2007 ANNUAL REPORT

中粮 COFCO
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CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 506)

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Ning Gaoning *(Chairman)*

Mr. Qu Zhe *(Managing Director)*

Mr. Mak Chi Wing, William

Mr. Ma Jianping *(re-designated as Non-executive Director on 1 March 2008)*

Ms. Luan Xiuju

Mr. Zhang Zhentao

Non-executive Director

Ms. Wu Wenting

Independent Non-executive Directors

Mr. Stephen Edward Clark

Mr. Tan Man Kou

Mr. Yuen Tin Fan, Francis

AUDIT COMMITTEE

Mr. Tan Man Kou *(Committee Chairman)*

Mr. Stephen Edward Clark

Mr. Yuen Tin Fan, Francis

REMUNERATION COMMITTEE

Mr. Yuen Tin Fan, Francis *(Committee Chairman)*

Mr. Stephen Edward Clark

Mr. Qu Zhe

COMPANY SECRETARY

Ms. Liu Kit Yee, Linda

SOLICITORS

Herbert Smith

Conyers, Dill & Pearman

Corporate Information

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Company Limited
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE

33rd Floor
Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Progressive Limited
26/F Tesbury Tower
28 Queen's Road East
Hong Kong

Financial Calendar

ANNOUNCEMENT OF ANNUAL RESULTS

Tuesday, 15 April 2008

CLOSURE OF REGISTER OF MEMBERS

Wednesday, 14 May 2008 to Monday, 19 May 2008 (both days inclusive)

ANNUAL GENERAL MEETING

Monday, 19 May 2008

DIVIDENDS

Interim Dividend: NIL

Proposed Final Dividend: 4.5 HK cents per share

Payable: Wednesday, 11 June 2008

Business Structure

China Foods Limited

Wines

- 100% China Great Wall Wine Co., Ltd.
- 100% COFCO Greatwall Winery (Yantai) Co., Ltd.
- 100% COFCO Huaxia Great Wall Wine Co., Ltd.
- 100% COFCO Wines and Spirits Co., Ltd.
- 100% COFCO Shaoxing Winery Co., Ltd.
- 100% Yantai Greatwall Wines and Spirits Co., Ltd.
- 100% Qinhuangdao Huaxia Greatwall Wines and Spirits Co., Ltd.
- 80% COFCO Huaxiahong Wines and Spirits (Shenzhen) Co., Ltd.
- 55% COFCO Navavalley Junding Vineyard Co., Ltd.

Confectionery

- 100% COFCO Le Conte Food (Shenzhen) Co., Ltd.
- 90% Shenzhen Le Conte Marketing Services Co., Ltd.

Consumer-pack edible oil

- 100% COFCO Foods Sales and Distribution Co., Ltd.

Beverages

- 65% COFCO Coca-Cola Beverages Limited
  - 100% COFCO Coca-Cola Beverages (Jiangxi) Limited
  - 100% Zhanjiang COFCO Coca-Cola Beverages Limited
  - 80% COFCO Coca-Cola Beverages (Xinjiang) Limited
  - 75% Qingdao Coca-Cola Beverage Co., Ltd.
  - 100% Hunan COFCO Coca-Cola Beverage Co., Ltd.
  - 100% Gansu COFCO Coca-Cola Beverages Co., Ltd.
  - 80% COFCO Coca-Cola Commerce & Trade (Xinjiang) Limited
  - 50% Tianjin Coca-Cola Beverages Co., Ltd.
  - 100% COFCO Coca-Cola Beverages (China) Investment Limited
  - 100% Hainan COFCO Coca-Cola Beverages Limited
  - 75% Jinan Coca-Cola Beverage Co., Ltd.

"Greatwall" is one of the three major brands of dry wine in China.

Chairman's Statement

Ning Gaoning
Chairman

I hereby present the annual results of China Foods Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2007.

RESULTS

Following completion of the spin-off of China Agri-Industries Holdings Limited ("China Agri Holdings") on 21 March 2007, the Group focuses its activities on branded food and beverages, and currently operates four principal businesses being wine, beverages, consumer-pack edible oil and confectionery.

On the basis that the spin-off was completed on 1 January 2006, the consolidated turnover of the continuing businesses of the Group (the "Pro Forma Group") for the year ended 31 December 2007 amounted to HK$9,743 million, representing an increase of 49.7% over the same period of last year. The profit attributable to the shareholders of the Pro Forma Group was HK$618 million (excluding the expenses for the stamp duty in connection with the spin-off). Core earnings of the Pro Forma Group attributable to equity holders of the company, after deducting the net impact of (i) the gain on disposal of equity interests in certain Coca-Cola bottlers amounting to HK$395 million and (ii) sharing of this gain on disposal with minority interests in the Coca-Cola bottlers amounting to HK$138 million, were HK$361 million or 5.5% more than those in the previous year. Basic earnings per share based on Core Earnings of the Pro Forma Group were 12.9 HK cents, unchanged from those in the previous year.

DIVIDEND

On 21 March 2007 the Company distributed a special interim dividend by way of distribution in specie, namely, by transferring approximately one China Agri Holdings share for every one share held by qualifying shareholders of the Company. The directors recommended the payment of final dividend for the year ended 31 December 2007 of 4.5 HK cents per share. The total dividend for 2006 was 4.5 HK cents. Subject to approval at the annual general meeting to be held on 19 May 2008, the proposed final dividend will be distributed on 11 June 2008 to shareholders whose names appear on the shareholders' register of the Company on 19 May 2008.

BUSINESS REVIEW AND PROSPECTS

The Group focuses on branded foods and beverages and aims to achieve long-term sustainable growth for shareholders, employees and suppliers through offering our consumers high-quality, healthy and nutritious products. Continuous investments will be required in our brands and our distribution network in the coming years to further strengthen our market position. During the past year, we continued our brand building initiative in developing "Greatwall" and "長城" through Olympics-related marketing activities, introducing new innovative products, and improving our existing product mix. The integration of the distributors of the three wine production operation bases was substantially completed, and a new sales and marketing platform with more control over distribution channels was established in Beijing. This platform will be the model for other regional sales operations in China. For consumer-pack edible oil business, we launched a new design for the "福臨門"brand, which has improved the brand image. We improved our product mix by increasing the sales of higher gross profit margin products, and introduced new products, such as kitchen seasonings which is a step forward for brand extension. We are working to improve the positioning of the "金帝" and "Le Conte" brands, with an aim to better align this national brand with the underlying consumption trend.

In 2007, the wine business developed well with growth in sales volume and increase in profit margin. With increasing competition from international players, management is re-examining the business strategy for more breakthroughs and innovations. Our direction is to transform our wine business into one covering an international selection of alcoholic beverages to capitalise the enormous potential of the beverage market in China. Notwithstanding intense cost pressure, encountered by the consumer-pack oil business, its sales volume regained its growing trend with improvements in brand and channel management. The performance of the confectionery business has not been satisfactory, and management is taking active measures to improve its performance.

As part of our commitment to long-term sustainable growth, during the year, we formulated, and are in the process of implementing, plans to improve our overall corporate governance practices which, among others, include setting a proper ethical tone for the Group.

Last but not least, I would like to express my gratitude on behalf of the board of directors to each of the shareholders for their support and trust on the management team. I would also like to thank each member of our staff for their fulfilment of responsibilities and their unfailing efforts to push forward the business of the Group together.

Ning Gaoning
Chairman

Hong Kong, 15 April 2008

Management Discussion and Analysis

Qu Zhe
Managing Director

Following completion of the spin-off of China Agri-Industries Holdings Limited ("CAIH") on 21 March 2007 (the "Spin-off"), the Group focuses its activities on branded food and beverages, and currently operates four principal businesses being wine, beverages, consumer-pack edible oil and confectionery.

During the year under review, the consolidated turnover of the Group which includes the results of CAIH up to the date of the Spin-off was HK$14,337 million compared with HK$26,012 million in the previous year; profit attributable to shareholders totalled HK$792 million, 20% lower than that in the previous year; basic earnings per share were 28.36 HK cents, a decrease of 8.92 HK cents compared with 37.28 HK cents per share in the previous year.

The performance of CAIH during the year under review is given in the annual report of CAIH.

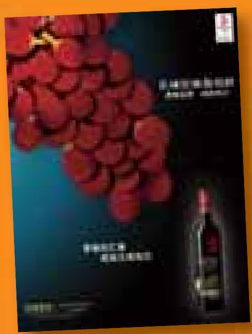
On the basis that the Spin-off was completed on 1 January 2006, during the year under review, the consolidated turnover of the continuing businesses of the Group (the "Pro Forma Group") was HK$9,743 million, representing an increase of 49.7% over the previous year; profit attributable to shareholders of the Pro Forma Group amounted to HK$618 million (excluding the expenses for stamp duty in connection with the Spin-off). Core earnings of the Pro Forma Group attributable to equity holders of the Company, after deducting the net impact of (i) gain on disposal of equity interests in certain Coca-Cola bottlers amounting to HK$395 million and (ii) sharing this gain on disposal with minority interests in the Coca-Cola bottlers amounting to HK$138 million, were HK$361 million ("Core Earnings") or 5.5% more than those in the previous year; basic earnings per share based on Core Earnings of the Pro Forma Group were 12.9 HK cents, unchanged from those in the previous year.

The performance of the Pro Forma Group during the year under review is set out below.

WINE BUSINESS

The Group's wine business is engaged principally in the production, marketing and sale of wines under the "Greatwall" and "長城" brands in China. It is a vertically integrated business extending from the management of vineyards, wine-making, sales and marketing to brand management and development. During the year, the sales volume of "Greatwall" wines increased by 9.2% from 86,100 tonnes in 2006 to 94,019 tonnes in 2007. The turnover of the business was HK$2,140 million, representing an increase of 18.7% over the previous year. Operating profit was HK$445 million, representing an increase of 38.4% over the previous year.

After two years of consolidation of operations, the wine business developed well during 2007. The product mix of "Greatwall" wines was improved with the newly launched Huaxia Vineyard Small Cru and Star and Coast series of the "Greatwall" brand with revenue growth of over 40%. As the exclusive supplier of wines for the Beijing 2008 Olympics, we launched our Olympic Edition wines, Olympic concept advertisements and the "Greatwall" wines Olympic website in 2007. These Olympics-related



marketing activities are designed to increase brand awareness of "Greatwall" wines. During the period, the integration of the distributors of the three wine production operation bases was substantially completed and a new sales and marketing platform was established in Beijing. This platform comprises a sales team of more than 80 members following a uniform sales strategy across its market and providing more comprehensive and effective contact with its end customers. The Beijing sales operation is planned to be the model for other regional sales operations. As a result of the enhancement of the product mix and the rise in product prices, the gross profit margin of the wine business increased from 48.1% in 2006 to 52.5% in 2007.

Notwithstanding the market leadership of "Greatwall" wines in the PRC, we have continued to implement marketing and sales strategies to increase our competitiveness. In the coming years, we intend to concentrate on product innovation and increasing market awareness and acceptance of the "Greatwall" brand. In addition, we will seek to expand the operation through acquisition or joint venture if suitable opportunities present themselves. We will develop multiple sales and distribution channels. In addition to the development of our mainstream distribution network serving principally shopping malls and supermarkets, we will also increase sales to specialty chain stores offering quality wines to high-end consumers, in order to capitalise on the strong growth in the wine market and the increase in consumption.

Shaoxing wine business achieved satisfactory results since it became wholly-owned by the Group. During the year under review, the revenue from Shaoxing wine amounted to HK$31.96 million, which is nearly double the revenue for the previous year. In 2007, we launched two types of low-alcohol rice wines, and attracted some 70 new distributors, making a total of 120 distributors which cover markets across the country. We will continue to strengthen the sales and brand building of Shaoxing wine to accelerate the growth of this business segment.

BEVERAGES BUSINESS

The Group's Coca-Cola beverages bottling group is one of the three principal bottling groups producing Coca-Cola beverages in the PRC. It currently operates seven bottlers and holds minority interests in a further seven bottlers. The seven bottlers of the Group are engaged in production and bottling and sale and distribution of Coca-Cola beverages, including sparkling beverages and still beverages such as fruit juices, water and tea in twelve provinces and three other cities in the PRC under franchise agreements with The Coca-Cola Company.

During the year, the consolidated turnover of the business was HK$3,007 million, representing an increase of 23.7% over the previous year. The operating profit was HK$147 million, representing a decrease of 8.1% from the previous year. All the bottlers of the Group reported a significant increase in operating profit, except for one bottler sold during the year which recorded a decline in sales.

Management Discussion and Analysis

In October 2007, we completed the first phase of a share sale and purchase with the bottling group of The Coca-Cola Company, by disposing of our 100% interest in a bottler in Jilin Province and minority interests in bottlers in Harbin, Taiyuan, Chengdu, Kunming and Wuhan, and acquiring the majority interests in bottlers in Qingdao and Jinan. Shandong Province, the franchised market of the bottlers in Qingdao and Jinan, ranks among the top 10 provinces in China in terms of per capita GDP, but the per capita consumption of Coca-Cola beverages in the province is currently significantly lower than that for the country as a whole. We believe the acquisition will have positive impact for the future development of our beverages business.

In addition, in 2007 we established a new bottling plant in each of Jiangxi and Xinjiang, which are expected to complete construction and commence production in the second half of 2008. These two bottling plants will enable our bottling group to meet the demand in, and service, their respective markets more effectively.

On 21 February 2008, we completed acquisition of a 21% interest in Coca-Cola Bottlers Manufacturing Holdings Limited, which enabled us to acquire a stake in the business of production and supply of Coca-Cola still beverages in China.

In the next few years, the beverages business will endeavour to maintain its leading position in the sparkling beverages market while developing still beverages including fruit juices and tea and increase its share in the fast-growing still beverages market by introducing a new tea beverage under the "Original Leaf" brand and 100% juice beverage "Minute Maid" to the market. We expect that our beverages business will continue its strong growth trend.

CONSUMER-PACK EDIBLE OIL BUSINESS

The consumer-pack edible oil business is engaged principally in the distribution and sale of consumer-pack edible oil in the PRC under the "福臨門" and "Fortune" brands. During the year under review, the sales volume of the consumer-pack edible oil business was 430,000 tonnes, an increase of 58% over the previous year and the revenue was HK$4,160 million, an increase of 124% over the previous year. The comparative figure in the previous year excluded the sales volume of 149,000 tonnes and the revenue of HK$990 million of the consumer-pack edible oil business of an associate of CAIH because the Group only took over the consumer-pack edible oil business of this associate at the beginning of the year. If the sales volume and the revenue of this associate of CAIH were to have been accounted by the Group in the previous year, the sales volume would have increased by 2% and the revenue would have increased by 46% over the previous year. Due to significant increase in raw material costs which we were unable to pass on fully to end consumers, the consumer-pack edible oil business recorded loss during the year.

In 2007, in response to the pressure from rising costs, the consumer-pack edible oil business reduced the sales of products with lower gross profit margins while increasing the sales of higher gross profit margin products, with the result that sales volumes of medium and high end

products increased by 19%. Meanwhile, we enhanced our supply chain and lowered our costs by using new third party edible oil suppliers in Fujian and Sichuan provinces. In 2008, we plan to work with new third party edible oil suppliers in the northeastern region. A new design for the "福臨門" brand was launched in July 2007, which has improved the brand image and made it sharper and more lively. We made great efforts in the expansion of our sales network and the number of end sales points has reached some 5,000 and we expect the number will exceed 10,000 by the end of this year.

In 2008, the consumer-pack edible oil business still faces difficult trading conditions in the light of sharply higher oil prices and the imposition of temporary price controls. In order to mitigate these unfavourable factors, we are working to further develop our supply chain, lower costs, enhance brand awareness and improve product mix and strengthen end sales point services and management.

CONFECTIONERY BUSINESS

The Group produces and distributes chocolates and confectionery products in China under the "Le Conte" and "金帝" brands. During the year under review, the turnover of this business amounted to HK$437 million, representing an increase of 3.9% over the previous year and accounted for 4.5% of the consolidated turnover of the Pro Forma Group. Due to the intensified market competition and the increase in distribution expenses, this business recorded loss during the year.

Although the confectionery business represents a relatively small segment in the Group and, its performance has not been satisfactory, we are working to improve marketing and distribution and new brand positioning to address the intensified competition in this market.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group's equity attributable to equity holders of the Company stood at HK$4,559 million, representing an increase of 17.6% compared with that of the Pro Forma Group as at 31 December 2006. As at 31 December 2007, the Group's cash and bank deposits totalled approximately HK$1,400 million (31 December 2006: approximately HK$1,310 million (the Pro Forma Group)), and the Group's net current assets were approximately HK$1,760 million (31 December 2006: approximately HK$1,640 million (the Pro Forma Group)).

Based on the above and the current bank and other borrowings and banking facilities available to the Group, the management believes that the Group's financial resources are sufficient for all debt payments, day-to-day operations and capital expenditures.

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United States dollars. The management is of the view that the appreciation of Renminbi will have positive effect on the Group and the exchange rate exposure of the Group is limited.

CAPITAL STRUCTURE

During the year under review, there were no changes to the share capital of the Company. As at 31 December 2007, the total number of issued shares of the Company was 2,791,383,356 shares.

As at 31 December 2007, the Group had no significant borrowings apart from certain bank loans and loans from a fellow subsidiary totaling HK$392 million (31 December 2006: HK$596 million (the Pro Forma Group)). During the year under review, all the Group's bank borrowings carried annual interest rates ranging between 3.00% and 6.48% (31 December 2006: between 3.00% and 7.01% (the Pro Forma Group)), while other borrowings carried annual interest rates ranging from 5.02% to 5.83% (31 December 2006: from 4.86% to 6.30% (the Pro Forma Group)).

As at 31 December 2007, net assets attributable to equity holders of the Company were HK$4,559 million (31 December 2006: HK$3,876 million (the Pro Forma Group)) and net cash of the Group (cash and bank deposits less interest-bearing bank and other borrowings) was HK$1,005 million (31 December 2006: HK$712 million (the Pro Forma Group)).

Management Discussion and Analysis

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 31 December 2007, the Group had no material contingent liabilities.

As at 31 December 2007, certain bank loans of the Group were secured by charges over certain fixed deposits, fixed assets and investment properties with net book value of approximately HK$104 million (31 December 2006: HK$148 million (the Pro Forma Group)).

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2007, the Group employed approximately 11,000 staff in mainland China and Hong Kong (31 December 2006: 8,145 (the Pro Forma Group). Employees are paid according to their performance, experience and prevailing trade practices, and are provided with on-the-job and professional training. Employees in Hong Kong receive retirement benefits, either under a Mandatory Provident Fund exempted ORSO scheme or under the Mandatory Provident Fund scheme. There is a similar scheme for employees in mainland China. Details of these retirement benefit schemes are set out in note 3.4 to the financial statements headed "Summary of Significant Accounting Policies" under sub-heading "Employee Benefits" in this annual report.

The Company has adopted a share option scheme to reward eligible employees of the Group (including executive directors and non-executive directors of the Company) according to individual merits. The share option scheme adopted on 23 June 1997 (the "Old Scheme") expired on 22 June 2007 and all share options granted under the Old Scheme had been exercised, lapsed or forfeited in 2006. On 21 November 2006, the Company adopted a new share option scheme (the "New Scheme") for a term of ten years.

During the year under review, pursuant to the terms of the New Scheme, the Company granted a total of 20,618,800 options to executive directors and non-executive directors of the Company and other eligible employees of the Group, of which 141,200 were forfeited during the year under review. Accordingly, as at 31 December 2007, the number of outstanding options was 20,477,600. The options granted under the New Scheme are effective for seven years, exercisable in five years after 24 months from the date on which they are granted subject to the satisfaction of certain requirements under the New Scheme.

Details of the New Scheme are set out in note 34 to the financial statements headed "Share Option Scheme" in this annual report.

CHANGE IN THE STRUCTURE OF THE GROUP

During the year under review, on 21 March 2007 the Company completed the spin-off of its wholly-owned subsidiary CAIH. CAIH listed its shares on the main board of the Stock Exchange of Hong Kong Limited on the same day. Details of the Spin-off were disclosed in the 2006 annual report of the Company.

During the year, COFCO Coca-Cola Beverages Limited ("CBL"), a subsidiary of the Company, established a wholly-owned company COFCO Coca-Cola Beverages (Jiangxi) Limited ("COFCO Cola-Cola Jiangxi") in Nanchang, Jiangxi province, PRC, and set up a joint venture company, COFCO Coca-Cola Beverages (Xinjiang) Limited ("COFCO Coca-Cola Xinjiang"), with Xinjiang Friendship Group Co., Ltd., a third party to the Group, in Urumqi, Xinjiang Uygur Autonomous Region, with CBL holding an 80% equity interest in the joint venture. COFCO Coca-Cola Jiangxi and COFCO Coca-Cola Xinjiang are to be engaged in the production and bottling and sale and distribution of Coca-Cola beverages under franchise from The Coca-Cola Company.

On 6 August 2007, the Company announced that CBL and Coca-Cola China Industries Limited ("CCCI"), entered into a share transfer master agreement (the "Share Transfer Master Agreement"), under which the share transfer all be completed in two phases. The first phase of the share transfer involves CBL's disposal to CCCI of all of its equity interests in Chengdu Coca-Cola Beverage Company Limited, Harbin Coca-Cola Beverage Company Limited, Kunming Coca-Cola Beverage Company Limited, Taiyuan Coca-Cola Beverage Company Limited, Wuhan Coca-Cola Beverage Company Limited and Jilin COFCO Coca-Cola Beverages Limited and acquisition from CCCI of 60% equity interests in each of Qingdao Coca-Cola Beverage Company Limited and Jinan Coca-Cola Beverage Company Limited. The first phase of the share transfer was completed on

26 October 2007. Currently the Company through CBL holds 75% equity interests in each of Qingdao Coca-Cola Beverage Company Limited and Jinan Coca-Cola Beverage Company Limited. The second phase of the share transfer involves CBL's acquisition from CCCI of a 40% equity interest in Beijing Coca-Cola Beverage Company Limited, which shall be completed no later than 10 January 2009 or such other date or dates as may be agreed by the parties. Details of the Share Transfer Master Agreement are set out in a circular dispatched to shareholders on 27 August 2007.

On 31 January 2008, the Company announced that COFCO Beverages (CCBMH) Limited ("CBL (CCBMH)"), a subsidiary of the Company, entered into a sale and purchase agreement with Coca-Cola South Asia Holdings, Inc. ("CCSAH"), a wholly-owned subsidiary of TCCC, pursuant to which CBL (CCBMH) acquired from CCSAH 21% shares in Coca-Cola Bottlers Manufacturing Holdings Limited ("CCBMH") (the "Share Sale and Purchase Agreement"). The acquisition was completed on 21 February 2008. Currently the Company through CBL (CCBMH) holds 21% shares in CCBMH, which invests in the production of Coca-Cola still beverages in the PRC. Details of the Share Sale and Purchase Agreement are set out in a circular dispatched to shareholders on 21 February 2008.

CORPORATE GOVERNANCE

During the year under review, we reviewed the corporate governance practice of the Group in accordance with the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by reference to the best practice in the market and set out plans for improvement in the corporate governance of the Group, and a deputy general manager will be in charge of the implementation of the plans.

We arranged appropriate directors and officers liability insurance cover for the directors and senior officers of the Group. In compliance with the requirements for the electronic disclosure program under the Listing Rules, we established our corporate website (www.chinafoodsltd.com) in September 2007, which enables us to disseminate information in a timely manner and investors to have ready access to information regarding the Group.

We also organized or participated in a series of activities to communicate with institutional shareholders and potential investors. Details regarding the Company's work in corporate governance during the year are disclosed in the corporate governance report on page 14 to page 21 of this annual report.

PROSPECTS

With a strong underlying economy, China's domestic consumer market will continue to realise its enormous growth potential in the coming decades. While it is anticipated that consumers' tastes and preferences will evolve over time, it is also expected that a continuing quest for higher quality, healthier and more nutritious food and beverage products will result at the same time. The Company is strategically positioning itself to fully capture the potential of this long-term growth trend.

Qu Zhe
Managing Director

Hong Kong
15 April 2008

Corporate Governance Report

INTRODUCTION

The board of directors of the Company (the "Board") firmly believes that a good and solid corporate governance framework is essential to the healthy and sustainable growth of the Company and ultimately the enhancement of long-term shareholders' value. The Board will strive to adhere to the principles of corporate governance and adopt sound corporate governance practices in line with the legal and commercial standards, focusing on areas such as internal control, accountability to shareholders, open communication and fair disclosure.

In the view of the Board, the Company complied with the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31 December 2007, except for the deviation from code provision E.1.2 of the Code which is explained below on page 21.

SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listing Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Upon specific enquiries of all directors, each of them confirmed that they complied with the required standards set out in the Model Code throughout the year ended 31 December 2007.

The Company has also adopted a code for securities transactions by relevant employees (the "RE Code") based on the Model Code concerning dealings by relevant employees in the securities of the Company. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are subject to compliance with the RE Code in respect of their dealings in the securities of the Company. The terms of the RE Code are no less exacting than the required standard set out in the Model Code. No non-compliance reports were received from any such employees during 2007.

THE BOARD

The Board is responsible for the leadership and control of the Company and overseeing the Group's business, strategic decisions and performances. The Board assumes responsibility for strategy formulation, corporate governance and performance monitoring and has delegated to management the authority and responsibility to manage the business of the Group.

The major responsibilities of the Board include:

- reviewing and approving operational strategies and plans of the Group;
- setting and monitoring key business and financial objectives of the Group;
- monitoring the performance of the management;
- reviewing and approving policies for major activities, such as major acquisitions, investments, divestments, disposal of assets or any significant capital expenditure of the Group;
- ensuring a sound and effective internal control system; and
- reviewing and approving sound corporate governance policies, including setting an ethical tone for the Group.

The Board has also delegated various responsibilities to the Board committees including the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee"). Further details of these committees are set out below on pages 17 to 19.

THE BOARD (Continued)

The information on the number of full Board meetings and committee meetings attended by each director during the year under review is set out in the following table. Figures in brackets indicate maximum number of meetings held during the year when the individual was a Board member or Board committee member (as the case may be).

Executive Directors	Board Meeting	Audit Committee Meetings	Remuneration Committee Meeting
Ning Gaoning *(chairman)*	1/(4)	N/A	N/A
Qu Zhe *(managing director)* #	4/(4)	N/A	1/(1)
Mak Chi Wing, William	4/(4)	3(3) §	N/A
Ma Jianping *Notes 1 & 2*	4/(4)	N/A	N/A
Luan Xiuju *Note 1*	3/(4)	N/A	N/A
Zhang Zhentao *Note 1*	4/(4)	N/A	N/A
Non-executive Director			
Wu Wenting *Note 1*	3/(4)	N/A	N/A
Independent Non-executive Directors			
Stephen Edward Clark *#	2/(4)	3/(3)	1/(1)
Tan Man Kou *	4/(4)	3/(3)	N/A
Yuen Tin Fan, Francis *#	2/(4)	3/(3)	1/(1)

Notes:

1. Appointed on 21 March 2007
2. Re-designated as non-executive director on 1 March 2008

§ in attendance at the meeting

* a member of the Audit Committee

a member of the Remuneration Committee

The Company adopts the practice of holding regular Board meetings at least four times a year. Notices for regular meetings are sent to directors at least fourteen days prior to a regular Board meeting, and directors may request inclusion of matters in the agenda for Board meetings. For ad hoc meetings, reasonable notices are given.

Minutes of the Board and Board committees have recorded in sufficient detail the matters considered by the Board and Board committees, decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of the Board and/or Board committees (as the case may be) are sent to directors for their comment and records respectively. Some Board decisions are made via written resolutions authorized by all directors.

All Board members have access to the advice and services of the company secretary. Minutes books are kept by the company secretary and are open for inspection during office hours on reasonable notice by any director. If necessary, directors also have access to external professional advice at the Company's expense.

During the year, the Company arranged appropriate insurance for directors and officers of the Group.

RESPONSIBILITIES OF DIRECTORS

The Company ensures that every newly appointed director has a proper understanding of the operations and business of the Group and that he or she is fully aware of his/her responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. The Company sponsors directors to attend professional development seminars where necessary.

While the Board retains at all times full responsibility for leading and monitoring the Company, certain responsibilities of the Board are defined and delegated as follows:-

The chairman of the Board is Mr. Ning Gaoning, and the chief executive officer (or managing director, in the case of the Company) is Mr. Qu Zhe. The chairman's and the managing director's roles are clearly defined to ensure their independence.

The chairman takes lead in formulating overall strategies and policies of the Company, and ensures effective performance by the Board of its functions, including compliance with good corporate governance practices, and encourages and facilitates active contribution of directors in Board activities and constructive relations between executive and non-executive directors. The chairman also ensures effective communication with shareholders of the Company and receipt by the directors of adequate and complete information.

The managing director, supported by other Board members and the senior management, is responsible for managing the day-to-day business of the Company. He is accountable to the Board for the implementation of the Company's overall strategies as well as coordination of overall business operations.

Besides the chairman of the Board and the managing director, currently the Board comprises three other executive directors, with each of them being delegated individual responsibility for overseeing and monitoring the operations of specific business units, and implementing strategies and policies set by the Board.

The Board currently comprises three independent non-executive directors who bring strong independent judgement, knowledge and experience to the Board's deliberations. The independent non-executive directors take an active role in Board meetings and make independent judgement on issues relating to material transactions. They will take lead where potential conflicts of interest arise. They are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company.

The Board also comprises two non-executive directors with one of them bringing accounting and internal audit knowledge and experience and the other bringing corporate finance and management experience to the Board.

BOARD COMPOSITION

Throughout the year, the Board comprised six executive directors, namely, Mr. Ning Gaoning, Mr. Qu Zhe, Mr. Mak Chi Wing, William, Mr. Ma Jianping, Ms. Luan Xiuju and Mr. Zhang Zhentao; one non-executive director, namely, Ms. Wu Wenting and three independent non-executive directors, namely, Messrs. Stephen Edward Clark, Tan Man Kou and Yuen Tin Fan, Francis. Mr. Ma Jianping was re-designated as a non-executive director on 1 March 2008.

The Board members have no financial, business, family or other material or relevant relationships with each other. The biographies of the directors are set out on pages 22 to 24 of this annual report under Directors and Senior Management Profile, which demonstrates a diversity of skills, expertise, experience and qualifications among the directors.

BOARD COMPOSITION (Continued)

The Company has received annual confirmations of independence from the three independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive directors are independent within the definition of the Listing Rules.

APPOINTMENT, RE-ELECTION AND REMOVAL

During the year, formal appointment letters were signed with non-executive directors of the Company. According to the appointment letters, the non-executive directors will be appointed for a period of three years from the date of his/her appointment, subject to re-election.

Pursuant to the Company's Bye-laws, each director (including those appointed for specific terms) shall be subject to retirement by rotation at least every three years (i.e. the term of appointment of each director is effectively three years) and each director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after his/her appointment.

Pursuant to Bye-law 111(A) of the Company's Bye-laws, Messrs. Ning Gaoning, Stephen Edward Clark and Tan Man Kou having been in office for three years since their last re-election, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting to be held on 19 May 2008 ("2008 AGM").

The Company does not have a nomination committee. The Board as a whole is responsible for the procedure of nominating appropriate persons and appointing its members, either to fill a casual vacancy or as an addition to the Board.

The circular for the 2008 AGM contains detailed information on re-election of directors including biographies of all directors standing for re-election to ensure that shareholders make informed decisions.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in April 2005 with specific written terms of reference which set out its authority and duties in accordance with the requirements of the Code. The terms of reference of the Remuneration Committee are published in the Company's website www.chinafoodsltd.com.

The Remuneration Committee is currently composed of two independent non-executive directors, namely, Mr. Stephen Edward Clark and Mr. Yuen Tin Fan, Francis and one executive director, namely Mr. Qu Zhe. Mr. Yuen acts as chairman of the Remuneration Committee.

The role of the Remuneration Committee is to review and make recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management.

The Remuneration Committee may consult with the chairman and managing director of the Company regarding proposals for the remuneration of other executive directors. Where necessary, the Remuneration Committee may have access to external professional services at the Company's expenses.

REMUNERATION COMMITTEE (Continued)

During the year, the Remuneration Committee met once and passed written resolutions on the following matters:

- the remuneration policy and appraisal system of the Company;
- the remuneration packages of all executive directors and senior management for the year 2006;
- recommendations to the Board on director's fees for the year 2006 for its approval;
- the remuneration packages of all executive directors and senior management for the year 2007;
- recommendations to the Board on the remuneration of non-executive directors (other than the independent non-executive directors) for its approval; and
- grant of share options to eligible persons under the Company's share options scheme adopted in November 2006.

AUDIT COMMITTEE

The Company established the Audit Committee in 1999 with specific written terms of reference which set out its authorities and duties in accordance with the requirements of the Code. The terms of reference of the Audit Committee are published in the Company's website www.chinafoodsltd.com.

The Audit Committee is composed of three independent non-executive directors, namely, Mr. Stephen Edward Clark, Mr. Tan Man Kou and Mr. Yuen Tin Fan, Francis. All of them have extensive experience in accounting, financial and commercial sectors. Mr. Tan, who is a certified public accountant, acts as chairman of the Audit Committee.

According to the terms of reference, the role of the Audit Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control, risk management and external audit functions. The Audit Committee has unrestricted access to personnel, records, external auditors and senior management, as may be appropriate in the discharge of its functions.

The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and is tasked with recommending to the Board appropriate actions emanating from such investigations.

AUDIT COMMITTEE (Continued)

During the year, the Audit Committee met three times and the work performed by the Audit Committee during the year is summarized below:

- met with the external auditors to discuss the general scope of their audit work;
- reviewed external auditor's management letter and management's response;
- reviewed its terms of reference;
- reviewed the financial statements for the year ended 31 December 2006 and the annual results announcements; with a recommendation to the Board for approval;
- reviewed connected parties transactions;
- recommended to the Board a proposal to the shareholders to re-appoint Ernst & Young as the Company's external auditors for the year 2007;
- reviewed and approved the appointment of external auditors for providing non-audit services to the Group;
- discussed with the management on the effectiveness of the Company's system of internal control and risk management systems;
- provided input to the risk assessment exercise for the year 2007;
- reviewed and approved the internal audit plan for the year 2007 based on the risk assessment exercise;
- reviewed the resources of the Company's internal audit function;
- reviewed the interim financial statement for the six month ended 30 June 2007 and the interim results announcement, with a recommendation to the Board for approval;
- reviewed the internal audit results and discussed areas for further improvement in the Company's internal control system; and
- reviewed and recommended to the Board for approval of the audit fee proposal for the Group for the year 2007.

All issues raised by the Audit Committee during the meetings have been brought to the attention of the management for follow up actions.

The Audit Committee was satisfied with the audit and non-audit service fees, process and effectiveness, independence and objectivity of the Company's auditors Ernst & Young. The Board agrees with the Audit Committee's proposal for the re-appointment of Ernst & Young as the Company's auditors for the year 2008. The recommendation will be put forward for the approval of shareholders at the 2008 AGM.

During the year under review, the remuneration paid or to be payable to Ernst & Young is set out as follows:

Services rendered	**Fee paid/payable**
	HK$'000
Audit Services	4,200
Non-audit services:	
Conducting interim results review, due diligence on certain connected transactions and performance of agreed-upon procedures on internal audit review	1,100
Total	5,300

ACCOUNTABILITY AND INTERNAL CONTROL

Financial reporting

The directors acknowledge their responsibilities for preparing all information and representations contained in the financial statements of the Company for the year under review. The directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the management with an appropriate consideration to materiality. As at 31 December 2007, the directors, having made appropriate enquiries, were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

During the year under review, the Company announced its annual and interim results within the periods of four months and three months respectively after the date upon which relevant financial period ended as required under Rules 13.49(1) and (6) of the Listing Rules.

A statement by the external auditor about its reporting responsibilities is included in its report on pages 40 to 41 of this annual report.

Internal control

By reference to the framework recommended by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), the Company conducts regular review of the Group's internal control system. Management is primarily responsible for the design, implementation, and maintenance of internal controls, with the Board and its Audit Committee oversee the actions of management and monitor the effectiveness of the controls that have been put in place.

The internal audit department, reporting directly to the Audit Committee, expresses an independent and objective opinion on the quality of the internal control system of the Group. The department conducts risk-based audits on the business operations of the Group in accordance with the annual audit plan approved by the Audit Committee. The Board is satisfied that an internal control system was reasonably implemented during the year. Management has responded positively to the recommendations from both internal auditors and external auditors for further and continuous improvement in the Group's internal control system. Implementation of action plans is in progress.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

Communication with shareholders

The Company establishes and maintains various communication channels with shareholders:

– shareholders will receive printed copies of the Company's interim and annual reports and circulars as required by the Listing Rules;
– shareholders can make comments on the performance, raise concerns and exchange views with the directors at the annual general meeting; and
– the Company's branch share registrars and transfer office in Hong Kong serves the shareholders regarding registration matters.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS (CONTINUED)

Communication with shareholders (Continued)

As required by code provision E.1.2. of the Code, the chairman of the board should attend annual general meetings and arrange for the chairmen of the audit and remuneration committees or in the absence of the chairmen of such committees other members of the committees or appointed delegates to be present at annual general meetings. The chairman of the Board was unable to attend the 2007 AGM as he had other engagement. The directors present at the meeting elected Mr. Qu Zhe, the managing director of the Company, to chair the meeting in accordance with Bye-law 73 of the Company's Bye-laws.

Voting by Poll

It is the Company's practice to include details of the procedures for voting by poll and the rights of shareholders to demand a poll in the circulars to shareholders dispatched together with the annual reports. The circulars also include relevant details of proposed resolutions, including the biography of each candidate standing for election and re-election.

During the year, as a good corporate governance practice, the chairman of the general meetings demanded voting by poll on all resolutions proposed at such meetings. Tricor Progressive Limited, the branch share registrar of the Company, was engaged as scrutineer to ensure the votes were properly counted.

Company's website

In compliance with the electronic disclosure requirements under the Listing Rules, the Company launched its website www.chinafoodsltd.com in September 2007. The Company has disseminated on its website mandatory disclosure information, including important corporate information, biographical details of directors and senior management, business structure, annual and interim reports as well as announcements and circulars, which allows shareholders and investors to access information about the Company in a timely and transparent manner. An investor relations page in our corporate website provides all interested parties with comprehensive regularly updated information and events of the Group in a user friendly manner.

Communication with shareholders and investors

The Company has established an investor relations department to serve our shareholders, including institutional shareholders, and potential investors by providing them with adequate and up-to-date information and responding to their enquiries through a telephone hotline and electronic mails.

In addition to the press conferences for the announcement of annul and interim results, the Company regularly communicates with analysts and investors and through meetings, conference calls and management roadshows in order to foster open communication.

During the year, the Company attended three investor forums organized by JP Morgan and Credit Lyonnais, conducted a non-deal roadshow and a reverse roadshow and arranged more than 30 analysts and investors to visit our factories in China which helped them to comprehend our productions and business operations in person.

SOCIAL RESPONSIBILITY

The Company recognizes that it has a responsibility for matters of general concern to society. During the year, the management applied guidelines on environment and energy practices to encourage staff and business units of the Group to apply these guidelines in their business activities and operations.

Directors and Senior Management Profile

DIRECTORS

NING GAONING

Mr. Ning, 49, was appointed as an executive director and chairman of the Board in January 2005. He is also the chairman of COFCO Limited ("COFCO"), COFCO (Hong Kong) Limited ("COFCO (HK)") and a non-executive director and chairman of China Agri-Industries Holdings Limited, a company listed in Hong Kong. He holds a Bachelor of Arts degree in Economics from Shandong University in China and a Master of Business Administration degree in Finance from the University of Pittsburgh in the United States. He is also a non-executive director of Lippo China Resources Limited, a listed company in Hong Kong.

QU ZHE

Mr. Qu, 45, has been an executive director since August 2000 and was re-designated as the managing director in January 2006. He is also a member of the Remuneration Committee of the Board. He is a director of certain members of the Group. He graduated from the Shanghai Institute of Foreign Trade and obtained a Master of Business Administration degree from China Europe International Business School in 2006. He joined COFCO in 1986 and worked in North America for years and has more than 20 years of experience in foreign trade and investment.

MAK CHI WING, WILLIAM

Mr. Mak, 46, has been an executive director and a deputy general manager of the Company since October 2006. He is also the chief financial officer of COFCO (HK). He graduated from the University of British Columbia in Canada with a Bachelor of Commerce degree in Finance. He is a member of each of the Institute of Management Accountants, Institute of Internal Auditors, Association of Certified Fraud Examiners, Information Systems Audit and Control Association and an international affiliate of the Hong Kong Institute of Certified Public Accountants. Before joining COFCO (HK) in May 2006, he had worked with Philips Electronics for over 15 years. He has extensive corporate governance experience.

MA JIANPING

Mr. Ma, 44, was appointed as an executive director on 21 March 2007 and was re-designated as a non-executive director on 1 March 2008. He was a deputy general manager of the Company from June 2003 to February 2008. He is currently the director of the strategy department of COFCO. He is also a director of COFCO Property (Group) Co., Ltd., a company listed in Shenzhen. He graduated from University of International Business and Economics in Beijing. He joined COFCO in 1986 and worked in Japan for over five years and has extensive experience in corporate finance and management.

LUAN XIUJU

Ms. Luan, 43, was appointed as an executive director on 21 March 2007. She has been the chief executive officer of COFCO Coca-Cola Beverages Limited, a 65% subsidiary of the Company, since 2003. She is a director of certain members of the Group. She graduated from Renmin University of China with a master's degree in economics. She joined COFCO in 1989 and has extensive experience in beverage production, trade and management.

ZHANG ZHENTAO

Mr. Zhang, 45, was appointed as an executive director on 21 March 2007, and is currently the general manager of the strategy department of the Company. He had been the general manager of COFCO Foods Sales and Distribution Co., Ltd., a wholly-owned subsidiary of the Company, until April 2008. He graduated from Peking University with a master's degree in business administration. He joined COFCO in 1984 and has more than 20 years of experience in oil trade and management.

DIRECTORS (Continued)

WU WENTING

Ms. Wu, 44, was appointed as a non-executive director on 21 March 2007. She is currently the director of the audit department of COFCO. She graduated from Beijing Technology and Business University with a bachelor's degree in economics. She also holds Master of Professional Accounting degree from Central University of Finance and Economics. She jointed COFCO in 1992. She has extensive experience in auditing and finance management.

STEPHEN EDWARD CLARK

Mr. Clark, 58, was appointed as an independent non-executive director in January 2005. He is also a member of each of the Audit Committee and the Remuneration Committee of the Board. He is currently a managing director of The Anglo Chinese Investment Company, Limited. He holds first class joint honors degree of Bachelor in History and History of Art from the University of Nottingham in England and a degree of Master in Business Administration from the University of Witwatersrand, Johannesburg, South Africa. He has extensive experience in corporate finance.

TAN MAN KOU

Mr. Tan, 72, was appointed as an independent non-executive director in March 2005. He is a member and the chairman of the Audit Committee of the Board. He is a fellow of each of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He is a member of the Chinese People's Political Consultative Conference and a member of the Selection Committee of the Hong Kong Special Administrative Region. He is also an independent non-executive director of each of Harbour Centre Development Limited and The Bank of East Asia, Limited, both listed in Hong Kong.

YUEN TIN FAN, FRANCIS

Mr. Yuen, 55, has been an independent non-executive director since 1993. He is also a member of each of the Audit Committee and the Remuneration Committee of the Board and the chairman of the Remuneration Committee. He is currently a deputy chairman of Pacific Century Regional Development Limited, a company listed in Singapore, a non-executive director of Kee Shing (Holdings) Limited, a company listed in Hong Kong and an independent non-executive director of China Pacific Insurance (Group) Co., Ltd., a company listed in Shanghai. He holds a Bachelor of Arts degree in Economics from the University of Chicago and is currently a member of the university's board of trustees. He is also the chairman of the board of trustees of Hong Kong Centre for Economic Research, a member of Shanghai People's Political Consultative Conference and a member of the board of trustee of Fudan University in Shanghai. A former chief executive of The Stock Exchange of Hong Kong Limited from 1988 to 1991, he has extensive investment banking and business experience in Hong Kong and the Far East.

SENIOR MANAGEMENT

CHEN DEBIAO

Mr. Chen, 36, was appointed as the general manager of the finance department of the Company in October 2006. He graduated from University of International Business and Economics with a bachelor's degree in economics and also holds a master's degree in finance from the University of New South Wales in Australia. He joined COFCO in 1993 and has over 14 years of experience in accounting and financial management.

CHEN GANG

Mr. Chen, 37, was appointed as the general managers of COFCO Foods Sales and Distribution Co., Ltd. and the confectionary unit of the Company in April 2008. He graduated from Peking University with a bachelor's degree in law in 1994. He joined COFCO in 1994 and has over 10 years of experience in oilseeds processing, oil trade and management.

MAN KWOK LEUNG

Mr. Man, 32, has been the financial controller of the Company since May 2004. He holds a degree of Professional Accountancy from the Chinese University of Hong Kong and is a certified member of each of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has extensive experience in auditing and financial management.

LUO QIZHI

Ms. Luo, 40, is the head of the Group's legal department. She is qualified in the State of New York and the PRC, and holds master degrees from each of Stanford Law School in the United States and the Law School of Xiamen University in the PRC. She joined the Group in January 2005.

HE HUI

Mr. He, 36, has been the general manager of the human resources department of the Company since March 2007. He joined COFCO Coca-Cola Beverages (China) Investment Limited, a subsidiary of the Company, as the director of human resources and administration department in May 2005. He graduated from Beijing Institute of Machinery with a bachelor's degree in management information system and studied graduate-level courses in human resources management in Peking University. He has 13 years of experience in human resources management with eight years in multinational companies. Prior to joining the Group, he was the general manager of human resources and administration in Vanda Group (China), a subsidiary of Hutchison Whampoa.

WU FEI

Mr. Wu, 37, has been the general manager of the wines and spirits unit of the Company since February 2007. He graduated from University of International Business and Economics in Beijing with a bachelor's degree in business administration. He joined COFCO in 1992, and has held various management positions in the wines and spirits unit of the Company since 1999. He has over 15 years of experience in corporate management and wine business.

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 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. After the Company spun off China Agri-Industries Holdings Limited ("CAIH") by way of distribution in specie on 21 March 2007, the Company focuses its activities on branded food and beverages and currently the Company through its subsidiaries and associates companies operates four principal businesses being wine, beverages, consumer-pack edible oil and confectionery.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group as of that date are set out in the financial statements on pages 42 to 143.

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 share of CAIH for every share of the Company. The directors recommend the payment of a final dividend of 4.5 HK cents per share for the year to shareholders on the register of members on 19 May 2008, subject to the approval by the shareholders at the annual general meeting to be held on 19 May 2008.

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 144. 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

The share option scheme adopted by the Company on 23 June 1997 ("Old Scheme") expired on 22 June 2007 and all share options granted under the Old Scheme were either exercised, lapsed or forfeited in 2006. On 21 November 2006, the Company adopted a new share option scheme ("New Scheme").

During the year, 20,618,800 share options were granted to executive directors and non-executive directors of the Company (excluding independent non-executive directors) and eligible employees of the Group pursuant to the New Scheme.

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out on page 30 and in notes 33 and 34 to the financial statements, respectively.

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 35(b) to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK$1,667,630,000. On 15 April 2008, the board of directors passed a resolution in relation to a share premium cancellation pursuant to Section 46 of the Company Act 1981 of Bermuda. The share premium cancellation is subject to approval by the shareholders of the Company at the annual general meeting to be held on 19 May 2008.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 5.7% of the total sales for the year, with the largest customer accounting for approximately 3.6%. The five largest suppliers of the Group accounted for approximately 35.6% of the Group's total purchases for the year, with the largest supplier accounting for approximately 15%.

Apart from the Company's ultimate holding company, COFCO Limited ("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	
Mr. Ma Jianping	(appointed on 21 March 2007 and re-designated as non-executive director on 1 March 2008)
Ms. Luan Xiuju	(appointed on 21 March 2007)
Mr. Zhang Zhentao	(appointed on 21 March 2007)

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

DIRECTORS (Continued)

In accordance with Bye-law 111(A) of the Company's Bye-laws, Messrs. Ning Gaoning, Stephen Edward Clark and Tan Man Kou will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are appointed with specific term and are 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 22 to 24 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries 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 CONTACTS

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 based on the recommendations of the remuneration committee of the board with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group pursuant to the Bye-laws of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests and short positions of the directors and their associates in the shares and underlying shares of the Company or any 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 Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register of members of the Company, or which are required to be notified to the Company and 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") (together, "Discloseable Interests") were as follows:

(a) Discloseable Interests in the shares and underlying shares of the Company

Name of director	Nature of interest	Number of shares held	Total number of shares	Approximate percentage of issued share capital (Note 3)
Mr. Ning Gaoning	Beneficial Owner	880,000 (Note 2)	880,000	0.03%
Mr. Qu Zhe	Beneficial Owner	670,000 (Note 1)	1,550,000	0.06%
	Beneficial Owner	880,000 (Note 2)		
Mr. Mak Chi Wing, William	Beneficial Owner	800,000 (Note 2)	800,000	0.03%
Mr. Ma Jianping	Beneficial Owner	800,000 (Note 2)	800,000	0.03%
Ms. Luan Xiuju	Beneficial Owner	700,000 (Note 2)	700,000	0.03%
Mr. Zhang Zhentao	Beneficial Owner	700,000 (Note 2)	700,000	0.03%
Ms. Wu Wenting	Beneficial Owner	700,000 (Note 2)	700,000	0.03%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(a) Discloseable Interests in the shares and underlying shares of the Company (Continued)

Notes:

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

2. Long positions in the underlying shares of the Company under share options granted to directors pursuant to a share option scheme of the Company.

3. The percentages are calculated based on the total number of shares of the Company in issue as at 31 December 2007, i.e., 2,791,383,356 shares.

(b) Discloseable Interests in the shares and underlying shares of an associated corporation, China Agri-Industries Holdings Limited ("CAIH")

Name of director	Nature of interest	Number of shares held	Total number of shares	Approximate percentage of issued share capital (Note 2)
Mr. Ning Gaoning	Beneficial Owner	700,000 (Note 1)	700,000	0.02%

Notes:

1. Long positions in the underlying shares of CAIH under share options granted to Mr. Ning Gaoning pursuant to a share option scheme of CAIH.

2. The percentage is calculated based on the total number of shares of CAIH in issue as at 31 December 2007, i.e., 3,593,905,356 shares.

Save as disclosed herein, as at 31 December 2007, none of the directors or their associates had any other Discloseable Interests.

INFORMATION ON SHARE OPTIONS

Details of the movements in the number of options outstanding at the beginning and the end of the year under review which were granted to the directors and eligible employees of the Group under the share option scheme of the Company are as follows:

	Number of share options								Price of Company's share	
Name or category of participant	At 1 January 2007	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2007	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$	At grant date of options HK$	At exercise date of options HK$
Directors										
Mr. Ning Gaoning	–	880,000	–	–	880,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	–
Mr. Qu Zhe	–	880,000	–	–	880,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	–
Mr. Mak Chi Wing, William	–	800,000	–	–	800,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	–
Mr. Ma Jianping	–	800,000	–	–	800,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	–
Ms. Luan Xiuju	–	700,000	–	–	700,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	–
Mr. Zhang Zhentao	–	700,000	–	–	700,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	–
Ms. Wu Wenting	–	700,000	–	–	700,000	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	–
Other employees										
In aggregate	–	15,158,800	–	(141,200)	15,017,600	27.09.2007	27.09.2009 – 26.09.2014	4.952	4.95	–
	–	20,618,800	–	(141,200)	20,477,600					

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 2007, 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 as at 31 December 2007:

Substantial shareholders	**Notes**	**Capacity and nature of interest**	**Number of shares held**	**Approximate percentage of aggregate interests in 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 controlled corporations	2,062,550,331	73.89%
COFCO Limited ("COFCO")	(1) & (3)	Through controlled corporations	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 shares of the Company in issue as at 31 December 2007, i.e., 2,791,383,356 shares.

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 2007, 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.

Save as disclosed herein, as at 31 December 2007, the Company had not been notified of any persons other than the substantial shareholders above who had long positions or short 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.

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

1. On 6 August 2007, COFCO Coca-Cola Beverages Limited ("CBL"), a subsidiary of the Company, entered into a conditional share transfer master agreement with Coca-Cola China Industries Limited ("CCCI") (the "Share Transfer Master Agreement"). In addition, COFCO Beverages (Beijing) Limited, a wholly-owned subsidiary of CBL, Coca-Cola China Industries (Beijing) Limited ("CCCI Beijing"), a wholly-owned subsidiary of CCCI, and BCOF International Trading Corporation Limited, which is not an associate of the Company or CCCI, entered into an amendment agreement in relation to the joint venture agreement among the three parties (the "Amendment Agreement").

   Pursuant to the Share Transfer Master Agreement, the transactions thereunder will be completed in two phases. On the first phase completion (the "First Completion"), (i) CBL will dispose to CCCI all the issued share capital in COFCO Beverages (Chengdu) Limited, COFCO Beverages (Harbin) Limited, COFCO Beverages (Kunming) Limited, COFCO Beverages (Taiyuan) Limited, COFCO Beverages (Wuhan) Limited and COFCO Beverages (Jilin) Limited (collectively "CBL Companies") and assign to CCCI all the outstanding shareholder's loans owed to CBL by each of the CBL Companies; and (ii) CBL will acquire from CCCI all the issued share capital in Coca-Cola China Industries (Qingdao) Ltd. (the "CCCI Company") and all the outstanding shareholder's loans owed to CCCI by the CCCI Company. The consideration for CBL's disposal of all the issued share capital in the CBL Companies to CCCI and assignment of all the outstanding shareholder's loans owed to CBL by the CBL Companies is CCCI's disposal of all the issued share capital in the CCCI Company to CBL and assignment of all the outstanding shareholder's loans owed to CCCI by the CCCI Company and RMB50 million, payable by CCCI at the First Completion. On the second phase completion (the "Second Completion"), CBL will acquire from CCCI all the issued share capital in CCCI Beijing and all the outstanding shareholder's loans owed to CCCI by CCCI Beijing. The consideration for CBL's acquisition from CCCI of all the issued share capital in CCCI Beijing and all the outstanding shareholder's loans owed to CCCI by CCCI Beijing is RMB270 million, payable by CBL at the Second Completion.

   The First Completion took place on 26 October 2007. The Second Completion will take place within five business days or such other date as may be agreed by the parties after satisfaction or waiver as applicable of the conditions to the Second Completion, and in any event not later than 10 January 2009 or such other date as may be agreed by the parties.

CONNECTED TRANSACTIONS (Continued)

Pursuant to the Amendment Agreement, during the period starting from 1 March 2007 or such other date as agreed by the parties and ending 31 December 2008, CCCI Beijing will exercise management control over Beijing Coca-Cola Beverage Co., Ltd. ("Beijing Bottler") and the provisions for profit distribution among Beijing Bottler's shareholders under the relevant joint venture agreements will also be amended.

Coca-Cola Holdings (Asia) Limited ("Coca-Cola Asia") holds a 35% interest in CBL and is therefore a connected person of the Company. CCCI and CCCI Beijing are associates of The Coca-Cola Company ("TCCC"), Coca-Cola (Asia)'s ultimate controlling shareholder, and are therefore connected persons of the Company. Accordingly, the transactions under the Share Transfer Master Agreement between CBL and CCCI and the Amendment Agreement between CBL Beijing and, inter alia, CCCI Beijing respectively constitute connected transactions for the Company and the Share Transfer Master Agreement was subject to independent shareholders' approval.

The Share Transfer Master Agreement and the transactions thereunder were approved by the independent shareholders of the Company at a special general meeting held on 17 September 2007 (the "September SGM"). Details of the Share Transfer Master Agreement and the Amendment Agreement were disclosed in an announcement of the Company dated 6 August 2007 (the "August Announcement") and a circular of the Company dated 27 August 2007 (the "August Circular").

2. On 30 August 2007, COFCO (BVI) No. 30 Limited ("COFCO BVI 30"), a subsidiary of the Company, entered into an agreement with Shandong Longhua Investment Company Limited ("Shandong Longhua") in respect of the increase in registered capital and total investment amount of COFCO Navavalley Junding Vineyard Co., Ltd. ("Navavalley Junding") from RMB60 million to RMB140 million and RMB100 million to RMB238.4 million, respectively (the "Agreement").

   COFCO BVI 30 and Shandong Longhua hold as to 55% and 45% equity interests in Navavalley Junding respectively. Pursuant to the Agreement, COFCO BVI 30 and Shandong Longhua agreed to make the capital contribution to Navavalley Junding in proportion to their respective interests in Navavalley Junding.

   The capital raised by Navavalley Junding will be used to finance the second phase development of the vineyard which includes construction of a museum, a tourist resort with accommodation, wine tasting and dining services and a wines and related products shopping centre.

   Since Shandong Longhua is a substantial shareholder of Navavalley Junding, a subsidiary of the Company, Shandong Longhua is a connected person of the Company, the transaction under the Agreement constituted a connected transaction for the Company. Details of the Agreement were disclosed in an announcement of the Company dated 30 August 2007.

3. On 31 January 2008, COFCO Beverages (CCBMH) Limited ("CBL (CCBMH)"), a subsidiary of the Company, entered into a sale and purchase agreement with Coca-Cola South Asia Holdings, Inc. ("CCSAH"), a wholly-owned subsidiary of TCCC, whereby CBL (CCBMH) agreed to acquire from CCSAH 21% of all the issued share capital in Coca-Cola Bottlers Manufacturing Holding Limited ("CCBMH") at a consideration of RMB148,280,000 (the "Sale and Purchase Agreement"). Following completion of the Sale and Purchase Agreement, CBL (CCBMH) will hold a 21% interest in CCBMH.

CONNECTED TRANSACTIONS (Continued)

CCBMH is an investment holding company which owns 100% of the equity interest in Coca-Cola Bottlers Manufacturing (Dongguan) Co. Ltd. ("Coca-Cola (Dongguan)"), which is principally engaged in the production of still beverages under the trademarks of TCCC and/or its affiliates.

CCSAH is an associate of TCCC, Coca-Cola (Asia)'s ultimate controlling shareholder, and is therefore a connected person of the Company. Accordingly, the transaction under the Sale and Purchase Agreement constitutes a connected transaction for the Company and was subject to independent shareholders' approval. As neither TCCC nor any of its associates including CCSAH has any interest in any shares of the Company giving any of them the right to attend and vote at the general meetings of the Company, no shareholder of the Company would be required to abstain from voting in relation to the Sale and Purchase Agreement should the Company convene a general meeting to approve the Sale and Purchase Agreement. The Stock Exchange granted a waiver to the Company from strict compliance with the requirement to hold a general meeting to approve the Sale and Purchase Agreement on the basis that Wide Smart Holdings Limited, the controlling shareholder of the Company holding 1,922,550,331 shares representing approximately 68.87% of the issued share capital of the Company, gave an written shareholder's approval as required under Rule 14A.43 of the Listing Rules approving the Sale and Purchase Agreement. Details of the Sale and Purchase Agreement were disclosed in an announcement of the Company dated 31 January 2008 and a circular of the Company dated 21 February 2008. The transaction under the Sale and Purchase Agreement was completed on 21 February 2008.

CONTINUING CONNECTED TRANSACTIONS

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

1. COFCO Wines & Spirits Co., Ltd. ("COFCO Wines & Spirits"), a subsidiary of the Company, entered into a tenancy agreement with Beijing COFCO Plaza Development Co., Ltd. ("COFCO Plaza Company") on 4 January 2006 for the lease of certain office space in COFCO Plaza in Beijing for a period of two years from 1 January 2006 to 31 December 2007 for an amount of annual rentals and management fees not exceeding RMB1,481,133.5 respectively (the "COFCO Wines Tenancy Agreement").

   COFCO Plaza Company is a non wholly-owned subsidiary of COFCO (Hong Kong) Limited ("COFCO (HK)"), the controlling shareholder of the Company, and is therefore a connected person of the Company. The transactions under the COFCO Wines Tenancy Agreement constitute continuing connected transactions of the Company. Details of the COFCO Wines Tenancy Agreement were disclosed in an announcement of the Company dated 5 January 2006 (the "January Announcement").

   For the year ended 31 December 2007, the total amount of rentals and management fees paid by COFCO Wines & Spirits under the COFCO Wines Tenancy Agreement was RMB2,645,439.44, which exceeded the aforesaid cap. The relevant particulars were set out in an announcement of the Company dated 4 February 2008.

CONTINUING CONNECTED TRANSACTIONS (Continued)

2. On 4 January 2006, Blissea Consortium Company Limited ("Blissea"), a then subsidiary of the Company, and Bapton Company Limited ("Bapton") entered into a tenancy agreement for the lease of certain office space in Top Glory Tower in Hong Kong for a period of two years from 1 January 2006 to 31 December 2007 (the "Top Glory Tenancy Agreement"). Under the Top Glory Tenancy Agreement, the amount of the annual rentals and management fees excluding government rates and service charges for each of the years ending 31 December 2006 and 2007 will not exceed HK$885,411.

   On 8 October 2006, Global Lander Limited ("Global Lander"), a subsidiary of the Company, Blissea 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 transferred to and assumed by Global Lander, and Bapton agreed to release and discharge Blissea from the Top Glory Tenancy Agreement from the effective date of the Novation Deed.

   Bapton is a wholly-owned subsidiary of COFCO (HK) and is therefore a connected person of the Company. The transactions under the Top Glory Tenancy Agreement and the Novation Deed constitute continuing connected transactions of the Company. Details of the Top Glory Tenancy Agreement were disclosed in the January Announcement, and details of the Novation Deed were disclosed in an announcement of the Company dated 8 October 2006 (the "October Announcement") and a circular of the Company dated 28 October 2006 (the "October Circular").

   For the year ended 31 December 2007, the total amount of the rentals and management fees paid by Global Lander under the Top Glory Tenancy Agreement was HK$885,411.

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

   For the year ended 31 December 2007, the total amount of the rentals and management fees paid by COFCO Coca-Cola under the COFCO Coca-Cola Tenancy Agreement was RMB3.15 million, which is within the cap set for the year 2007.

4. On 8 October 2006, the Company and COFCO entered into an agreement, pursuant to which the COFCO Group will provide sugar as raw materials and bottle crowns as raw packaging materials to the Group for its production and bottling of Coca-Cola beverages and the Group will provide Shaoxing wine to the COFCO Group for export (the "Mutual Supply Agreement"). COFCO and its associates are connected persons of the Company. The transactions under the Mutual Supply Agreement constitute continuing connected transactions of the Company.

   It was expected that the annual transaction values in respect of bottle crowns and sugar to be provided by the COFCO Group to the Group for each of the years ending 31 December 2007 and 2008 would not exceed RMB41 million and RMB43 million respectively. In respect of Shaoxing wine to be provided by the Group to the COFCO Group, the transactions constitute de minimis continuing connected transactions of the Company. Details of the Mutual Supply Agreement were disclosed in the October Announcement and the October Circular.

CONTINUING CONNECTED TRANSACTIONS (Continued)

The expected annual transaction values of bottle crowns and sugar to be provided by the COFCO Group to the Group for each of the years ending 31 December 2007 and 2008 were subsequently revised to RMB87.9 million and RMB113.1 million (the "Crowns and Sugar Cap"), respectively and approved by independent shareholders at the September SGM. The relevant particulars were disclosed in the August Announcement and the August Circular.

For the year ended 31 December 2007, the total amount paid by the Group in respect of bottle crowns and sugar under the Mutual Supply Agreement was RMB36.65 million, which is within the Crowns and Sugar Cap for the year 2007.

5. On 8 October 2006, COFCO Foods Sales and Distribution Co., Ltd. ("COFCO Foods"), a subsidiary of the Company, and China Agri-Industries Limited ("China Agri") entered into a supply and packing agreement, pursuant to which certain associates of China Agri will supply and pack bulk edible oil, under the instructions of COFCO Foods from time to time, into consumer-pack edible oil products which will be labelled using trademarks owned by or licensed for use by COFCO Foods (the "Supply and Packaging Agreement"). Upon completion of the spin-off of CAIH on 21 March 2007, China Agri and its associates became connected persons of the Company and the transactions under the Supply and Packaging Agreement constitute continuing connected transactions of the Company.

   It was expected that the annual transaction values of edible oil to be purchased by COFCO Foods from the associates of China Agri for each of the years ending 31 December 2007 and 2008 will not exceed RMB3,183 million and RMB3,810 million ("Oil Cap"), respectively. Details of the Supply and Packaging Agreement were disclosed in the October Announcement and the October Circular.

   For the year ended 31 December 2007, the total amount paid by CFOCO Foods under the Supply and Packaging Agreement was RMB4,191.57 million, which exceeded the Oil Cap for the year 2007. The relevant particulars were set out in an announcement of the Company dated 14 April 2008.

6. On 8 October 2006, COFCO and COFCO Wines & Spirits Holdings Limited, a wholly-owned subsidiary of the Company, entered into an agreement, pursuant to which COFCO Wines & Spirits Holdings Limited and its subsidiaries ("COFCO Wines & Spirits Group") will continue to sell wine products to the COFCO Group ("Wine Products Sale and Purchase Agreement"). The transactions under the Wine Products Sale and Purchase Agreement constitute continuing connected transactions of the Company.

   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 each of the years ending 31 December 2007 and 2008 will not exceed HK$50 million and HK$63 million (the "Wine Cap"), respectively. Details of the Wine Products Sale and Purchase Agreement were disclosed in the October Announcement and the October Circular.

   For the year ended 31 December 2007, the total revenue of the COFCO Wines & Spirits Group in respect of the wine products sold to the COFCO Group was RMB33.874 million (equivalent to approximately HK$35 million), which is within the Wine Cap for the year 2007.

7. On 8 October 2006, the Company announced that bottlers of the Group had entered into concentrate purchase agreements ("Concentrate Purchase Agreements") with Coca-Cola (China) Beverages Ltd. ("Coca-Cola China"), an indirect subsidiary of TCCC. Coca-Cola China is a connected person of the Company and the transactions under the Concentrate Purchase Agreements constitute continuing connected transactions of the Company.

CONTINUING CONNECTED TRANSACTIONS (Continued)

It was expected that the annual transaction values of the concentrate purchased by bottlers of the Group from Coca-Cola China for each of 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 were disclosed in the October Announcement and the October Circular.

The expected annual transaction values of concentrate to be purchased by bottlers of the Group from Coca-Cola China for each of the years ending 31 December 2007 and 2008 were subsequently revised to RMB676.5 million and RMB922.6 million (the "Concentrate Cap"), respectively and approved by the independent shareholders at the September SGM. The relevant particulars were disclosed in the August Announcement and the August Circular.

For the year ended 31 December 2007, the total amount paid by bottlers of the Group for the purchase of concentrate was RMB467 million, which is within the Concentrate Cap for the year 2007.

8. On 10 December 2006, the Company announced that bottlers of the Group entered into beverage base purchase agreements ("Beverage Base Purchase Agreements") with Tianjin Jin-Mei Beverages Co., Ltd. ("Jinmei"), an indirect subsidiary of TCCC. Jinmei is a connected person of the Company and the transactions under the Beverage Base Purchase Agreements constitute continuing connected transactions of the Company.

   It was expected that the annual transaction values of the beverage base to be purchased by bottlers of the Group from Jinmei for each of 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 were disclosed in the December Announcement and a circular of the Company dated 13 December 2006 (the "December Circular").

   The expected annual transaction values of the beverage base to be purchased by bottlers of the Group from Jinmei for each of the years ending 31 December 2007 and 2008 were subsequently revised to RMB61.5 million and RMB87.5 million ("Beverage Base Cap"), respectively and approved by independent shareholders at the September SGM. The relevant particulars were disclosed in the August Announcement and the August Circular.

   For the year ended 31 December 2007, the total amount paid by bottlers of the Group for the purchase of beverage base was RMB45.5 million, which is within the Beverage Base Cap for the year 2007.

9. Tianjin Coca-Cola Beverages Co., Ltd. ("Tianjin Coca-Cola"), a deemed subsidiary of the Company, and Tianjin Shifa Zi Jiang Packaging Co., Ltd. ("Zijiang") entered into a packaging materials purchase agreement in August 2001 ("Packing Material Purchase Agreement") and a supplementary agreement in August 2006 and a further supplemental agreement on 7 November 2006. Tianjin Shifa Group Co., Ltd. ("Tianjin Shifa") holds a 35% interest in Tianjin Coca-Cola, accordingly, Tianjin Shifa is a connected person of the Company. Given that Tianjin Shifa also holds a 40% interest in Zijiang, Zijiang is also a connected person of the Company and the transactions between Tianjin Coca-Cola and Zijiang constitute continuing connected transactions of the Company.

   It is expected that the annual transaction values of the packaging materials to be purchased by Tianjin Coca-Cola from Zijiang for each of the years ending 31 December 2007 and 2008 will not exceed RMB 123.2 million and RMB141.7 million (the "Packaging Cap"), respectively. Details of the Packaging Materials Purchase Agreement were disclosed in the October Announcement, the October Circular and the December Announcement.

CONTINUING CONNECTED TRANSACTIONS (Continued)

For the year ended 31 December 2007, the total amount paid by Tianjin Coca-Cola for the purchase of packaging materials from Zijiang was RMB56.98 million, which is within the Packaging Cap for the year 2007.

10. On 6 August 2007, each bottler of the Group entered into a still beverages purchase agreement with Coca-Cola Bottlers Manufacturing (Dongguan) Co. Ltd. ("Coca-Cola (Dongguan)") for the purchase of still beverages from Coca-Cola (Dongguan) until 31 December 2008 (the "Still Beverages Purchase Agreements"). Coca-Cola (Dongguan) is a connected person of the Company, and the transactions under the Still Beverages Purchase Agreements constitute continuing connected transactions of the Company.

    It is expected that the aggregate transaction values for the still beverages to be purchased by bottlers of the Group from Coca-Cola (Dongguan) for each of the years ending 31 December 2007 and 2008 will not exceed RMB461.4 million and RMB877.1 million (the "Still Beverages Cap"), respectively. Details of the Still Beverages Purchase Agreements were disclosed in the August announcement and the August Circular.

    For the year ended 31 December 2007, the total amount paid by bottlers of the Group for the purchase of still beverages from Coca-Cola (Dongguan) was RMB371.91 million, which is within the Still Beverages Cap for the year 2007.

11. On 4 February 2008, Global Lander entered into a tenancy agreement with Bapton for the lease of certain office space in Top Glory Tower in Hong Kong for a period of two years commencing from 1 January 2008 and expiring on 31 December 2009 (the "Global Lander Tenancy Agreement"). The amount of the annual rentals and management fees, excluding government rates and services charges, for each of the years ending 31 December 2008 and 2009 will not exceed HK$1,232,631.

    The transactions under the Global Lander Tenancy Agreement constitute continuing connected transactions of the Company. Details of the Global Lander Tenancy Agreement were disclosed in an announcement of the Company dated 4 February 2008 (the "February Announcement").

12. On 4 February 2008, COFCO Foods, COFCO Wines & Spirits and COFCO Foods Management Co., Ltd., all wholly-owned subsidiaries of the Company, entered into three separate tenancy agreements (the "COFCO Plaza Tenancy Agreements") with COFCO Plaza Company for the lease of certain office space in COFCO Plaza in Beijing for a period of one year commencing from 1 January 2008 and expiring on 31 December 2008 for an amount of aggregate rentals and management fees not exceeding RMB2,900,000, RMB3,200,000 and RMB540,000, respectively.

    The transactions under the COFCO Plaza Agreements constitute continuing connected transactions of the Company. Details of the COFCO Plaza Tenancy Agreements were disclosed in the February Announcement.

CONTINUING CONNECTED TRANSACTIONS (Continued)

The continuing connected transactions set out above have been reviewed by the independent non-executive directors of the Company who have confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Company;

2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

3. in accordance with the relevant agreements governing the transactions that are fair and reasonable and in the interests of the Company and shareholders of the Company as a whole.

In accordance with Rule 14A.38 of the Listing Rules, the Company engaged the auditors of the Company to perform certain agreed-upon procedures on the continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported to the board of directors of the Company that the transactions:

1. have been approved by the board of directors of the Company;

2. have been entered into in accordance with the relevant agreements governing such transactions; and

3. except for the amount of the transactions under the Supply and Packing Agreement set out in Sections 1 and 5 above which exceeded the annual cap for the year 2007, the other transactions have not exceeded the caps disclosed in the relevant announcements.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

After completion of the spin-off of CAIH on 21 March 2007, 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 will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Qu Zhe
Managing Director

Hong Kong
15 April 2008

Independent Auditors' Report

ERNST & YOUNG

18/F Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the shareholders of China Foods Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of China Foods Limited set out on pages 42 to 143, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
15 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	6	**9,743,011**	6,497,453
Cost of sales		**(7,317,697)**	(4,507,139)
Gross profit		**2,425,314**	1,990,314
Other income and gains	6	**566,984**	104,497
Selling and distribution costs		**(1,669,313)**	(1,250,142)
Administrative expenses		**(396,380)**	(319,204)
Other expenses		**(9,252)**	(31,028)
Finance costs	8	**(33,078)**	(45,426)
Share of profits and losses of associates		**49,167**	49,624
PROFIT BEFORE TAX	7	**933,442**	498,635
Tax	11	**(135,792)**	(105,877)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**797,650**	392,758
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	13	**239,769**	831,909
		1,037,419	1,224,667
Attributable to:			
Equity holders of the Company	12	**791,686**	990,064
Minority interests		**245,733**	234,603
		1,037,419	1,224,667
DIVIDENDS	14	**6,359,760**	83,834
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	15		
Basic:			
– For profit for the year		**28.36 HK cents**	37.28 HK cents
– For profit from continuing operations		**21.35 HK cents**	11.23 HK cents
Diluted:			
– For profit for the year		**28.35 HK cents**	37.09 HK cents
– For profit from continuing operations		**21.34 HK cents**	11.17 HK cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007	2006
		HK$'000	HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**2,082,579**	6,783,261
Investment properties	17	**58,000**	52,389
Prepaid land premiums	18	**119,265**	466,500
Deposits for purchase of items of property, plant and equipment		**12,653**	337,482
Goodwill	19	**1,332,857**	1,477,691
Other intangible assets	20	**17,179**	–
Interests in associates	22	**156,233**	1,236,441
Available-for-sale investments and related advances	23	**213,455**	332,685
Deferred tax assets	32	**25,435**	15,565
Biological assets	24	**72,070**	53,584
Total non-current assets		**4,089,726**	10,755,598
CURRENT ASSETS			
Inventories	25	**1,968,321**	4,886,914
Accounts and bills receivables	26	**997,179**	1,576,728
Prepayments, deposits and other receivables		**494,795**	1,726,087
Due from fellow subsidiaries	44	**16,770**	202,236
Due from the ultimate holding company	44	**4,567**	29,013
Due from the immediate holding company	44	**160**	165
Tax recoverable		**4,077**	2,563
Investments at fair value through profit or loss	27	**16,825**	48,300
Derivative financial instruments	28	**–**	537
Pledged deposits	29	**3,477**	54,183
Cash and cash equivalents	29	**1,396,563**	2,515,973
Total current assets		**4,902,734**	11,042,699
CURRENT LIABILITIES			
Accounts and bills payables	30	**815,315**	1,376,557
Other payables and accruals		**1,350,289**	1,605,625
Due to fellow subsidiaries	44	**346,592**	526,769
Due to the immediate holding company	44	**–**	460
Due to the ultimate holding company	44	**12,040**	20,137
Due to related companies	44	**279,057**	379,925
Due to minority shareholders of subsidiaries	44	**1,113**	15,122
Interest-bearing bank and other borrowings	31	**284,960**	3,898,629
Deferred income		**–**	1,726
Tax payable		**50,484**	91,595
Total current liabilities		**3,139,850**	7,916,545
NET CURRENT ASSETS		**1,762,884**	3,126,154
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,852,610**	13,881,752

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,852,610**	13,881,752
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**106,792**	2,065,085
Due to minority shareholders of subsidiaries	44	**75,047**	147,496
Due to the ultimate holding company	44	**21,358**	19,906
Deferred income		**9,183**	57,754
Deferred tax liabilities	32	**6,729**	29,382
Total non-current liabilities		**219,109**	2,319,623
Net assets		**5,633,501**	11,562,129
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	33	**279,138**	279,138
Reserves	35(a)	**4,153,901**	9,475,270
Proposed final dividend	14	**125,612**	–
		4,558,651	9,754,408
Minority interests		**1,074,850**	1,807,721
Total equity		**5,633,501**	11,562,129

Qu Zhe
Director

Mak Chi Wing, William
Director

Consolidated Statement Of Changes In Equity

Year ended 31 December 2007

	Notes	Issued capital HK$'000	Share premium account HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company											
At 1 January 2006		263,819	2,776,042	31,093	727,917	152,644	54,810	(2,077)	1,749,065	76,614	5,829,927	1,644,509	7,474,436
Changes in fair value of available-for-sale investments		–	–	–	–	–	–	303	–	–	303	–	303
Exchange realignment		–	–	–	–	–	221,199	–	–	–	221,199	48,740	269,939
Total income and expense for the year recognised directly in equity		–	–	–	–	–	221,199	303	–	–	221,502	48,740	270,242
Profit for the year		–	–	–	–	–	–	–	990,064	–	990,064	234,603	1,224,667
Total income and expense for the year		–	–	–	–	–	221,199	303	990,064	–	1,211,566	283,343	1,494,909
Issue of shares	33	15,319	847,601	–	–	–	–	–	–	–	862,920	–	862,920
Capitalisation of amounts due to the immediate holding company		–	–	–	680,731	–	–	–	–	–	680,731	–	680,731
Contributions from the immediate holding company		–	–	–	1,324,016	–	–	–	–	–	1,324,016	–	1,324,016
Contributions from minority shareholders		–	–	–	–	–	–	–	–	–	–	60,763	60,763
Acquisitions of additional interests in existing subsidiaries		–	–	–	–	–	–	–	–	–	–	(74,392)	(74,392)
Transfer from retained profits		–	–	–	–	50,741	–	–	(50,741)	–	–	–	–
Equity-settled share option arrangements		–	–	5,696	–	–	–	–	–	–	5,696	–	5,696
Release upon exercise of share options		–	36,789	(36,789)	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries	36	–	–	–	–	–	–	–	–	–	–	4,729	4,729
Release of reserves upon disposal of subsidiaries		–	–	–	(250,467)	(10,103)	(582)	1,774	259,378	–	–	–	–
Final 2005 dividend declared		–	–	–	–	–	–	–	–	(76,614)	(76,614)	–	(76,614)
Interim 2006 dividend declared	14	–	–	–	–	–	–	–	(79,256)	–	(79,256)	–	(79,256)
Dividends paid by the subsidiaries acquired under the Acquisition (as defined in note 2) to their then shareholders	14	–	–	–	–	–	–	–	(4,578)	–	(4,578)	–	(4,578)
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(111,231)	(111,231)
At 31 December 2006		279,138	3,660,432*	–*	2,482,197*	193,282*	275,427*	–*	2,863,932*	–	9,754,408	1,807,721	11,562,129

Consolidated Statement Of Changes In Equity

Year ended 31 December 2007

		Attributable to equity holders of the Company											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007		279,138	3,660,432	–	2,482,197	193,282	275,427	–	2,863,932	–	9,754,408	1,807,721	11,562,129
Exchange realignment		–	–	–	–	–	243,645	–	–	–	243,645	51,413	295,058
Total income and expense for the year recognised directly in equity		–	–	–	–	–	243,645	–	–	–	243,645	51,413	295,058
Profit for the year		–	–	–	–	–	–	–	791,686	–	791,686	245,733	1,037,419
Total income and expense for the year		–	–	–	–	–	243,645	–	791,686	–	1,035,331	297,146	1,332,477
Contributions from minority shareholders		–	–	–	–	–	–	–	–	–	–	46,395	46,395
Transfer from retained profits		–	–	–	–	30,950	–	–	(30,950)	–	–	–	–
Equity-settled share option arrangements	34	–	–	3,060	–	–	–	–	–	–	3,060	–	3,060
Acquisition of subsidiaries	36	–	–	–	–	–	–	–	–	–	–	113,636	113,636
Release of reserves upon distribution of the Spin-Off Group		–	–	–	(2,902,104)	(98,147)	(281,979)	–	3,282,230	–	–	(1,180,386)	(1,180,386)
Special interim dividend declared	14	–	–	–	–	–	–	–	(6,234,148)	–	(6,234,148)	–	(6,234,148)
Final 2007 dividend proposed	14	–	–	–	–	–	–	–	(125,612)	125,612	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(9,662)	(9,662)
At 31 December 2007		279,138	3,660,432*	3,060*	(419,907)*	126,085*	237,093*	–*	547,138*	125,612	4,558,651	1,074,850	5,633,501

* These reserve accounts comprise the consolidated reserves of HK$4,153,901,000 (2006: HK$9,475,270,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**933,442**	498,635
From discontinued operations	13	**264,426**	998,790
Adjustments for:			
Finance costs	8	**98,044**	255,847
Share of profits and losses of associates		**(108,143)**	(250,669)
Interest income	6	**(44,037)**	(44,894)
Dividend income from unlisted available-for-sale investments	6	**(41,004)**	(45,656)
Dividend income from investments at fair value through profit or loss	6	**(164)**	(3,160)
Fair value gains on investments at fair value through profit or loss	6	**(14,587)**	(38,768)
Gain arising from changes in fair value of biological assets	7	**(10,555)**	(9,565)
(Gain)/loss on disposal of subsidiaries	6, 7	**(394,884)**	106,848
Impairment of receivables	7	**10,781**	9,881
Equity-settled share option expense	7	**3,060**	5,696
Amortisation of other intangible assets	7, 20	**272**	–
Depreciation	7	**235,332**	441,516
Fair value gain on investment properties	6, 17	**(1,727)**	–
Loss on disposal of items of property, plant and equipment	7	**3,261**	16,789
Impairment of items of property, plant and equipment	7, 16	**58,621**	2,193
Recognition of prepaid land premiums	7, 18	**5,091**	11,119
Impairment of goodwill	7, 19	**–**	20,324
Provision against inventories	7	**3,808**	2,892
Unrealised fair value losses of derivative instrument transactions not qualifying as hedges	7	**31,494**	11,966
Government grants	6	**(67,711)**	(191,807)
Compensation income	6	**(13,545)**	(56,607)
		951,275	1,741,370

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
		951,275	1,741,370
Increase in inventories		**(1,015,519)**	(1,016,086)
Decrease/(increase) in accounts and bills receivables		**54,671**	(130,366)
Increase in prepayments, deposits and other receivables		**(401,904)**	(545,438)
Increase in amounts due from fellow subsidiaries		**(153,840)**	(24,141)
Decrease/(increase) in amounts due from the ultimate holding company		**22,705**	(98,212)
Decrease/(increase) in amounts due from related companies		**(6,112)**	33,359
Increase in an amount due from the immediate holding company		**–**	(165)
Increase in accounts and bills payables		**197,565**	211,457
Increase in other payables and accruals		**674,444**	486,542
Increase/(decrease) in amounts due to fellow subsidiaries		**(5,889)**	141,394
Increase/(decrease) in amounts due to related companies		**458,611**	(173,018)
Decrease in amounts due to the ultimate holding company		**(9,147)**	(370,452)
Increase/(decrease) in amounts due to the immediate holding company		**(463)**	311
Increase/(decrease) in amounts due to minority shareholders of subsidiaries		**(13,225)**	9,975
Government grants received		**811**	148,960
Cash generated from operations		**753,983**	415,490
Interest received		**44,037**	44,894
Interest paid		**(103,794)**	(263,574)
Hong Kong profits tax paid		**(2,457)**	(7,368)
Mainland China tax paid		**(156,748)**	(177,359)
Net cash inflow from operating activities		**535,021**	12,083

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Net cash inflow from operating activities		**535,021**	12,083
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in pledged deposits		**51,527**	361,177
Advances from associates		**1,902**	23,553
Repayments from/(advances to) a long term investment		**(2,838)**	12,523
Dividends from associates		**63,060**	55,933
Dividends received from unlisted available-for-sale investments		**41,004**	45,656
Dividends income from investments at fair value through profit or loss		**164**	3,160
Proceeds from disposal of items of property, plant and equipment		**15,625**	27,974
Proceeds from disposal of investments at fair value through profit or loss		**105,571**	62,460
Purchases of investments at fair value through profit or loss		**(59,509)**	(31,010)
Purchases of available-for-sale investments		**–**	(3,389)
Acquisition of subsidiaries	36	**52,589**	240,141
Acquisitions of minority interests		**–**	(352,388)
Disposal of subsidiaries	37	**39,585**	(197,045)
Spin-off of China Agri-Industries	39	**(1,291,561)**	–
Purchases of items of property, plant and equipment		**(1,170,822)**	(1,384,306)
Additions to other intangible assets	20	**(16,838)**	–
Additions to prepaid land premiums	18	**(14,563)**	(90,467)
Decrease/(increase) in deposits for purchase of items of property, plant and equipment		**309,137**	(229,621)
Additions to biological assets	24	**(7,931)**	(8,179)
Government grants received		**32,377**	33,288
Compensation income received		**13,545**	2,950
Net cash outflow from investing activities		**(1,837,976)**	(1,427,590)

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Net cash outflow from investing activities		**(1,837,976)**	(1,427,590)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	33	**–**	862,920
New bank loans		**4,717,973**	8,390,533
New other loans		**971,883**	4,413,711
Repayments of bank loans		**(3,160,672)**	(6,367,192)
Repayments of other loans		**(2,479,725)**	(5,308,804)
Contributions from minority shareholders		**46,395**	60,763
Contributions from the immediate holding company		**–**	882,180
Dividends paid		**–**	(158,109)
Dividends paid to minority shareholders of subsidiaries		**(8,549)**	(111,231)
Decrease in an amount due to a fellow subsidiary		**–**	(49,249)
Increase in amounts due to minority shareholders of subsidiaries		**34,668**	37,229
Net cash inflow from financing activities		**121,973**	2,652,751
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,180,982)**	1,237,244
Cash and cash equivalents at beginning of year		**2,515,973**	1,231,169
Effect of foreign exchange rate changes, net		**61,572**	47,560
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,396,563**	2,515,973
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	**820,377**	1,770,362
Non-pledged time deposits with original maturity of less than three months when acquired	29	**576,186**	745,611
		1,396,563	2,515,973

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**–**	40
Interests in subsidiaries	21	**5,164,849**	8,709,687
Total non-current assets		**5,164,849**	8,709,727
CURRENT ASSETS			
Prepayments, deposits and other receivables		**456**	219
Investments at fair value through profit and loss	27	**14,301**	48,300
Due from a fellow subsidiary	44	**–**	2,343
Due from the immediate holding company	44	**165**	165
Tax recoverable		**1,288**	–
Cash and cash equivalents	29	**432,994**	670,688
Total current assets		**449,204**	721,715
CURRENT LIABILITIES			
Other payables and accruals		**3,793**	23,484
Due to a fellow subsidiary	44	**–**	14,901
Tax payable		**–**	2,881
Total current liabilities		**3,793**	41,266
NET CURRENT ASSETS		**445,411**	680,449
Net assets		**5,610,260**	9,390,176
EQUITY			
Issued capital	33	**279,138**	279,138
Reserves	35(b)	**5,205,510**	9,111,038
Proposed final dividend	14	**125,612**	–
Total equity		**5,610,260**	9,390,176

Qu Zhe
Director

Mak Chi Wing, William
Director

1. CORPORATE INFORMATION

China Foods Limited (formerly known as COFCO International Limited) (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

Pursuant to a special resolution passed on 19 April 2007, the name of the Company was changed from COFCO International Limited to China Foods Limited.

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

Continuing operations

- production, sale and trading of grape wine and other relevant beverage products;
- production and distribution of chocolate and other related products;
- processing and distribution of sparkling beverages and other relevant beverages;
- distribution of retail package cooking oil;

Discontinued operations

- extraction, refining and trading of edible oil and related businesses;
- production and sale of flour products and related businesses;
- trading and processing of rice;
- production and sale of biofuel and biochemical and related products; and
- processing and sale of malt.

Upon the completion of the Spin-Off (as defined in note 2 below), the Group no longer carried out the discontinued operations, which are to be carried out by China Agri-Industries (as defined in note 2).

The Company is a subsidiary of COFCO (Hong Kong) Limited ("COFCO (HK)"), a company incorporated in Hong Kong. In the opinion of the directors, the ultimate holding company of the Company is COFCO Limited ("COFCO"), which is a state-owned enterprise registered in the People's Republic of China (the "PRC").

2. CORPORATE REORGANISATION

Pursuant to the reorganisation as detailed in the Company's circular dated 28 October 2006 (the "Circular"), the Company (1) acquired from COFCO (HK) the entire equity interests in Jumbo Team Group Limited and its subsidiaries (collectively as the "Jumbo Team Group") and Full Extent Group Limited and its subsidiaries (collectively as the "Full Extent Group") with an aggregate consideration of HK$5,333,700,000 (the "Acquisition"); (2) disposed to COFCO (HK) of the Company's entire equity interests in Seabase International (B.V.I.) Limited, COFCO (BVI) No. 99 Limited and First Reward Limited, and their respective subsidiaries (collectively the "Disposal Group") (the "Disposal") with an aggregate consideration of HK$715,100,000; and (3) upon the completion of the Acquisition and the Disposal, spun off the Group's existing interests in oilseed processing, wheat processing and rice trading businesses together with the businesses carried out by the Full Extent Group (the "Spin-Off") through a separate listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (collectively the "Reorganisation"). Further details of the Reorganisation are set out in the Circular.

2. CORPORATE REORGANISATION (continued)

The Jumbo Team Group is principally engaged in the processing and distribution of sparkling beverages and other relevant beverages.

The Full Extent Group is principally engaged in agricultural products processing businesses which include oilseed processing, wheat processing, the production and sale of brewing materials, processing of rice, and the production and sale of biofuel and biochemical.

The Disposal Group is principally engaged in the trading of non-rice foodstuffs, provision of management service to COFCO and investment in marketable securities.

The Acquisition was satisfied by the Company's issue of 879,739,382 new ordinary shares of HK$0.1 each at a price of approximately HK$5.25 per share, representing HK$4,618,632,000 of the total consideration payable for the Acquisition. The remaining amount of HK$715,100,000 payable for the Acquisition was settled by the consideration receivable by the Company in respect of the Disposal. The Acquisition and the Disposal were completed on 31 December 2006.

As the Company, the Jumbo Team Group and the Full Extent Group are all ultimately controlled by COFCO, before and after the Acquisition, the financial statements of the Group 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 Hong Kong Institute of Certified Public Accountants (the "HKICPA"), as if the Acquisition had occurred from the date when the combining entities first came under the control of COFCO because the Acquisition was regarded as a business combination under common control.

In respect of the Spin-Off, on 8 February 2007, the Company declared a special interim dividend to distribute the Company's entire interest in the issued share capital of China Agri-Industries Holdings Limited ("China Agri-Industries"), a subsidiary incorporated in Hong Kong on 18 November 2006, for the purpose of acting as the investment holding company of the subsidiaries under the Spin-Off (the "Spin-Off Group") and for the purpose of separate listing on the Stock Exchange. The special interim dividend was conditional upon approval by the Stock Exchange. Following the approval by the Stock Exchange, the Spin-Off and the listing of the shares of China Agri-Industries was completed on 21 March 2007.

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, biological assets, derivative financial instruments and certain available-for-sale investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand except when otherwise indicated.

3.1 BASIS OF PREPARATION (continued)

As the Spin-Off was completed on 21 March 2007, for the presentation of the Group's financial statements for the year ended 31 December 2007, the Spin-Off Group was regarded as discontinued operations in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Therefore, the results of the Spin-Off Group of prior periods presented in the financial statements of the Group has been restated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries through the Acquisition are accounted for 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 Acquisition had occurred from the date when the subsidiaries acquired through the Acquisition first came under the control of COFCO because the Acquisition was regarded as a business combination under common control as the Company, the Jumbo Team Group and the Full Extent Group are all ultimately controlled by COFCO, before and after the Acquisition.

Apart from the Acquisition, the acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method 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. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
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*

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements-Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 47 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements:

HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKFRS 2 Amendment	*Share-Based Payments Vesting Conditions and Cancellations* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKFRS 3 (Revised)	*Business Combinations* [5]
HKAS 27 (Revised)	*Consolidation and Separate Financial Statements* [5]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions* [2]
HK(IFRIC)-Int 12	*Service Concession Arrangements* [4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* [4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2009

HKAS 1 has been revised to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

The amendment to HKFRS 2 restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendment is not expected to have any financial impact on the Group.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

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

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 has been revised to require that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revisions to HKFRS 3 and HKAS 27 will be applied by the Group prospectively as required under the revised standards and will affect future acquisitions and transactions of the Group with minority interests.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and no defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of HKFRS 8 upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, this HKFRS is unlikely to have a significant impact on the Group's results of operations and financial position.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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 has unilateral control, directly or indirectly, over the joint venture;

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, 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 interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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.

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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

Goodwill previously eliminated against consolidated retained profits

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 *Business Combinations* ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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, biological assets, financial assets, investment properties, and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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 years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 any of its holding companies;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(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); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

3.4 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	2.8% to 16.2%
Plant, machinery and equipment	4.5% to 25%

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 year the asset is derecognised is the difference between the net sales 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 the 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 or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Computer software

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of eight years.

Biological assets

Grape vines are measured at their fair value less estimated point-of-sale costs. The fair value of grape vines is determined based on the present value of expected net cash flows from the grape vines discounted at a current market-determined pre-tax rate. Grape vines are perennial plants which have growth cycles of more than one year. Gain or loss arising on initial recognition of grape vines at fair value less estimated point-of-sale costs is dealt with in the income statement when it arises.

Agricultural produces comprise grapes. Self-grown grapes are measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of grapes is determined based on market prices in the local area, which represents the estimated purchase cost that the Group has to procure such raw materials in the market on an arm's length basis.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. 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. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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 and available-for-sale investments, 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

Investments at fair value through profit or loss

Investments at fair value through profit or loss are 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. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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 less any allowance for impairment. 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 investments

Available-for-sale investments are non-derivative financial assets in unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale investments 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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities 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 securities are stated at cost less any impairment losses.

3.4 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 a discounted cash flow analysis.

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 through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale investments

If an available-for-sale investment 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. A provision for impairment is made for available-for-sale investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available-for-sale are not reversed through 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.

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

Financial liabilities including accounts and other payables, amounts due to the group companies, amounts due to minority shareholders of subsidiaries and 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. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 determined by reference to current commodity prices for contracts with similar maturity profiles.

Inventories

Inventories, other than the agricultural products which are measured in accordance with the accounting policy for “Biological assets” above, 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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3.4 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 and, 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.

3.4 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.

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, on a time proportion 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 has been established;

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(g) dividend income, when the shareholders' right to receive payment has been established;

(h) proceeds from the sale of investments, on the transaction dates when the relevant contract notes are exchanged; and

(i) tax refunds, when the acknowledgement of refunds from the tax bureau has been received.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes-Merton option pricing model, further details of which are given in note 34 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Pension schemes and other retirement benefits

Retirement benefits are provided to certain staff employed by the Group. In accordance with the Mandatory Provident Fund Schemes Ordinance, the Group's Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO Scheme, or the Mandatory Provident Fund Scheme under which employer contributions have to be made. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to both schemes are at a maximum of 10% of the monthly salaries of the employees. When an employee leaves employment prior to his or her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of the forfeited contributions, in accordance with the rules of the Mandatory Provident Fund Exempted ORSO Scheme. However, in respect of the Mandatory Provident Fund Scheme, only the employer voluntary contribution amounts are refundable to the Group when the members leave employment prior to their contributions vesting fully. The Group's mandatory contributions vest fully with the employees when the employees leave employment.

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

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 have been 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 and bye-laws 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 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 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 the transactions. Monetary assets and liabilities denominated in foreign currencies 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.

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 year. 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 consolidated 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 year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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 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 at 31 December 2007 was HK$1,332,857,000 (2006: HK$1,477,691,000). More details are given in note 19.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing leases and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2007 was HK$58,000,000 (2006: HK$52,389,000).

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2007 was HK$7,174,000 (2006: Nil). The amount of unrecognised tax losses at 31 December 2007 was HK$83,772,000 (2006: HK$203,179,000). Further details are contained in note 32 to the financial statements.

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 that the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in note 3.4 of the 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 of property, plant and equipment of HK$58,621,000 (2006: HK$2,193,000) was recognised in the consolidated income statement for the year. The carrying amount of property, plant and equipment was HK$2,082,579,000 (2006: HK$6,783,261,000) as at 31 December 2007.

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 on 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$10,781,000 (2006: HK$9,881,000) was recognised in the consolidated income statement for the year. The aggregate carrying amount of accounts and bills receivables, and prepayments, deposits and other receivables as at 31 December 2007 was HK$1,491,974,000 (2006: HK$3,302,815,000).

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about the expected future cash flows and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2007 was HK$8,707,000 (2006: HK$8,441,000). Further details are included in note 23 to the financial statements.

5. 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 over 90% 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. Summary details of the business segments are as follows:

Continuing operations

(a) the wineries segment engages in the production, sale and trading of grape wine and other relevant beverage products;

(b) the confectionery segment engages in the production and distribution of chocolate and other related products;

(c) the beverages segment engages in the processing and distribution of sparkling beverages and other relevant beverages;

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

(e) the corporate and others segment comprises the Group's corporate income and expense items;

Discontinued operations

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

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

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

(i) the biofuel and biochemical segment engages in the production and sale of biofuel and biochemical, and related products;

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

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

(l) the "others" segment comprises the Group's management services business, which provides management services relating to imports and exports, together with the corporate income and expense items of the Spin-Off Group.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

5. 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 2007 and 2006.

Year ended 31 December 2007	Continuing operations: Wineries	Confectionery	Beverages	Consumer-pack edible oil	Corporate and others	Eliminations	Total	Discontinued operations: Oilseed processing	Wheat processing	Rice trading and processing	Biofuel and biochemical	Brewing materials	Trading of non-rice foodstuffs	Others	Eliminations	Total	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:																	
Sales to external customers	2,140,284	437,398	3,007,261	4,158,068	–	–	9,743,011	2,681,473	503,922	869,428	319,069	220,177	–	–	–	4,594,069	14,337,080
Intersegment sales	–	–	–	–	–	–	–	19,487	–	7,977	1,209	–	–	–	(28,673)	–	–
Other revenue	43,386	9,651	21,258	(336)	15,926	–	89,885	54,511	1,292	1,405	42,276	(885)	–	168	(580)	98,187	188,072
Segment results	441,307	(29,983)	92,645	(20,847)	(42,868)*	–	440,254	128,716	2,188	80,629	26,348	36,784	–	(7,239)	–	267,426	707,680
Interest and dividend income							82,215									2,990	85,205
Gain on disposal of subsidiaries							394,884									–	394,884
Finance costs							(33,078)									(64,966)	(98,044)
Share of profits and losses of associates	–	–	49,167	–	–	–	49,167	54,656	–	–	4,320	–	–	–	–	58,976	108,143
Profit before tax							933,442									264,426	1,197,868
Tax							(135,792)									(24,657)	(160,449)
Profit for the year							797,650									239,769	1,037,419

* Included a stamp duty expense of HK$20,771,000 arising from the distribution of the entire share capital of China Agri-Industries.

5. SEGMENT INFORMATION (continued)

Year ended 31 December 2007	Continuing operations							Discontinued operations									
	Wineries	Confectionery	Beverages	Consumer-pack edible oil	Corporate and others	Eliminations	Total	Oilseed processing	Wheat processing	Rice trading and processing	Biofuel and biochemical	Brewing materials	Trading of non-rice foodstuffs	Others	Eliminations	Total	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities																	
Segment assets	2,926,436	604,909	3,016,917	861,313	2,879,024	(2,881,924)	7,406,675	–	–	–	–	–	–	–	–	–	7,406,675
Interests in associates	–	–	156,233	–	–	–	156,233	–	–	–	–	–	–	–	–	–	156,233
Unallocated assets							1,429,552									–	1,429,552
Total assets							8,992,460									–	8,992,460
Segment liabilities	(1,684,737)	(317,209)	(2,720,438)	(1,037,703)	(31,831)	2,881,924	(2,909,994)	–	–	–	–	–	–	–	–	–	(2,909,994)
Unallocated liabilities							(448,965)									–	(448,965)
Total liabilities							(3,358,959)									–	(3,358,959)
Other segment information:																	
Depreciation and amortisation	67,060	17,943	69,948	1,833	1,406	–	158,190	49,636	7,001	3,522	13,660	8,674	–	12	–	82,505	240,695
Impairment losses/ (write-back of impairment losses) recognised in the income statement	2,812	(270)	3,206	–	–	–	5,748	59,386	–	–	4,268	–	–	–	–	63,654	69,402
Capital expenditures	270,776	3,548	164,137	3,249	12,194	–	453,904	9,511	9,682	–	694,600	21,127	2,184	127	–	737,231	1,191,135

5. SEGMENT INFORMATION (continued)

Year ended 31 December 2006	Continuing operations: Wineries	Continuing operations: Confectionery	Continuing operations: Beverages	Continuing operations: Consumer-pack edible oil	Continuing operations: Corporate and others	Continuing operations: Eliminations	Continuing operations: Total	Discontinued operations: Oilseed processing	Discontinued operations: Wheat processing	Discontinued operations: Rice trading and processing	Discontinued operations: Biofuel and biochemical	Discontinued operations: Brewing materials	Discontinued operations: Trading of non-rice foodstuffs	Discontinued operations: Others	Discontinued operations: Eliminations	Discontinued operations: Total	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:																	
Sales to external customers	1,803,215	420,936	2,431,022	1,842,280	–	–	6,497,453	11,880,797	1,764,426	2,065,982	1,304,620	878,835	1,619,490	–	–	19,514,150	26,011,603
Intersegment sales	–	–	–	11,934	–	(11,934)	–	1,608,661	–	–	–	–	–	–	(1,608,661)	–	–
Other revenue	6,629	9,602	11,161	486	18,903	–	46,781	117,081	63,662	1,003	206,881	364	27,451	59,956	–	476,398	523,179
Segment results	319,366	(8,543)	108,535	63,240	(45,877)*	–	436,721	462,002	76,035	128,735	228,206	71,262	66,784	45,996	–	1,079,020	1,515,741
Interest and dividend income							57,716									35,994	93,710
Loss on disposal of subsidiaries							–									(106,848)	(106,848)
Finance costs							(45,426)									(210,421)	(255,847)
Share of profits and losses of associates	–	–	49,624	–	–	–	49,624	175,026	3,373	–	22,646	–	–	–	–	201,045	250,669
Profit before tax							498,635									998,790	1,497,425
Tax							(105,877)									(166,881)	(272,758)
Profit for the year							392,758									831,909	1,224,667

* Included impairment of goodwill of HK$19,310,000 and professional fees of HK$24,588,000 related to the Reorganisation.

5. SEGMENT INFORMATION (continued)

Year ended 31 December 2006	Continuing operations							Discontinued operations									
	Wineries	Confectionery	Beverages	Consumer-pack edible oil	Corporate and others	Eliminations	Total	Oilseed processing	Wheat processing	Rice trading and processing	Biofuel and biochemical	Brewing materials	Trading of non-rice foodstuffs	Others	Eliminations	Total	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities																	
Segment assets	2,310,789	595,905	1,970,506	404,339	1,005,150	(978,172)	5,308,517	6,488,176	934,444	1,215,422	2,601,419	1,297,652	832,327	2,379,940	(3,084,325)	12,665,055	17,973,572
Interests in associates	–	–	153,971	2,244	–	–	156,215	743,716	51,582	–	284,928	–	–	–	–	1,080,226	1,236,441
Unallocated assets							1,326,091									1,262,193	2,588,284
Total assets							6,790,823									15,007,474	21,798,297
Segment liabilities	(1,345,915)	(262,290)	(534,665)	(332,133)	(38,390)	948,783	(1,564,610)	(2,094,939)	(704,113)	(764,669)	(1,089,287)	(592,211)	(423,638)	(31,724)	3,113,714	(2,586,867)	(4,151,477)
Unallocated liabilities							(649,063)									(5,435,628)	(6,084,691)
Total liabilities							(2,213,673)									(8,022,495)	(10,236,168)
Other segment information:																	
Depreciation and amortisation	54,277	16,493	58,164	5,173	333	–	134,440	181,406	26,865	12,820	65,777	29,931	1,066	330	–	318,195	452,635
Impairment losses/(write-back of impairment losses) recognised in the income statement	1,725	5,013	3,679	–	19,310	–	29,727	2,255	217	845	(646)	–	–	–	–	2,671	32,398
Capital expenditures	149,956	21,497	83,690	12,965	–	–	268,108	185,347	48,438	5,591	802,026	172,678	109	203	–	1,214,392	1,482,500

6. 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:

	Group	
	2007	2006
	HK$'000	HK$'000
		(Restated)
Other income		
Gross rental income	**7,098**	8,172
Agency commission	**33**	23,194
Commission income	**278**	–
Management fee income from COFCO	**–**	31,576
Bank interest income	**44,037**	40,063
Interest income from a fellow subsidiary	**–**	4,831
Dividend income from available-for-sale investments	**41,004**	45,656
Dividend income from investments at fair value through profit or loss	**164**	3,160
Government grants*	**67,711**	191,807
Compensation income	**13,545**	56,607
Rental of containers	**6,449**	6,541
Tax refunds	**37,947**	26,725
Others	**8,315**	47,691
	226,581	486,023
Gains		
Gain on disposal of by-products and scrap items	**11,429**	30,223
Foreign exchange differences, net	**18,748**	59,164
Fair value gains on investments at fair value through profit or loss	**14,587**	38,768
Fair value gain on investment properties (note 17)	**1,727**	–
Fair value gains on derivative financial instruments	**–**	2,174
Gain on disposal of subsidiaries (note 37)	**394,884**	–
Others	**205**	537
	441,580	130,866
	668,161	616,889
Represented by:		
Other income and gains attributable to discontinued operations (note 13)	**101,177**	512,392
Other income and gains attributable to continuing operations reported in the consolidated income statement	**566,984**	104,497
	668,161	616,889

6. REVENUE, OTHER INCOME AND GAINS (continued)

* 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 of the PRC for fuel ethanol producers, a subsidiary of the Company engaged in the production and sale of biofuel and biochemical, which was acquired during 2006, 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$44,514,000 (2006: HK$176,566,000) 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.

7. PROFIT BEFORE TAX

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

	2007 HK$'000	2006 HK$'000 (Restated)
Cost of inventories sold	**11,432,837**	22,650,000
Provision against inventories	**3,808**	2,892
Realised fair value losses/(gains) of derivative instrument transactions not qualifying as hedges	**7,789**	(121,380)
Unrealised fair value losses of derivative instrument transactions not qualifying as hedges	**31,494**	11,966
Gain arising from changes in fair value of biological assets (note 24)	**(10,555)**	(9,565)
Cost of sales	**11,465,373**	22,533,913
Auditors' remuneration	**5,214**	9,308
Depreciation (note 16)	**235,332**	441,516
Amortisation of other intangible assets (note 20)	**272**	–
Minimum lease payments under operating leases in respect of land and buildings	**37,779**	60,515
Recognition of prepaid land premiums (note 18)	**5,091**	11,119
Employee benefits expenses (including directors' remuneration – note 9):		
Wages and salaries	**454,062**	508,576
Pension scheme contributions *	**36,244**	40,963
Equity-settled share option expense	**3,060**	5,696
	493,366	555,235

7. PROFIT BEFORE TAX (continued)

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Other expenses include the following:			
Loss on disposal of items of property, plant and equipment		**3,261**	16,789
Loss on disposal of subsidiaries	37	**–**	106,848
Impairment of items of property, plant and equipment	16	**58,621**	2,193
Impairment of goodwill	19	**–**	20,324
Impairment of accounts receivable	26	**273**	9,016
Impairment of other receivables		**10,508**	865

* At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2006: Nil).

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

8. FINANCE COSTS

	Group	
	2007 HK$'000	2006 HK$'000 (Restated)
Interest on:		
Bank loans wholly repayable within five years	**73,256**	160,120
Loans from the ultimate holding company and a fellow subsidiary	**30,251**	100,319
Others	**287**	3,135
Total interest expense on financial liabilities not at fair value through profit or loss	**103,794**	263,574
Less: Interest capitalised	**(5,750)**	(7,727)
	98,044	255,847
Attributable to discontinued operations (note 13)	**64,966**	210,421
Attributable to continuing operations reported in the consolidated income statement	**33,078**	45,426
	98,044	255,847

9. 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:

	Group	
	2007	2006
	HK$'000	HK$'000
Fees:		
Executive directors	**376**	1,258
Independent non-executive directors	**600**	600
Non-executive director	**78**	–
	1,054	1,858
Other emoluments:		
Salaries, allowances and benefits in kind	**5,893**	5,861
Discretionary bonuses	**2,599**	325
Equity-settled share option expense	**812**	2,963
Pension scheme contributions	**183**	237
	9,487	9,386
	10,541	11,244

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007	2006
	HK$'000	HK$'000
Mr. Stephen Edward Clark	**200**	200
Mr. Tan Man Kou	**200**	200
Mr. Yuen Tin Fan, Francis	**200**	200
	600	600

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007						
Executive directors:						
Mr. Ning Gaoning	200	–	–	131	–	331
Mr. Liu Fuchun	44	–	–	–	–	44
Mr. Qu Zhe	–	1,464	720	131	73	2,388
Mr. Xue Guoping	44	–	–	–	–	44
Mr. Liu Yongfu	44	–	–	–	–	44
Mr. Ma Jianping	–	1,200	560	119	60	1,939
Ms. Luan Xiuju	–	2,009	758	104	50	2,921
Mr. Zhang Zhentao	–	557	408	104	–	1,069
Mr. Yu Xubo	44	–	–	–	–	44
Mr. Mak Chi Wing, William	–	663	153	119	–	935
	376	5,893	2,599	708	183	9,759
Non-executive director:						
Ms. Wu Wenting	78	–	–	104	–	182
	454	5,893	2,599	812	183	9,941
2006						
Executive directors:						
Mr. Ning Gaoning	200	1,300	–	–	60	1,560
Mr. Liu Fuchun	200	1,950	–	1,229	90	3,469
Mr. Qu Zhe	200	1,770	229	96	55	2,350
Mr. Xue Guoping	200	–	–	819	–	1,019
Mr. Liu Yongfu	200	–	–	819	–	1,019
Mr. Yu Xubo	200	–	–	–	–	200
Mr. Mak Chi Wing, William	48	187	96	–	–	331
Mr. Yu Guangquan	10	654	–	–	32	696
	1,258	5,861	325	2,963	237	10,644

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2006: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2006: one) non-director, highest paid employee for the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**742**	984
Discretionary bonuses	**495**	96
Equity-settled share option expense	**104**	–
Pension scheme contributions	**–**	47
	1,341	1,127

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are set out in note 34 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

The remuneration of the non-director, highest paid employee fell within the band of HK$1,000,001 to HK$1,500,000 (2006: HK$1,000,001 to HK$1,500,000).

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated 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 jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007 HK$'000	2006 HK$'000 (Restated)
Group:		
Current – Hong Kong		
Charge for the year	2,457	11,954
Underprovision in prior years	–	12,447
Current – Elsewhere in the PRC		
Charge for the year	216,100	252,787
Underprovision/(overprovision) in prior years	(3,063)	281
Investment tax credits	(31,195)	(11,054)
Deferred (note 32)	(23,850)	6,343
Total tax charge for the year	160,449	272,758
Represented by:		
Tax charge attributable to discontinued operations (note 13)	24,657	166,881
Tax charge attributable to continuing operations reported in the consolidated income statement	135,792	105,877
	160,449	272,758

11. TAX (continued)

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

Group – 2007

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax #	432,304		765,564		1,197,868	
Tax at the statutory tax rates	75,653	17.5	252,636	33.0	328,289	27.4
Lower tax rate for specific provinces or local authority *	–	–	(55,618)	(7.3)	(55,618)	(4.6)
Profit not subject to tax due to concessions **	–	–	(22,602)	(3.0)	(22,602)	(1.8)
Tax credit utilised during the year	–	–	(3,251)	(0.4)	(3,251)	(0.3)
Profits attributable to associates	–	–	(35,536)	(4.6)	(35,536)	(3.0)
Income not subject to tax	(83,197)	(19.2)	(3,939)	(0.5)	(87,136)	(7.3)
Expenses not deductible for tax	10,001	2.3	35,731	4.7	45,732	3.8
Effect on deferred tax of change in rates	–	–	(898)	(0.1)	(898)	(0.1)
Adjustment in respect of current tax of previous periods	–	–	(3,063)	(0.4)	(3,063)	(0.3)
Tax rebates	–	–	(31,195)	(4.1)	(31,195)	(2.6)
Tax losses utilised from previous periods	–	–	(1,550)	(0.2)	(1,550)	(0.1)
Tax losses not recognised	–	–	27,277	3.5	27,277	2.3
Tax charge at the Group's effective rate	2,457	0.6	157,992	20.6	160,449	13.4

11. TAX (continued)

Group – 2006

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax #	(22,728)		1,520,153		1,497,425	
Tax at the statutory tax rates	(3,977)	17.5	501,650	33.0	497,673	33.2
Lower tax rate for specific provinces or local authority *	–	–	(108,170)	(7.1)	(108,170)	(7.2)
Profit not subject to tax due to concessions **	–	–	(55,275)	(3.6)	(55,275)	(3.7)
Profits attributable to associates	–	–	(79,770)	(5.3)	(79,770)	(5.3)
Income not subject to tax	(20,739)	91.2	(25,312)	(1.7)	(46,051)	(3.1)
Expenses not deductible for tax	37,122	(163.3)	27,441	1.8	64,563	4.3
Adjustment in respect of current tax of previous periods	12,447	(54.8)	281	–	12,728	0.8
Tax rebates	–	–	(11,054)	(0.7)	(11,054)	(0.7)
Tax losses utilised from previous periods	(455)	2.0	(16,779)	(1.1)	(17,234)	(1.1)
Tax losses not recognised	3	–	15,345	1.0	15,348	1.0
Tax charge at the Group's effective rate	24,401	(107.4)	248,357	16.3	272,758	18.2

* 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 the 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 rates for the subsequent three years.

\# Included profit before tax from discontinued operations.

11. TAX (continued)

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC corporate income tax ("CIT") law (the "New CIT Law") was approved and became 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%. The New CIT Law is expected to have no significant impact on the Group. This reduction in the income tax rate will directly reduce the Group’s effective tax rate prospectively from 2008. According to HKAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the periods when the assets are realised or the liabilities are settled. As a result, the change in the corporate income tax rate has resulted an increase in deferred tax assets of HK$898,000, which has been credited to the income tax expense during the year.

The share of tax attributable to associates amounting to HK$17,152,000 (2006: HK$26,862,000) is included in “Share of profits and losses of associates” on the face of the consolidated income statement.

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a loss of HK$12,297,000 (2006: a profit of HK$98,685,000) which has been dealt with in the financial statements of the Company (note 35(b)).

13. DISCONTINUED OPERATIONS

Pursuant to the Reorganisation as detailed in note 2 to the financial statements, the Group (1) discontinued its trading of non-rice foodstuffs businesses and provision of management services to COFCO and investment in marketable securities carried out by the Disposal Group; and (2) discontinued its oilseed processing, wheat processing, rice trading and processing, biofuel and biochemical and brewing materials businesses carried out by the Spin-Off Group. These transactions were completed on 31 December 2006 and 21 March 2007, respectively.

The results of the Disposal Group and the Spin-Off Group for the year are presented below:

	2007 HK$'000	2006 HK$'000 (Restated)
Revenue	4,594,069	19,514,150
Cost of sales	(4,147,676)	(18,026,774)
Gross profit	446,393	1,487,376
Other income and gains	101,177	512,392
Expenses	(277,154)	(991,602)
Finance costs	(64,966)	(210,421)
Share of profits of associates	58,976	201,045
Profit before tax from the discontinued operations	264,426	998,790
Tax related to pre-tax profit	(24,657)	(166,881)
Profit for the year from the discontinued operations	239,769	831,909
Attributable to:		
Equity holders of the Company	195,832	691,859
Minority interests	43,937	140,050
	239,769	831,909

All assets and liabilities of the Disposal Group were disposed of in the prior year. The Spin-Off Group was approved to be distributed in the current year. Further details of the assets and liabilities of the Spin-Off Group distributed are set out in note 39 to the financial statements.

13. DISCONTINUED OPERATIONS (continued)

The net cash flows incurred by the Disposal Group and the Spin-Off Group are as follows:

	2007 HK$'000	2006 HK$'000 (Restated)
Operating activities	**31,667**	(1,012,064)
Investing activities	**(375,340)**	(708,948)
Financing activities	**325,417**	2,476,045
Net cash inflow/(outflow)	**(18,256)**	755,033

	2007	2006 (Restated)
Earnings per share:		
Basic, from discontinued operations	**7.02 HK cents**	26.05 HK cents
Diluted, from discontinued operations	**7.01 HK cents**	25.92 HK cents

The calculation of basic and diluted earnings per share from discontinued operations are based on:

	2007	2006 (Restated)
Profit attributable to ordinary equity holders of the Company from discontinued operations	**HK$195,832,000**	HK$691,859,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,791,383,356**	2,655,640,814
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,792,103,066**	2,669,546,723

14. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Interim – Nil (2006: 4.5 HK cents) per ordinary share	**–**	79,256
Proposed final – 4.5 HK cents (2006: Nil) per ordinary share	**125,612**	–
Special interim (notes 2, 39)	**6,234,148**	–
Dividends paid by the subsidiaries acquired under the Acquisition to their then shareholders	**–**	4,578
	6,359,760	83,834

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

The calculations of basic and diluted earnings per share are based on:

	2007	2006
	HK$'000	HK$'000
		(Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the earnings per share calculation:		
From continuing operations	**595,854**	298,205
From discontinued operations	**195,832**	691,859
	791,686	990,064

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,791,383,356**	2,655,640,814
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**719,710**	13,905,909
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,792,103,066**	2,669,546,723

16. PROPERTY, PLANT AND EQUIPMENT

	Group				Company
	Buildings	Plant, machinery and equipment	Construction in progress	Total	Plant and equipment
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2007					
At 31 December 2006 and at 1 January 2007:					
Cost	3,062,946	4,862,731	1,163,572	9,089,249	1,814
Accumulated depreciation and impairment	(597,520)	(1,708,468)	–	(2,305,988)	(1,774)
Net carrying amount	2,465,426	3,154,263	1,163,572	6,783,261	40
At 1 January 2007, net of accumulated depreciation and impairment	2,465,426	3,154,263	1,163,572	6,783,261	40
Additions	12,032	135,323	1,029,217	1,176,572	–
Acquisition of subsidiaries (note 36)	200,303	176,685	–	376,988	–
Impairment	(13,085)	(45,536)	–	(58,621)	–
Disposals	(2,150)	(15,046)	(1,690)	(18,886)	–
Disposal of subsidiaries (note 37)	(48,991)	(44,676)	(104)	(93,771)	–
Spin-off of China Agri-Industries (note 39)	(2,007,602)	(2,355,363)	(1,684,584)	(6,047,549)	–
Depreciation provided during the year	(41,235)	(194,097)	–	(235,332)	(40)
Transfers	257,860	228,773	(486,633)	–	–
Exchange realignment	84,820	92,581	22,516	199,917	–
At 31 December 2007, net of accumulated depreciation and impairment	907,378	1,132,907	42,294	2,082,579	–
At 31 December 2007:					
Cost	1,178,053	2,149,177	42,294	3,369,524	1,814
Accumulated depreciation and impairment	(270,675)	(1,016,270)	–	(1,286,945)	(1,814)
Net carrying amount	907,378	1,132,907	42,294	2,082,579	–

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group				Company
	Buildings	Plant, machinery and equipment	Construction in progress	Total	Plant and equipment
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2006					
At 1 January 2006:					
Cost	2,491,689	3,948,136	443,664	6,883,489	1,814
Accumulated depreciation and impairment	(471,298)	(1,378,389)	–	(1,849,687)	(1,441)
Net carrying amount	2,020,391	2,569,747	443,664	5,033,802	373
At 1 January 2006, net of accumulated depreciation and impairment	2,020,391	2,569,747	443,664	5,033,802	373
Additions	18,161	252,024	1,121,848	1,392,033	–
Acquisition of subsidiaries (note 36)	150,882	431,280	31,761	613,923	–
Impairment	–	(2,193)	–	(2,193)	–
Disposals	(8,198)	(36,039)	(526)	(44,763)	–
Disposal of subsidiaries (note 37)	–	(2,313)	–	(2,313)	–
Depreciation provided during the year	(110,533)	(330,983)	–	(441,516)	(333)
Transfers	309,887	163,210	(473,097)	–	–
Exchange realignment	84,836	109,530	39,922	234,288	–
At 31 December 2006, net of accumulated depreciation and impairment	2,465,426	3,154,263	1,163,572	6,783,261	40
At 31 December 2006:					
Cost	3,062,946	4,862,731	1,163,572	9,089,249	1,814
Accumulated depreciation and impairment	(597,520)	(1,708,468)	–	(2,305,988)	(1,774)
Net carrying amount	2,465,426	3,154,263	1,163,572	6,783,261	40

16. PROPERTY, PLANT AND EQUIPMENT (continued)

All of the Group's buildings are held outside Hong Kong under medium term leases.

At 31 December 2007, certain of the Group's buildings with a net book value of approximately HK$45,680,000 (2006: HK$1,146,409,000) were pledged to secure general banking facilities granted to the Group (note 31).

As at 31 December 2007, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net book value of HK$29,521,000 (2006: HK$60,344,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

During the year, impairment was recognised in the income statement in respect of certain items of property, plant and equipment as a result of the closure of a production line. The recoverable amount was estimated based on the property, plant and equipment's scrap values.

17. INVESTMENT PROPERTIES

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 January	**52,389**	50,562
Net gain from a fair value adjustment	**1,727**	–
Exchange realignment	**3,884**	1,827
Carrying amount at 31 December	**58,000**	52,389

All of the Group's investment properties are held outside Hong Kong under medium term leases.

The Group's investment properties were revalued on 31 December 2007 by BMI Appraisals Limited, independent professionally qualified valuers, at HK$58,000,000 (2006: HK$52,389,000) on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

At 31 December 2007, the Group's investment properties with a carrying value of HK$58,000,000 (2006: HK$52,389,000) were pledged to secure banking facilities granted to the Group (note 31).

18. PREPAID LAND PREMIUMS

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 January	**478,516**	344,077
Additions	**14,563**	90,467
Acquisition of subsidiaries (note 36)	**11,058**	39,338
Disposal of subsidiaries (note 37)	**(4,638)**	–
Spin-off of China Agri-Industries (note 39)	**(375,663)**	–
Recognised during the year	**(5,091)**	(11,119)
Exchange realignment	**13,414**	15,753
Carrying amount at 31 December	**132,159**	478,516
Current portion included in prepayments, deposits and other receivables	**(12,894)**	(12,016)
Non-current portion	**119,265**	466,500

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

None of the Group's land use rights were pledged as at 31 December 2007. At 31 December 2006, certain of the Group's land use rights with a net book value of approximately HK$103,113,000 were pledged to secure bank loans granted to the Group (note 31).

As at 31 December 2007, certificates of land use rights in respect of certain land of the Group in Mainland China with an aggregate net book value of HK$15,920,000 (2006: HK$33,417,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

19. GOODWILL

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January:		
Cost	**1,477,691**	994,211
Accumulated impairment	**–**	(19,310)
Net carrying amount	**1,477,691**	974,901
Cost at 1 January, net of accumulated impairment	**1,477,691**	974,901
Acquisition of subsidiaries (note 36)	**414,014**	338,451
Acquisition of additional interests in existing subsidiaries	**–**	277,996
Disposal of subsidiaries (note 37)	**–**	(93,333)
Spin-off of China Agri-Industries (note 39)	**(574,268)**	–
Impairment during the year	**–**	(20,324)
Exchange realignment	**15,420**	–
At 31 December	**1,332,857**	1,477,691
At 31 December:		
Cost	**1,332,857**	1,478,705
Accumulated impairment	**–**	(1,014)
Net carrying amount	**1,332,857**	1,477,691

The amounts of the goodwill remaining in the consolidated reserves arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 2001, were HK$89,540,000 as at 31 December 2006 and 2007. The amount of goodwill is stated at its cost of HK$261,897,000, less cumulative impairment of HK$172,357,000 which arose in prior years.

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;
- Wineries cash-generating unit;
- Confectionery cash-generating unit;
- Beverages cash-generating unit;
- Rice trading and processing cash-generating unit;

19. GOODWILL (continued)

Impairment testing of goodwill (continued)

- Wheat processing cash-generating unit; and
- Biofuel and biochemical cash-generating unit.

The recoverable amount of each of the above cash-generating units is determined based on a value in use calculation using cash flow projections based on financial budgets covering periods ranging from one to five years approved by senior management. The discount rates applied to the cash flow projections ranged from 10% to 12%.

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

	2007 HK$'000	2006 HK$'000
Oilseed processing	–	103,658
Wineries	404,306	404,306
Confectionery	11,610	11,610
Beverages	916,941	502,927
Rice trading and processing	–	113,556
Wheat processing	–	3,183
Biofuel and biochemical	–	338,451
	1,332,857	1,477,691

Key assumptions were used in the value in use calculation of the cash-generating units for 31 December 2007 and 31 December 2006. 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 budget 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.

20. OTHER INTANGIBLE ASSETS

	Group HK$'000
Cost at 1 January 2007, net of accumulated amortisation and impairment	–
Additions	**16,838**
Amortisation provided during the year	**(272)**
Exchange realignment	**613**
At 31 December 2007	**17,179**

21. INTERESTS IN SUBSIDIARIES

	Company	
	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**2,749,426**	8,398,558
Due from subsidiaries	**3,060,153**	953,843
Due to subsidiaries	**(503,906)**	(501,890)
	5,305,673	8,850,511
Impairment #	**(140,824)**	(140,824)
	5,164,849	8,709,687

An impairment was recognised for certain unlisted investments with a carrying amount of HK$642,714,000 (before deducting the impairment loss) (2006: HK$642,714,000) because its recoverable amount is less than its carrying value. There was no change in the impairment account during the current and prior years.

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

The value of the unlisted shares is based on:

(a) the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date when the Company became the holding company of the Group pursuant to the group reorganisation in 1991;

(b) the costs of acquisitions of certain subsidiaries in 2001 and 2006.

Particulars of the Company's principal subsidiaries as at 31 December 2007 are set out in note 45 to the financial statements.

22. INTERESTS IN ASSOCIATES

	Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**151,195**	1,032,275
Goodwill	**–**	26,653
	151,195	1,058,928
Due from associates	**5,958**	32,461
Loans to associates	**–**	156,283
Due to associates	**(920)**	(11,231)
	156,233	1,236,441

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.

In the opinion of the Company's directors, the loans to associates are considered as quasi-equity loans to the associates. The balances are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values.

The amount of goodwill arising from acquisition of associates is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January:		
Cost and net carrying amount	**26,653**	14,939
Net carrying amount at 1 January	**26,653**	14,939
Spin-off of China Agri-Industries	**(26,653)**	–
Acquisition of an associate	**–**	11,714
At 31 December:		
Cost and net carrying amount	**–**	26,653

22. INTERESTS IN ASSOCIATES (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; and
- Biofuel and biochemical cash-generating unit.

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

	2007	2006
	HK$'000	HK$'000
Oilseed processing	**–**	14,939
Biofuel and biochemical	**–**	11,714
	–	26,653

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 19 to the financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2007	2006
	HK$'000	HK$'000
Assets	**2,032,501**	7,735,298
Liabilities	**1,333,586**	4,022,934
Revenue	**4,469,119**	13,464,093
Profit	**221,511**	778,505

Particulars of the Group' principal associates as at 31 December 2007 are set out in note 46 to the financial statements.

23. AVAILABLE-FOR-SALE INVESTMENTS AND RELATED ADVANCES

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted equity investments elsewhere than Hong Kong, at fair value	**8,707**	8,441
Unlisted equity investments elsewhere than Hong Kong, at cost	**198,782**	285,490
Loans to investee companies	**–**	36,113
Amount due from investee companies	**5,966**	2,641
	213,455	332,685

The loans to investee companies are unsecured, interest-free and not repayable within one year from the balance sheet date. The carrying amounts of the loans to investee companies approximate to their fair values.

The amount due from an investee company is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from an investee company approximates to its fair value.

Certain unlisted equity investments were stated at cost less impairment because the directors are of the opinion that their fair value cannot be measured reliably.

In 2006, the gross gain of the Group's available-for-sale equity investments recognised directly in equity amounted to HK$303,000. Unrealised loss of HK$1,774,000 was released to retained profits during that year upon the disposal of subsidiaries. There was no gain recognised in equity or loss released to retained profits during the current year.

24. BIOLOGICAL ASSETS

	Group	
	2007	2006
	HK$'000	HK$'000
At beginning of year	**53,584**	35,840
Decrease due to harvest	**(13,593)**	(17,412)
Additions during the year	**7,931**	8,179
Gains arising from changes in fair value attributable to physical changes	**24,148**	26,977
At 31 December	**72,070**	53,584

The Group harvested 4,218,572 kilograms of grapes with a fair value less estimated point-of-sale costs of HK$13,593,000 in the year ended 31 December 2007.

24. BIOLOGICAL ASSETS (continued)

Significant assumptions made in determining the fair value of the biological assets are as follows:

(a) the grape vines will continue to be competently managed and remain free from irremediable diseases in the remaining estimated useful lives;

(b) the expected prices of grapes are based on the past actual average district prices; and

(c) the future cash flows have been discounted at the target rate of return on equity of the wineries segment.

25. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**835,801**	2,901,803
Work in progress	**2,704**	223,021
Finished goods	**1,129,816**	1,762,090
	1,968,321	4,886,914

26. ACCOUNTS AND BILLS RECEIVABLES

	Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables	**1,022,850**	1,615,207
Impairment	**(25,671)**	(38,479)
	997,179	1,576,728

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 and has a credit control department 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 and bills receivables are non-interest-bearing, they are normally settled within one to three months and one to six months, respectively.

26. ACCOUNTS AND BILLS RECEIVABLES (continued)

An aged analysis of the accounts and bills receivables as at the balance sheet date, based on the invoice date and net of impairment, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 3 months	**635,103**	1,338,284
3 to 12 months	**357,641**	238,092
1 to 2 years	**4,430**	352
Over 2 years	**5**	–
	997,179	1,576,728

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

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**38,479**	31,699
Acquisition of subsidiaries	**1,032**	–
Impairment losses recognised (note 7)	**273**	9,016
Amount written off as uncollectible	**(13,678)**	(3,475)
Spin-off of China Agri-Industries	**(2,637)**	–
Exchange realignment	**2,202**	1,239
At 31 December	**25,671**	38,479

The individually impaired accounts receivable relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

26. ACCOUNTS AND BILLS RECEIVABLES (continued)

The aged analysis of the accounts and bills receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Outstanding balances with ages:		
Neither past due nor impaired	**844,774**	1,146,987
Less than 1 month past due	**16,441**	47,710
1 to 3 months past due	**49,323**	143,130
More than 3 months but less than 12 months past due	**86,641**	238,901
	997,179	1,576,728

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

27. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity securities in Hong Kong, at fair value	**16,825**	48,300	**14,301**	48,300

The above investments at 31 December 2006 and 2007 were classified as held for trading.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Commodity future contracts	**–**	537

Prior to the Spin-Off, the Group entered into various commodity future contracts to manage its price exposure in future purchases or sales of soybean meal which did not meet the criteria for hedge accounting. Changes in fair value of non-hedging derivative financial instruments amounting to HK$39,283,000 were charged (2006: HK$109,414,000 were credited) to the consolidated income statement during the year.

29. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
	Note	**2007**	2006	**2007**	2006
		HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**820,377**	1,770,362	**2,815**	24,183
Time deposits		**579,663**	799,794	**430,179**	646,505
		1,400,040	2,570,156	**432,994**	670,688
Less: Time deposits pledged for short term bank loans	31	**(3,477)**	(54,183)	**–**	–
Cash and cash equivalents		**1,396,563**	2,515,973	**432,994**	670,688

At the balance sheet date, the cash and cash equivalents and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to HK$719,406,000 (2006: HK$1,767,610,000). The 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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

30. ACCOUNTS AND BILLS PAYABLES

An aged analysis of the accounts and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 3 months	**708,303**	1,335,812
3 to 12 months	**98,024**	35,562
1 to 2 years	**7,744**	4,753
Over 2 years	**1,244**	430
	815,315	1,376,557

Accounts and bills payables are non-interest-bearing and are normally settled on one to three months, and one to six months, respectively. The carrying amounts of the accounts and bills payables approximate to their fair values.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2007			2006		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans-secured	**3.00-6.48**	**2008**	**16,019**	3.00-7.01	2007	624,520
Bank loans-unsecured	**5.00-6.50**	**2008**	**123,704**	5.02-6.30	2007	2,616,916
Other loans-unsecured	**5.02-5.83**	**2008**	**145,237**	4.86-5.85	2007	657,193
			284,960			3,898,629
Non-current						
Bank loans-unsecured	**5.83-6.48**	**2009-2013**	**106,792**	5.67-6.00	2008-2011	1,106,349
Other loans-unsecured			**–**	5.18-6.30	2009	958,736
			106,792			2,065,085
			391,752			5,963,714
Analysed into:						
Bank loans repayable:						
Within one year or on demand			**139,723**			3,241,436
In the second year			**–**			598,026
In the third to fifth years, inclusive			**106,792**			508,323
			246,515			4,347,785
Other loans:						
Within one year or on demand			**145,237**			657,193
In the third to fifth years, inclusive			**–**			958,736
			145,237			1,615,929
			391,752			5,963,714

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

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

(i) a charge over the Group's investment properties held outside Hong Kong with a carrying value at the balance sheet date of HK$58,000,000 (2006: HK$52,389,000) (note 17);

(ii) a charge over certain of the Group's property, plant and equipment with a net book value of approximately HK$45,680,000 (2006: HK$1,146,409,000) (note 16);

(iii) a charge over certain of the Group's land use rights with a net book value of Nil (2006: approximately HK$103,113,000) (note 18); and

(iv) the pledge of certain of the Group's time deposits amounting to HK$3,477,000 (2006: HK$54,183,000) (note 29).

(b) Except for bank and other borrowings of HK$2,068,000 (2006: HK$2,318,821,000) which are denominated in United States dollars, all other borrowings are denominated in RMB.

In addition, the Company's ultimate holding company has guaranteed certain of the Group's bank loans amounting to HK$65,143,000 (2006: Nil) as at the balance sheet date.

The other loans represent loans of HK$145,237,000 (2006: HK$1,615,929,000) from COFCO and a financial institution in the COFCO group. These balances are unsecured and bear interest at rates ranging from 5.02% to 5.83% (2006: 4.86% to 6.3%) per annum.

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

32. DEFERRED TAX

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

Deferred tax liabilities

Group

	Accelerated tax depreciation HK$'000	Deferred income HK$'000	Others HK$'000	Total HK$'000
At 1 January 2006	–	–	5,339	5,339
Acquisition of subsidiaries (note 36)	10,221	(721)	2,529	12,029
Deferred tax charged to the income statement during the year (note 11)	3,739	28	7,421	11,188
Exchange realignment	408	(22)	440	826
At 31 December 2006 and at 1 January 2007	14,368	(715)	15,729	29,382
Deferred tax charged to the income statement during the year (note 11)	–	–	6,970	6,970
Spin-off of China Agri-Industries (note 39)	(14,563)	725	(16,570)	(30,408)
Exchange realignment	195	(10)	600	785
At 31 December 2007	–	–	6,729	6,729

32. DEFERRED TAX (continued)

Deferred tax assets

Group

	Provision against inventories HK$'000	Impairment of receivables HK$'000	Unrealised derivative financial instruments loss HK$'000	Others HK$'000	Total HK$'000
At 1 January 2006	1,398	4,534	–	4,328	10,260
Deferred tax credited/(charged) to the income statement during the year (note 11)	(1,046)	144	–	5,747	4,845
Exchange realignment	31	166	–	263	460
At 31 December 2006 and at 1 January 2007	383	4,844	–	10,338	15,565
Deferred tax credited/(charged) to the income statement during the year (note 11)	22	(113)	10,054	20,857	30,820
Spin-off of China Agri-Industries (note 39)	–	(92)	(10,090)	(12,230)	(22,412)
Exchange realignment	29	344	36	1,053	1,462
At 31 December 2007	434	4,983	–	20,018	25,435

The Group has tax losses arising in Mainland China of HK$83,772,000 (2006: HK$203,179,000) 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.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: 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.

33. SHARE CAPITAL

Shares

	2007 HK$'000	2006 HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.10 each	**400,000**	400,000
Issued and fully paid:		
2,791,383,356 ordinary shares of HK$0.10 each	**279,138**	279,138

There were no movements in the Company's share capital during the year ended 31 December 2007.

The movements of share capital during the year ended 31 December 2006 were as follows:

(i) Pursuant to an ordinary resolution passed on 21 November 2006, the authorised share capital of the Company was increased from HK$250,000,000 to HK$400,000,000 by the creation of 1,500,000,000 additional shares of HK$0.1 each, ranking pari passu in all respects with the existing share capital of the Company.

(ii) The subscription rights attaching to 53,194,000 share options were exercised at subscription prices ranging from HK$3.05 to HK$3.644 per share (note 34), resulting in the issue of 53,194,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$177,848,000.

(iii) Pursuant to a placing agreement dated 24 November 2006, 100,000,000 new ordinary shares of HK$0.1 each were issued by the Company at a price of HK$6.94 per share for a total cash consideration, before expenses, of HK$694,000,000.

(iv) Pursuant to the Reorganisation as detailed in note 2 to the financial statements, 879,739,382 new ordinary shares of HK$0.10 each were issued by the Company to its immediate holding company at a price of HK$5.25 per share for an amount, before expenses, of HK$4,618,632,000 for the Acquisition. The amount of approximately HK$4,530,658,000 in excess of the nominal value of the shares issued was credited to the Company's contributed surplus.

33. SHARE CAPITAL (continued)

Shares (continued)

A summary of the transactions during 2006 with reference to the above movements in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2006		1,758,449,974	175,845	2,776,042	2,951,887
Share options exercised, net of share issue expenses	(ii)	53,194,000	5,319	172,529	177,848
Placing of shares, net of share issue expenses	(iii)	100,000,000	10,000	675,072	685,072
Issue of shares, net of share issue expenses	(iv)	879,739,382	87,974	–	87,974
At 31 December 2006 and 31 December 2007		2,791,383,356	279,138	3,623,643	3,902,781

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 34 to the financial statements.

34. SHARE OPTION SCHEMES

In the prior years, the Company operated a share option scheme (the "Old Scheme"). The Old Scheme became effective on 23 June 1997 and, unless otherwise cancelled or amended, would remain in force for 10 years from that date and expired on 22 June 2007. All share options granted under the Old Scheme were exercised, lapsed or forfeited during 2006.

Pursuant to an ordinary resolution passed on 21 November 2006, the Company conditionally adopted a new share option scheme (the "Scheme"). The Scheme became effective on 21 November 2006 (the "Effective Date") and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The purpose of the Old Scheme and the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old Scheme and the Scheme include the Company's directors and other employees of the Group.

34. SHARE OPTION SCHEMES (continued)

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.

The offer of a grant of share options may be accepted within 28 days from the date of offer. 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.

On 27 September 2007, a total of 20,619,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year. These share options vest ranging from 27 September 2007 to 26 September 2011 and have an exercise price of HK$4.952 per share and exercise periods ranging from 27 September 2009 to 26 September 2014. The price of the Company's shares at the date of grant was HK$4.95 per share.

34. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Old Scheme and the Scheme:

	2007 Weighted average exercise price HK$ per share	**2007** Number of options '000	2006 Weighted average exercise price HK$ per share	2006 Number of options '000
At 1 January	–	–	3.302	57,104
Granted during the year	4.952	20,619	–	–
Exercised during the year	–	–	3.343	(53,194)
Forfeited during the year	4.952	(141)	3.302	(2,910)
Expired during the year	–	–	3.302	(1,000)
At 31 December	4.952	20,478	–	–

The weighted average share price at the date of exercise for share options exercised during 2006 was HK$3.302.

The vesting periods, exercise prices and exercise periods of the share options outstanding as at 31 December 2007 are as follows:

Number of options granted to Directors '000	Number of options granted to Employees '000	Total '000	Vesting period	Exercise price per share HK$	Exercise period
1,820	5,053	6,873	27-9-2007 to 26-9-2009	4.952	27-9-2009 to 26-9-2014
1,820	5,053	6,873	27-9-2007 to 26-9-2010	4.952	27-9-2010 to 26-9-2014
1,820	4,912	6,732	27-9-2007 to 26-9-2011	4.952	27-9-2011 to 26-9-2014
5,460	15,018	20,478			

The fair value of the share options of the Scheme granted during the year was HK$32,227,000 (HK$1.563 each) of which the Company recognised a share option expense of HK$3,060,000 during the year ended 31 December 2007.

34. SHARE OPTION SCHEMES (continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	0.8
Expected volatility (%)	30.57
Historical volatility (%)	30.57
Risk-free interest rate (%)	4.102
Expected life of options (year)	5
Weighted average share price (HK$)	4.952

The expected life of the options is determined with reference to the vesting term and original contractual term of the Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

As at 31 December 2007, the Company had 20,478,000 share options outstanding under the Scheme. The option outstanding at 31 December 2007 had a remaining contractual life of 6.74 years. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 20,478,000 additional ordinary shares of the Company and additional share capital of HK$2,048,000 and share premium of HK$99,359,000 (before issue expenses).

At the date of the approval of these financial statements, the shares issuable from the above outstanding share options represented approximately 0.73% of the Company's shares in issue as at that date.

35. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 45 to 46 of the financial statements.

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

35. RESERVES (continued)

(a) The Group (continued)

The Group's capital reserve includes the contributed surplus which represents:

(i) the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor under the group reorganisation in 1991, less the goodwill arising on the acquisition of subsidiaries and associates which remains eliminated against the capital reserve, as explained in note 19 to the financial statements; and

(ii) the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor under the Reorganisation, as explained in note 2 to the financial statements.

(b) The Company

	Notes	Share premium account HK$'000	Employee share-based compensation reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Proposed dividend HK$'000	Total HK$'000
At 1 January 2006		2,776,042	31,093	498,184	402,367	–	3,707,686
Issue of shares, net of issue expenses	33	847,601	–	4,530,626	–	–	5,378,227
Equity-settled share option arrangements	7	–	5,696	–	–	–	5,696
Release upon exercise of share options		36,789	(36,789)	–	–	–	–
Profit for the year		–	–	–	98,685	–	98,685
Dividends	14	–	–	–	(79,256)	–	(79,256)
At 31 December 2006 and 1 January 2007		3,660,432*	–*	5,028,810*	421,796*	–	9,111,038
Equity-settled share option arrangements	7	–	3,060	–	–	–	3,060
Profit for the year		–	–	–	1,866,157	–	1,866,157
Final 2007 dividend proposed	14	–	–	–	(125,612)	125,612	–
Special interim dividend		–	–	(3,517,400)	(2,131,733)	–	(5,649,133)
At 31 December 2007		3,660,432*	3,060*	1,511,410*	30,608*	125,612	5,331,122

35. RESERVES (continued)

(b) The Company (continued)

The contributed surplus of the Company represents:

(i) the difference between the underlying net assets of subsidiaries and the nominal value of the Company's shares issued in exchange therefor under a group reorganisation in 1991; and

(ii) the difference between the consideration payable in respect of the Acquisition and the nominal value of the Company's shares issued in exchange therefor under the Reorganisation.

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

In addition to the retained profits of the Company, under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is also available for distribution to its shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of its contributed surplus, if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

* These reserve accounts comprise the reserves of HK$5,205,510,000 (2006: HK$9,111,038,000) in the Company's balance sheet.

36. BUSINESS COMBINATIONS

Business combination in 2007

On 6 August 2007, COFCO Coca-Cola Beverages Limited ("CBL"), a 65%-owned subsidiary of the Company, entered into a conditional share transfer master agreement with Coca-Cola China Industries Limited ("CCCI"), a connected party, pursuant to which:

(i) CBL will transfer to CCCI all the issued share capital in COFCO Beverages (Chengdu) Limited, COFCO Beverages (Harbin) Limited, COFCO Beverages (Kunming) Limited, COFCO Beverages (Taiyuan) Limited, COFCO Beverages (Wuhan) Limited, and COFCO Beverages (Jilin) Limited (collectively the "CBL Companies"), all being wholly-owned subsidiaries of CBL, at an aggregate consideration of approximately RMB571,000,000 (HK$591,710,000) (the "Disposal");

(ii) CCCI will transfer to CBL all the issued share capital in Coca-Cola China Industries Beverages (Qingdao) Ltd. ("CCCI Qingdao"), a wholly-owned subsidiary of CCCI, and transfer to CBL all the outstanding shareholder's loans totalling approximately HK$54,900,000 owed to CCCI by CCCI Qingdao, at an aggregate consideration of approximately RMB521,000,000 (HK$539,910,000) (the "Acquisition"); and

(iii) CBL will acquire from CCCI all the issued share capital in Coca-Cola China Industries (Beijing) Limited ("CCCI Beijing"), a wholly-owned subsidiary of CCCI, and acquire from CCCI all the outstanding shareholder's loans totalling approximately HK$128,500,000 owed to CCCI by CCCI Beijing, at an aggregate consideration of approximately RMB270,000,000 (the "Beijing Transaction"). Completion of the Beijing Transaction will take place no later than 10 January 2009.

The consideration for the Disposal is settled by the Acquisition plus RMB50,000,000 (HK$51,800,000) cash payable by CCCI at completion, which was on 26 October 2007.

The CBL Companies, CCCI Qingdao, and CCCI Beijing are all investment holding companies with equity interests in subsidiaries/long-term investments engaged in the production, bottling, sale and distribution of Coca-Cola beverages in certain areas of the PRC.

Details of the above transactions were disclosed by the Company in the announcement dated 6 August 2007 and a circular dispatched to shareholders on 27 August 2007.

36. BUSINESS COMBINATIONS (continued)

Business combination in 2007 (continued)

The fair values of the identifiable assets and liabilities of CCCI Qingdao as at the date of the 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 16)	376,988	326,004
Prepaid land premiums (note 18)	11,058	11,058
Inventories	92,714	92,714
Accounts and bills receivables	33,189	33,189
Prepayments, deposits and other receivables	31,995	31,995
Cash and bank balances	52,589	52,589
Accounts and bills payables	(194,267)	(194,267)
Other payables and accruals	(113,448)	(113,448)
Interest-bearing bank and other borrowings	(34,707)	(34,707)
Minority interests	(113,636)	(93,233)
	142,475	111,894
Reclassification of available-for-sale investments	(16,579)	
Goodwill on acquisition (note 19)	414,014	
	539,910	
Satisfied by:		
Consideration payable (note 37)	591,710	
Cash received	(51,800)	
	539,910	

36. BUSINESS COMBINATIONS (continued)

Business combination in 2007 (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the Acquisition is as follows:

	HK$'000
Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	52,589

During the year, CCCI Qingdao generated revenue and net loss of HK$882,863,000 and HK$70,580,000, respectively. Since its acquisition, CCCI Qingdao contributed HK$76,495,000 to the Group's revenue and a loss of HK$24,969,000 to the Group's consolidated 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$10,549,379,000 and HK$991,808,000, respectively.

Business combination in 2006

On 27 January 2006, the Group acquired a 100% interest in Techbo Limited, which has 100% and 65% equity interests in COFCO Bio-Energy (Zhaodong) Co., Ltd. (formerly known as China Resources (Heilongjiang) Alcohol Co., Ltd.) ("Zhaodong Bio-Energy") and China Resources Winery (Heilongjiang) Co., Ltd. ("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 Limited 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:

36. BUSINESS COMBINATIONS (continued)

Business combination in 2006 (continued)

	Fair value recognised on acquisition HK$'000	Carrying amount HK$'000
Property, plant and equipment (note 16)	613,923	594,536
Prepaid land premiums (note 18)	39,338	31,691
Inventories	194,844	194,844
Accounts and bills receivables	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 32)	(12,029)	(12,029)
Minority interests	(4,729)	(2,578)
	404,127	379,244
Goodwill on acquisition (note 19)	338,451	
	742,578	
Satisfied by:		
An amount due to the immediate holding company	742,578	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of 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 subsidiaries	240,141

36. BUSINESS COMBINATIONS (continued)

Business combination in 2006 (continued)

In 2006, the Techbo Group generated revenue and net profit of HK$1,405,432,000 and HK$199,826,000, respectively. Since the acquisition of the Techbo Group, the Techbo Group contributed HK$1,304,620,000 to the Group's revenue and HK$183,959,000 to the Group's consolidated profit for the year ended 31 December 2006.

Had the combination taken place at the beginning of 2006, the revenue from discontinued operations of the Group and the profit of the Group for that year would have been HK$19,614,962,000 (restated) and HK$1,240,534,000, respectively.

37. DISPOSAL OF SUBSIDIARIES

(i) Pursuant to the Reorganisation as set out in note 2 to the financial statements, the Group disposed of the Disposal Group to its immediate holding company as at 31 December 2006.

(ii) On 26 October 2007, the Group disposed of certain subsidiaries as part of the consideration for a business combination, details of which are set out in note 36 to the financial statements.

37. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the assets and liabilities of these disposals is as follows:

	2007 HK$'000	2006 HK$'000
Net assets disposed of:		
Property, plant and equipment (note 16)	**93,771**	2,313
Prepaid land premiums (note 18)	**4,638**	–
Goodwill (note 19)	**–**	93,333
Available-for-sale investments and related loans	**154,681**	33,909
Inventories	**–**	46,861
Accounts receivable	**5,727**	17,817
Prepayments, deposits and other receivables	**44,047**	22,966
Due from fellow subsidiaries	**8,074**	381,281
Due from the ultimate holding company	**–**	69,199
Investments at fair value through profit or loss	**–**	38,943
Cash and bank balances	**12,215**	197,045
Accounts payable	**(26,766)**	(28,810)
Other payables and accruals	**(27,703)**	(7,005)
Due to fellow subsidiaries	**(71,858)**	(33,051)
Due to the ultimate holding company	**–**	(869)
Tax payable	**–**	(11,984)
	196,826	821,948
Gain/(loss) on disposal of subsidiaries (notes 6, 7)	**394,884**	(106,848)
	591,710	715,100
Satisfied by:		
An amount due to the immediate holding company	**–**	715,100
Cash	**51,800**	–
Consideration receivable (note 36)	**539,910**	–
	591,710	715,100

37. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2007 HK$'000	2006 HK$'000
Cash consideration	51,800	–
Cash and bank balances disposed of	(12,215)	(197,045)
Cash and bank balances disposed of and net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	39,585	(197,045)

38. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Apart from the business combination in 2007 as further detailed in note 36 to the financial statements, the Group had entered into the following major non-cash transactions during 2006:

(a) 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) 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 36 above.

(c) the Group disposed of the Disposal Group to its immediate holding company pursuant to the Reorganisation with a total consideration of HK$715,100,000, which was settled against the current account with the immediate holding company. Further details of the disposal of the Disposal Group are set out in note 37 above.

(d) an amount of HK$125,883,000 due to the immediate holding company was capitalised to the consolidated capital reserve of the Group. There was no cash involved in this transaction.

39. SPIN-OFF OF CHINA AGRI-INDUSTRIES

Pursuant to the Reorganisation as set out in note 2 to the financial statements, the Company spun off the Spin-Off Group by way of a special interim dividend where the Company's interest in China Agri-Industries, representing the entire issued share capital of China Agri-Industries, was distributed to the shareholders of the Company. Further details of the Spin-Off are set out in note 2 to the financial statements.

A summary of the assets and liabilities of the Spin-Off Group distributed by the Company as a result of the Spin-Off is as follows:

	HK$'000
Net assets distributed:	
Property plant and equipment (note 16)	6,047,549
Prepaid land premiums (note 18)	375,663
Deposits for purchase of items of property, plant and equipment	15,692
Goodwill (note 19)	574,268
Interests in associates	1,137,559
Available-for-sale investments	2,625
Deferred tax assets (note 32)	22,412
Inventories	4,161,112
Accounts and bills receivables	607,827
Prepayments, deposits and other receivables	1,744,229
Due from fellow subsidiaries	334,757
Due from the ultimate holding company	2,192
Tax recoverable	120
Derivative financial instruments	(31,609)
Cash and cash equivalents	1,291,561
Accounts and bills payables	(984,840)
Other payables and accruals	(1,098,999)
Due to fellow subsidiaries	(171,696)
Due to related companies	(575,400)
Due to the immediate holding company	(2)
Due to the ultimate holding company	(83)
Due to minority shareholders of subsidiaries	(114,878)
Interest-bearing bank and other borrowings	(5,767,829)
Deferred income	(59,449)
Tax payable	(67,839)
Deferred tax liabilities (note 32)	(30,408)
Minority interests	(1,180,386)
Special interim dividend	6,234,148

An analysis of the net outflow of cash and cash equivalents in respect of the distribution of the Spin-Off Group is as follows:

	HK$'000
Cash and bank balances distributed and net outflow of cash and cash equivalents in respect of the distribution of the Spin-Off Group	(1,291,561)

40. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2007	2006
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	312,000

As at the balance sheet date, none of the above facilities were utilised by the subsidiaries.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 17) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**4,514**	5,559
In the second to fifth years, inclusive	**3,497**	2,655
	8,011	8,214

41. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**27,128**	43,588
In the second to fifth years, inclusive	**31,407**	39,292
After five years	**69,127**	70,468
	127,662	153,348

42. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 41 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	HK$'000	HK$'000
Capital commitments in respect of:		
Property, plant and equipment:		
Authorised, but not contracted for	**–**	395,307
Contracted, but not provided for	**10,132**	869,064
Acquisition of additional interest in an associate:		
Contracted, but not provided for	**288,338**	–
	298,470	1,264,371

43. OTHER COMMITMENTS

Commitments under future contracts carried out by the oil processing business

	Group	
	2007	2006
	HK$'000	HK$'000
Sale of soybean meal	**–**	873,943
Sale of soybean	**–**	298,992

Other than disclosed above, neither the Group, nor the Company, had any significant capital or other commitments as at the balance sheet date.

44. CONNECTED AND RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	**2007**	2006
		HK$'000	HK$'000
Transactions with fellow subsidiaries:			
Sales of goods *	(i)	**126,043**	664,331
Purchases of goods *	(i)	**2,582,770**	28,684
Operating lease rentals paid *	(i)	**9,254**	8,765
Interest expenses *	(ii)	**30,251**	84,472
Interest income	(iv)	**–**	4,831
Commission paid	(i)	**191**	4,760
Transactions with the ultimate holding company:			
Sales of goods *	(i)	**–**	431,065
Purchases of goods *	(i)	**–**	38,656
Management fee income *	(v)	**–**	31,576
Management fee paid *	(i)	**755**	7,575
Interest expenses *	(ii)	**–**	15,847
Transactions with associates:			
Sales of goods *	(i)	**23,679**	128,604
Purchases of goods *	(i)	**396,018**	97,148
Purchases of steel barrels	(i)	**–**	22,960
Processing fee expenses	(i)	**–**	14,980
Reimbursement of advertising expenses	(iii)	**–**	4,185

44. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
Transactions with minority shareholders:			
Purchases of goods *	(i)	–	29,489
Transactions with related companies: #			
Sales of goods	(i)	**13,566**	7,666
Purchases of goods *	(i)	**3,079,746**	7,542,999

* These related party transactions also constituted connected transactions disclosable in accordance with the Listing Rules.

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

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) Interest expenses arose from the loans from the ultimate holding company and COFCO Finance Corporation Limited ("COFCO Finance"), a wholly-owned subsidiary of COFCO, are unsecured, bear interest at rates ranging from 5.02% to 5.83% (2006: 4.86% to 6.3%) per annum and of which HK$145,237,000 (2006: HK$657,193,000) is repayable within one year.

(iii) The reimbursement of advertising expenses was calculated with reference to the actual advertising expenses incurred for the year ended 31 December 2006.

(iv) The prior year interest income arose from the deposits placed with COFCO Finance. COFCO Finance 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 are applicable to all financial institutions. The interest rates offered by COFCO Finance are the same as the rates promulgated by the PBOC which were applicable to account deposits with banks and finance companies in the PRC and ranged from 0.72% to 2.25% per annum. No deposits were placed with COFCO Finance by the Group as at 31 December 2007.

(v) The prior year management fee income was calculated with reference to the actual management service expenses incurred for the year ended 31 December 2006.

(b) Transaction with a related party

Pursuant to certain licensing agreements entered into between the Group and a related party, the Group was granted the exclusive rights to use certain trademarks for its edible oil, soybean meal and related products businesses. The licensing fees for the current year and the prior year were waived by the related party.

44. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties

Except for (1) the loans of HK$145,237,000 (2006: HK$1,615,929,000) from the ultimate holding company and COFCO Finance, the terms of which are detailed in note 31 to the financial statements, (2) the amounts due to minority shareholders of the Group's subsidiaries of HK$75,047,000 (2006: HK$147,496,000) which are not repayable within one year from the balance sheet date, and (3) an amount due to the ultimate holding company of HK$21,358,000 (2006: HK$19,906,000), which are not repayable within one year from the balance sheet date, the remaining balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group's subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,635**	7,729
Discretionary bonuses	**3,094**	587
Equity-settled share option expenses	**916**	3,144
Pension scheme contributions	**183**	296
Total compensation paid to key management personnel	**10,828**	11,756

Further details of directors' emoluments are included in note 9 to the financial statements.

(e) Transactions with 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 business, and that dealings of the Group have not been significantly 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 of the Company are of the opinion that none of these transactions is a material related party transaction that require separate disclosure.

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2007 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
中國長城葡萄酒有限公司 China Great Wall Wine Co., Ltd. *	The PRC/ Mainland China	RMB180,000,000	**100**	100	Production and sale of wine and beverage products
煙台長城酒業銷售有限公司 Yantai Greatwall Wines and Spirits Co., Ltd. *	The PRC/ Mainland China	RMB1,000,000	**100**	100	Wholesale of grape wine
秦皇島華夏長城酒業有限公司 Qinhuangdao Huaxia Greatwall Wines and Spirits Co., Ltd. *	The PRC/ Mainland China	RMB1,000,000	**100**	100	Wholesale of grape wine
中糧長城葡萄酒(烟台)有限公司 COFCO Greatwall Winery (Yantai) Co., Ltd. *	The PRC/ Mainland China	RMB108,000,000	**100**	100	Production and sale of grape wine
中糧華夏長城葡萄酒有限公司 COFCO Huaxia Great Wall Wine Co., Ltd. *	The PRC/ Mainland China	RMB200,000,000	**100**	100	Production and sale of grape wine
中糧華夏紅酒業(深圳)有限公司 COFCO Huaxiahong Wines and Spirits (Shenzhen) Co., Ltd. **	The PRC/ Mainland China	RMB3,000,000	**80**	80	Wholesale of grape wine
中糧南王山谷君頂酒莊有限公司 COFCO Navavalley Junding Vineyard Co., Ltd. **	The PRC/ Mainland China	RMB140,000,000	**55**	55	Production and sale of grape wine
中糧長城阿海威葡萄苗木(烟台)研發有限公司 COFCO & Arrive Vine Plant (Yantai) R&D Co., Ltd. *	The PRC/ Mainland China	EUR353,100	**58.38**	58.38	Plantation of vine and production of related products
中糧酒業有限公司 COFCO Wines and Spirits Co., Ltd. *	The PRC/ Mainland China	RMB11,760,000	**100**	100	Sale of grape wine

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
中糧紹興酒有限公司 COFCO Shaoxing Winery Co., Ltd. *	The PRC/ Mainland China	RMB68,670,000	**100**	100	Production and sale of Chinese yellow rice wine
深圳市金帝營銷有限公司 Shenzhen Le Conte Marketing Services Co., Ltd.**	The PRC/ Mainland China	RMB15,000,000	**90**	90	Distribution of chocolate products
中糧金帝食品(深圳)有限公司 COFCO Le Conte Food (Shenzhen) Co., Ltd. *	The PRC/ Mainland China	US$15,000,000	**100**	100	Production and distribution of chocolate products
中糧可口可樂飲料有限公司 COFCO Coca-Cola Beverages Limited	Hong Kong	Ordinary HK$2,463,217,002	**65**	65	Investment holding
中糧可口可樂飲料(中國)投資有限公司 COFCO Coca-Cola Beverages (China) Investment Limited *	The PRC/ Mainland China	US$30,000,000	**65**	65	Investment holding
天津可口可樂飲料有限公司 Tianjin Coca-Cola Beverages Co., Ltd. **	The PRC/ Mainland China	US$15,500,000	**32.5**	32.5	Beverage processing
海南中糧可口可樂飲料有限公司 Hainan COFCO Coca-Cola Beverages Limited *	The PRC/ Mainland China	US$11,700,000	**65**	65	Beverage processing
湖南中糧可口可樂飲料有限公司 Hunan COFCO Coca-Cola Beverage Co., Ltd. *	The PRC/ Mainland China	US$8,000,000	**65**	65	Beverage processing
湛江中糧可口可樂飲料有限公司 Zhanjiang COFCO Coca-Cola Beverages Limited *	The PRC/ Mainland China	RMB23,000,000	**65**	65	Beverage processing
甘肅中糧可口可樂飲料有限公司 Gansu COFCO Coca-Cola Beverages Co., Ltd. *	The PRC/ Mainland China	US$5,000,000	**65**	65	Beverage processing

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
中糧可口可樂飲料(新疆)有限公司 COFCO Coca-Cola Beverages (Xinjiang) Limited **	The PRC/ Mainland China	RMB40,000,000	**52**	-	Beverage processing
中糧可口可樂商貿(新疆)有限公司 COFCO Coca-Cola Commerce & Trade (Xinjiang) Limited **	The PRC/ Mainland China	RMB3,000,000	**52**	52	Sale of beverage products
中糧可口可樂飲料(江西)有限公司 COFCO Coca-Cola Beverages (Jiangxi) Limited *	The PRC/ Mainland China	RMB40,000,000	**65**	-	Beverage processing
青島可口可樂飲料有限公司 Qingdao Coca-Cola Beverage Co., Ltd. **	The PRC/ Mainland China	US$12,500,000	**48.75**	9.75	Beverage processing
濟南可口可樂飲料有限公司 Jinan Coca-Cola Beverage Co., Ltd. **	The PRC/ Mainland China	US$5,000,000	**48.75**	9.75	Beverage processing
中糧食品營銷有限公司 COFCO Foods Sales and Distribution Co., Ltd. *	The PRC/ Mainland China	RMB100,000,000	**100**	100	Distribution of retail package cooking oil
中糧食品管理有限公司 COFCO Foods Management Limited *	The PRC/ Mainland China	US$10,000,000	**100**	–	Research and development in food, wine and beverages, management and consulting services
吉林中糧可口可樂飲料有限公司 Jilin COFCO Coca-Cola Beverages Limited *	The PRC/ Mainland China	US$8,000,000	**–**	65	Beverage processing
東海糧油工業(張家港)有限公司 East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. *	The PRC/ Mainland China	US$113,000,000	**–**	54	Production and sale of edible oil, and trading of soybeans and rapeseed

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
黃海糧油工業（山東）有限公司 Yellowsea Oils and Grains Industries (Shandong) Co., Ltd.*	The PRC/ Mainland China	US$33,306,779	–	72.94	Production and sale of edible oil
中糧祥瑞糧油工業（荊門）有限公司 COFCO Xiangrui Oils and Grains Industries (Jingmen) Co., Ltd. *	The PRC/ Mainland China	US$12,500,000	–	100	Production and sale of edible oil
中糧東洲糧油工業（廣州）有限公司（前稱為東洲油脂工業（廣州）有限公司） COFCO Eastbay Oils & Grains Industries (Guangzhou) Co., Ltd. (formerly known as Eastbay Oils & Fats Industries (Guangzhou) Co.,Ltd.) *	The PRC/ Mainland China	RMB51,700,000	–	89.36	Processing and refining of edible oil and fat
中糧艾地盟糧油工業（荷澤）有限公司 COFCO ADM Oils and Grains Industries (Heze) Co., Ltd.*	The PRC/ Mainland China	US$22,399,989	–	70	Production and sale of edible oil
廈門海嘉麵粉有限公司 Xiamen Haijia Flour Mills Co., Ltd.**	The PRC/ Mainland China	RMB71,325,000	–	60	Production and sale of wheat products
鄭州海嘉食品有限公司 Zhengzhou Haijia Food Co., Ltd.**	The PRC/ Mainland China	RMB30,000,000	–	55	Production and sale of wheat products
瀋陽東大糧油食品實業有限公司 Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd. **	The PRC/ Mainland China	RMB55,000,000	–	66.9	Production and sale of wheat products
瀋陽香雪麵粉股份有限公司 Shenyang Xiangxue Flour Limited Liability Company **	The PRC/ Mainland China	RMB80,350,000	–	69.3	Production and sale of wheat products
中糧麵業（濮陽）有限公司（前稱為濮陽中糧麵業有限公司） COFCO Flour Industry (Puyang) Co., Ltd. (formerly known as Puyang COFCO Flour Industry Co., Ltd.) *	The PRC/ Mainland China	RMB35,000,000	–	80	Production and sale of wheat products

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
中糧麵業(德州)有限公司 (前稱為山東中糧魯德食品有限公司) COFCO Flour Industry Foods (Dezhou) Co., Ltd. (formerly known as Shandong COFCO Lude Foods Co., Ltd.) **	The PRC/ Mainland China	RMB43,533,000	–	55	Production and sale of wheat products
中糧豐通(北京)食品有限公司 COFCO TTC (Beijing) Foods Co., Ltd. *	The PRC/ Mainland China	US$5,450,000	–	51	Production and sale of wheat products
中糧麵業(秦皇島)鵬泰有限公司 COFCO Flour Industry (Qinhuangdao) Pangthai Co., Ltd. *	The PRC/ Mainland China	US$17,340,000	–	100	Production and sale of wheat products
中糧麥芽(江陰)有限公司 COFCO Malt (Jiangyin) Co., Ltd. *	The PRC/ Mainland China	US$35,000,000	–	100	Production and sale of brewing materials
大連中糧麥芽有限公司 Dalian COFCO Malt Co., Ltd. *	The PRC/ Mainland China	US$32,526,000	–	100	Production and sale of brewing materials
上海中糧啤酒原料有限公司 Shanghai COFCO Brewing Materials Co., Ltd. *	The PRC/ Mainland China	RMB1,000,000	–	100	Production and sale of brewing materials
中糧國際(北京)有限公司 COFCO International (Beijing) Co., Ltd. *	The PRC/ Mainland China	RMB60,000,000	–	100	Trading of rice
中糧江西米業有限公司 COFCO Jiangxi Rice Processing Limited **	The PRC/ Mainland China	RMB60,200,000	–	83.47	Trading and processing of rice
中糧生化能源(肇東)有限公司 COFCO Bio-Energy (Zhaodong) Co., Ltd. *	The PRC/ Mainland China	RMB380,000,000	–	100	Production and sale of biofuel and biochemical
中糧黑龍江華潤釀酒有限公司 COFCO Heilongjiang Brewery Co., Ltd. (formerly known as China Resources Winery (Heilongjiang) Co., Ltd.) **	The PRC/ Mainland China	RMB5,000,000	–	65	Wine brewery

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
中糧生化能源(榆樹)有限公司 COFCO Bio-Chemical Energy (Yushu) Co., Ltd. *	The PRC/ Mainland China	US$38,000,000	–	100	Production and sale of biofuel and biochemical
中糧生化能源(公主嶺)有限公司 COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd. *	The PRC/ Mainland China	US$71,880,000	–	100	Production and sale of biofuel and biochemical
中糧生化能源(衡水)有限公司 COFCO Bio-Chemical Energy (Hengshui) Co., Ltd. *	The PRC/ Mainland China	US$13,407,050	–	88	Production and sale of biofuel and biochemical
廣西中糧生物質能源有限公司 Guangxi COFCO Bio-Energy Co., Ltd. *	The PRC/ Mainland China	US$40,205,980	–	100	Production and sale of biofuel and biochemical
Full Extent Group Limited	British Virgin Islands/ Hong Kong	Ordinary US$3	–	100	Investment holding
China Agri-Industries Holdings Limited	Hong Kong	Ordinary HK$1	–	100	Investment holding
China Agri-Industries Limited	Bermuda/ Hong Kong	Ordinary HK$269,238,336	–	100	Investment holding

* Wholly-foreign-owned enterprises
** Sino-foreign equity joint ventures

All of the above principal subsidiaries are indirectly held by the Company.

The statutory audits of the above subsidiaries were not performed by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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.

46. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates as at 31 December 2007 are as follows:

Name	Nominal value of ordinary issued/ registered capital	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group 2007	2006	Principal activities
南京中萃食品有限公司 Nanjing BC Foods Company Ltd.	US$19,000,000	The PRC	**13**	13	Beverage processing
杭州中萃食品有限公司 Hangzhou BC Foods Co., Ltd.	US$20,000,000	The PRC	**13**	13	Beverage processing
北京可口可樂飲料有限公司 Beijing Coca-Cola Beverages Company Limited	US$19,500,000	The PRC	**22.8**	22.8	Beverage processing
CBPC Limited	Ordinary HK$10,000	Hong Kong	**16.3**	16.3	Procurement of raw materials for Coca-Cola bottlers in Mainland China
溫州太古可口可樂飲料有限公司 Swire Wenzhou Coca-Cola Beverages Limited	RMB49,800,000	The PRC	**4.1**	4.1	Procurement of raw materials for Coca-Cola bottlers in Mainland China
杭州中萃儲運有限公司 Hangzhou BC Warehousing and transportation Co., Ltd.	RMB3,300,000	The PRC	**6.5**	6.5	Provision of warehousing and transportation services
大海糧油工業(防城港)有限公司 Great Ocean Oil and Grains Industries (Fang Cheng Gang) Co., Ltd.	US$69,500,000	The PRC	**–**	40	Soybean oil extraction, refining and packaging, and production of soybean meal

46. PARTICULARS OF PRINCIPAL ASSOCIATES (continued)

Name	Nominal value of ordinary issued/ registered capital	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group 2007	2006	Principal activities
萊陽魯花濃香花生油有限公司 Laiyang Luhua Fragrant Peanut Oil Co., Ltd.	US$19,219,300	The PRC	–	24	Production and sale of peanut oil
北海糧油工業(天津)有限公司 Northsea Oils and Grains Industries (Tianjin) Co., Ltd.	US$51,557,000	The PRC	–	50.44	Production and sale of edible oil
Lassiter Limited	Ordinary US$100	Samoa	–	49	Investment holding*
深圳南天油粕工業有限公司 Shenzhen Nantian Oilmills Co., Ltd.	US$10,000,000	The PRC	–	20	Oilseed processing
吉林燃料乙醇有限責任公司 Jilin Fuel Ethanol Co., Ltd.	RMB1,200,000,000	The PRC	–	20	Production and sale of biofuel and biochemical

In the opinion of the directors, the Group is able to exercise significant influence over the above companies as the boards of directors of these companies comprise representatives of the Group, who participate in the policy-making processes. Accordingly, they are accounted for as associates of the Group.

* Lassiter Limited has a 61.74% 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 oil in Mainland China.

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

47. FINANCIAL INSTRUMENTS BY CATEGORY

The financial assets of the Group are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments.

The carrying amount of financial assets at fair value through profit or loss of the Group with an aggregate amount of HK$88,895,000 (2006: HK$102,421,000) representing derivative financial instruments, biological assets, and listed investments, has been disclosed on the consolidated balance sheet and relevant notes to the financial statements.

The carrying amount of financial assets at fair value through profit or loss of the Company amounts to HK$14,301,000 (2006: HK$48,300,000) representing the listed investments, has been disclosed on the Company's balance sheet and relevant note to the financial statements.

The carrying amount of loans and receivables of the Group with an aggregate amount of HK$2,691,629,000 (2006: HK$5,235,327,000) including due from and loans to associates, advances to investee companies, accounts and bills receivables, an aggregate amount of HK$260,989,000 (2006: HK$629,531,000) included in prepayments, deposits and other receivables, amounts due from fellow subsidiaries, amount due from the ultimate holding company, amount due from the immediate holding company, pledged deposits, and cash and cash equivalents, has been disclosed on the consolidated balance sheet and relevant notes to the financial statements.

The carrying amount of loans and receivables of the Company with an aggregate amount of HK$3,493,312,000 (2006: HK$1,627,039,000) including amounts due from subsidiaries, amount due from a fellow subsidiary, amount due from the immediate holding company and cash and cash equivalents, has been disclosed on the Company's balance sheet and relevant notes to the financial statements.

The carrying amount of available-for-sale investments of the Group amounts to HK$207,489,000 (2006: HK$293,931,000) representing certain of unlisted investments, has been disclosed on the consolidated balance sheet and relevant note to the financial statements.

The financial liabilities of the Group are classified as financial liabilities at amortised cost.

The carrying amount of financial liabilities at amortised cost of the Group with an aggregate amount of HK$2,633,493,000 (2006: HK$9,663,582,000) including, accounts and bills payables, an aggregate amount of HK$690,299,000 (2006: HK$1,202,265,000) included in other payables and accruals, interest-bearing bank and other borrowings, amounts due to fellow subsidiaries, amount due to the ultimate holding company, amount due to the immediate holding company, amounts due to related companies, amounts due to minority shareholders of subsidiaries, and amounts due to associates, has been disclosed on the consolidated balance sheet and relevant notes to the financial statements.

The carrying amount of financial liabilities at amortised cost of the Company with an aggregate amount of HK$507,699,000 (2006: HK$540,275,000) including other payables and accruals, amounts due to subsidiaries, and amount due to a fellow subsidiary, has been disclosed on the Company's balance sheet and relevant notes to the financial statements.

48. 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 bank balances and time 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 receivable and accounts payable, which arise directly from its operations.

The Group enters into derivative transactions, including principally future contracts of soybean and soybean meal. The purpose of entering into future contracts of soybean meal is to manage the market price risk arising from the Group's edible oil, soybean meal and related products operation. The accounting policies in relation to derivatives are set out in note 3.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on minimising potential adverse effects of these risks, with material impact, on the Group's financial performance. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term interest-bearing bank loans and other borrowings with a floating interest rate. The effective interest rates and terms of repayment of the interest-bearing bank loans and other borrowings of the Group are disclosed in note 31. The Group has not used any derivative to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000	**Increase/ (decrease) in equity** HK$'000
2007			
	+100	(6,438)	(5,575)
	-100	6,438	5,575
2006			
	+100	(19,629)	(16,056)
	-100	19,629	16,056

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group mainly operates in the PRC with most of the Group's monetary assets, liabilities and transactions principally denominated in Hong Kong dollars and Renminbi. The Group has not used any derivative to hedge its exposure to foreign currency risk.

The following table indicates the approximate change in the Group's profit before tax and equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	Increase/ (decrease) in HK$/US$ rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	HK$'000	HK$'000
2007			
If Renminbi weakens against Hong Kong dollar	5	–	(230,595)
If Renminbi strengthens against Hong Kong dollar	(5)	–	230,595
If Renminbi weakens against United States dollar	5	(20,351)	(17,298)
If Renminbi strengthens against United States dollar	(5)	20,351	17,298
2006			
If Renminbi weakens against Hong Kong dollar	5	–	(414,985)
If Renminbi strengthens against Hong Kong dollar	(5)	–	414,985
If Renminbi weakens against United States dollar	5	(109,363)	(86,397)
If Renminbi strengthens against United States dollar	(5)	109,363	86,397

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit before tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purpose.

Credit risk

The Group has no significant concentration 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 policies 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.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The contractual maturities of financial liabilities of the Group including interest-bearing bank and other borrowings, amounts due to fellow subsidiaries, amount due to the ultimate holding company, amount due to the immediate holding company, amounts due to related companies, amounts due to the minority shareholders of subsidiaries, and amounts due to associates, have been disclosed in notes 22, 31 and 44, to the financial statements. For accounts and bills payables, they are generally on credit terms of one to three months after the invoice date or six months after the date of the bills were issued. For the financial liabilities amounted to HK$1,350,289,000 (2006: HK$1,605,625,000) included in other payables and accruals disclosed on the consolidated balance sheet, there are generally no specified contractual maturities for these liabilities, and they are paid on a regular basis or upon counterparty's formal notification.

Market price risk

The raw materials costs and product selling prices of the Group's operation of edible oil, soybean meal and related products are substantially correlated to the prices of future commodities markets. Market price risk arises from price fluctuations of raw materials costs and product selling prices during the delivery, production and storage processes. To minimise the Group's market price risk exposure, the Group enters into future contracts of soybean and soybean meal.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings less cash and cash equivalents, and pledged deposits. Capital represents total equity. The gearing ratios as at the balance sheet dates were as follows:

Group

	2007	2006
	HK$'000	HK$'000
Interest-bearing bank and other borrowings	**391,752**	5,963,714
Less: Cash and cash equivalents	**(1,396,563)**	(2,515,973)
Pledged deposits	**(3,477)**	(54,183)
Net (assets)/debt	**(1,008,288)**	3,393,558
Total capital	**5,633,501**	11,562,129
Capital and net debt	**4,625,213**	14,955,687
Gearing ratio	**N/A**	23%

49. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, on 31 January 2008, the Group entered into a sale and purchase agreement with a connected party, Coca-Cola South Asia Holdings, Inc., to acquire a 21% equity interest of Coca-Cola Bottlers Manufacturing Holdings Limited ("CCBMH"), for a cash consideration of HK$158,351,000. CCBMH holds a 100% equity interest of Coca-Cola Bottlers Manufacturing (Dongguan) Co., Ltd., which is the single national manufacturer and supplier of the Coca-Cola beverages still products. The acquisition had been completed on 21 February 2008. Further details of this acquisition are set out in the Company's circular dated 21 February 2008.

(b) On 15 April 2008, the board of directors passed a resolution in relation to a share premium cancellation pursuant to Section 46 of the Companies Act 1981 of Bermuda. The share premium cancellation is subject to approval by the shareholders of the Company at the annual general meeting to be held on 19 May 2008.

50. COMPARATIVE AMOUNTS

As further explained in note 3.1 to the financial statements, the comparative income statement and certain related notes to the financial statements (notes 5 to 8, 11, 13) have been re-presented as if the operations discontinued during the current year had been discontinued at the beginning of the comparative period.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2008.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated and reclassified as appropriate, is set out below:

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
CONTINUING OPERATIONS					
TURNOVER	**9,743,011**	6,497,453	5,210,772	2,630,152	3,011,737
PROFIT FROM OPERATING ACTIVITIES	**917,353**	494,437	462,177	219,827	238,949
Finance costs	**(33,078)**	(45,426)	(33,758)	(14,974)	(19,332)
Share of profits and losses of associates	**49,167**	49,624	55,429	–	67,608
PROFIT BEFORE TAX	**933,442**	498,635	483,848	204,853	287,225
Tax	**(135,792)**	(105,877)	(81,967)	(49,525)	(37,871)
PROFIT FOR THE YEAR	**797,650**	392,758	401,881	155,328	249,354
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	**239,769**	831,909	283,355	158,935	340,456
PROFIT FOR THE YEAR	**1,037,419**	1,224,667	685,236	314,263	589,810
Attributable to:					
Equity holders of the Company	**791,686**	990,064	562,842	260,103	463,146
Minority interests	**245,733**	234,603	122,394	54,160	126,664
	1,037,419	1,224,667	685,236	314,263	589,810
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**8,992,460**	21,798,297	15,618,988	13,185,083	13,068,505
TOTAL LIABILITIES	**(3,358,959)**	(10,236,168)	(8,144,552)	(6,393,372)	(6,717,005)
MINORITY INTERESTS	**(1,074,850)**	(1,807,721)	(1,644,509)	(1,551,688)	(1,363,402)
	4,558,651	9,754,408	5,829,927	5,240,023	4,988,098