Report of the Directors

The directors are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Until 31 December 2006 the principal activities of the subsidiaries and associates of the Company comprise food processing and related businesses which include Oilseed processing, wineries, confectionery, flour milling and trading. Immediately upon completion of the Reorganisation (as defined in the Company's announcement dated 8 October 2006) on 31 December 2006, the principal activities of the enlarged Group include beverage business, wine business, confectionery business, consumer-pack edible oil business, as well as biofuel and biochemical business, oilseed processing business, rice trading and processing business, brewing materials business and wheat processing business. Immediately upon completion of the spin-off of China Agri-Industries Holdings Limited ("China Agri Holdings") from the Company ("Spin-off") on 21 March 2007, the principal activities of the Group no longer include biofuel and biochemical business, oilseed processing business, rice trading and processing business, brewing materials business and wheat processing business, which are operated by China Agri Holdings.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group as of that date are set out in the financial statements on pages 43 to 133.

An interim dividend of HK 4.50 cents per ordinary share was paid on 29 September 2006. On 21 March 2007 an interim dividend in specie was distributed to qualifying shareholders of the Company whose names appeared on the register of members at 4:00 p.m. on 16 February 2007, which was satisfied by one China Agri Holdings share for every share of the Company. The directors recommend that no final dividend shall be paid in respect of the year. The directors will review the dividend policy and dividend payment proposal in the future.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 134. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 16 and 17 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 32 and 33 to the financial statements, respectively.

During the year no share options have been granted to any executive directors of the Company or other eligible employees of the Group or any eligible participants pursuant to the share option scheme of the Company adopted on 22 June 1997 ("Existing Share Option Scheme") or the share option scheme of the Company adopted on 21 November 2006 ("New Share Option Scheme"). Upon the adoption of the New Share Option Scheme, the directors had terminated the operation of the Existing Share Option Scheme without prejudice to the rights and benefits attached to the outstanding options (if any).

Report of the Directors

PRE-EMPTIVE RIGHTS

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK$5,450,606,000. In addition, the Company's share premium account, in the amount of HK$3,660,432,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 8.16% of the total sales for the year with the largest customer accounting for approximately 2.35%. The five largest suppliers of the Group accounted for approximately 38.77% of the Group's total purchases for the year, with the largest supplier accounting for approximately 32.65%.

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

DIRECTORS

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

Executive directors:

Mr. Ning Gaoning	
Mr. Qu Zhe	
Mr. Mak Chi Wing, William	(appointed on 6 October 2006)
Mr. Ma Jianping	(appointed on 21 March 2007)
Ms. Luan Xiuju	(appointed on 21 March 2007)
Mr. Zhang Zhentao	(appointed on 21 March 2007)
Mr. Liu Fuchun	(resigned on 21 March 2007)
Mr. Xue Guoping	(resigned on 21 March 2007)
Mr. Liu Yongfu	(resigned on 21 March 2007)
Mr. Yu Xubo	(appointed on 18 January 2006 and resigned on 21 March 2007)
Mr. Yu Guangquan	(resigned on 18 January 2006)

Report of the Directors

DIRECTORS (Continued)

Non-executive director:

Ms. Wu Wenting	(appointed on 21 March 2007)

Independent non-executive directors:

Mr. Stephen Edward Clark
Mr. Tan Man Kou
Mr. Yuen Tin Fan, Francis

In accordance with Bye-law 94 of the Company's Bye-laws, Mr. Ma Jianping, Ms. Lu Xiuju, Mr. Zhang Zhentao and Ms. Wu Wenting will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 111(A) of the Company's Bye-laws, Mr. Qu zhe will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The independent non-executive directors are appointed without specific term but subject to retirement by rotation every three years as required by Bye-law 111(A) of the Company's Bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 25 to 27 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

Directors are subject to retirement by rotation at least every three years as required by Bye-law 111(A) of the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group pursuant to the Bye-laws of the Company.

Report of the Directors

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

As at 31 December 2006, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") or which are required, pursuant to Section 352 of the SFO, to be entered in the register of interests maintained by the Company were as follows:

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

Name of director	Capacity and nature of interest	Number of ordinary shares held	Total	Percentage of aggregate interests of issued share capital*
Mr. Liu Fuchun	Directly beneficially owned	8,550,000 Note 1	8,550,000	0.0031
Mr. Xue Guoping	Directly beneficially owned	5,700,000 Note 1	5,700,000	0.0020
Mr. Liu Yongfu	Directly beneficially owned	5,700,000 Note 1	5,700,000	0.0020
Mr. Qu Zhe	Directly beneficially owned	670,000 Note 1	670,000	0.0002

Notes:

1. Long positions in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribed.

* The percentages are calculated based on the total number of ordinary shares of the Company in issue as at 31 December 2006 (i.e. 2,791,383,356 ordinary shares).

Save as disclosed above, as at 31 December 2006, none of the directors and their associates had any other long positions in the shares, underlying shares and debentures of the Company and its associated corporations.

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

As at 31 December 2006, none of the directors and associates had any short positions in the shares, underlying shares and debentures of the Company and its associated corporations.

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

The interests and short positions of substantial shareholders (as defined in the Listing Rules) in the shares and underlying shares of the Company as at 31 December 2006, as recorded in the register of interests required to be kept under Section 336 of the SFO, were as follows:

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

The Company had been notified of the following substantial shareholders' interests in the shares and underlying shares of the Company as at 31 December 2006:

Substantial shareholders	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of aggregate interests of issued share capital*
Wide Smart Holdings Limited ("Wide Smart")	(1)	Directly beneficially owned	1,922,550,331	68.87
COFCO (BVI) No. 108 Limited ("COFCO BVI")	(1)	Directly beneficially owned	140,000,000	5.02
COFCO (Hong Kong) Limited ("COFCO (HK)")	(1)	Directly beneficially owned	10,138,000	0.36
	(1) & (2)	Through a controlled corporation	2,062,550,331	73.89
COFCO	(1) & (3)	Through a controlled corporation	2,072,688,331	74.25

Notes:

(1) Long positions in the shares of the Company

(2) COFCO (HK) is deemed to be interested in 2,062,550,331 shares in aggregate held by Wide Smart and COFCO BVI since COFCO (HK) is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart and COFCO BVI.

(3) COFCO is deemed to be interested in 2,072,688,331 shares in aggregate held by Wide Smart, COFCO BVI and COFCO (HK) since COFCO is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart, COFCO BVI and COFCO (HK).

* The percentages are calculated based on the total number of ordinary shares of the Company in issue as at 31 December 2006 (i.e. 2,791,383,356 ordinary shares).

Save as disclosed herein, as at 31 December 2006, the Company had not been notified of any other persons who had long positions in the shares or underlying shares of the Company, which are required to be recorded in the register of interests required to be kept under Section 336 of the SFO.

Report of the Directors

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

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

As at 31 December 2006, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

CONNECTED TRANSACTIONS

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

1. (i) China Foods Trading Limited ("CFTL"), a wholly owned subsidiary of the Company, entered into various transactions with the COFCO Group during the year in relation to the trading of various commodities and foodstuffs including maize and sugar, with a total value of approximately HK$498,998,000. Upon completion of the Reorganisation on 31 December 2006, CFTL ceased to be a subsidiary of the Company. Accordingly, the transactions involving CFTL no longer constitute connected transactions of the Company.

   (ii) On 4 January 2006, CFTL entered into a tenancy agreement (the "CFTL Tenancy Agreement") with Bapton Company Limited ("Bapton"), a wholly owned subsidiary of COFCO (HK), for the lease of certain office space in Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong ("Top Glory Tower") for a period of two years from 1 January 2006 to 31 December 2007. Under the CFTL Tenancy Agreement, the annual rentals and management fees excluding government rates and service charges will not exceed HK$885,411. Details of the tenancy were disclosed by the Company in an announcement published on 6 January 2006. On 8 December 2006, CFTL, Polychest Limited, a wholly-owned subsidiary of the Company, and Bapton entered into a novation deed (the "CFTL Novation Deed") pursuant to which the rights and obligations of CFTL under the CFTL Tenancy Agreement were respectively transferred to and assumed by Polychest Limited and Bapton agreed, from the effective date of the CFTL Novation Deed, to release and discharge CFTL from the CFTL Tenancy Agreement. During the year the amount of the rentals and management fees excluding government rates and service charges paid by CFTL and Polychest Limited to Bapton was HK$885,411. Upon completion of the Spin-off on 21 March 2007, Polychest Limited ceased to be a subsidiary of the Company. Accordingly, the transactions involving Polychest Limited no longer constitute connected transactions of the Company.

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

(iii) On 4 December 2006, CFTL entered into a tenancy agreement with Bapton ("New CFTL Tenancy Agreement"), for the lease of certain office space by CFTL in Top Glory Tower for a period from 4 December 2006 to 3 November 2008. Under the New CFTL Tenancy Agreement, the rentals and management fees excluding government rates and service charges for the two years ending 31 December 2007 and 2008 would not exceed HK$814,633.20 and HK$668,861, respectively. Upon completion of the Reorganisation on 31 December 2006, CFTL ceased to be a subsidiary of the Company, and accordingly, the transactions under the New CFTL Tenancy Agreement no longer constitute connected transactions of the Company.

2. COFCO Oils & Fats Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries and associated companies (collectively referred to as the "COFCO Oils & Fats Group") entered into various transactions during the year with (i) certain members of the COFCO Group; (ii) Wilmar Trading Pte Ltd ("Wilmar"), an associate of a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group; and (iii) certain companies owned by Archer Daniels Midland Asia-Pacific Limited ("ADM"), a substantial shareholder of certain members of the COFCO Oils & Fats Group, or companies in which ADM has an interest, in relation to the sale of edible oils, oil-related products and soybean products with a total value of approximately HK$766,142,000.

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

3. The COFCO Oils & Fats Group entered into various transactions during the year with (i) the COFCO Group; (ii) Wilmar; and (iii) certain companies in which ADM has an interest in relation to the purchase of raw materials of edible oils and soybean with a total value of approximately HK$7,635,983,000.

Upon completion of the Spin-off on 21 March 2007, COFCO Oils & Fats Holdings Limited ceased to be a subsidiary of the Company. Accordingly, the transactions involving the COFCO Oils & Fats Group no longer constitute connected transactions of the Company.

4. COFCO Wines & Spirits Holdings Limited ("COFCO Wines & Spirits"), a wholly-owned subsidiary of the Company, and its subsidiaries entered into the following transactions during the year:

   (i) the sale of wine and wine-related products to a company within the COFCO Group with a total value of approximately HK$34,242,000;

   (ii) the purchase of wines and wine-related products from a company within the COFCO Group with a total value of approximately HK$29,813,000; and

   (iii) the payment of lease rentals and management fees amounting to HK$1,448,541 to Beijing COFCO Plaza Development Co., Ltd. ("COFCO Plaza Company"), a subsidiary of COFCO, in relation to the lease of certain office premises in Tower A, COFCO Plaza, 8 Jian Guo Men Nei Da Jie, Beijing, the PRC ("COFCO Plaza").

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

5. COFCO (BVI) No. 100 Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (collectively referred to as the "COFCO Trading Group") entered into various transactions with certain companies within the COFCO Group during the year in relation to the purchase of certain agricultural products, including rice products, red bean products, sesame products, cottonseed meal, rapeseed meal and chestnut products with a total value of approximately HK$534,707,000.

6. The COFCO Trading Group entered into various transactions with certain companies within the COFCO Group during the year in relation to the sale of certain agricultural products, including rice products, red bean products, sesame products, cottonseed meal, rapeseed meal and chestnut products with a total value of approximately HK$29,277,000.

7. The COFCO Trading Group also entered into the following transactions with a company with the COFCO Group during the year:

    (i) the payment of lease rentals and management fees amounting to HK$4,793,000 to COFCO Plaza Company, in relation to the lease of certain office premises in COFCO Plaza;

    (ii) the payment of management fees amounting to HK$7,575,000 to COFCO in relation to the provision of management services by COFCO to the COFCO Trading Group pursuant to a service agreement dated 23 March 2004; and

    (iii) the receipt of management fees amounting to HK$31,576,000 from COFCO in relation to the provision of management services by the COFCO Trading Group to COFCO pursuant to a service agreement dated 26 October 2001.

Upon completion of the Reorganisation on 31 December 2006, the subsidiaries of COFCO (BVI) No. 100 Limited ceased to be members of the Group. Accordingly, the transactions involving the COFCO Trading Group no longer constitute connected transactions of the Company.

8. On 4 January 2006, Blissea Consortium Company Limited ("Blissea"), a wholly owned subsidiary of the Company, entered into a tenancy agreement (the "Top Glory Tenancy Agreement") with Bapton, for the lease of certain office space in Top Glory Tower for a period of two years from 1 January 2006 to 31 December 2007. Under the Top Glory Tenancy Agreement, the annual rentals and management fees excluding government rates and service charges will not exceed HK$885,411. Details of the tenancy were disclosed by the Company in an announcement published on 6 January 2006. On 8 October 2006, Blissea, Global Lander Limited, a wholly-owned subsidiary of the Company, and Bapton entered into a novation deed (the "Novation Deed") pursuant to which the rights and obligations of Blissea under the Top Glory Tenancy Agreement were respectively transferred to and assumed by Global Lander Limited and Bapton agreed, from the effective date of the Novation Deed, to release and discharge Blissea from the Top Glory Tenancy Agreement. During the year the amount of rentals and management fees excluding government rates and service charges paid by Blissea and Global Lander Limited to Bapton was HK$885,411.

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

9. On 15 May 2006, the Company and COFCO entered into an agreement (the "First Extension Agreement") to extend the option period in which the Company may exercise, at its sole discretion, the option to acquire any or all of the trade marks as set out in the master license agreement ("Master License Agreement") entered into between the Company and COFCO on 16 May 2001, pursuant to which COFCO, among other things, granted the Company an option at any time during the five-year period from 16 May 2001 to acquire any or all of the trade marks related to "Greatwall", "長城", "CHINA CLUB" and "華夏俱樂部" as set out in the Master License Agreement and the option period would expire on 16 May 2006. Pursuant to the First Extension Agreement, the option period was extended to 16 May 2008.

   On the same date, the Company and Grand Silver Holdings Limited ("Grand Silver Holdings"), a wholly owned subsidiary of COFCO (HK), entered into an agreement (the "Second Extension Agreement") to extend the option period to acquire from Grand Silver Holdings its beneficial interest in 6,000 shares of Grand Silver Services Limited (the "Option Shares") pursuant to an option agreement (the "Option Agreement") entered into between Grand Silver Holdings and the Company on 15 May 2001 and subsequently modified by a deed (the "Deed") entered into between Grand Silver Holdings and the Company on 1 November 2001. Grand Silver Services Limited is the owner of certain trademarks related to "福臨門" and "Fortune" as set out in the Option Agreement. Under the Option Agreement, as modified by the Deed, the option period is the five year period from 16 May 2001 to 15 May 2006 both days inclusive. Pursuant to the Second Extension Agreement, the option period in which the Company may exercise, at its sole discretion, the option to acquire the Option Shares was extended to 16 May 2008.

   COFCO and Grand Silver Holdings are connected persons of the Company, and the First Extension Agreement and the Second Extension Agreement constitute connected transactions of the Company. As the premium paid by the Company for the extension of the option periods is nominal, each of the transactions under the First Extension Agreement and the Second Extension Agreement constituted a de minimis connected transaction for the Company. Details of the First Extension Agreement and the Second Extension Agreement were disclosed in the Company's announcement dated 15 May 2006.

10. On 8 October 2006, the Company and China Agri-Industries Limited ("China Agri") entered into a master sale and purchase agreement ("MSPA") with COFCO and COFCO (HK), pursuant to which (i) the Company agreed to acquire from COFCO (HK) certain food and beverage businesses ("Food and Beverage Businesses") held through Jumbo Team Group Limited, together with certain shareholders' loans; (ii) China Agri agreed to acquire from COFCO (HK) certain agri-industrial businesses ("Agri-industrial Businesses") held through Full Extent Group Limited, together with certain shareholders' loans, and the Company agreed to pay COFCO (HK) a total consideration of HK$5,333.7 million by (i) issuing and allotting an aggregate of 879,739,382 shares ("Consideration Shares"), all credited as fully paid, in favour of COFCO (HK) for an aggregate value of HK$4,618.6 million, and (ii) transferring to COFCO (HK) its non-core business held through Seabase International (B.V.I.) Limited, COFCO (BVI) No. 99 Limited and First Reward Limited for an aggregate value of HK$715.1 million. China Agri separately issued and allotted an aggregate of 1,674,712,604 China Agri shares, all credited as fully paid, to the Company in consideration of the Company's payment to the COFCO (HK) for its acquisition of the Agri-industrial Businesses. COFCO and COFCO (HK) are connected persons of the Company, and accordingly, the MSPA constituted a connected transaction of the Company under the Listing Rules. The MSPA also constituted a major transaction under the Listing Rules. Details of the MSAP and the transactions contemplated thereunder were disclosed in the Company's announcement dated 8 October 2006 ("October Announcement") and a circular dispatched to the shareholders on 28 October 2006 (the "October Circular").

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

11. On 8 October 2006, COFCO and the Company entered into an agreement ("Mutual Supply Agreement"), pursuant to which, the COFCO Group will provide sugar as raw materials and bottle crowns as packaging materials to the Group for its production and bottling of Coca-Cola beverages and other Coca-Cola related drinks and the Group will provide Shaoxing wine to the COFCO Group for export. Upon completion of the Reorganisation on 31 December 2006, the transactions contemplated under the Mutual Supply Agreement constituted continuing connected transactions of the Group under the Listing Rules. It is expected that pursuant to the Mutual Supply Agreement the annual expenditures in respect of bottle crowns and sugar to be provided by the COFCO Group to the Group for the years ending 31 December 2007 and 2008 will not exceed RMB41.0 million and RMB43.0 million, respectively. In respect of Shaoxing wine to be provided by the Group to COFCO Group, it is expected that the transactions would constitute de minimis connected transactions for the Group under the Listing Rules after completion of the Spin-off. Details of the Mutual Supply Agreement and the transactions contemplated thereunder were disclosed in the October Announcement and October Circular.

12. On 8 October 2006, COFCO Foods Sales and Distribution Co., Ltd. ("COFCO Foods") and China Agri entered into a supply and packing agreement ("Supply and Packaging Agreement"), pursuant to which certain members of the China Agri Group (as defined in the October Circular) will supply and pack bulk edible oil into consumer-pack edible oil which will be labelled using trademarks owned by or licensed for use by COFCO Foods. Upon completion of the Spin-off on 21 March 2007, the transactions contemplated under the Supply and Packaging Agreement constituted continuing connected transactions under the Listing Rules. It is expected that the annual values of edible oil to be purchased by COFCO Foods from the China Agri Group for the years ending 31 December 2007 and 2008 will not exceed approximately RMB3,183.0 million and RMB3,810.0 million, respectively. Certain conditions to the Supply and Packaging Agreement were subsequently modified and duly approved by independent shareholders on 29 January 2007. Details of the Supply and Packaging Agreement and the transactions contemplated thereunder were disclosed in the October Announcement, October Circular and a circular dispatched to the shareholders on 13 January 2007.

13. On 8 October 2006, COFCO and COFCO Wines & Spirits entered into an agreement ("Wine Products Sale and Purchase Agreement"), pursuant to which the COFCO Wines & Spirits Group will continue to sell wine products to the COFCO Group. The transactions contemplated under the Wine Products Sale and Purchase Agreement constitute continuing connected transactions of the Company under the Listing Rules. It is expected that the annual revenue in respect of the wine products to be sold by the COFCO Wines & Spirits Group to the COFCO Group for the years ending 31 December 2007 and 2008 will not exceed HK$50.0 million and HK$63.0 million, respectively. Details of the Wine Products Sale and Purchase Agreement and the transactions contemplated thereunder were disclosed in the October Announcement and October Circular.

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

14. Upon completion of the Reorganisation on 31 December 2006, The Coca-Cola Company and its associates became connected persons of the Company for the purpose of the Listing Rules, and the transactions contemplated under the concentrate purchase agreements ("Concentrate Purchase Agreements") and beverage base purchase agreements ("Beverage Base Purchase Agreements"), entered into between certain subsidiaries of the Company (collectively "Bottlers" and individually, "Bottler") and Coca-Cola (China) Beverages Ltd. ("Coca-Cola China") and Tianjin Jin-Mei Beverages Co., Ltd. ("Jinmei"), both indirect subsidiaries of The Coca-Cola Company, respectively, constituted continuing connected transactions of the Company under the Listing Rules. It is expected that the aggregate annual value of the concentrate and beverage base to be purchased by the Bottlers from Coca-Cola China and Jinmei for the years ending 31 December 2007 and 2008 would not exceed approximately RMB460.9 million and RMB564.4 million, respectively. Details of the Concentrate Purchase Agreements and Beverage Base Purchase Agreements and the transactions contemplated thereunder were disclosed in the October Announcement and October Circular.

15. In December 2006, the Beverage Base Purchase Agreements (as set out in 14 above) were renewed between Jinmei and various Bottlers. It is expected that the annual caps for the value of the beverage base to be purchased from Jinmei for the years ending 31 December 2007 and 2008 would not exceed RMB32.8 million and RMB37.4 million, respectively. Details of the Beverage Base Purchase Agreements and the transactions contemplated thereunder were disclosed in the Company's announcement dated 10 December 2006 ("December Announcement") and a circular dated 13 December 2006 ("December Circular").

16. Tianjin Shifa Group Co., Ltd. ("Tianjin Shifa") holds a 35% interest in Tianjin Coca-Cola Beverages Co., Ltd. ("Tianjin Coca-Cola"). Upon completion of the Reorganisation on 31 December 2006, Tianjin Coca-Cola became a deemed subsidiary of the Company, accordingly, Tianjin Shifa, as a substantial shareholder of Tianjin Coca-Cola, became a connected person of the Company. Given that Tianjin Shifa also holds a 40% interest in Tianjin Shifa Zi Jiang Packaging Co., Ltd. ("Zijiang"), Zijiang, as an associate of Tianjin Shifa, also became a connected person of the Company, and the transactions between Tianjin Coca-Cola and Zhijiang constitute continuing connected transactions of the Company for the purposes of the Listing Rules after completion of the Reorganisation.

    Tianjin Coca-Cola and Zijiang entered into a packaging materials purchase agreement ("Packing Material Purchase Agreement") in August 2001 and a supplementary agreement in August 2006. and a further supplementary agreement on 7 November 2006. It is expected that the annual transaction values of the packaging materials to be purchased by Tianjin Coca-Cola from Zijiang for the years ending 31 December 2007 and 2008 will not exceed RMB 123.2 million and RMB141.7 million, respectively. Details of the Packaging Materials Purchase Agreement and the transactions contemplated thereunder were disclosed in the Company's October Announcement, October Circular and December Announcement.

17. On 8 December 2006, COFCO Coca-Cola Beverages (China) Investment Limited ("COFCO Coca-Cola") entered into a tenancy agreement ("COFCO Coca-Cola Tenancy Agreement") with COFCO Plaza Company for lease of certain office space in COFCO Plaza in Beijing, pursuant to which, the annual rentals and management fees for the years ending 31 December 2007 and 2008 will not exceed RMB3.2 million and RMB3.2 million, respectively. After completion of the Reorganisation on 31 December 2006, the transactions under the COFCO Coca-Cola Tenancy Agreement constitute connected transactions of the Company. Details of the COFCO Coca-Cola Tenancy Agreement were disclosed in the December Announcement.

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

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

(a) In relation to items 1(i), 2, 3, 4(i) and (ii), 5, 6, and 7(ii) and (iii)

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

(b) In relation to item 1(i)

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

(c) In relation to item 2

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

(d) In relation to item 3

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

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

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

(f) In relation to item 5

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

Report of the Directors

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

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

Since after completion of the Spin-off on 21 March 2007, the Group is no longer engaged in flour milling business, no directors of the Company are considered to have interests in any business which is likely to compete directly or indirectly with that of the Group.

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

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

AUDITORS

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

ON BEHALF OF THE BOARD

Qu Zhe
Managing Director

Hong Kong
19 April 2007