1. CORPORATE INFORMATION AND REORGANISATION

China Agri-Industries Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 33rd Floor, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

Pursuant to a 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.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") was involved in the following principal activities:

- oilseed processing;
- wheat processing;
- production and sale of brewing materials;
- trading and processing of rice;
- production and sale of biofuel and biochemicals;
- distribution of consumer-pack edible oil; and
- trading of non-rice foodstuffs products.

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 established in the PRC.

The Company was incorporated in Hong Kong on 18 November 2006. Upon its incorporation, the Company had an authorised ordinary share capital of HK$10,000 divided into 10,000 shares of HK$1 each. One share of HK$1 was issued at par to COFCO International Limited ("COFCO International"), the Company's then immediate holding company.

Pursuant to an ordinary resolution passed on 29 December 2006, the authorised and issued share capital of the Company were subdivided into 100,000 ordinary shares and 10 ordinary shares of HK$0.1 each, respectively. Pursuant to a special resolution passed on the same date, the authorised capital of the Company was increased from HK$10,000 to HK$400,000,000 by the creation of an additional 3,999,900,000 ordinary shares of HK$0.1 each, ranking pari passu in all respects with the existing share capital of the Company.

Subsequent to the balance sheet date, on 10 January 2007, pursuant to a reorganisation scheme in preparation for the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired from COFCO International the entire issued share capital in China Agri-Industries Limited ("China Agri-Industries"), the holding company of the subsidiaries set out in note 19 to the combined financial statements, in consideration for the allotment and issue of 2,791,383,346 ordinary shares of HK$0.1 each in the share capital of the Company, credited as fully paid. The Company then became the holding company of the companies now comprising the Group (the "Reorganisation").

1. CORPORATE INFORMATION AND REORGANISATION *(continued)*

Pursuant to the Reorganisation, the Group ceased the consumer-pack edible oil and the trading of non-rice foodstuffs businesses, which were transferred to COFCO International on 1 January 2007 at nil consideration and in form of dividend distribution of HK$357,506,000 with reference to the carrying amount of net assets of the trading of non-rice foodstuffs business, respectively. No significant gain or loss was resulted from the discontinuation of the consumer-pack edible oil business.

Further details of the Reorganisation are set out in the Company's listing prospectus dated 8 March 2007 (the "Prospectus").

The shares of the Company were listed on the main board of the Stock Exchange on 21 March 2007.

2.1 BASIS OF PREPARATION

The combined 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 Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong, except for those disclosed in the following paragraph. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments, which have been measured at fair value. These combined financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except where otherwise indicated.

As the Company's acquisition of China Agri-Industries took place on 10 January 2007, the Company together with its subsidiaries should only be regarded and accounted for as a continuing group in the preparation of the Group's financial statements commencing from the year ending 31 December 2007, as financial statements should not incorporate a combination which occurs after the balance sheet date being reported on. Nevertheless, for the benefit of the shareholders, the combined financial statements of the Group for the current year and the related notes thereto have been presented in these financial statements on the principle of merger accounting such that the Company was treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of its acquisition of the subsidiaries on 10 January 2007.

The combined financial statements have been prepared based on the principles of merger accounting in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA, as if the Reorganisation had been completed as at the beginning of the year ended 31 December 2005 because the Company's acquisition of the companies now comprising the Group should be regarded as a business combination under common control as the Company and the companies now comprising the Group are all ultimately controlled by COFCO, before and after the Reorganisation, except for the subsidiaries acquired by COFCO during the year, which are accounted for using the purchase method of accounting.

2.1 BASIS OF PREPARATION *(continued)*

The combined income statement, combined cash flow statement and combined statement of changes in equity of the Group for the years ended 31 December 2005 and 2006 include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the years ended 31 December 2005 and 2006, or since their respective date of acquisition, incorporation or establishment, where this is a shorter period. The combined balance sheets of the Group as at 31 December 2005 and 2006 have been prepared to present the state of affairs of the Group as if the current structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the existing shareholders as at the respective dates.

Basis of combination

The combined financial statements include the financial statements of the Company and its subsidiaries for the years ended 31 December 2005 and 2006. Except for the results of the subsidiaries acquired during the years ended 31 December 2005 and 2006, which are combined using purchase method of accounting from their effective dates of acquisitions, being the dates on which the Group obtained control, the results of the companies comprising the Group were presented on a merger basis as described above.

Purchase method of accounting 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.

All significant intercompany transactions and balances within the Group are eliminated on combination.

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 or as gain in the income statement.

2.2 EARLY ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. For the purpose of preparing and presenting the combined financial statements, the Group has early adopted the new HKFRSs as follows:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities

The early adoption of the above new and revised HKFRSs by the Group is consistent with the financial information of the Group presented in appendix I to the Prospectus.

2.3 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 the combined 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 combined 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.

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 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.

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

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 assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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.

A joint venture is treated as:

(a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is an entity, not being a subsidiary, 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 combined income statement and combined reserves, respectively. The Group's interests in associates are stated in the combined 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 values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the combined balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, financial assets), 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.

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.

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 periods. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

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); or

(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).

2.4 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	3% to 9.5%
Plant, machinery and equipment	4.5% to 20%

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 period the asset is derecognised is the difference between the net sale 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 during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, or available-for-sale financial assets, 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.

Financial assets at fair value through profit or loss

Financial assets 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. Fair value 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity investment that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets 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 investment 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 investment is stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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 financial assets

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.

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.

2.4 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.

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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including accounts and other payables, amounts due to group companies, amounts due to related companies 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.

Inventories

Inventories 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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:

- 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, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the straight-line 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) proceeds from the sale of investments, on the transaction dates when the relevant contract notes are exchanged; and

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

Dividends

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.

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

Foreign currencies

These combined 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 combined 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 transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 period. 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 combined 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 period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

Employee benefits

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the combined income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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 these schemes in respect of its employees in Mainland China and such costs are charged to the income statement as incurred.

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Cash and cash equivalents

For the purpose of the combined cash flow statement, 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, and form an integral part of the Group's cash management.

For the purpose of the combined 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.

3. SIGNIFICANT ACCOUNTING 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 receivables

Impairment of receivables is made based on an assessment of the recoverability of accounts and other receivables and the timing of their recovery. The identification of impairment of receivables requires management judgement and estimation. Where the actual outcome or expectation in future is different from the original estimates, such differences will impact the carrying value of accounts and other receivables and the amount of impairment/write-back of impairment in the periods in which such estimates have been changed. Impairment of receivables of HK$478,000 (2005: HK$1,138,000) was recognised in the combined income statement for the year. The aggregate carrying amounts of accounts and bills receivable, and prepayments, deposits and other receivables as at 31 December 2006 were HK$2,491,185,000 (2005: HK$1,544,767,000).

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in note 2.4 to the combined financial statements. The recoverable amount of the property, plant and equipment is the greater of the fair value less costs to sell and value in use, the calculations of which involve the use of estimates. Impairment amount of property, plant and equipment of HK$2,193,000 (2005: Nil) was recognised in the combined income statement for the year. The carrying amount of property, plant and equipment was HK$5,376,206,000 (2005: HK$3,773,301,000) as at 31 December 2006.

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 as at 31 December 2006 was HK$584,806,000 (2005: HK$246,355,000). More details are set out in note 16 to the combined financial statements.

4. 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 all 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. Details of the business segments are summarised as follows:

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

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

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

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

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

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

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

(h) the "corporate and others" segment comprises, principally, the Group's management services business.

4. 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.

Year ended 31 December 2006	Continuing operations								Discontinued operations			
	Oilseed processing HK$'000	Brewing materials HK$'000	Rice trading and processing HK$'000	Wheat processing HK$'000	Biofuel and biochemical HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000	Consumer-pack edible oil HK$'000	Trading of non-rice foodstuffs HK$'000	Total HK$'000	Combined HK$'000
Segment revenue:												
Sales to external customers	11,885,460	878,835	2,065,982	1,764,426	1,304,620	–	–	17,899,323	1,843,671	540,330	2,384,001	20,283,324
Intersegment sales	1,603,998	–	–	–	–	–	(1,603,998)	–	–	–	–	–
Other revenue	119,322	364	1,003	63,662	206,881	–	–	391,232	341	25,215	25,556	416,788
Segment results	464,243	71,262	128,735	76,035	228,206	(4,079)	–	964,402	59,587	45,028	104,615	1,069,017
Interest income								16,393			4,332	20,725
Loss on disposal of a subsidiary								(2,241)			–	(2,241)
Finance costs								(200,463)			(19,193)	(219,656)
Share of profits of associates	175,026	–	–	3,373	22,646	–	–	201,045	–	–	–	201,045
Profit before tax								979,136			89,754	1,068,890
Tax								(129,598)			(25,213)	(154,811)
Profit for the year								849,538			64,541	914,079
Assets and liabilities												
Segment assets	6,500,643	1,297,652	1,228,914	934,444	2,601,419	2,379,940	(3,070,228)	11,872,784	370,331	832,327	1,202,658	13,075,442
Interests in associates	745,418	–	–	51,582	284,928	–	–	1,081,928	–	–	–	1,081,928
Unallocated assets								1,056,888			246,779	1,303,667
Total assets								14,011,600			1,449,437	15,461,037
Segment liabilities	2,094,939	592,211	764,669	704,113	1,089,287	31,725	(3,070,228)	2,206,716	304,620	423,638	728,258	2,934,974
Unallocated liabilities								4,834,504			602,392	5,436,896
Total liabilities								7,041,220			1,330,650	8,371,870
Other segment information:												
Depreciation	175,984	29,335	12,724	25,673	64,630	–	–	308,346	805	1,066	1,871	310,217
Capital expenditure	185,347	172,678	5,591	48,438	802,026	109	–	1,214,189	2,595	109	2,704	1,216,893

4. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2005	Continuing operations								Discontinued operations			
	Oilseed processing HK$'000	Brewing materials HK$'000	Rice trading and processing HK$'000	Wheat processing HK$'000	Biofuel and biochemical HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000	Consumer-pack edible oil HK$'000	Trading of non-rice foodstuffs HK$'000	Total HK$'000	Combined HK$'000
Segment revenue:												
Sales to external customers	9,971,610	865,058	1,314,343	1,662,160	—	—	—	13,813,171	1,898,994	588,266	2,487,260	16,300,431
Intersegment sales	1,696,382	—	—	—	—	—	(1,696,382)	—	—	—	—	—
Other revenue	127,493	39	1,718	9,420	—	—	—	138,670	16	10,706	10,722	149,392
Segment results	141,110	46,112	117,843	22,760	—	—	—	327,825	12,546	47,984	60,530	388,355
Interest income								9,709			7,115	16,824
Unallocated gain								8,218			—	8,218
Loss on contribution to an existing subsidiary								(2,121)			—	(2,121)
Finance costs								(132,636)			(6,540)	(139,176)
Share of profits of associates	81,152	—	—	1,020	—	—	—	82,172	—	—	—	82,172
Profit before tax								293,167			61,105	354,272
Tax								(51,370)			(19,547)	(70,917)
Profit for the year								241,797			41,558	283,355
Assets and liabilities												
Segment assets	5,708,010	874,724	874,524	807,873	—	—	(397,836)	7,867,295	274,020	497,578	771,598	8,638,893
Interests in associates	569,831	—	—	49,690	—	—	—	619,521	8,185	—	8,185	627,706
Unallocated assets								800,018			133,899	933,917
Total assets								9,286,834			913,682	10,200,516
Segment liabilities	2,158,806	445,473	474,542	687,449	—	—	(397,836)	3,368,434	213,778	272,212	485,990	3,854,424
Unallocated liabilities								3,449,756			606	3,450,362
Total liabilities								6,818,190			486,596	7,304,786
Other segment information:												
Depreciation	158,141	29,897	9,507	16,946	—	—	—	214,491	955	661	1,616	216,107
Capital expenditure	381,663	137,386	34,869	76,212	—	—	—	630,130	2,426	1,022	3,448	633,578

5. 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: #

	2006 HK$'000	2005 HK$'000
Other income		
Agency commission	**23,194**	13,182
Bank interest income	**18,220**	15,182
Interest income from fellow subsidiaries	**2,505**	1,642
Government grants*	**187,937**	6,945
Compensation income	**56,607**	—
Rental of containers	**6,541**	8,102
Tax refund	**26,725**	—
Others	**27,757**	10,554
	349,486	55,607
Gains		
Gain on disposal of by-products and scrap items	**27,308**	47,433
Gain on partial disposal of an interest in a subsidiary	**—**	8,218
Gain on foreign exchange, net	**58,478**	63,176
	85,786	118,827
	435,272	174,434
Represented by:		
Other income and gains attributable to discontinued operations (note 12)	**29,888**	17,837
Other income and gains attributable to continuing operations reported in the combined income statement	**405,384**	156,597
	435,272	174,434

* 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, Zhaodong Bio-Energy (as defined in note 19 to the combined financial statements) 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.

\# The disclosures presented in this note include those amounts credited in respect of the discontinued operations.

6. PROFIT BEFORE TAX

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

	2006 HK$'000	2005 HK$'000
Cost of inventories sold	**18,642,694**	15,385,172
Provision against inventories	**2,542**	2,563
Realised fair value gains of derivative instrument transactions not qualifying as hedges	**(115,677)**	(65,491)
Unrealised fair value losses/(gains) of derivative instrument transactions not qualifying as hedges	**11,966**	(11,382)
Cost of sales	**18,541,525**	15,310,862
Depreciation (note 14)	**310,217**	216,107
Minimum lease payments under operating leases in respect of land, buildings and steel barrels	**23,283**	14,538
Recognition of prepaid land premiums (note 15)	**8,453**	5,923
Auditors' remuneration	**2,550**	650
Employee benefits expenses (excluding directors' remuneration (note 8)):		
Wages and salaries	**217,814**	158,430
Pension scheme contributions	**15,927**	13,331
	233,741	171,761
Foreign exchange differences, net	**(58,478)**	(63,176)
Impairment of receivables	**478**	1,138
Loss on disposal of items of property, plant and equipment	**13,257**	594
Impairment of items of property, plant and equipment (note 14)	**2,193**	—
Loss on additional contribution to an existing subsidiary	**—**	2,121
Loss on disposal of a subsidiary (note 32)	**2,241**	—

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

7. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
Bank loans wholly repayable within five years	**153,194**	91,537
Loans from the ultimate holding company, the immediate holding company and a fellow subsidiary	**74,059**	47,639
Total interest	**227,253**	139,176
Less: Interest capitalised	**(7,597)**	—
	219,656	139,176
Attributable to discontinued operations (note 12)	**19,193**	6,540
Attributable to continuing operations reported in the combined income statement	**200,463**	132,636
	219,656	139,176

8. DIRECTORS' REMUNERATION

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

	2006 HK$'000	2005 HK$'000
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**487**	—
Discretionary bonuses	**663**	—
Pension scheme contributions	**14**	—
	1,164	—
	1,164	—

8. DIRECTORS' REMUNERATION *(continued)*

The remuneration paid to an executive director during the year were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006						
Executive director:						
Mr. Yue Guojun	—	487	663	—	14	1,164

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2005: Nil) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2005: five) non-director, highest paid employees for the year are as follows:

	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	770	1,723
Discretionary bonuses	1,224	1,685
Pension scheme contributions	123	65
	2,117	3,473

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees 2006	2005
Nil to HK$1,000,000	4	5

10. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any 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 locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006 HK$'000	2005 HK$'000
Current		
– Mainland China	118,465	49,103
Deferred (note 27)	11,133	2,267
	129,598	51,370

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and 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:

Year ended 31 December 2006	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax #	(2,763)		1,071,653		1,068,890	
Tax at the statutory tax rate	(484)	17.5	353,646	33.0	353,162	33.0
Lower tax rate for specific provinces or local authority *	—	—	(80,536)	(7.5)	(80,536)	(7.5)
Profit not subject to tax due to concessions **	—	—	(48,819)	(4.6)	(48,819)	(4.6)
Profits attributable to associates	—	—	(63,394)	(5.9)	(63,394)	(5.9)
Income not subject to tax	(298)	10.8	(24,281)	(2.3)	(24,579)	(2.3)
Expenses not deductible for tax	782	(28.3)	22,761	2.1	23,543	2.2
Tax losses utilised from previous periods	—	—	(15,318)	(1.4)	(15,318)	(1.4)
Tax losses not recognised	—	—	10,752	1.0	10,752	1.0
Tax charge at the Group's effective rate	—	—	154,811	14.4	154,811	14.5
Represented by:						
Tax charge attributable to discontinued operations (note 12)					25,213	
Tax charge attributable to continuing operations reported in the combined income statement					129,598	
					154,811	

10. TAX *(continued)*

Year ended 31 December 2005	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax#	9,306		344,966		354,272	
Tax at the statutory tax rate	1,629	17.5	113,839	33.0	115,468	32.6
Lower tax rate for specific provinces or local authority *	—	—	(18,917)	(5.5)	(18,917)	(5.3)
Profit not subject to tax due to concessions **	—	—	(3,882)	(1.1)	(3,882)	(1.1)
Profits attributable to associates	—	—	(27,117)	(7.9)	(27,117)	(7.6)
Income not subject to tax	(1,660)	(17.8)	(2,883)	(0.8)	(4,543)	(1.3)
Expenses not deductible for tax	11	0.1	6,790	2.0	6,801	1.9
Tax losses utilised from previous periods	—	—	(10,627)	(3.1)	(10,627)	(3.0)
Tax losses not recognised	20	0.2	13,619	3.9	13,639	3.8
Others	—	—	95	—	95	—
Tax charge at the Group's effective rate	—	—	70,917	20.5	70,917	20.0
Represented by:						
Tax charge attributable to operations classified as discontinued during 2006 (note 12)					19,547	
Tax charge attributable to continuing operations reported in the combined income statement					51,370	
					70,917	

* 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 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 next subsequent three years.

\# Included profit before tax from the discontinued operations.

11. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. The dividends payable by the companies now comprising the Group to their then shareholders during the year were as follows:

	2006 HK$'000	2005 HK$'000
Shanghai COFCO Brewing Materials Co., Ltd.	2,239	—
COFCO Oils & Fats Holdings Limited	—	28,000
COFCO (BVI) No. 1 Limited	357,506	116,000
Shenzhen Nantian Oilmills Co., Ltd.	2,339	—
	362,084	144,000

12. DISCONTINUED OPERATIONS

Pursuant to the Reorganisation as detailed in note 1 to the combined financial statements, the Group discontinued its consumer-pack edible oil and the trading of non-rice foodstuffs businesses. The transaction was completed on 31 December 2006.

The results of the consumer-pack edible oil and the trading of non-rice foodstuffs businesses for the year are presented below:

	2006 HK$'000	2005 HK$'000
Revenue	2,384,001	2,487,260
Cost of sales	(2,034,828)	(2,210,201)
Gross profit	349,173	277,059
Other income and gains	29,888	17,837
Expenses	(270,114)	(227,251)
Finance costs	(19,193)	(6,540)
Profit before tax from the discontinued operations	89,754	61,105
Tax related to pre-tax profit	(25,213)	(19,547)
Profit for the year from the discontinued operations	64,541	41,558
Attributable to:		
Equity holders of the Company	45,927	39,632
Minority interests	18,614	1,926
	64,541	41,558

12. DISCONTINUED OPERATIONS *(continued)*

As no assets and liabilities of the consumer-pack edible oil and the trading of non-rice foodstuffs businesses will be disposed of by the Group, neither assets nor liabilities of the consumer-pack edible oil and the trading of non-rice foodstuffs businesses was classified as held for sale.

The net cash flows incurred by the consumer-pack edible oil and the trading of non-rice foodstuffs businesses are as follows:

	2006 HK$'000	2005 HK$'000
Operating activities	**(503,891)**	177,249
Investing activities	**(1,849)**	(3,448)
Financing activities	**598,027**	(116,000)
Net cash inflow	**92,287**	57,801
Basic earnings per share from the discontinued operations	**HK1.7 cents**	HK1.4 cents

The calculation of basic earnings per share from the discontinued operations is based on the combined profit attributable to ordinary equity holders of the Company from the discontinued operations of HK$45,927,000 (2005: HK$39,632,000), and on the assumption that 2,791,383,356 (2005: 2,791,383,356) shares had been in issue throughout the year.

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

The calculation of basic earnings per share for the year is based on the combined profit attributable to ordinary equity holders of the Company for the year of HK$755,416,000 (2005: HK$254,879,000), and on the assumption that 2,791,383,356 (2005: 2,791,383,356) shares had been in issue throughout the year.

The calculation of basic earnings per share from the continuing operations is based on the combined profit attributable to ordinary equity holders of the Company from continuing operations of HK$709,489,000 (2005: HK$215,247,000), and on the assumption that 2,791,383,356 (2005: 2,791,383,356) shares had been in issue throughout the year.

A diluted earnings per share amount for the year ended 31 December 2006 has not been disclosed as no diluting events existed during that year (2005: Nil).

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant, machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005				
At 1 January 2005:				
Cost	1,616,231	2,439,515	434,057	4,489,803
Accumulated depreciation and impairment	(264,108)	(818,783)	—	(1,082,891)
Net carrying amount	1,352,123	1,620,732	434,057	3,406,912
At 1 January 2005, net of accumulated depreciation and impairment	1,352,123	1,620,732	434,057	3,406,912
Additions	1,876	89,285	513,432	604,593
Disposals	(46,191)	(41,520)	(35)	(87,746)
Depreciation provided during the year	(55,966)	(160,141)	—	(216,107)
Transfers	299,575	341,957	(641,532)	—
Exchange realignment	26,976	32,228	6,445	65,649
At 31 December 2005, net of accumulated depreciation and impairment	1,578,393	1,882,541	312,367	3,773,301
At 31 December 2005 and at 1 January 2006:				
Cost	1,884,906	2,855,266	312,367	5,052,539
Accumulated depreciation and impairment	(306,513)	(972,725)	—	(1,279,238)
Net carrying amount	1,578,393	1,882,541	312,367	3,773,301
31 December 2006				
At 1 January 2006, net of accumulated depreciation and impairment	**1,578,393**	**1,882,541**	**312,367**	**3,773,301**
Additions	**15,525**	**163,242**	**975,097**	**1,153,864**
Acquisition of subsidiaries (note 31)	**150,882**	**431,280**	**31,761**	**613,923**
Impairment	**—**	**(2,193)**	**—**	**(2,193)**
Disposals	**(5,651)**	**(32,265)**	**(78)**	**(37,994)**
Disposal of a subsidiary (note 32)	**—**	**(1,588)**	**—**	**(1,588)**
Depreciation provided during the year	**(89,145)**	**(221,072)**	**—**	**(310,217)**
Transfers	**233,721**	**90,636**	**(324,357)**	**—**
Exchange realignment	**67,602**	**84,286**	**35,222**	**187,110**
At 31 December 2006, net of accumulated depreciation and impairment	**1,951,327**	**2,394,867**	**1,030,012**	**5,376,206**
At 31 December 2006:				
Cost	**2,357,878**	**3,593,026**	**1,030,012**	**6,980,916**
Accumulated depreciation and impairment	**(406,551)**	**(1,198,159)**	**—**	**(1,604,710)**
Net carrying amount	**1,951,327**	**2,394,867**	**1,030,012**	**5,376,206**

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

All of the Group's buildings are held under medium term leases in Mainland China.

As at 31 December 2006, certain of the Group's property, plant and equipment with a net book value of approximately HK$1,050,876,000 (2005: HK$ 677,610,000) were pledged to secure banking facilities granted to the Group (note 26).

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$35,818,000 (2005: 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.

15. PREPAID LAND PREMIUMS

	2006 HK$'000	2005 HK$'000
Carrying amount at beginning of year	**272,628**	244,832
Acquisition of subsidiaries (note 31)	**39,338**	—
Additions	**63,029**	28,985
Recognised during the year	**(8,453)**	(5,923)
Exchange realignment	**12,731**	4,734
Carrying amount at end of year	**379,273**	272,628
Current portion included in prepayments, deposits and other receivables	**(9,042)**	(5,992)
Non-current portion	**370,231**	266,636

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

As at 31 December 2006, certain of the Group's land use rights with a net book value of approximately HK$103,113,000 (2005: HK$41,068,000) were pledged to secure bank loans granted to the Group (note 26).

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$6,110,000 (2005: HK$6,047,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

16. GOODWILL

	2006 HK$'000	2005 HK$'000
Cost and carrying amount at beginning of year	**246,355**	246,355
Acquisition of subsidiaries (note 31)	**338,451**	—
Cost and carrying amount at end of year	**584,806**	246,355

16. 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;
- Rice trading and processing cash-generating unit; and
- Biofuel and biochemical cash-generating unit.

The recoverable amounts of the oilseed processing cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a one-year period approved by senior management.

The recoverable amount of the rice trading and processing cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a one-year period approved by senior management.

The recoverable amount of the biofuel and biochemical cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 12%.

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

	2006	2005
	HK$'000	HK$'000
Oilseed processing	**116,124**	116,124
Rice trading and processing	**127,048**	127,048
Biofuel and biochemical	**338,451**	—
Others	**3,183**	3,183
	584,806	246,355

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 budgeted year, increased for expected efficiency improvements and expected market development.

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.

17. INTERESTS IN ASSOCIATES

	2006 HK$'000	2005 HK$'000
Share of net assets	**879,122**	414,940
Goodwill on acquisition	**28,356**	16,642
	907,478	431,582
Due from associates	**18,167**	40,348
Loans to associates	**156,283**	155,776
	174,450	196,124
	1,081,928	627,706

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.

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

Particulars of principal associates are as follows:

Name	Particulars of issued and paid-up share/ registered capital	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co., Ltd.	US$44,500,000	The People's Republic of China (the "PRC")	40.0	Soybean oil extraction, refining and packaging, and production of soybean meal
Laiyang Luhua Fragrant Peanut Oil Co., Ltd.	US$19,219,300	The PRC	24.0	Production and sale of peanut oil
Northsea Oils & Grains Industries (Tianjin) Co., Ltd.	US$51,557,000	The PRC	50.44	Production and sale of edible oils
Lassiter Limited	Ordinary share US$100	Samoa	49.0	Investment holding*
Shenzhen Nantian Oilmills Co., Ltd.	RMB10,000,000	The PRC	20.0	Oilseed processing
Jilin Fuel Ethanol Co., Ltd.	RMB1,200,000,000	The PRC	20.0	Production and sale of biofuel and biochemicals

* Lassiter Limited has a 61.7% equity interest in Shenzhen Southseas Grains Industries Ltd., a sino-foreign equity joint venture registered in the PRC, the principal activity of which is the production and sale of edible oils in Mainland China.

17. INTERESTS IN ASSOCIATES *(continued)*

None of the above associates are audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

All of the above associates are indirectly held by the Company.

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

	2006 HK$'000	2005 HK$'000
Cost and carrying amount at beginning of year	**16,642**	16,642
Acquisition of an associate	**11,714**	—
Cost and carrying amount at end of year	**28,356**	16,642

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; and
- Biofuel and biochemical cash-generating unit.

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

	2006 HK$'000	2005 HK$'000
Oilseed processing	**16,642**	16,642
Biofuel and biochemical	**11,714**	—
	28,356	16,642

Details of the basis of determination of recoverable amounts and assumptions used in the value in use calculation for the above cash-generating units are set out in note 16 to the combined financial statements.

17. INTERESTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements, or where appropriate, management accounts:

	2006 HK$'000	2005 HK$'000
Assets	**6,048,529**	5,138,934
Liabilities	**3,003,780**	3,659,187
Revenues	**9,687,303**	10,968,162
Profit	**550,358**	290,668

18. AVAILABLE-FOR-SALE INVESTMENT

	2006 HK$'000	2005 HK$'000
Unlisted equity investment outside Hong Kong, at cost	**2,387**	2,387

19. PARTICULARS OF SUBSIDIARIES

Particulars of the principal subsidiaries as at the date of approval of the financial statements are as follows:

Name	**Place of incorporation/ registration and operation**	**Nominal value of issued and paid-up share/ registered capital**	**Percentage of equity attributable to the Company**	**Principal activities**
China Agri-Industries Limited	Bermuda/ Hong Kong	Ordinary HK$269,238,336	100	Investment holding
Full Extent Group Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US$3	100	Investment holding
COFCO Oils & Fats Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
COFCO (BVI) No. 1 Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
Techbo Limited ("Techbo")	BVI/Hong Kong	Ordinary US$1	100	Investment holding
COFCO TTC (Beijing) Foods Co., Ltd. **	The PRC/ Mainland China	US$5,450,000	51	Production and sale of wheat products

19. PARTICULARS OF SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd. *	The PRC/ Mainland China	RMB55,000,000	66.9	Production and sale of wheat products
Puyang COFCO Flour Industry Co., Ltd. **	The PRC/ Mainland China	RMB35,000,000	80	Production and sale of wheat products
Shandong COFCO Lude Foods Co., Ltd. *	The PRC/ Mainland China	RMB43,533,000	55	Production and sale of wheat products
Shenyang Xiangxue Flour Limited Liability Company *	The PRC/ Mainland China	RMB80,350,000	69.3	Production and sale of wheat products
COFCO Industry (Qinhuangdao) Pangthai Co., Ltd. **	The PRC/ Mainland China	US$17,340,000	100	Production and sale of wheat products
COFCO Jiangxi Rice Processing Limited **	The PRC/ Mainland China	RMB60,200,000	83.47	Trading and processing of rice
COFCO Malt (Jiangyin) Co., Ltd. **	The PRC/ Mainland China	US$15,000,000	100	Production and sale of brewing materials
Dalian COFCO Malt Co., Ltd. **	The PRC/ Mainland China	US$30,000,000	100	Production and sale of brewing materials
Shanghai COFCO Brewing Materials Co., Ltd **	The PRC/ Mainland China	RMB1,000,000	100	Production and sale of brewing materials
COFCO Bio-Chemical Energy (Yushu) Co., Ltd. **	The PRC/ Mainland China	US$38,000,000	100	Production and sale of biofuel and biochemical
COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd. **	The PRC/ Mainland China	US$71,880,000	100	Production and sale of biofuel and biochemical
Guangxi COFCO Bio-Energy Co., Ltd. **	The PRC/ Mainland China	US$100,000,000	100	Production and sale of biofuel and biochemical
COFCO Biochemical Energy (Hengshui) Co., Ltd. *	The PRC/ Mainland China	RMB230,000,000	88	Production and sale of biofuel and biochemical

19. PARTICULARS OF SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
COFCO Bio-Energy (Zhaodong) Co., Ltd. (formerly known as China Resources (Heilongjiang) Alcohol Co., Ltd.)** ("Zhaodong Bio-Energy")	The PRC/ Mainland China	RMB380,000,000	100	Production and sale of biofuel and biochemical
China Resources Winery (Heilongjiang) Co., Ltd. *** ("Heilongjiang Winery")	The PRC/ Mainland China	RMB5,000,000	65	Wine brewery
COFCO ADM Oils & Grains Industries (Heze) Co., Ltd. **	The PRC/ Mainland China	US$22,400,000	70	Production and sale of edible oils
COFCO International (Beijing) Co., Ltd. **	The PRC/ Mainland China	RMB60,000,000	100	Trading of rice
COFCO Xiangrui Oils & Grains Industries (Jingmen) Co., Ltd. **	The PRC/ Mainland China	US$7,500,000	100	Production and sale of edible oils
Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd. **	The PRC/ Mainland China	RMB51,700,000	89.36	Processing and refining of edible oils and fats
East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. **	The PRC/ Mainland China	US$113,000,000	54	Production and sale of edible oils, and trading of soybean and rapeseeds
Yellowsea Oils & Grains Industries (Shandong) Co., Ltd. **	The PRC/ Mainland China	US$47,773,776	72.94	Production and sale of edible oils
Xiamen Haijia Flour Mills Co., Ltd. *	The PRC/ Mainland China	RMB71,325,000	60	Manufacture of wheat products
Zhengzhou Haijia Food Co., Ltd. *	The PRC/ Mainland China	RMB30,000,000	55	Manufacture of wheat products

* Sino-foreign equity joint ventures
** Wholly foreign-owned enterprises
*** Limited company established in the PRC

The statutory audits for the above subsidiaries are not performed by Ernst & Young Hong Kong or other Ernst & Young International member firms.

19. PARTICULARS OF SUBSIDIARIES *(continued)*

Except for China Agri-Industries Limited, all of the above subsidiaries are indirectly held by the Company.

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.

20. INVENTORIES

	2006	2005
	HK$'000	HK$'000
Raw materials	**2,316,824**	1,406,419
Work in progress	**156,027**	143,726
Finished goods	**1,201,612**	939,838
	3,674,463	2,489,983

21. 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 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 at the balance sheet date is as follows:

	2006	2005
	HK$'000	HK$'000
Outstanding balances with ages:		
Within three months	**1,041,689**	731,826
Three to twelve months	**3,999**	19,513
One to two years	**1,230**	5,590
Over two years	**1,369**	38
	1,048,287	756,967
Less: Impairment	**(2,602)**	(5,178)
	1,045,685	751,789

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

22. DEFERRED INITIAL PUBLIC OFFERING EXPENSES

The deferred initial public offering expenses were incurred for the purpose of the Company's new listing. Subsequent to the listing of the Company's shares on the Stock Exchange on 21 March 2007, the whole amount has been charged to the Company's share premium account.

23. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Group has entered into various commodity futures contracts to manage its price exposure in future purchases or sales of soybean, soybean meal and corn which did not meet the criteria for hedge accounting. Gains in fair value of non-hedging derivative financial instruments of HK$103,711,000 (2005: HK$76,873,000) were credited to the combined income statement during the year.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2006 **HK$'000**	2005 HK$'000
Cash and bank balances	**1,190,268**	502,027
Time deposits	**110,998**	428,062
	1,301,266	930,089
Less: Time deposits pledged for short term bank loans (note 26)	**(51,878)**	(406,286)
Cash and cash equivalents	**1,249,388**	523,803

Substantially all of the cash and cash equivalents are denominated in Renminbi ("RMB") and are deposited with several state-owned banks in Mainland China in the ordinary course of business. 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.

25. ACCOUNTS AND BILLS PAYABLE

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

	2006 HK$'000	2005 HK$'000
Outstanding balances with ages:		
Within three months	867,397	503,035
Three to twelve months	6,557	7,095
One to two years	335	194
Over two years	274	789
	874,563	511,113

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.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2006			2005		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans-secured	5.51-7.01	2007	564,800	4.09-6.90	2006	517,698
Bank loans-unsecured	5.02-6.30	2007	2,536,390	4.70-7.56	2006	1,103,430
Other loans-unsecured	5.02-5.85	2007	201,336	2.50-5.58	2006	1,460,273
			3,302,526			3,081,401
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	363,473
			2,065,085			363,473
			5,367,611			3,444,874

26. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	2006 **HK$'000**	2005 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**3,101,190**	1,621,128
In the second year	**598,026**	—
In the third to fifth years, inclusive	**508,323**	—
	4,207,539	1,621,128
Other loans repayable:		
Within one year or on demand	**201,336**	1,460,273
In the second year	**—**	212,110
In the third to fifth years, inclusive	**958,736**	151,363
	1,160,072	1,823,746
	5,367,611	3,444,874

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

(i) a charge over certain property, plant and equipment of the Group with a net book value of approximately HK$1,050,876,000 (2005: HK$ 677,610,000) (note 14);

(ii) a charge over certain land use rights of the Group with a net book value of approximately HK$103,113,000 (2005: HK$41,068,000) (note 15); and

(iii) a pledge of certain of the Group's time deposits amounting to HK$51,878,000 (2005: HK$406,286,000) (note 24).

(b) Except for bank and other borrowings of HK$2,314,935,000 (2005: HK$1,593,448,000) which are denominated in United States dollars, all borrowings are in RMB.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Details of other loans are analysed as follows:

	2006 HK$'000	2005 HK$'000
Loans from:		
The ultimate holding company	—	279,605
A fellow subsidiary	**1,160,072**	1,533,325
Employees	—	10,816
	1,160,072	1,823,746

As at 31 December 2006, the other loans bear interest at fixed rates ranging from 5.02% to 6.30% (2005: 2.5% to 5.58%) per annum. The loans from a fellow subsidiary of HK$566,900,000 (2005: HK$572,709,000) are guaranteed by the Group's ultimate holding company.

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

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate HK$'000	Floating rate HK$'000	Fixed rate HK$'000	Floating rate HK$'000
Bank loans - unsecured	**1,439,101**	**2,203,638**	61,576	1,041,854
Bank loans - secured	**453,503**	**111,297**	40,921	476,777
Other loans - unsecured	**1,160,072**	—	1,748,929	74,817

27. DEFERRED TAX

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

Deferred tax liabilities

	Accelerated tax depreciation HK$'000	Deferred income HK$'000	Others HK$'000	Total HK$'000
At 1 January 2006	—	—	—	—
Acquisition of subsidiaries (note 31)	10,221	1,142	666	12,029
Deferred tax charged to the income statement during the year (note 10)	3,739	4,817	2,270	10,826
Exchange realignment	408	146	71	625
At 31 December 2006	14,368	6,105	3,007	23,480

Deferred tax assets

	Provision against inventories HK$'000	Impairment of receivables HK$'000	Others HK$'000	Total HK$'000
At 1 January 2005	(320)	(2,129)	(2,372)	(4,821)
Deferred tax charged to the income statement during the year (note 10)	82	2,049	136	2,267
Exchange realignment	(5)	(15)	(42)	(62)
At 31 December 2005 and at 1 January 2006	(243)	(95)	(2,278)	(2,616)
Deferred tax charged to the income statement during the year (note 10)	247	7	53	307
Exchange realignment	(4)	(4)	(84)	(92)
At 31 December 2006	—	(92)	(2,309)	(2,401)

The Group has tax losses arising in Mainland China of HK$107,835,000 (2005: HK$115,219,000) that are available for offsetting against future taxable profits to a maximum period of five years 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 and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

27. DEFERRED TAX *(continued)*

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.

28. SHARE CAPITAL

Shares

	2006 **HK$'000**
Authorised:	
4,000,000,000 ordinary shares of HK$0.1 each	**400,000**
Issued and fully paid:	
10 ordinary shares of HK$0.1 each	**—**

The following changes in the Company's authorised and issued share capital took place during the period from 18 November 2006 (date of incorporation) to 31 December 2006, and subsequent to the balance sheet date up to 21 March 2007 and 30 March 2007, the dates of completion of the initial public offering and the exercise of an over-allotment option, respectively:

	Notes	**Number of ordinary shares**	**Nominal value of ordinary shares** HK$'000
Authorised:			
Upon incorporation (10,000 shares of HK$1 each)		10,000	10
Subdivision of each authorised share of HK$1 into ten shares of HK$0.1 each	(i)	90,000	—
		100,000	10
Increase in authorised capital	(ii)	3,999,900,000	399,990
As at 31 December 2006 and as at 21 March 2007, completion of initial public offering		4,000,000,000	400,000

28. SHARE CAPITAL *(continued)*

Shares ***(continued)***

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
Issued:			
Upon incorporation (1 share of HK$1)		1	—
Subdivision of each authorised share of HK$1 into ten shares of HK$0.1 each	(i)	9	—
As at 31 December 2006		10	—
On acquisition of China Agri-Industries	(iii)	2,791,383,346	279,138
Pro forma issued capital as at 31 December 2005 and 2006		2,791,383,356	279,138
Issue of new shares	(iv)	697,846,000	69,785
As at 21 March 2007, upon completion of initial public offering		3,489,229,356	348,923
Issue of new shares	(v)	104,677,000	10,468
As at 30 March 2007, upon exercise of an over-allotment option		3,593,906,356	359,391

Notes:

(i) Pursuant to an ordinary resolution passed on 29 December 2006, the authorised and issued share capital of the Company were divided into 100,000 ordinary shares and 10 ordinary shares of HK$0.1 each, respectively.

(ii) Pursuant to a special resolution passed on 29 December 2006, the authorised capital of the Company was increased from HK$ 10,000 to HK$ 400,000,000 by the creation of an additional 3,999,900,000 ordinary shares of HK$0.1 each, ranking pari passu in all respects with the existing share capital of the Company.

(iii) On 10 January 2007, pursuant to the Reorganisation, the Company acquired from COFCO International the entire issued share capital in China Agri-Industries, the holding company of the subsidiaries set out in note 19 to the combined financial statements, in consideration for the allotment and issue of 2,791,383,346 ordinary shares of HK$0.1 each in the share capital of the Company, credited as fully paid.

(iv) In connection with the Company's initial public offering, 697,846,000 new shares of HK$0.1 each were issued at a price of HK$3.72 per share for a total cash consideration, before expenses, of approximately HK$2,595,987,000. Dealings in these shares on the Stock Exchange commenced on 21 March 2007.

28. SHARE CAPITAL *(continued)*

Shares *(continued)*

(v) In connection with the Company's initial public offering, an over-allotment option was granted to the Global Coordinator (as defined in the Prospectus) whereby the Global Coordinator, on behalf of the International Purchasers (as defined in the Prospectus), has the right to request the Company to issue and allot up to an aggregate of 104,677,000 additional shares of HK$0.1 each to subscribers under the initial public offering. On 26 March 2007, the Global Coordinator had exercised the over-allotment option and accordingly, 104,677,000 new shares of HK$0.1 each was issued by the Company at a price of HK$3.72 per share for a total cash consideration, before expenses, of HK$389,398,000. Dealings in these shares on the Stock Exchange commenced on 30 March 2007.

Share options

Details of the Company's share option scheme are included in note 29 to the combined financial statements.

29. SHARE OPTION SCHEME

Subsequent to the balance sheet date, on 12 January 2007, the Company conditionally adopted a share option scheme (the "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, including independent non-executive directors and other employees of the Group. The Scheme became unconditional and effective upon listing of the shares of the Company on 21 March 2007 and, unless otherwise cancelled, amended or terminated in accordance with the Scheme, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 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 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 a director, chief executive or substantial shareholder of the Company, 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.

29. SHARE OPTION SCHEME *(continued)*

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 Scheme, if earlier.

The exercise price of 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.

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the combined statement of changes in equity on pages 71 to 72 of the combined financial statements.

The Group's combined capital reserve represents:

(i) the difference between the nominal value of the shares/capital and the share premium account of the subsidiaries acquired pursuant to the Reorganisation set out in note 1 to the combined financial statements, over the nominal value of the Company's shares issued in exchange therefor.

(ii) capitalisation of amounts due to the Group's fellow subsidiaries and the immediate holding company of HK$1,088,195,000 and HK$1,015,000,000, respectively, pursuant to the Reorganisation. Further details are set out in the Prospectus.

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

31. BUSINESS COMBINATION

On 27 January 2006, the Group acquired a 100% interest in Techbo, which has 100% and 65% interests in Zhaodong Bio-Energy and 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 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 14)	613,923	594,536
Prepaid land premiums (note 15)	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 27)	(12,029)	(12,029)
Minority interests	(4,729)	(2,578)
	404,127	379,244
Goodwill on acquisition (note 16)	338,451	
	742,578	
Satisfied by:		
An amount due to the immediate holding company	742,578	

31. BUSINESS COMBINATION *(continued)*

An analysis of the 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 the subsidiaries	240,141

During the year, Techbo Group generated revenue and net profit of HK$1,405,432,000 and HK$199,826,000, respectively. Since the acquisition of Techbo Group, Techbo Group contributed HK$1,304,620,000 to the Group's revenue and HK$183,959,000 to the Group's combined 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$18,000,135,000 and HK$771,283,000, respectively.

32. DISPOSAL OF A SUBSIDIARY

	HK$'000
Net assets disposed of:	
Property, plant and equipment (note 14)	1,588
Cash and bank balances	4,518
Prepayments, deposits and other receivables	3,422
Due from associates	7,417
Due from fellow subsidiaries	11,219
Tax recoverable	70
Other payables and accruals	(6,727)
Minority interests	(722)
	20,785
Loss on disposal of a subsidiary (note 6)	(2,241)
	18,544
Satisfied by:	
Amounts due from fellow subsidiaries	18,544

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

Cash and bank balances disposed of and net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(4,518)

33. NOTES TO THE COMBINED CASH FLOW STATEMENT

Major non-cash transactions

(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 31 above.

(c) During the year, amounts of HK$1,088,195,000 and HK$1,015,000,000 due to fellow subsidiaries and the immediate holding company, respectively, were capitalised in the combined capital reserve of the Group pursuant to the Reorganisation.

(d) During the year, certain deferred initial public offering expenses of HK$6,585,000 was settled by a fellow subsidiary on behalf of the Group. In addition, HK$29,938,000 of the deferred initial public offering expenses was remained unpaid and included in the Group's "other payables and accruals" account at 31 December 2006.

34. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and steel barrels under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to fifteen years and those for steel barrels for terms ranging from one to eleven years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006 HK$'000	2005 HK$'000
Within one year	**13,154**	11,306
In the second to fifth years, inclusive	**7,770**	12,898
After five years	**1,204**	1,004
	22,128	25,208

35. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the balance sheet date:

	2006 HK$'000	2005 HK$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**383,308**	236,111
Contracted, but not provided for	**822,119**	163,422
	1,205,427	399,533

36. OTHER COMMITMENTS

Commitments under futures contracts:

	2006 HK$'000	2005 HK$'000
Sales of soybean meal	**873,943**	80,119
Sales of soybean	**298,992**	127,134

Other than disclosed above, the Group did not have any significant commitments or contingent liabilities as at the balance sheet date (2005: Nil).

37. RELATED PARTY TRANSACTIONS

(a) Related party transactions

Apart from the transactions and balances disclosed elsewhere in the combined financial statements, the Group had the following transactions with related parties during the year:

	Notes	2006 HK$'000	2005 HK$'000
Transactions with fellow subsidiaries:			
Sales of goods*	(i)	**634,851**	376,327
Purchases of goods*	(i)	**28,361**	93,613
Operating lease rental paid*	(i)	**4,828**	4,263
Interest expense*	(ii)	**51,312**	32,489
Interest income*	(iv)	**2,505**	1,642
Commission paid*	(i)	**4,760**	11,701
Reimbursement of advertising expense*	(iii)	**12,162**	—
Transactions with the ultimate holding company:			
Sales of goods*	(i)	**—**	—
Purchases of goods*	(i)	**—**	1,738
Management fee paid*	(i)	**7,575**	7,217
Interest expense*	(ii)	**15,847**	434
Transactions with the immediate holding company:			
Interest expense	(ii)	**—**	14,716
Transactions with associates:			
Sales of goods*	(i)	**128,605**	94,534
Purchases of goods*	(i)	**95,879**	2,611
Purchases of steel barrels	(i)	**22,960**	44,187
Processing fee expenses	(i)	**14,980**	15,911
Reimbursement of advertising expense*	(iii)	**3,419**	4,485
Transactions with related companies: #			
Sales of goods*	(i)	**7,666**	67,023
Purchases of goods* ##	(i)	**7,542,999**	6,937,323
Transactions with minority shareholders of subsidiaries:			
Sales of goods*	(i)	**—**	159
Purchases of goods*	(i)	**29,489**	218,879
Operating lease rental paid	(i)	**—**	804
Consultancy fee paid	(i)	**—**	321

37. RELATED PARTY TRANSACTIONS *(continued)*

(a) Related party transactions *(continued)*

* These are continuing transactions.

\# Related companies are companies under significant influence by the Group's ultimate holding company.

\## Included purchases of goods from Grand Ocean International Trading Limited of HK$7,505,668,000 (2005: HK$6,910,555,000) for the year.

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) The interest expense arose from the loans from the ultimate holding company, the immediate holding company and a fellow subsidiary. Further details of the loans from the ultimate holding company, the immediate holding company and a fellow subsidiary are set out in note 26 above.

(iii) The reimbursement of advertising expense was calculated with reference to the actual advertising expense.

(iv) The interest income arose from the deposits placed with a fellow subsidiary of the Group, which is a non-banking finance company regulated by the People's Bank of China (the "PBOC") and the China Banking Regulatory Commission in the PRC, and its deposit rates are set by the PBOC which is applicable to all financial institutions. The interest rates offered by the fellow subsidiary are the same as the rates promulgated by the PBOC which are applicable to account deposits with banks of the PRC or finance companies and at rates of 0.72% to 2.25% per annum as at 31 December 2005. There was no deposit placed with the fellow subsidiary by the Group as at the balance sheet date (2005: HK$21,325,000).

In the opinion of the directors, the above related party transactions are carried out on normal commercial terms and in ordinary course of the Group's businesses.

(b) Transactions with a related party

Pursuant to certain licence agreements entered into between the Group and a fellow subsidiary, Grand Silver Services Limited, the Group has been granted the exclusive rights to use certain trademarks for its edible oils, soybean meal and related products businesses. The licence fees during the year were waived by the related party.

(c) Outstanding balances with related parties

Except for the following, the balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group's subsidiaries as at the balance sheet date are unsecured, interest-free and have no fixed terms of repayment:

(1) the loans due to a fellow subsidiary of HK$1,160,072,000 (2005: loans due to ultimate holding company and a fellow subsidiary with aggregate amount of HK$1,812,930,000) from the ultimate holding company and a fellow subsidiary, the terms of which are detailed in note 26 to the combined financial statements, which were fully repaid in February 2007 by the Group;

(2) deposits placed with the fellow subsidiary by the Group amounted to HK$21,325,000 as at 31 December 2005, the terms of which are detailed in note 37(a)(iv) above, which was fully withdrawn by the Group in the current year;

37. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties *(continued)*

(3) an amount due to a fellow subsidiary of HK$356,038,000 (2005: HK$842,555,000), which is financing in nature;

(4) amounts due to fellow subsidiaries of HK$182,117,000 as at 31 December 2005, which were financing in nature and were not repayable from within one year from the balance sheet date, and were capitalised in the combined capital reserve during the current year;

(5) amounts due to the immediate holding company of HK$460,157,000 as at 31 December 2005, which were financing in nature and were not repayable within one year from the balance sheet date, and were capitalised to combined capital reserve pursuant to the reorganisation during the current year. Further details are set out in note 30 to the combined financial statements; and

(6) amounts due to minority shareholders of subsidiaries of HK$111,665,000 (2005: HK$105,628,000), which are financing in nature and are not repayable within one year from the balance sheet date.

The carrying amounts of balances with related parties approximate to their fair values.

(d) Compensation of key management personnel of the Group

	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	**1,522**	1,090
Pension scheme contributions	**140**	32
Total compensation paid to key management personnel	**1,662**	1,122

(e) Indemnity given by COFCO (Hong Kong) Limited

The Company's immediate holding company, COFCO (Hong Kong) Limited, undertakes to indemnify the Group from and against all claims, liabilities losses, costs and expenses which the Group may suffer or incur in connection with any underpayment, non-payment or late payment of social insurances and housing fund contributions, for the Group's subsidiaries established in Mainland China.

37. RELATED PARTY TRANSACTIONS *(continued)*

(f) Transactions of other state-owned enterprises

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the year, the Group had transactions with State-owned Enterprises including, but not limited to, sales of and purchases of processed foodstuffs and raw materials. The directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the Group's business at terms that are consistently applied to all customers, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

38. 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 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 and other receivables, accounts and other payables, due from/to group companies and related companies 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 which have material impact on the Group's financial performance and have used certain derivative financial instruments to hedge against these risks.

The Group enters into derivative transactions, in futures contracts of soybean, soybean meal and corn. The purpose of entering into these futures contracts is to manage the market price risk arising from the Group's oilseed processing operation. The accounting policies in relation to derivatives are set out in note 2.4 to the combined 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 26 to the combined financial statements. 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 Mainland China with most of the Group's monetary assets, liabilities and transactions principally denominated in RMB and United States dollars. Foreign currency risk arises from future commercial transactions from operations, borrowings and net investments of operations, which are denominated in currencies other than functional currency of the Group, is considered minimal.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group has no significant concentrations 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 a policy in place to ensure that sales are made to customers with an appropriate credit history.

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 costs and product selling prices of the Group's oilseed processing operation are substantially correlated to the prices of future commodities markets. Market price risk arises from the 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 futures contracts of soybean, soybean meal and corn.

39. POST BALANCE SHEET EVENTS

Save as disclosed in notes 1, 28 and 29 to the combined financial statements in relation to the Reorganisation and the share option scheme, the Group has the following post balance sheet event:

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.

40. APPROVAL OF COMBINED FINANCIAL STATEMENTS

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