminated on consolidation but still constitute connected transactions under the Listing Rules.

3. The COFCO Oils & Fats Group entered into various transactions during the year with (i) the COFCO Group; (ii) Wilmar; and (iii) certain companies in which ADM has an interest in relation to the purchase of raw materials of edible oils and soybean with a total value of approximately HK\$6,946,018,000.
4. COFCO Wines & Spirits Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries entered into the following transactions during the year:
 - (i) the sale of wines and wine-related products to a company within the COFCO Group with a total value of approximately HK\$27,649,000; and
 - (ii) the purchase of wines and wine-related products from a company within the COFCO Group with a total value of approximately HK\$1,341,000.
5. COFCO (BVI) No. 100 Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (collectively referred to as the “COFCO Trading Group”) entered into various transactions with certain companies within the COFCO Group during the year in relation to the purchase of certain agricultural products, including rice products, red bean products, sesame products, cottonseed meal, rapeseed meal and chestnut products with a total value of approximately HK\$418,256,000.
6. The COFCO Trading Group entered into various transactions with certain companies within the COFCO Group during the year in relation to the sale of certain agricultural products, including rice products, red bean products, sesame products, cottonseed meal, rapeseed meal and chestnut products with a total value of approximately HK\$57,280,000.

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CONNECTED TRANSACTIONS (continued)

7. The COFCO Trading Group also entered into the following transactions with COFCO during the year:
- (i) The payment of management fees amounting to HK\$7,217,000 to COFCO in relation to the provision of management services by COFCO to the COFCO Trading Group pursuant to a service agreement dated 23 March 2004; and
 - (ii) The receipt of management fees amounting to HK\$37,623,000 from COFCO in relation to the provision of management services by the COFCO Trading Group to COFCO pursuant to a service agreement dated 26 October 2001.
8. On 4 January 2006, Blissea Consortium Company Limited (“Blissea”) and CFTL, both wholly-owned subsidiaries of the Company, entered into two separate tenancy agreements with Bapton Company Limited (“Bapton”), a wholly-owned subsidiary of COFCO HK which in turn is a substantial shareholder of the Company, for the lease of certain office space in Top Glory Tower for a period of two years from 1 January 2006 to 31 December 2007 for aggregate rental and management fees not exceeding HK\$3,541,644 under each tenancy agreement.
- On the same date, COFCO International (Beijing) Co., Ltd. 中糧國際(北京)有限公司 (“COFCO (Beijing)”) and COFCO Wines and Spirits Co., Ltd, 中糧酒業有限公司 (“COFCO Wines”) both wholly-owned subsidiaries of the Company, entered into two tenancy agreements with Beijing COFCO Plaza Development Co., Ltd. 北京中糧廣場發展有限公司 (“COFCO Plaza Company”), a non wholly-owned subsidiary of COFCO (HK), for the lease of certain office space in COFCO Plaza for a period of two years from 1 January 2006 to 31 December 2007 for aggregate rental and management fees not exceeding HK\$8,632,391 and HK\$2,848,334 respectively.
- Pursuant to the Listing Rules, both Bapton and COFCO Plaza Company are associates of COFCO (HK), the controlling shareholder of the Company. According to the Listing Rules, a transaction between an associate of the substantial shareholder of the Company and the Company’s subsidiary is a connected transaction. Details of the transactions were disclosed in an announcement published on 6th January 2006.
9. On 12 January 2006, COFCO (BVI) No. 30 Limited (“COFCO BVI 30”), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (“Agreement”) with Shandong Longhua Investment Company Limited 山東隆華投資有限公司 (“Shandong Longhua Company”) regarding the establishment of a joint venture company, namely, COFCO Navavalley Jundung Vineyard Co., Ltd., (“JV Co.”) under the laws of the People’s Republic of China for the production and sale of wines by setting up a vineyard which will be developed into a comprehensive economic unit that encompasses vine development, grape growing, wine production and sales, development and research, vineyard tourism and promotion of oenology. Pursuant to the Agreement, COFCO BVI 30 and Shandong Longhua Company will hold as to 55% equity interest and 45% equity interest in the JV Co. respectively. COFCO BVI 30 and Shandong Longhua Company agreed to contribute approximately HK\$31,731,000 and approximately HK\$25,962,000 respectively in cash to the registered capital of the JV Co.. Pursuant to the Agreement, the total investment amount of the JV Co. is approximately HK\$96,154,000. Additional funding of up to approximately HK\$38,462,000, i.e., the difference between the total investment amount and the amount of the registered capital of the JV Co., is required by the JV Co.. This may be satisfied by bank financing or loans from COFCO BVI 30 and Shandong Longhua Company. In the event that the full amount of the additional funding is to be contributed by shareholders’ loans, the loan to be advanced by COFCO BVI 30 to the JV Co. in proportion to its 55% equity interest will amount to approximately HK\$21,154,000.

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CONNECTED TRANSACTIONS (continued)

9. Any future proportionate shareholders' loan to be contributed by COFCO BVI 30 to the JV Co. will be funded through internal resources of the Group. The Company considered that the participation in the JV Co. will enable the Group to further expand in this market segment and strengthen its position as one of the leading grape wine producers in the PRC. Shandong Longhua Company is a substantial shareholder of a non wholly-owned subsidiary of the Company, therefore Shandong Longhua Company is a connected person of the Company. Pursuant to the Listing Rules, a transaction between a connected person and a subsidiary of the Company is a connected transaction. Details of the transaction were disclosed in an announcement published on 13 January 2006.
10. On 27 March 2006, COFCO BVI 30 and COFCO Wines, both wholly-owned subsidiaries of the Company, entered into the Golden Fan Agreement and the Yantai Greatwall Agreement respectively. COFCO BVI 30 entered into the Golden Fan Agreement with First Channel International Limited ("First Channel") and the guarantors, being shareholders of First Channel, whereby COFCO BVI 30 will purchase from First Channel the entire issued share capital in Golden Fan Limited ("Golden Fan") for a consideration of RMB309,000,000 (equivalent to approximately HK\$297,115,385). COFCO BVI 30 entered into the Golden Fan Agreement with a view to acquiring the remaining 40% equity interest in COFCO Greatwall Wine (Yantai) Co., Ltd. ("COFCO Greatwall"). COFCO Greatwall is currently owned as to 60% by COFCO BVI 30 and as to 40% by Golden Fan. Upon completion of the Golden Fan Agreement, COFCO Greatwall will be wholly owned by the Company. COFCO Wines entered into the Yantai Greatwall Agreement with Shandong Longhua Company whereby COFCO Wines will purchase from Shandong Longhua Company 40% equity interest in Yantai Greatwall Wines and Spirits Co., Ltd. ("Yantai Greatwall") for a consideration of RMB1,000,000 (equivalent to approximately HK\$961,538). COFCO Wines entered into the Yantai Greatwall Agreement with a view to acquiring the remaining 40% equity interest in Yantai Greatwall. Yantai Greatwall is currently owned as to 60% by COFCO Wines and as to 40% by Shandong Longhua Company. Upon completion of the Yantai Greatwall Agreement, Yantai Greatwall will be wholly owned by the Company.

Pursuant to the Listing Rules, both First Channel and Shandong Longhua Company are connected persons of the Company. The transactions contemplated under the Golden Fan Agreement and the Yantai Greatwall Agreement constitute connected and discloseable transactions of the Company. Details of the transactions were disclosed in an announcement published on 28 March 2006.

In accordance with the requirements of the respective waivers granted by the Stock Exchange, the independent non-executive directors confirm that:

- (a) In relation to items 1 to 7
- these transactions were entered into by the Company or Group in the ordinary and usual course of its business;
 - these transactions were entered into on normal commercial terms;
 - these transactions were fair and reasonable as far as the shareholders of the Company were concerned;
 - these transactions were carried out in accordance with the terms of the agreements governing such transactions or, where there was no such agreement, on terms no less favourable than those available to or from independent third parties;

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CONNECTED TRANSACTIONS (continued)

(b) In relation to item 1

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 70% of the value of the Company's or Group's net tangible asset as disclosed in the Company's or Group's audited financial statements for the year;

(c) In relation to item 2

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 18% of the Company's or Group's consolidated turnover as disclosed in the Company's or Group's audited financial statements for the year;

(d) In relation to item 3

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 80% of the Company's or Group's consolidated turnover as disclosed in the Company's or Group's audited financial statements for the year;

(e) In relation to items 4(i), 4(ii), 6, 7(i) and 7(ii)

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 3% of the value of the Company's or Group's net tangible asset as disclosed in the Company's or Group's audited financial statements for the year; and

(f) In relation to item 5

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 6% of the Company's or Group's consolidated turnover as disclosed in the Company's or Group's audited financial statements for the year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, as disclosed below, four directors of the Company, namely, Messrs. Ning Gaoning, Liu Fuchun, Xue Guoping and Liu Yongfu, also being directors of the Company's ultimate holding company, COFCO and/or its subsidiaries, are considered to have interests in the COFCO Group's flour milling business which is likely to compete directly with that of the Company.

During the year, the Company's flour milling business was operated mainly through Xiamen Haijia Flour Mills Co., Ltd. and Zhengzhou Haijia Food Co., Ltd. which target customers and consumers in the southern and central regions in China. Since the COFCO Group's flour milling business is operated mainly through its investments in two flour mills in Shenyang and Qinhuangdao, which target the flour markets in the northern and eastern regions of China, the effect of any possible competition between the flour milling business of the Company and that of the COFCO Group is minimal.

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PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to developing good corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 18 to page 24 of this report.

AUDITORS

There have been no changes of auditors during the past three years.

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

ON BEHALF OF THE BOARD

Qu Zhe

Managing Director

Hong Kong

7 April 2006