



# REPORT OF THE DIRECTORS



CHINA AGRI 中國糧食控股	MAIN BROKER	LEFT/RIGHT Security Enquiry	ASK ( 5.87 )	China Agri-Industries Holdings Limited
046	CHINA AGRI	SF	BID ( 5.85 )	
OPEN	中國糧食控股	4080 0148 9411	3455 7550 0204	
UP	5.75 18:04 1000	4087 2019 0990	3700 0449 0337	
NO CLOSE	10/8 18:04 1000	4080 2019 0405	7 0500	
MINOR	5.85 18:04 1000	2219 0825 1619	0 1419	
PE RATIO		7189 0364 -2x	18 8459	
MARKET	HK 125.620	-1x 4838 6100	18 8459	
DIVIDEND	222.100	8318 3220	0 430	
WARRANT	0.41 18:01	0104 0		
WARRANT	1000			
AGENCY	HONG ( )			
FEES	PRICE:			
53.72 PER SHARE	21.			
INITIATION	TERMINUS			
0:00 香港聯合交易所	7578	1.36		
01:00 01	01	01		

香港公益金 The Community Chest of Hong Kong  
一百萬元正 HK\$ 1,000,000.00

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## REPORT OF THE DIRECTORS

The directors are pleased to present their first report and the audited financial statements of the Company for the period from 18 November 2006 (date of incorporation) to 31 December 2006 and the audited combined financial statements of the Group for the year ended 31 December 2006.

## CORPORATE INFORMATION AND REORGANISATION

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

Pursuant to a reorganisation scheme in preparation for the listing of the Company's shares on the main board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group (the "Reorganisation").

Details of the Reorganisation are set out in note 1 to the combined financial statements and in the Prospectus.

The shares of the Company commenced listing on the main board of the Stock Exchange on 21 March 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates of the Company comprise production, processing and distribution of agricultural products and related businesses. The Group's principal products and businesses are biofuel and biochemical, oilseed processing, rice trading and processing, brewing materials and wheat processing (collectively known as "Agri-industrial Business").

## RESULTS AND DIVIDENDS

The Company's loss for the period from 18 November 2006 (date of incorporation) to 31 December 2006 and its state of affairs as at 31 December 2006 are set out in the financial statements on pages 55 to 56. The Group's profit for the year ended 31 December 2006 and its state of affairs as at that date are set out in the combined financial statements on pages 68 to 70.

The directors do not recommend the payment of dividend for the year ended 31 December 2006.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 21 March 2007 and after the exercise of the over-allotment option on 30 March 2007 amounted to approximately HK\$2.8 billion. Details of the plan for the use of proceeds from the Company's initial public offering are set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

## FINANCIAL INFORMATION SUMMARY

A summary of the results and assets, liabilities and minority interests of the Group for the last four financial years, is set out on page 132 of this annual report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the period from 18 November 2006 (date of incorporation) to 31 December 2006, together with the reasons therefore, are set out in note 6 to the financial statements.

During the year under review, the Company had not yet adopted a share option scheme. Prior to the listing of the Company, the Company conditionally adopted a share option scheme on 12 January 2007 which became effective and unconditional upon listing of the shares of the Company on 21 March 2007 (the "Share Option Scheme"). As of the date of this report, the Company has not granted any options pursuant to the Share Option Scheme.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Ordinance which would oblige the Company to offer new shares on a pro rata basis to existing shareholders unless otherwise required by the Stock Exchange.

## RESERVES

Detail of movements in the reserves of the Company during the period from 18 November 2006 (date of incorporation) to 31 December 2006 are set out in the statement of changes in equity on page 57 of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 10.46% of the total sales for the year with the largest customer accounting for approximately 3.01%. The five largest suppliers of the Group accounted for approximately 48.87% of the Group's total purchases for the year, with the largest supplier accounting for approximately 41.16%.

Apart from the Company's ultimate holding company, COFCO Limited (formerly known as 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 shareholder (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 other four largest customers or the five largest suppliers of the Group.

## DIRECTORS

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

### Chairman and Non-executive Director:

Ning Gaoning (appointed on 15 January 2007)

### Executive Directors:

Yu Xubo (appointed on 15 January 2007)

Lu Jun (appointed on 15 January 2007)

Yue Guojun (appointed on 15 January 2007)

Qu Zhe (appointed on 28 December 2006 and resigned on 17 January 2007)

### Non-executive Directors:

Chi Jingtao (appointed on 15 January 2007)

Ma Wangjun (appointed on 15 January 2007)

### Independent Non-executive Directors:

Lam Wai Hon, Ambrose (appointed on 16 January 2007)

Shi Yuanchun (appointed on 16 January 2007)

Victor Yang (appointed on 16 January 2007)

In accordance with Article 111 of the Articles of Association, all the directors of the Company will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

## 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 34 to 41 of this annual report.

### DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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

### DIRECTORS' INTERESTS IN CONTRACTS

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

### DIRECTORS' REMUNERATION

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

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

The shares of the Company commenced dealings on the Stock Exchange on 21 March 2007. As of the date of this annual report, none of the directors or their associates has any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any Director is deemed or taken to be under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN THE SHARES AND THE UNDERLYING SHARES

The shares of the Company commenced dealings on the Stock Exchange on 21 March 2007. As of the date of this annual report, so far as was known to the directors of the Company, the following persons (other than the Directors or Supervisors) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

<b>Substantial shareholders</b>	<b>Capacity and of the issued nature of interest</b>	<b>Number of shares held</b>	<b>Notes</b>	<b>Approximate percentage of share capital</b>
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,922,550,331	(1)	53.49
COFCO (BVI) No.108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	(1)	3.90
COFCO (Hong Kong) Limited ("COFCO (HK)")	Beneficial owner Interest of controlled company	10,138,000 2,062,550,331	(1) (1) & (2)	0.28 57.39
COFCO	Interest of controlled company	2,072,688,331	(1) & (3)	57.67

Notes:

- (1) long positions in the shares of the Company.
- (2) Wide Smart and COFCO BVI are wholly owned subsidiaries of COFCO (HK). COFCO (HK) is therefore deemed to be interested in the 2,062,550,331 shares in aggregate held by Wide Smart and COFCO BVI as COFCO (HK) is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart and COFCO BVI, respectively.
- (3) COFCO is deemed to be interested in the 2,072,688,331 shares in aggregate held by Wide Smart, COFCO BVI and COFCO (HK) as COFCO is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart, COFCO BVI and COFCO (HK) respectively.



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

#### SUFFICIENCY OF PUBLIC FLOAT

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

#### CONNECTED TRANSACTIONS

The companies now comprising the Group had entered into a number of transactions with parties which, upon the listing of the Company's shares on the Stock Exchange, became connected persons of the Company under the Listing Rules. Details of such transactions are set out in the section headed "Connected Transactions" in the Prospectus.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, as disclosed below, during the year, the following directors of the Company are considered to have interests in the COFCO Group's business which is likely to compete directly with that of the Group:

1. COFCO and COFCO International - Mr. Ning Gaoning is a director and chairman of both companies;
2. China Resources Jilin Bio-chemical Co., Ltd. ("Jilin Bio") - Mr. Yu Xubo is a director and chairman and Mr. Yue Guojun is a director and vice chairman of Jilin Bio; and
3. COFCO - Mr. Yu Xubo is a vice president and Mr. Lu Jun is an assistant president of COFCO. Mr. Chi Jingtao and Mr. Ma Wangjun hold positions in COFCO as the head of human resources department and the head of finance department, respectively.

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

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2006.

## CORPORATE GOVERNANCE

The Company is committed to developing good corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 22 to page 33 of this report.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 39 to the combined financial statements.

## AUDITORS

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

## ON BEHALF OF THE BOARD

Yu Xubo  
Managing Director

Hong Kong  
19 April 2007