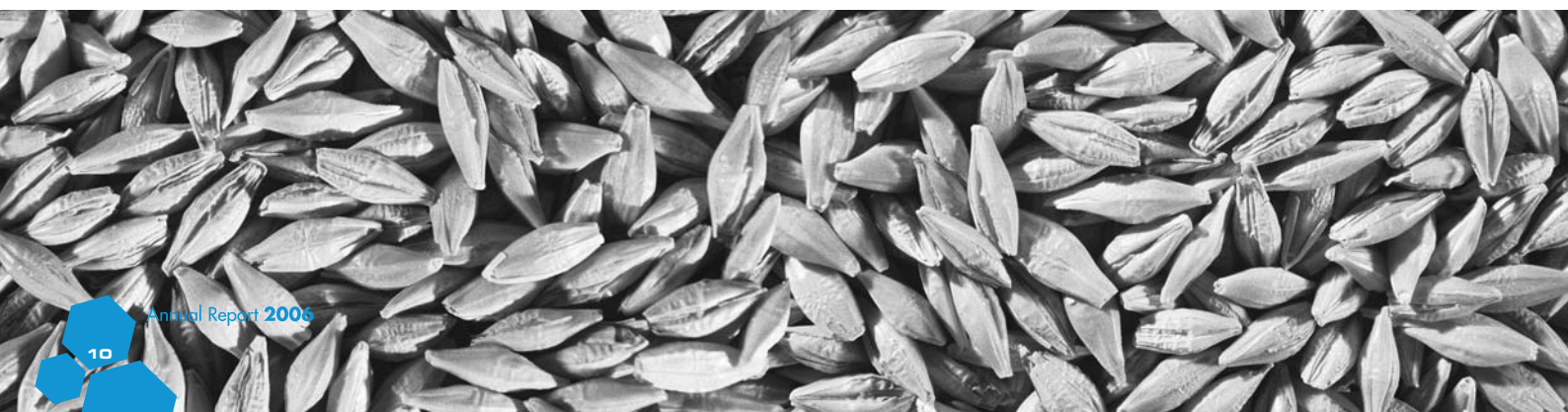




# MANAGEMENT DISCUSSION & ANALYSIS



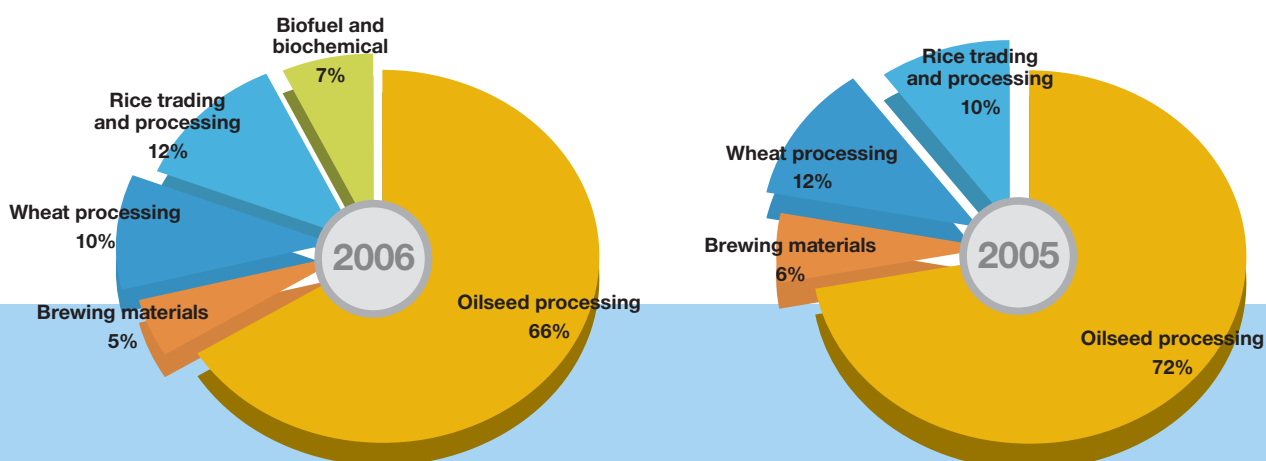
The financial year of 2006 has proven to be a good starting year for our group. Amid the reinforcement of the newly joined biofuel and biochemical business and the outstanding performance of all our existing businesses, our group's revenue for continuing operations increased 29.6% year-on-year to HK\$17,899 million and profit attributable to equity holders of the Company reached record level to HK\$755 million, up 196.4% from a year earlier.

Oilseed processing business was both the largest revenue and net profit contributors to our company during the year. The overwhelming performance of the oilseed processing business was mainly driven by an increase in selling prices of edible oil, particularly in the fourth quarter of 2006, and an increase in sales volume of our major product lines during the year. Owing to the exceptional performance of the oilseed business during the year, the share of the segment results of oilseed business edged up 5% to 48% even though the newly acquired biofuel and biochemical business accounted for another 24% of the total segment results for continuing operations. It is worthwhile to note that consumer-pack edible oil and the trading of non-rice businesses have been carved out from the Group from 1 January 2007 onwards.

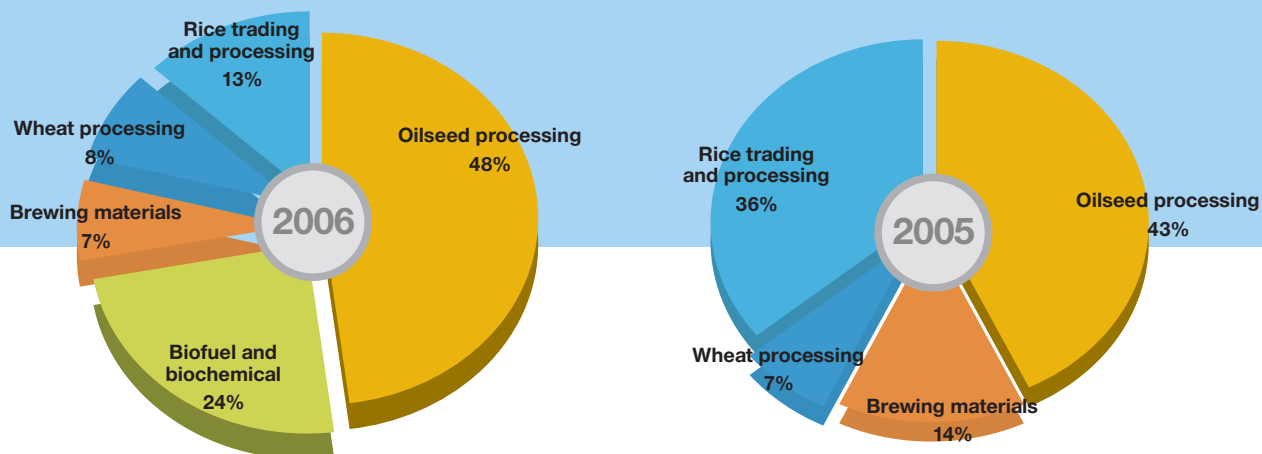


YU Xubo, Managing Director

## REVENUE FOR CONTINUING OPERATIONS



## SEGMENT RESULTS FOR CONTINUING OPERATIONS



## BUSINESS REVIEW AND OUTLOOK

### Oilseed processing business

We are the second largest edible oils and soybean meal producer in the PRC with annual crushing and refining capacity of approximately 4.9 million and 1.2 million metric tons. Our majority owned oilseed production facilities are located strategically along the coastal regions and the Yangtze River in which we are able to source domestic and import raw materials in a more cost effective manner.

Our oilseed processing division processes soybeans, rapeseeds, cottonseeds, peanuts, other oilseeds and palm oil into bulk edible oils, specialty oils and fats, oilseed meals and other products. We sell our products primarily under the "四海" and "喜盈盈" brands. Our major customers include large food manufacturers such as Unilever Foods (China) Ltd and top-tier food service providers, including Inner Mongolia Yili Industrial Group, Tingyi, WantWant Group, Pepsi Foods (China) and Guangzhou Uni-President Enterprises Corporation etc.,

With a strong rebound from the adverse impact of the spread of avian flu in the PRC in 2005, overall sales surged by 19.2% year-on-year in 2006.

Bolstered by favourable edible oil pricing, lower raw materials costs, higher utilisation rates and internal consolidation synergy, gross margin of the oilseed processing business increased from 2.9% in 2005 to 5.5% in 2006 which sparked the remarkable surge in profits for the oilseed business during the year.

Traditionally, China's edible oil industry suffers a number of pitfalls, including supply glut as well as mismatches between domestic end-product and international soybean price movement. Our top priorities remain in managing raw material costs and lifting the utilisation rates of our production capacity. We will keep abreast to market information in a bid to mitigate price risk. For product distribution, we have made the eastern coastal region of China and central China our target markets and supported our distributors in developing sub-distributors in their regions and in distributing our products to rural and more remote areas.

Other than that, we have been partnering a number of academic institutions to conduct research on oil product deep-processing technology and vitamin A-fortified edible oil production technology. Also, we have constantly surveyed on the eating habits of our customers in an effort to update ourselves on product development.

Going forward, as disclosed in the section headed "Business" of the Company's listing prospectus dated 8 March 2007 (the "Prospectus"), we plan to complete our national network of oilseed processing production facilities by increasing our annual soybean processing capacity by 600,000 metric tons, our annual soybean oil refining capacity by 300,000 metric tons and our annual palm oil production capacity by 120,000 metric tons.





### Biofuel and biochemical business

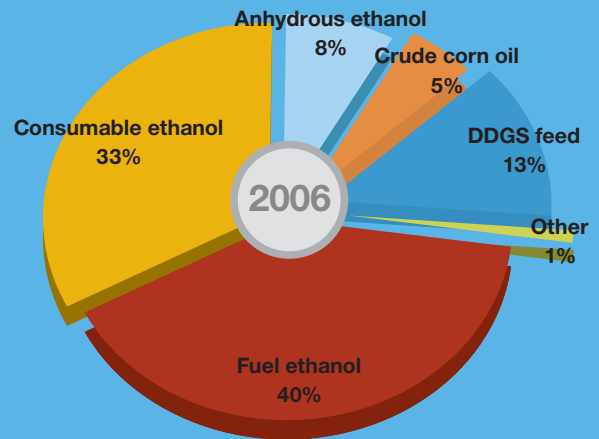
We acquired a 100% interest in COFCO Bio-Energy (Zhaodong) Co., Ltd (formerly known as China Resources (Heilongjiang) Alcohol Co., Ltd)("Zhaodong Bio-Energy") on 27 January 2006 and 20% interest in Jilin Fuel Ethanol Co., Ltd ("Jilin Fuel") in March 2006. We currently produce fuel ethanol, consumable ethanol, anhydrous ethanol and other food and feed ingredients.

Corn is the key raw material for our production and we are able to procure corn at lower prices because our production facilities are located in corn production areas and we purchase approximately 50% of the corn directly from farmers which save us from logistic and agency costs. We are able to fix the purchase prices in advance and secure stable supply by entering into contracts with grain depots and warehouses.

The spike of the corn prices in late 2006 placed pressures on our bottom line, however, we are trying to alleviate the strains through a number of measures, including purchase prices fixing and shifting the burden to our customers. In the longer term, we are dedicated to diversifying our feedstock for fuel ethanol production in order to accomplish our hyper growth plan. Furthermore, we are in talks with the regulatory bodies to establish a fuel ethanol pricing and subsidy mechanism linking with the gasoline and feedstock prices in a bid to stabilise the profit margins of our business.

We are in the process of increasing the consumable ethanol production capacity of our plant in Heilongjiang and there are a number of fuel ethanol projects scheduled to start production in the next few years. Under our current plan, our fuel ethanol production capacity will increase from 180,000 metric tons in 2006 to 1.08 million metric tons by 2008. We may seek alliance with upstream suppliers and downstream customers for business development.

### REVENUE



| Location     | Status   | Start of operation | Annual capacity (metric tons) |
|--------------|----------|--------------------|-------------------------------|
| Heilongjiang | Existing | 1994               | 180,000                       |
| Guangxi      | Planned  | Late 2007          | 200,000                       |
| Hebei        | Planned  | Mid 2008           | 300,000                       |
| Liaoning     | Planned  | Late 2008          | 300,000                       |
| Hubei        | Planned  | Late 2008          | 100,000                       |

Apart from this, we also plan to engage in biochemical business in which we believe it is a natural extension of our existing business. Two plants located in Yushu and Gongzhuling of Jilin Province, each has 600,000 metric tons corn processing capacity, are scheduled to start operation in mid 2007. This enables us to produce and sell starch, sweeteners (mainly maltodextrin, fructose syrup and malt syrup), amino acid, lactic acid and polylactic acid, feed ingredients and crude corn oil. We also consider stretching our reach in Eastern China region by investing in greenfield projects or pursuing selective acquisitions.

Under our assertive business plan, we believe biofuel and biochemical division will gradually outpace oilseed processing division and become our largest profit contributor in the foreseeable future.



### Rice trading and processing business

We are China's largest rice exporter in terms of volume and we primarily engage in trading of parboiled and white rice. We export parboiled rice to the Middle East, Africa, Eastern Europe, Central Asia and the Americas while we sell white rice to major traditional markets such as Japan, South Korea, Hong Kong, Central America, South Pacific Islands, Africa and Southeast Asia.

We own the only parboiled rice processing facility in the PRC, which is also one of the largest in Asia in terms of production capacity. Parboiled rice, which is widely accepted as a healthy and natural food in the United States, Europe and the Middle East, is produced from long grain paddy from Southern China.

Revenue, primarily driven by robust sales volume growth, jumped 57.2% year-on-year in 2006.

|                | 2006              |                   | 2005              |                   | Change |              |
|----------------|-------------------|-------------------|-------------------|-------------------|--------|--------------|
|                | Volume<br>ton'000 | Revenue<br>HK\$'M | Volume<br>ton'000 | Revenue<br>HK\$'M | Volume | Revenue      |
| Parboiled rice | 169.9             | 393.4             | 79.2              | 179.2             | 114.5% | 119.5%       |
| White rice     | 673.6             | 1,672.6           | 421.2             | 1,135.1           | 59.9%  | 47.4%        |
| <b>Total</b>   |                   | <b>2,066.0</b>    |                   | <b>1,314.3</b>    |        | <b>57.2%</b> |

Gross margin fell to 8.7% from 11.4% a year earlier, mainly due to the development of low-end market which yielded lower profit margins, an increase of raw material costs and the appreciation of RMB.

Despite continuous exploration of overseas market, we are in the process of developing the domestic market. We have established or are planning to establish sales offices in Nanjing, Shanghai and Xinjiang, targeting the Yangtze River Delta and Xinjiang Autonomous Region as our primary markets. In addition, we are conducting research on blended rice, which is a mixture of different types of rice at given ratios to yield different nutritional values and cater different customer tastes, in our Beijing R&D department and expect to introduce this product to the domestic market in the first half of 2007.

For capacity expansion, we plan to build or acquire a rice processing facility to add another 300,000 metric tons rice processing capacity in the coming few years.



