MANAGING DIRECTOR'S REPORT

"Our Group follows a clear and focused strategy to fulfill our goal to be a leading integrated agricultural and food processor, providing quality products to our customers at reasonable prices."

YU Xubo, Managing Director

OPERATION REVIEW AND OUTLOOK

Oilseed processing business

We are one of the largest edible oil and oilseed meal producers in China with annual crushing and refining capacity of approximately 4.9 million and 1.2 million metric tons respectively. Our majority owned oilseed production facilities are located strategically along the coastal regions and the Yangtze River which enables us to source domestic and imported raw materials in a more cost effective manner. We sell our oilseed meal and feed products primarily under the "四海" and "喜盈盈" brands.

Having undergone the industry consolidation, the market shares as well as the pricing power of the top existing players in China oilseed processing industry have increased dramatically. Similar to our Company, most of the other top tier players import raw materials from overseas and thus adjust their product prices according to the change in international raw material costs. In face of the soaring global soft commodity prices, all the top tier industry players, including our Company, are managed to increase their product prices in a bid to pass on the cost pressure to the downstream customers.

In January 2008, the National Development and Reform Commission adopted a temporary interference policy on food prices and all sizable consumer-pack oil producers are required to gain approvals from local price bureaus for any price rise. After our cautious assessment, we believe this policy will have limited impact on our company. However, we will closely monitor the latest development and adjust our business strategy accordingly.

Going forward, our top priorities are to secure raw material supply at reasonable prices and to expand our production capacity to drive business growth. We are currently seeking various ways to enhance our raw material sourcing ability and will keep abreast of the market information in a bid to mitigate price risk regarding mismatches between domestic end-product and international soybean price movement. Since we are approaching to operate in full capacity, we have concrete plans to increase over 50% of our production capacity by 2010 through new projects or existing capacity expansion. Other than this, we are actively looking for acquisition opportunities in the industry.

our tapioca-based fuel ethanol production plant
in Beihai, Guangxi Zhuang Autonomous Region

Biofuel and biochemical business

We are one of the largest fuel ethanol producers in China. With the commencement of our tapioca-based production line at Guangxi in late December 2007, our total annual fuel ethanol production capacity increased from 180,000 metric tons to 380,000 metric tons. The new plant not only strengthens our foothold in fuel ethanol industry but also diversifies our raw material from corn to tapioca. In addition, our consumable ethanol production capacity at Heilongjiang province expanded 60% to 400,000 metric tons in mid 2007.

The downward adjustment of fuel ethanol prices in January 2007 and the spike of corn costs placed pressure on the profit margins of the business. With the adoption of flexible subsidy mechanism starting from late 2007, the Ministry of Finance ("**MOF**") enables all the license holders to earn a reasonable return which serves as an initiative to encourage investments in the industry. Each license holder is required to submit operation information to MOF quarterly and MOF then determines the subsidy level for each license holder respectively by the end of the year. We expect the profit margins of our biofuel business would stabilise under such mechanism.

According to the "Mid-term and Long-term Development Plan Regarding Renewable Energy" ("**The Renewable Energy Plan**") approved by the China State Council in late August 2007, the government targeted to add 2 million metric tons of new fuel ethanol capacity nationwide by 2010 and all the new capacity should use non-grain feedstock, namely tapioca, sweet potato and sweet sorghum, as the production raw materials. As a result, we expect all our imminent new capacity will produce from non-grain feedstock. It is worthwhile to note that the operations of our existing fuel ethanol plants will not be affected by The Renewable Energy Plan.

The commencement of the production lines at Yushu and Gongzhuling, Jilin Province in the second half of 2007 formally marked the induction of our biochemical business, a natural extension of our existing operation. With 1.2 million metric tons annual corn processing capacity, the key products consist of corn starch, sweeteners (maltodextrin, fructose syrup and malt syrup), feed ingredients and crude corn oil etc.

Under our assertive business expansion plan, we believe the importance of biofuel and biochemical business will increase dramatically and become one of the key profit contributors of our company in the foreseeable future.

Brewing materials business

We primarily engage in the production and distribution of malt and our customers consist of both domestic and overseas beer breweries such as Tsingtao, Yanjing, Budweiser, San Miguel, Snow, Kirin, Blue Ribbon and Asahi etc. Apart from domestic sales, we export some of our products to our neighbouring countries and regions, i.e. Southeast Asia, Taiwan and Russia etc.

Our new malt processing facility in Jiangyin, Jiangsu province, started operation in mid 2007, boosts our annual processing capacity by 120,000 metric tons to 480,000 metric tons. Immediately after the commencement of the Jiangyin Phase I facilities, we have started the construction of Phase II and it is expected to add another 200,000 metric tons annual capacity to our existing portfolio by 2008. Upon the completion of Phase III, the annual processing capacity of Jiangyin plant will increase to 520,000 metric tons and potentially be the world's largest single malt processing facility.

In a bid to outpace industry growth, we target customers with immense growth potentials and deliberately establish long term working relationships with them. Besides, we are dedicated to develop overseas markets to fulfill our ambition to emerge as a leading regional player. Under our capacity expansion plan, brewing materials business will turn to become one of the key pillar businesses of the company.

our malting processing plant in Jiangyin, Jiangsu province

Rice trading and processing business

We are China's largest rice exporter and we primarily engage in trading and processing of white and parboiled rice. We sell white rice to major traditional markets such as Japan, South Korea, Hong Kong, Central America, South Pacific Islands, Africa and the Southeast Asia while we export parboiled rice to the Middle East, Africa, Eastern Europe, Central Asia and the Americas. Our parboiled rice processing facility is one of the largest in Asia in terms of production capacity. Parboiled rice, widely accepted as a healthy and natural food in the United States, Europe and the Middle East, is produced from long grain paddy of Southern China.

Owing to food security concerns, the Chinese government tightened policies for grain export during the year. The cancellation of tax rebate on rice export in late 2007 and the induction of export tax on grain export in early 2008 are believed to have adverse impact on the profit margins and export volume of the business. However, given the reduction of export volume by a number of key rice exporting countries in South and Southeast Asia, we believe there are rooms for us to raise product prices in a bid to offset the additional tax expenses. We will closely monitor the lastest development and adjust our business strategy accordingly. In addition, we are in the process of developing the domestic market. We have established sales offices in Nanjing, Shanghai and Xinjiang, targeting Yangtze River Delta and Xinjiang Autonomous Region for our white rice and parboiled rice product respectively.

We plan to add 130,000 metric tons of rice processing capacity at Dalian, Liaoning province in the coming years through a new project and a selective acquisition.

Wheat processing business

We are one of the largest wheat processors in the PRC and we primarily engage in the processing and distribution of a broad range of flour and other flour products. With 1.5 million metric tons annual wheat processing capacity, our nationwide production and distribution network enables us to serve our customers, including Danone, Nabisco, Tingyi and Hualong as well as hyper-markets and chain retailers like Carrefour, Wal-mart and Holiland etc.

The flour industry in the PRC is large but fragmented and it has been in the process of consolidation for several years owing to excess capacity. The total number of wheat processors has reduced drastically and the market shares of large wheat processors have increased. To enhance our competitiveness and yield better margins, we are adjusting our product mix and migrating to high-end products. For instance, our joint venture with Toyota Tsusho in Beijing has started production of a variety of freshly baked bread, frozen dough and cakes since July 2007. Besides, we are in the process of unifying our brands into one brand "香雪" in order to enhance our brand prominence. In the first half of 2007, we completed the acquisition of a 150,000 metric tons wheat processing facility at Luohe, Henan province and it has started operation since then.

Human resources

As at 31 December 2007, the Group employed 14,177 staff (2006: 10,900) of whom 3,572 (2006: 2,806) were employed in oilseed processing business, 6,583 (2006: 4,901) in biofuel and biochemical business, 656 (2006: 377) in rice trading and processing business, 436 (2006: 173) in brewing materials business and 2,875 (2006: 2,603) in wheat processing business. The Group's employees are remunerated according to the nature of job, individual performance and market trends with built-in merit components. Total remuneration for the reporting year ended 31 December 2007 was approximately HK$287 million (2006: approximately HK$234 million). Employees in Hong Kong receive retirement benefits, mostly in the form of a Mandatory Provident Fund entitlement, and similar scheme is offered to employees in Mainland China. Details concerning employee benefit scheme are set out in note 2.4 of the financial statements under the sub-heading of "Employee Benefits" on page 88 and 89 of this annual report. Of the total remuneration, pension scheme contribution amounted to approximately HK$16 million (2006: approximately HK$16 million).

The Company adopted a share option scheme on 12 January 2007 and the purposes of the share option scheme are to attract, retain and motivate eligible participants to acquire proprietary interests in the company, encouraging them to work towards enhancing the value of the company. On 7 August 2007, the Company has granted a total of 27.6 million share options to certain directors and employees at an exercise price of HK$4.666 per share.

Capital structure

The Company was incorporated in Hong Kong on 18 November 2006. On 10 January 2007, the Company entered into a sales and purchase agreement with China Foods. Pursuant to which, the Company acquired the entire issued share capital in China Agri-Industries, which contained agri-industries businesses acquired from both China Foods and COFCO (Hong Kong) Limited ("**COFCO (HK)**") during the Reorganisation taken place in late 2006, from China Foods, and allotted and issued a total of 2,791,383,346 ordinary shares of HK$0.1 each in the share capital of the Company to China Foods as the consideration for the acquisition. Upon completion of the transaction, the Company then became the holding company of the companies now comprising the Group. Details of the transaction were disclosed in the Company's listing prospectus dated 8 March 2007. (the "**Prospectus**").

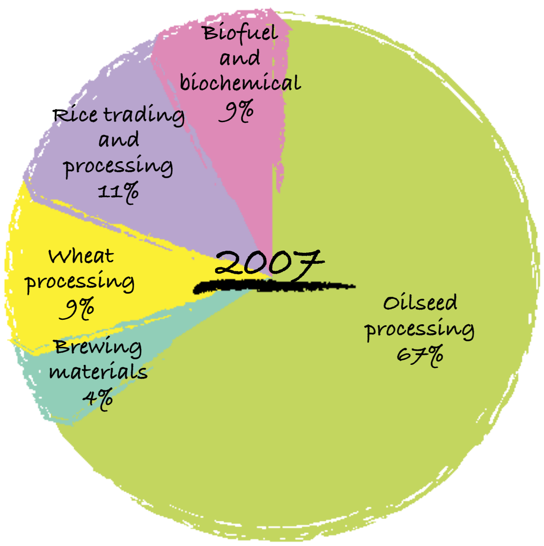
On 21 March 2007, the spin-off of the Company from China Foods was completed. A total of 802,523,000 new shares, including those exercised under the over-allotment option, were issued in consequence of the global offering of the Company.

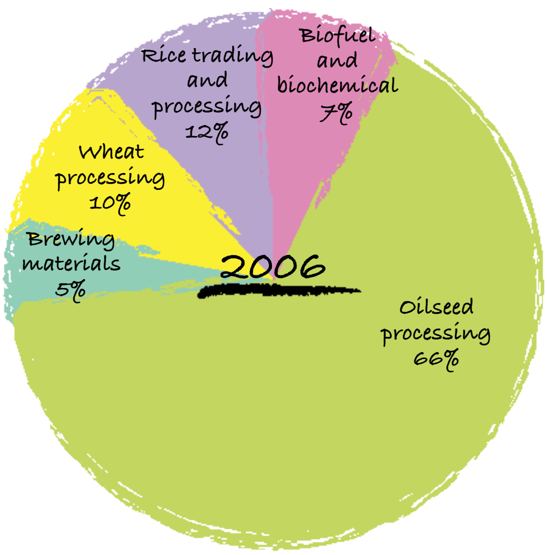
FINANCIAL REVIEW

I am pleased to report the second consecutive year of robust financial performance of the Group. Our group's revenue for continuing operations increased 61% year-on-year to HK$28,869 million and profit attributable to equity holders of the Company once again reached record level to HK$1,100 million, representing a 46% increase from 2006.

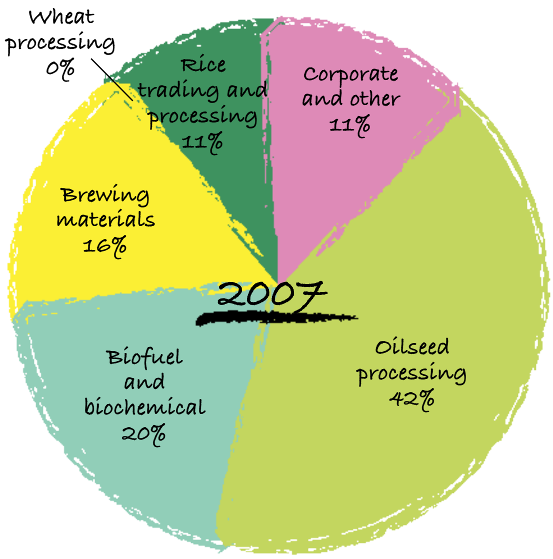
Oilseed processing business remains the largest revenue and profit contributors to our Company during the year. The outstanding performance of the oilseed processing business was mainly caused by robust demand of our edible oil and oilseed meal during the year. For the full year of 2007, oilseed process business accounted for 67% of total revenue and 42% of profit for the year attributable to equity holders of the Company, versus 66% and 45% in 2006 respectively. It is worthwhile to note that consumer-pack edible oil and the trading of non-rice businesses have been carved out from the Group from 1 January 2007 onwards and an amount of approximately HK$131 million IPO-related interest income was included in the net earnings of 2007.

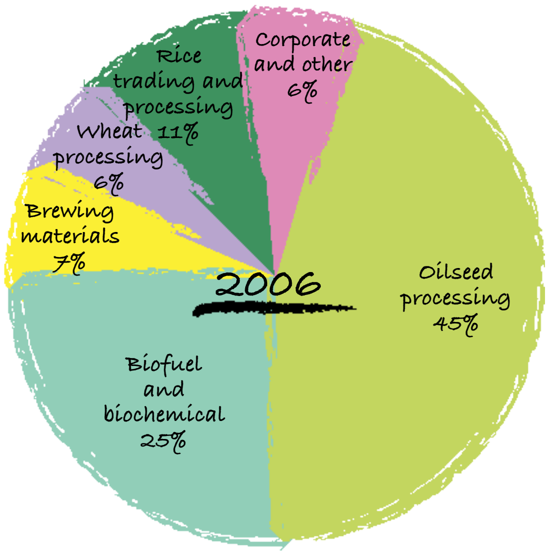
REVENUE FOR CONTINUING OPERATIONS





PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY





Turnover of oilseed processing business (including intersegment sales) rose 44% year-on-year in 2007 to HK$19,387 million. Prices of our edible oil and oilseed meal increased along with the soybean prices, a key raw material of this business. Strong domestic demand of oilseed products entirely offset the adverse impact of the surging raw material costs. However, an amount of HK$381 million of unrealised hedging loss was accounted for during the year which depressed the gross margin of the business to 4% from 5.5% of last year. The unrealised hedging loss is expected to be fully recovered in first half of 2008 once we physically deliver the products to our customers.

	FY07		**FY06**		**% Change**	
Ton'000/HK$'M	**Volume**	**Revenue**	**Volume**	**Revenue**	**Volume**	**Revenue**
Bulk edible oil	1,445.5	10,793.0	1,356.9	6,956.6	+7%	+55%
Oilseed meals and feeds	3,258.2	7,933.0	3,030.3	5,724.1	+8%	+39%
Others	–	660.8	–	808.8	–	–18%
		19,386.8		13,489.5		+44%
Intersegment elimination		–		(1,604.0)		–
Total		19,386.8		11,885.5		+63%

Sales of biofuel and biochemical business (including intersegment sales) increased 99% from a year earlier to HK$2,596 million. It was mainly driven by a combination of the rise in prices and sales volume of the existing product plus the induction of biochemical business. Owing to the price surge of corn, a key raw material of this business, gross margin fell from 16.1% to 13.1% in 2007.

	FY07		**FY06**		**% Change**	
Ton'000/HK$'M	**Volume**	**Revenue**	**Volume**	**Revenue**	**Volume**	**Revenue**
Fuel ethanol	160.4	645.7	132.0	489.9	+22%	+32%
Consumable ethanol	104.1	468.1	125.8	482.6	-17%	–3%
Anhydrous ethanol	56.2	272.6	19.2	83.9	+193%	+225%
Crude corn oil	29.7	195.7	17.7	66.5	+68%	+194%
DDGS	227.2	290.0	187.5	171.2	+21%	+69%
Starch	271.3	531.0	–	–	–	–
Corn Meal and Feed	107.9	159.4	–	–	–	–
Others	–	33.8	–	10.5	–	+222%
		2,596.3		1,304.6		+99%
Intersegment elimination		(5.0)		–		–
Total		2,591.3		1,304.6		+99%

Revenue of brewing materials business climbed 27% to HK$1,113 million only because the immense growth in the sales of malt was partly offset by the dried out of barley trading business during the year. Thanks to our excellent raw material sourcing and inventory management skills which helped alleviating the pressure of the soaring raw material costs. Gross margin improved from 18.0% to 27.6% for the year of 2007.

	FY07		**FY06**		**% Change**	
Ton'000/HK$'M	**Volume**	**Revenue**	**Volume**	**Revenue**	**Volume**	**Revenue**
Malt	331.7	1,095.8	282.6	728.3	+17%	+50%
Malting barley	0.4	1.0	70.5	114.9	–99%	–99%
Others	–	15.7	–	35.6	–	–56%
Total		1,112.5		878.8		+27%

Turnover of rice trading and processing business (including intersegment sales) rose 53% to HK$3,162 million solely because of the robust sales volume growth and a rise in product prices during the year. Gross margin was improved from 8.7% to 12.7% in 2007.

	FY07		**FY06**		**% Change**	
Ton'000/HK$'M	**Volume**	**Revenue**	**Volume**	**Revenue**	**Volume**	**Revenue**
Parboiled rice	223.7	528.1	169.9	393.4	+32%	+34%
White rice	908.3	2,634.1	673.6	1,672.6	+35%	+57%
		3,162.2		2,066.0		+53%
Intersegment elimination		(52.1)		–		–
Total		3,110.1		2,066.0		+51%

Sales of wheat process business increased 51% to HK$2,668 million on the back of the rise in both product prices and sales volume. Gross margin was edged up from 5.8% a year earlier to 6.4%.

	FY07		**FY06**		**% Change**	
Ton'000/HK$'M	**Volume**	**Revenue**	**Volume**	**Revenue**	**Volume**	**Revenue**
Flour	988.8	2,119.4	752.9	1,367.9	+31%	+55%
Noodles	45.1	115.0	36.6	80.0	+23%	+44%
Others	–	434.1	–	316.5	–	+37%
Total		2,668.5		1,764.4		+51%

Group earnings

Operating profit and profit attributable to the equity holders of the Company was HK$1,154 million and HK$1,100 million, representing an increase of 20% and 46% respectively on a year-on-year basis.

Finance costs increased by 60% to HK$320 million during the year, fuelled by the increase of the PRC borrowing costs, and the rise in loan amount to finance working capital and new investment requirement.

Tax expense fell 80% because our company was entitled to and utilised an amount of HK$86 million tax credits, mostly granted from purchasing domestic-made equipment.

Liquidity and financial resources

As at 31 December 2007, the total assets of the Group amounted to HK$21,600 million (2006: HK$15,461 million) and the equity attributable to equity holders of the Company was HK$10,400 million (2006: HK$5,969 million). Our balance sheet was strengthened due to the net proceeds of HK$2.8 billion raised from our Company's IPO on the Stock Exchange on 21 March 2007 and the outstanding financial results of the year.

In terms of available financial resources as at 31 December 2007, the Group had total available cash and cash equivalents (including pledged deposits and liquid investments) of HK$3,609 million. Out of the Group's total bank loans and other borrowings of HK$5,818 million, HK$4,681 million (approximately 80%) was repayable within one year, HK$331 million (approximately 6%) was repayable within two years and HK$806 million (approximately 14%) was repayable within three to five years. As at 31 December 2007, the Group's pledged assets with aggregate carrying value of HK$1,431 million (2006: HK$1,206 million) to secure bank loans and facilities of the Group.

The net gearing ratio for the Group was 19% by the end of 2007, based on net debt of HK$2,209 million and shareholders' equity of HK$11,752 million. The Group serves its debts primarily with recurring cash flow generated from its operation. Together with the IPO proceeds, the board of directors of the Company (the "**Board**") is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

The Group is centralising funding for all its operation at the Group level where foreign exchange exposure will be reviewed and monitored. This policy accomplishes better control of treasury operations and lower average funding cost. The Group uses derivative financial instruments such as commodity futures contracts to hedge its risks associated with price fluctuations in future purchases or sales of the related commodities.

Capital expenditure, commitments and contingencies

During the year ended 31 December 2007, the total capital expenditure was HK$2,051 million, of which HK$1,763 million (approximately 86%) was made by biofuel and biochemical business, HK$30 million (approximately 1%) was made by oilseed processing business, HK$143 million (approximately 7%) was made by brewing materials business, HK$99 million (approximately 5%) was made by wheat processing business, HK$13 million (approximately 1%) was made by rice trading and processing business, and the rest is made by corporate and others.

Up to 31 December 2007, the future capital expenditure for which the Group had contracted but unprovided for and authorised but not yet contracted amounted to approximately HK$215 million and HK$660 million respectively. Other than the commitments for commodity and forward currency contracts disclosed in note 39 of financial statements under the sub-heading of "other commitments" on page 132, the Group had no other material commitments and contingent liabilities.

Use of proceeds from the issue of new shares

The net proceeds from the issue of new shares are approximately HK$2,872 million and about HK$842 million have been used for a number of projects disclosed in our announcement dated 18 September 2007 regarding "Change in Use of Proceeds from Global Offering".

Details of the use of proceeds are as follows

	Planned amount HK$'M	Amount utilised up to 31 December 2007 HK$'M	Balance as at 31 December 2007 HK$'M
Capex for biofuel and biochemical business			
– Guangxi Zhuang Autonomous Region project	226	205	21
– Heilongjiang Zhaodong project	184	183	1
– Jilin Gongzhuling Biochemical project	226	97	129
– Eastern China Region Biochemical project	125	–	125
– Jilin Yushu Biochemical project phase I	108	108	–
– Jilin Yushu Biochemical project phase II	270	–	270
– Heilongjiang Longjiang Biochemical project	356	–	356
– Heilongjiang Suihua Biochemical project	356	–	356
Subtotal	**1,851**	**593**	**1,258**
Capex for oilseed processing business	**551**	**37**	**514**
Capex for rice trading and processing business	**172**	**–**	**172**
Capex for brewing materials business	**86**	**–**	**86**
Working capital	**212**	**212**	**–**
Grand total	**2,872**	**842**	**2,030**

The balance of the net proceeds has been partly placed in a highly-liquid money market fund.

DIVIDENDS

The Board does not recommend the payment of dividend for the year ended 31 December 2007 (2006: Nil).

REGISTER OF MEMBERS

The register of members of the Company will not be closed.

By order of the Board

Yu Xubo
Managing Director
16 April 2008