



Brewing materials business

We primarily engage in the production of malt and the trading of malting barley. Our malt production facility in Dalian is the nation's largest single malt production facility and our malt products are well recognised by the premium beer breweries in the PRC. Our key customers include Tsingtao, Yanjing, Budweiser, San Miguel, Snow, Kirin, Blue Ribbon and Asahi etc.,. Despite domestic sales, we export a small portion of our products to Russia, South Korea, Vietnam and Hong Kong.

Revenue edged up slightly by 1.6% to HK\$878.8 million, attributed to an increase in sale of malt but offset by a markedly fall in the sale of malting barley. Sales volume of malt rose by 12.5% mainly due to the capacity expansion of our Dalian plant from 300,000 metric tons to 360,000 metric tons during the year. Since malt producers have started to procure their own brewing materials directly in recent year, the malting barley distribution market in the PRC declined accordingly.

	2006		2005		Change	
	Volume ton'000	Revenue HK\$'M	Volume ton'000	Revenue HK\$'M	Volume	Revenue
Malt	282.6	728.3	251.1	635.8	12.5%	14.5%
Malting barley	70.5	114.9	116.4	205.2	(39.4%)	(44.0%)
Other	45.8	35.6	40.3	24.1	13.6%	47.7%
Total		878.8		865.1		1.6%

Gross margin rose from 13.3% in 2005 to 18.0% in 2006 due to an upgrade of our production techniques and a fall in raw material costs. In a bid to capture the growth opportunity of malt demand spurred by the surge of beer consumptions, we are currently constructing a new malt production plant in Jiangyin, Jiangsu Province. The production facility will have two lines which have a production capacity of 120,000 and 200,000 metric tons, scheduling to commence production in the first half of 2007 and late 2008 respectively. Besides, we also plan to build a new malt production facility in Southern China and it is expected to add another 120,000 metric tons of annual malt capacity by late 2009. By strategically locating our production facilities in Northeast, Eastern and Southern China, we are able to better serve our customers in the key beer markets in the PRC.



Wheat processing business

We are one of the largest wheat processors in the PRC and we primarily engage in the processing and sale of a broad range of flour and noodles. Our flour are currently marketed under a number of brands, including "東大", "香雪" and "神象" etc.. Our nine majority-owned processing facilities are located in Yangtze River Delta, Northeastern, Northern and Central China regions, targeting to serve customers nationwide. Our major customers include Danone, Nabisco, Tingyi and Hualong, as well as hyper-markets and chain retailers like Carrefour, Wal-mart and Holiland etc..

Revenue rose by 6.1% year-on-year which was mainly driven by an increase in sales volume during the year.

	2006		2005		Change	
	Volume ton'000	Revenue HK\$'M	Volume ton'000	Revenue HK\$'M	Volume	Revenue
Flour	752.9	1,367.9	685.6	1,243.0	9.8%	10.0%
Noodles	36.6	80.0	33.2	73.0	10.2%	9.6%
Other	280.2	316.5	281.3	346.2	(0.4%)	(8.6%)
Total		1,764.4		1,662.2		6.1%

During the year, we received an amount of HK\$56.6 million of government compensation for the relocation of our two wheat processing plants as required by the new zoning plan of the city. The compensation was recorded as other income and gains.

The flour industry in the PRC is large but fragmented. It has been in the process of consolidation for several years due to excess capacity. The total number of wheat processors has reduced significantly while the total number and market share of large wheat processors have increased. To enhance our competitiveness and yield better margins, we are adjusting our product mix and strengthening our marketing endeavors. We have formed strategic partnerships with Hakubaku to produce high-end noodle products, and with Toyota Tsusho individually to supply top-quality frozen dough and bakery products. In addition, we also consider launching a range of high-quality semi-dried and non-dried noodle products which yield higher margins.

As part of our endeavors to enhance our brand prominence, we are in the process of unifying our product brands and tend to distribute most of our products under "香雪" brand in the future. We have also divided the entire country into five regions, namely Northeastern region, Beijing-Tianjin-Tangshan region, Central region, Yangtze River Delta region and Pearl River Delta region and a sales team is designated in each region for product marketing and distribution.

As disclosed in the section headed "Business" of the Prospectus, we also plan to grow our business through capacity expansion and we plan to add an additional of 360,000, 30,000 and 3,000 metric tons of wheat processing capacity, noodles production capacity and bakery products production capacity by 2008 respectively. We are currently in the process of acquiring a 150,000 metric tons wheat processing facility in Luohe of Henan Province, in which we expect it will start its operations in 2007.

LIQUIDITY AND FINANCIAL RESOURCES

The equity attributable to equity holders of the Company as at 31 December 2006 were HK\$5,969 million, a 200% increase from HK\$1,992 million for the financial year of 2005. The increase in the balance was attributed to the inclusion of biofuel and biochemical business, strong operating performance and the capitalisation of an amount of HK\$2,103 million interest-free shareholders' loans during the year.

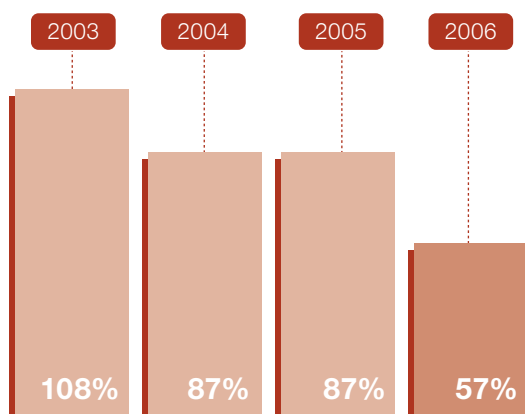
In terms of available financial resources as at 31 December 2006, the Group had total available cash and bank deposits (including pledged deposits) of HK\$1,301 million. Out of the Group's total borrowings of HK\$5,368 million as at 31 December 2006, HK\$3,303 million (approximately 62%) was repayable within one year, HK\$598 million (approximately 11%) was repayable within two years and HK\$1,467 million (approximately 27%) was repayable within three to five years. As at 31 December 2006, the Group's pledged assets with aggregate carrying value of HK\$1,206 million (2005: HK\$1,125 million) to secure bank loans and facilities of the Group.

The Group is planning to centralise funding for all its operations at the Group level where foreign exchange exposure will be reviewed and monitored. The policy also achieves better control of treasury operations and lower average cost of funds. As the Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi and United States dollars, the management believes that the Group's exposure to exchange rate fluctuations is minimal.

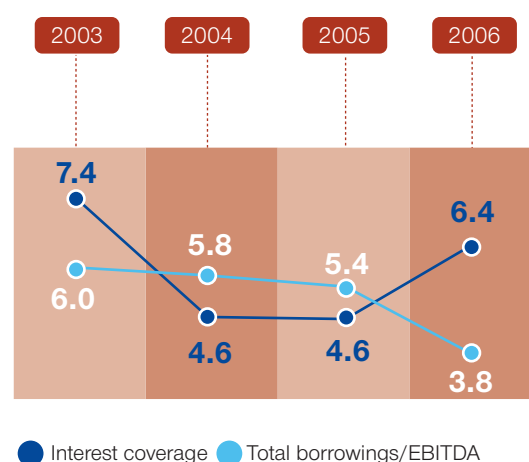
The Group uses derivative financial instruments such as commodity futures contracts to hedge its risks associated with price fluctuations in future purchases or sales of the related commodities. It is the policy of the Group not to engage in speculative activities.

As at 31 December 2006, the net gearing ratio for the group was 57%, based on net debt of HK\$4,067 million and shareholders' equity of HK\$7,089 million. The Group serves its debts primarily with recurring cash flow generated from its stable operation. Together with the proceeds raised in connection with the Company's initial public offering in late March 2007, the board of directors of the Company (the "Board") is confident that the Group has adequate financial resources to support its working capital requirement, future expansion and meet its future debt repayment requirements.

NET GEARING RATIO



INTEREST COVERAGE AND TOTAL BORROWINGS / EBITDA RATIO



NET CURRENT LIABILITIES

With improved capital structure and operating cash flow, the Group's net current liabilities of HK\$992 million for the financial year of 2005 had turned into a net current asset of HK\$1,595 million as at 31 December 2006.

CAPITAL COMMITMENTS AND CONTINGENCIES

Up to 31 December 2006, the future capital expenditure for which the Group had contracted but unprovided for and authorised but not yet contracted amounted to approximately HK\$1,205 million.

As at 31 December 2006, other than an amount of HK\$1,173 million of commitments under futures contracts for the sales of soybean and soybean meal, the Group had no other material commitments and contingent liabilities.

HUMAN RESOURCES

As at 31 December 2006, excluding its associates, the Group employed approximately 10,900 people in Mainland China and Hong Kong. The Group's employees are remunerated according to the nature of job, individual performance and market trends with built-in merit components. Employees in Hong Kong receive retirement benefits, mostly in the form of a Mandatory Provident Fund entitlement, and similar scheme is offered to employees in Mainland China. Details concerning employee benefit scheme are set out in note 2.4 of the financial statements under the sub-heading of "Employee Benefits" on page 92 of this annual report.





