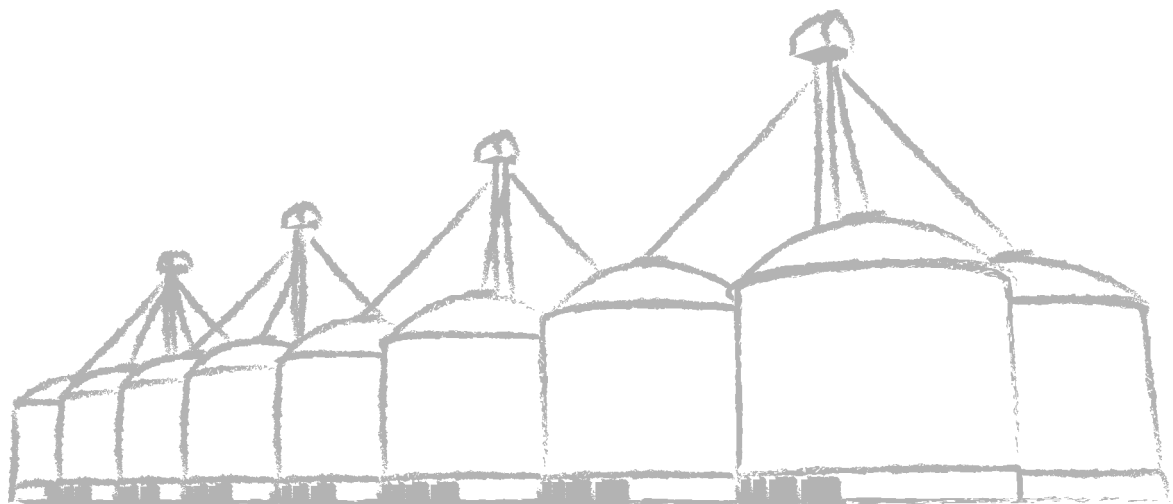





Report of The Directors





The Directors are pleased to present this annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

CORPORATE INFORMATION AND REORGANISATION

The Company was incorporated with limited liability in Hong Kong on 18 November 2006. Pursuant to a shareholders' special resolution passed on 29 December 2006, the name of the Company was changed from Sino Vision Hong Kong Limited to China Agri-Industries Holdings Limited and became effective on 9 January 2007.

Pursuant to a reorganisation scheme in preparation for the listing of the Company's shares on the main board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group (the "**Reorganisation**").

Details of the Reorganisation are set out in note 1 to the financial statements and in the Prospectus.

The shares of the Company ("**Shares**") commenced listing on the main board of the Stock Exchange on 21 March 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates of the Company comprise production, processing and distribution of agricultural products and related businesses. The Group's principal products and businesses are biofuel and biochemical, oilseed processing, rice trading and processing, brewing materials and wheat processing. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 64 to 72.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).

FINANCIAL INFORMATION SUMMARY

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, is set out on page 146 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 30 to the financial statements.



SHARE OPTION SCHEME

During the year, the Company conditionally adopted a share option scheme on 12 January 2007 which became effective and unconditional upon listing of the Shares on 21 March 2007 (the “Scheme”). The principal terms of the Scheme are as follows:

1. Purpose of the Scheme

To attract, retain and motivate senior management personnel and key employees of the Company, and provide the eligible participants with an opportunity to acquire proprietary interests in the Company and to encourage the eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

2. Participants of the Scheme

Participants of the Scheme mean (i) any executive or non-executive directors of any members of the Group; (ii) any senior executives, key technical staff, professional staff, managers, employees of any members of the Group; or (iii) any other individuals as may be proposed by the board. For the avoidance of any doubt, participants do not include independent non-executive Directors.

3. Total number of shares available for issue under the Scheme

As at the date of this annual report, a total of 27,600,000 shares (representing approximately 0.77% of the existing issued share capital of the Company) may be issued by the Company if all options which had been granted under the Scheme have been exercised.

4. Maximum entitlement of each participant under the Scheme

The total number of Shares issued and to be issued upon exercise of the options granted to any grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue (the “Individual Limited”) at the relevant time. Any further grant of options in excess of the Individual Limited shall be subject to shareholders’ approval with such grantee and his associates abstaining from voting.

5. The period within which the shares must be taken up under an option

The Directors may in their absolute discretion determine the period during which an option may be exercised and notify the grantee, save that in any event such period of time shall not exceed a period of 7 years commencing on the date of acceptance of the option expiring on the last date of such 7 year period, subject to the provisions for early termination thereof contained in the Scheme.

6. Minimum period for which an option must be held before it can be exercised

An option must be held for a minimum period of two years from the date of grant of before it can be exercised. In addition, an option shall be subject to the following vesting schedule (“**Vesting Periods**”):

Periods	Percentage of an option which may be exercised
Upon and after the second anniversary of the grant but no later than the third anniversary of the grant	33%
Upon and after the third anniversary of the grant but no later than the fourth anniversary of the grant	67%
Upon and after the fourth anniversary of the grant	100%

7. Time of acceptance and the amount payable on acceptance of the option

The offer of an option made pursuant to the Scheme may be accepted within 28 days from the date of the offer and the amount payable on acceptance of the option is HK\$1.00.

8. The basis of determining the exercise price

The exercise price shall be determined by the board and shall be the higher of (a) the closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of the offer; (b) the average closing prices of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer; or (c) the nominal value of a Share.

9. The remaining life of the Scheme

The Scheme is valid until 20 March 2017.

10. Movement of Share Options

Details of the movements in the share options during the year ended 31 December 2007 are as follows:

Category of participant	Date of grant	Exercise period 1	Exercise price HK\$	Number of share options			Outstanding as at 31 December 2007
				Granted during the year	Lapsed during the year	Exercised during the year	
(A) Directors							
Ning Gaoning	7 August 2007	7 August 2009 to 6 August 2014	4.666	700,000	-	-	700,000
Yu Xubo	7 August 2007	7 August 2009 to 6 August 2014	4.666	700,000	-	-	700,000
Lu Jun	7 August 2007	7 August 2009 to 6 August 2014	4.666	650,000	-	-	650,000
Yue Guojun	7 August 2007	7 August 2009 to 6 August 2014	4.666	650,000	-	-	650,000
Chi Jingtao	7 August 2007	7 August 2009 to 6 August 2014	4.666	600,000	-	-	600,000
Ma Wangjun	7 August 2007	7 August 2009 to 6 August 2014	4.666	600,000	-	-	600,000
(B) Employees of the Group	7 August 2007	7 August 2009 to 6 August 2014	4.666	23,700,000	-	-	23,700,000
			Total:	27,600,000	-	-	27,600,000

Notes:

- The exercise period for the share options granted to each employee of the Group and Director lasts for 5 years commencing from the second anniversary of the date of acceptance of the offer by the respective employees and Directors and subject to the Vesting Periods.
- The closing price of the Shares immediately before the date on which the share options disclosed above were granted (that is, 6 August 2007) was HK\$4.50. No share options were exercised, lapsed or cancelled in accordance with the terms of the Scheme during the year.
- Additional information in relation to the Scheme are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Ordinance which would oblige the Company to offer new shares on a pro rata basis to existing shareholders unless otherwise required by the Stock Exchange.

RESERVES

Detail of movements in the reserves of the Company and the Group during the year are set out in the note 32(b) of the financial statements and in the consolidated statement of changes in equity on pages 67 to 68 of this annual report, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the provision of section 79B of Hong Kong Companies Ordinance, amounted to HK\$162,442,000. In addition, the Company's share premium account in the amount of HK\$2,746,299,000, may be distributable in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 18% of the total sales for the year with the largest customer accounting for approximately 9%. The five largest suppliers of the Group accounted for approximately 41% of the Group's total purchases for the year, with the largest supplier accounting for approximately 35%.

Apart from COFCO, one of the Group's five largest customers and suppliers, and China Foods, one of the Group's five largest customers, none of the Director or any of their associates or any shareholder (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in other five largest customers or suppliers of the Group.

DIRECTORS

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

Chairman and Non-executive Director:

Ning Gaoning (appointed on 15 January 2007)

Executive Directors:

Yu Xubo (appointed on 15 January 2007)

Lu Jun (appointed on 15 January 2007)

Yue Guojun (appointed on 15 January 2007)

Qu Zhe (resigned on 17 January 2007)

Non-executive Directors:

Chi Jingtao (appointed on 15 January 2007)

Ma Wangjun (appointed on 15 January 2007)

Independent Non-executive Directors:

Lam Wai Hon, Ambrose (appointed on 16 January 2007)

Shi Yuanchun (appointed on 16 January 2007 and resigned on 20 June 2007)

Victor Yang (appointed on 16 January 2007)

Patrick Vincent Vizzone (appointed on 20 June 2007)

In accordance with Article 111 of the Articles of Association, Mr. Patrick Vincent Vizzone will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with Article 106 of the Articles of Association, Mr. Yue Guojun, Mr. Chi Jingtao and Mr. Ma Wangjun will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive Directors are appointed with a specific term of three years but are subject to retirement by rotation as required by the Articles of Association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 40 to 45 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 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 the Articles of Association.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Remuneration Committee pursuant to the Articles of Association with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group.

MANAGEMENT CONTRACTS

No contracts for management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save as disclosed in the paragraph headed "Share Option Scheme" above, the Company had no other outstanding options, convertible securities, warrants or other similar rights as at 31 December 2007.

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

As at 31 December 2007, the interests and short positions of the Directors in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange 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 were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules (together, "Discloseable Interests") were as follows:

Interest in underlying shares of the Company

Name of Director	Capacity	Number of share options held in long position	Number of underlying shares held	Approximate percentage of the issued share capital of the Company as at 31.12.2007
Ning Gaoning	Beneficial owner	700,000	700,000	0.02%
Yu Xubo	Beneficial owner	700,000	700,000	0.02%
Lu Jun	Beneficial owner	650,000	650,000	0.02%
Yue Guojun	Beneficial owner	650,000	650,000	0.02%
Chi Jingtao	Beneficial owner	600,000	600,000	0.02%
Ma Wangjun	Beneficial owner	600,000	600,000	0.02%

Details of the Directors' interests in share options granted by the Company are set out in "Share Option Scheme" under the heading "Movement of Share Options".

Save as disclosed above, none of the Directors, chief executives or their respective associates have any other Discloseable Interests in the Company.

Interests in underlying shares of associated corporation

Name of director	Name of associated corporation	Capacity	Number of share options of China Foods held in long position (Notes)	Number of underlying shares held	Approximate percentage of the issued share capital of China Foods as at 31.12.2007
Ning Gaoning	China Foods	Beneficial owner	880,000	880,000	0.03%

Notes:

- The options were granted on 27 September 2007 and the exercise price is HK\$4.952 per share.
- The exercise period of the options is ranging from 28 September 2009 to 27 September 2014.

Save as disclosed above, none of the Directors, chief executives or their respective associates had any other Discloseable Interests in the Company's associated corporations.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN THE SHARES AND THE UNDERLYING SHARES

As at 31 December 2007, so far as was known to the Directors, the following persons (other than the Directors or Supervisors) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

Substantial shareholders	Capacity	Number of Shares held	Notes	Approximate percentage of the issued share capital of the Company as at 31.12.2007
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,922,550,331	(1)	53.49%
COFCO (BVI) No.108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	(1)	3.90%
COFCO (HK)	Beneficial owner	10,138,000	(1)	0.28%
	Interest of controlled corporations	2,062,550,331	(1) & (2)	57.39%
COFCO	Interest of controlled corporations	2,072,688,331	(1) & (3)	57.67%

Notes:

- (1) Long positions in the Shares.
- (2) COFCO (HK) is deemed to be interested in the 2,062,550,331 Shares in aggregate held by Wide Smart and COFCO BVI as 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, respectively.
- (3) COFCO is deemed to be interested in the 2,072,688,331 Shares in aggregate held by Wide Smart, COFCO BVI and COFCO (HK) as 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) respectively.

Save as disclosed above, as at 31 December 2007, so far as was known to the Directors, no other persons had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the 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.

CONTINUING CONNECTED TRANSACTIONS

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

1. China Agri-Industries Limited, a wholly-owned subsidiary of the Company, and COFCO entered into an agreement on 8 December 2006 and a supplementary agreement on 12 January 2007 to regulate the relationship between COFCO and its subsidiaries (other than the Company and China Foods) (collectively referred to as “**COFCO Group**”) and the Group in respect of the mutual supply of raw materials and products as well as ancillary equipment and services. During the year, the aggregated value of raw materials and ancillary equipment and services supplied by COFCO Group to the Group, including soybeans, palm oil, oil tanks, wheat, white rice, barley and other relevant products as well as logistics and support services, was approximately RMB9,861.7 million while the aggregated value of products supplied by the Group to COFCO Group, including bulk edible oil, soybean feed, soybean meal, alcohol and rice husk powder, malt, feed and other relevant products, was approximately RMB782.9 million.
2. China Foods and China Agri-Industries Limited entered into a supply and packaging agreement on 8 October 2006 and a supplementary agreement on 12 January 2007, pursuant to which certain members of the Group supplied oil to China Foods and its subsidiaries in consumer packs. The aggregate value of the consumer-pack oil supplied by the Group to China Foods and its subsidiaries was approximately RMB 2,447.1 million during the year.
3. Wilmar Holdings Ptd Ltd. (“**Wilmar**”) is a substantial shareholder (as defined in the Listing Rules) of certain of our subsidiaries, and therefore, Wilmar and its associates (as defined in the Listing Rules) (“**Wilmar Group**”) are our connected persons under the Listing Rules. Wilmar and China Agri-Industries Limited entered into an agreement on 8 December 2006 and a supplementary agreement on 12 January 2007, pursuant to which Wilmar Group supplied to the Group products including bulk edible oil, refined edible oil and packaging materials and the Group supplied to Wilmar Group products including bulk edible oil and soybean meal and feed and packaging materials.

The aggregate value for the products supplied by Wilmar Group to the Group during the year was approximately RMB 217.2 million. The aggregate value for the products supplied by the Group to Wilmar Group during the year was approximately RMB 298.16 million.

4. Shandong Dezhou Grains & Oils Group Corporation (山東省德州糧油集團總公司) (“**Dezhou Grains**”) holds a 45% equity interest in our non-wholly owned subsidiary, Shandong COFCO Lude Foods Co., Ltd. (山東中糧魯德食品有限公司) (“**COFCO Lude**”). Therefore Dezhou Grains and its associates (as defined in the Listing Rules) are our connected persons for the purpose of the Listing Rules. COFCO Lude and Dezhou Grains entered into a wheat purchase agreement on 8 December 2006 and a supplementary agreement on 12 January 2007, pursuant to which COFCO Lude will purchase wheat from certain subsidiaries of Dezhou Grains. During the year, the aggregate expenditure for the wheat purchased by COFCO Lude from certain subsidiaries of Dezhou Grains was RMB 21.28 million.

5. Shenyang No. 2 Grains Storage Depot (瀋陽市第二糧食收儲庫) (“**No. 2 Storage**”) is a substantial shareholder (as defined in the Listing Rules) of one of our subsidiaries, Shenyang Xiangxue Flour Limited Liability Company (瀋陽香雪麵粉股份有限公司) (“**Xiangxue**”), and therefore, is our connected person for the purpose of the Listing Rules. Xiangxue and No. 2 Storage entered into a wheat purchase agreement on 8 December 2006 as well as a supplementary agreement on 12 January 2007 to regulate the relationship between the parties thereof in respect of wheat purchases. During the year, Xiangxue did not purchase wheat from No.2 Storage.

6. Archer Daniels Midland Company (“**ADM**”) is a substantial shareholder (as defined in the Listing Rules) of certain of our subsidiaries, and therefore, a connected person of the Company. As ADM also holds a 30% equity interest in COFCO ADM Oils & Grains Industries (Heze) Co., Ltd. (“**COFCO ADM**”) through a trust arrangement, COFCO ADM is an associate of ADM, and therefore, a connected person of the Company. During the year, the Group was engaged in mutual supply of products and services with COFCO ADM and Great Ocean Oil & Grain Industries (Fang Cheng Gang) Co., Ltd. (大海糧油工業(防城港)有限公司), an associate of ADM as at 28 June 2007 (together, “**ADM Associates**”). The aggregate expenditures of the Group in purchases of products and services provided by ADM Associates was approximately RMB121.72 million and the aggregate revenues of the Group in supplies of products and services to ADM Associates was approximately RMB185.83 million.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The independent non-executive Directors had reviewed the continuing connected transactions for the year ended 31 December 2007 (collectively, the “**CCTs**”) and confirmed that the CCTs were:

- (a) entered into in the ordinary and usual course of business of the Group;
- (b) entered into on normal commercial terms;
- (c) in accordance with the terms of the respective agreements that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (d) carried out in accordance with the terms of the agreements governing such transactions or, where there was no such agreement, on terms no less favourable than those available to or from independent third parties.

The auditors of the Company had reviewed the CCTs and confirmed that the CCTs:

- (a) were approved by the Directors;
- (b) were in accordance with the pricing policies of the Group;
- (c) were entered into in accordance with the respective agreements governing the transactions; and
- (d) have not exceeded the respective annual caps as disclosed in the Prospectus and the relevant annual caps as revised in the announcements of the Company dated 8 November 2007.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, as disclosed below, during the year, the following Directors are considered to have interests in the following companies which is likely to compete directly or indirectly with that of the Group ("**Competing Companies**"):

1. COFCO holds approximately 20.74% of the issue share capital of Anhui BBCA Biochemical Co., Ltd. ("**Anhui BBCA**"), a company mainly engaged in the processing of agricultural products to produce biofuel and biomaterials which is similar to our biofuel and biochemical business. Mr. Yue Guojun is a director and chairman of the board of Anhui BBCA. COFCO also holds a 49.08% equity interest in Xinjiang Tayuan Safflower Co., Ltd. ("**Xinjiang Tayuan**") which is mainly engaged in the business of safflower oil extraction, similar to part of our oilseed processing business. Mr. Lu Jun is a director and chairman of the board of Xinjiang Tayuan.

Mr. Ning Gaoning is a director and chairman of the board of COFCO. Mr. Yu Xubo is a president and Mr. Lu Jun is an assistant president of COFCO. Mr. Chi Jingtao and Mr. Ma Wangjun hold positions in COFCO as the head of human resources department and the head of finance department, respectively.

2. China Resources (Jilin) Bio-chemical Co., Ltd. ("**Jilin Bio-chemical**") holds certain interest in the business of production of starch which is similar to our biochemical business. Mr. Yu Xubo is a director and chairman and Mr. Yue Guojun is a director and vice chairman of the board of Jilin Bio-chemical.
3. Dongguan Zhong Gu Oils & Fats Co., Ltd ("**Dongguan Zhong Gu**") is principally engaged in oil extraction and soybean meal production business which is similar to our oilseed processing business. Mr. Lu Jun is a director and chairman of the board of Dongguan Zhong Gu.
4. Wilmar International Holdings Limited ("**Wilmar International**") holds certain business which is similar to our oilseed processing business. Mr. Yu Xubo is director of Wilmar International. Mr. Lu Jun is a director of Wilmar, Grand Silver (Laiyang) Co., Limited (嘉銀萊陽有限公司) and Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co. Ltd., which are Wilmar International's subsidiaries.

Save as disclosed above, no Directors are considered to have interests in any business which is likely to compete directly or indirectly with that of the Group during the year.

As the Board of the Company is independent from the respective boards of Competing Companies and the above Directors do not control the Board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the businesses of Competing Companies.

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

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

NON-COMPETITION DEED

As disclosed in the Prospectus, the following interests were anticipated to be held or acquired by COFCO Group which compete or may compete with the Company's businesses (the "**Retained Interests**"):

- (a) a 100% equity interest in each of Fei County Zhong Zhi Oils & Fats Co., Ltd. and Dongguan Zhong Gu Oils & Fats Co., Ltd. (collectively "**China Grain Oils**"), both of which are principally engaged in oil extraction and soybean meal production business;
- (b) a 37.03% interest in Jilin Bio-chemical, a company listed on the Shanghai Stock Exchange, which is primarily engaged in corn processing business;
- (c) a 20.74% interest in Anhui BBKA, a company listed on the Shenzhen Stock Exchange, which is involved in bio-chemical business; and
- (d) a 49.08% equity interest in Xinjiang Tayuan, the business of which includes edible safflower oil extraction.

COFCO, COFCO (HK) and the Company executed a non-competition deed on 16 February 2007 ("**Non-competition Deed**") pursuant to which COFCO and COFCO (HK) have granted to the Company in the Non-competition Deed options to acquire all or part of the Retained Interests held by COFCO on the basis of a valuation to be conducted by an independent valuer jointly appointed by COFCO and the Company subject to any relevant laws and applicable rules, relevant authorities' approvals and existing third-party pre-emptive rights (if any). Under the Non-competition Deed, if COFCO or COFCO (HK) intends to transfer, sell, lease, license or dispose to any third party any direct or indirect interest in any of such Retained Interests, the Company has also been granted pre-emptive rights to purchase any Retained Interests on terms no less favorable than those offered to such third party.

A subsidiary of COFCO entered into a share sale and purchase agreement on November 2005 (the "**2005 SPA**") to acquire from China Resources Group a 37.03% interest in Jilin Bio-chemical. In May 2007, the Board was informed by COFCO that the 2005 SPA had been terminated by the parties thereto due to the change in the share reclassification programme proposal of Jilin Bio-chemical therefore the corresponding option and pre-emption right granted to the Company in this regard has lapsed. Following the termination of the 2005 SPA, COFCO and/or one of its subsidiaries intended to enter into a sale and purchase agreement with Jilin Bio-chemical (the "**Proposed SPA**") for the acquisition of certain business/assets of Jilin Bio-chemical (the "**New Interests**"). The New Interests constitute New Business Opportunities within the meaning of the Non-Competition Deed. Having taken into the account the principal factors and considerations set out in the announcement of the Company dated 9 May 2007, the INEDs are of the opinion that it is not appropriate and not in the best interests of the Company and the shareholders of the Company as a whole for the Company to acquire the New Interests on the terms of the Proposed SPA. The Board has accordingly given its written consent for COFCO and/or one of its subsidiaries to enter into the Proposed SPA. Under the Non-Competition Deed, the Company has been granted, an option and pre-emption right to acquire any part or all of the New Interests which will take effective upon completion of the Proposed SPA. The Board has made no decision as to whether or when such option will be exercised. As at the date of this report, as far as the Company is known, the Proposed SPA has not been completed.

The options and pre-emptive rights of the Company to acquire from COFCO any interest or business in Anhui BBKA and Xinjiang Tayuan (collectively, the “Options”) had become effective on 3 April 2007 and 10 April 2007, respectively. The independent non-executive Directors (“INEDs”), who attended the Board meeting on 29 June 2007, have reviewed information regarding the Options provided to them, which they believe to be sufficient in forming their opinion. Having taken into account the principal factors and considerations set out in the announcement of the Company dated 3 July 2007, the INEDs are of the opinion that it is not appropriate and not in the best interests of the Company and the shareholders of the Company as a whole to exercise such Options at the current time. The Board has accordingly decided not to exercise the Options before the next anniversary of the Options becoming effective.

As at the date of this report, as far as the Company is aware, the options and pre-emptive rights of the Company to acquire from COFCO any interest or business in China Grain Oils have not become effective as the transfer of China Grains and Oils Group Corporation, the holding company of China Grain Oils, to COFCO has not been completed.

No decision has been taken by the Board definitively not to exercise in the future any options which are still in effect. The options will remain in effect so long as the Non-Competition Deed remains effective and will be reviewed by the INEDs on an annual basis. A final and definitive decision will be made as to whether to exercise the options or not on the fifth anniversaries of the options becoming effective, if such decision has not been taken before such time. COFCO has undertaken to the Company that where, on the fifth anniversaries of the options having become effective, a decision is made not to exercise such options by the Company, COFCO will dispose of the relevant interests or businesses in respect of the options to independent third parties within six months of such decision having become effective. If for any reason further time after the fifth anniversary is deemed necessary for the proper evaluation of the options, such decision to extend would be voted on solely by the INEDs and be decided by majority vote.

CORPORATE GOVERNANCE

The Company is committed to developing good corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 24 to page 39 of this report.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$1,149,000.

POST BALANCE SHEET EVENT

No significant event occurs during the period after the balance sheet date and the date of this annual report.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed with the auditors of the Company the audited financial statements for the year ended 31 December 2007 and has also discussed auditing, internal control and financial reporting matters including the review of the accounting practices and principles adopted by the Group.

AUDITORS

Ernst & Young shall retire at the forthcoming annual general meeting and a resolution for their re-appointment as auditors of the Company will be proposed at the meeting.

On behalf of the Board

Yu Xubo

Managing Director

16 April 2008