1. CORPORATE INFORMATION AND REORGANISATION

China Agri-Industries Holdings Limited (the "**Company**") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 33rd Floor, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

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

- oilseed processing;
- production and sale of brewing materials;
- trading and processing of rice;
- wheat processing; and
- production and sale of biofuel and biochemical products.

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**").

The Company was incorporated in Hong Kong on 18 November 2006. Upon its incorporation, the Company had an authorised ordinary share capital of HK$10,000 divided into 10,000 shares of HK$1 each. One share of HK$1 was issued at par to China Foods Limited ("**China Foods**"), the Company's then immediate holding company.

Pursuant to an ordinary resolution passed on 29 December 2006, the authorised and issued share capital of the Company was subdivided into 100,000 ordinary shares and 10 ordinary shares of HK$0.1 each, respectively. Pursuant to a special resolution passed on the same date, the authorised capital of the Company was increased from HK$10,000 to HK$400,000,000 by the creation of additional 3,999,900,000 ordinary shares of HK$0.1 each, ranking pari passu in all respects with the existing share capital of the Company.

On 10 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 of Hong Kong Limited (the "**Stock Exchange**"), the Company acquired from China Foods the entire issued share capital in China Agri-Industries Limited, a limited liability company incorporated in Bermuda ("**China Agri-Industries**"), the holding company of the subsidiaries now comprising the Group, in consideration for the allotment and issue of 2,791,383,346 ordinary shares of HK$0.1 each in the share capital of the Company, credited as fully paid. The Company then became the holding company of the companies now comprising the Group (the "**Reorganisation**").

Pursuant to the Reorganisation, the Group ceased the consumer-pack edible oil and the trading of non-rice foodstuffs businesses (the "**Discontinued Operations**"), which were taken up by China Foods and COFCO (HK), respectively, on 1 January 2007. Further details of the Discontinued Operations are set out in note 13 to the financial statements.

1. CORPORATE INFORMATION AND REORGANISATION *(continued)*

Further details of the Reorganisation are set out in the Company's listing prospectus dated 8 March 2007 (the "**Prospectus**").

The shares of the Company were listed on the Main Board of the Stock Exchange on 21 March 2007.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, 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.

Basis of consolidation

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

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

Apart from the subsidiaries acquired through the Reorganisation, 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is 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.

2.2 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

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 44 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.

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

(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.

2.3 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)	Consolidated 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.

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

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.

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.

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

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

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. The Group performs its annual impairment test of goodwill as at 31 December. 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.

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, financial assets, 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.

2.4 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 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.

2.4 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	3% to 9.5%
Plant, machinery and equipment	4.5% to 50%

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 when completed and ready for use.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets 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.

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.

Financial assets at fair value through profit or loss

Financial assets 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 investments held for trading 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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, due to minority shareholders of subsidiaries, due to related companies and associates, derivative financial instruments 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and commodity future contracts to hedge its risks associated with foreign currency fluctuations and 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 (classified as financial assets at fair value through profit or loss) when the fair value is positive and as liabilities (classified as financial liabilities at fair value through profit or loss) 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 forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of commodity future contracts is calculated by reference to current commodity prices for contracts with similar maturity profiles.

Inventories

Inventories 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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;

(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.

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 grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the Group using Black-Scholes-Merton option pricing model, further details of which are given in note 31 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.

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.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits *(continued)*

Pension schemes and other retirement benefits (continued)

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.

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.

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.

3. 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$620,443,000 (2006: HK$584,806,000). More details are given in note 17.

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 amount of unrecognised tax losses at 31 December 2007 was HK$78,461,000 (2006: HK$107,835,000). Further details are contained in note 29 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 the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in note 2.4 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$56,846,000 (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$7,373,787,000 (2006: HK$5,376,206,000) 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$10,865,000 (2006: HK$478,000) was recognised in the consolidated income statement for the year. The aggregate carrying amounts of accounts and bills receivable, and prepayments, deposits and other receivables as at 31 December 2007 were HK$2,939,774,000 (2006: HK$2,491,185,000).

4. 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 all 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. Details of the business segments are summarised as follows:

Continuing operations

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

(b) the brewing materials segment engages in the processing and trading of malt;

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

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

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

(f) the "corporate and others" segment comprises the Group's corporate income and expense items.

Discontinued operations

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

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

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.

4. 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								Discontinued operations			
	Oilseed processing	Brewing materials	Rice trading and processing	Wheat processing	Biofuel and biochemical	Corporate and others	Eliminations	Consolidated	Consumer-pack edible oil	Trading of non-rice foodstuffs	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
Segment revenue:												
Sales to external customers	19,386,808	1,112,559	3,110,086	2,668,472	2,591,319	-	-	28,869,244	-	-	-	28,869,244
Intersegment sales	-	-	52,071	-	4,963	-	(57,034)	-	-	-	-	-
Other revenue	277,714	9,245	7,271	8,943	272,715	36,161	(2,452)	609,597	-	-	-	609,597
Segment results	572,254	203,985	189,798	9,011	209,117	(28,732)	(1,424)	1,154,009	-	-	-	1,154,009
Interest income								173,679			-	173,679
Loss on disposal of subsidiaries								(1,917)			-	(1,917)
Finance costs								(320,416)			-	(320,416)
Share of profits of associates	244,094	-	-	2,609	22,865	-	-	269,568	-	-	-	269,568
Profit before tax								1,274,923			-	1,274,923
Tax								(25,500)			-	(25,500)
Profit for the year								1,249,423			-	1,249,423
Assets and liabilities												
Segment assets	6,916,352	1,547,496	1,657,846	1,221,316	5,376,516	7,095,447	(6,507,272)	17,307,701	-	-	-	17,307,701
Interests in associates	1,026,202	-	-	56,668	318,534	-	-	1,401,404	-	-	-	1,401,404
Unallocated assets								2,891,363			-	2,891,363
Total assets								21,600,468			-	21,600,468
Segment liabilities	2,714,871	573,774	1,174,097	1,136,293	2,724,664	2,095,715	(6,507,272)	3,912,142	-	-	-	3,912,142
Unallocated liabilities								5,935,945			-	5,935,945
Total liabilities								9,848,087			-	9,848,087
Other segment information:												
Depreciation	176,705	39,341	14,676	29,953	104,392	56	-	365,123	-	-	-	365,123
Impairment losses recognised in the consolidated income statement	60,670	405	-	1,502	5,134	-	-	67,711	-	-	-	67,711
Capital expenditure	29,840	143,216	12,845	99,447	1,762,942	3,163	-	2,051,453	-	-	-	2,051,453

4. SEGMENT INFORMATION *(continued)*

	Continuing operations								Discontinued operations			
Year ended 31 December 2006	Oilseed processing HK$'000	Brewing materials HK$'000	Rice trading and processing HK$'000	Wheat processing HK$'000	Biofuel and biochemical HK$'000	Corporate and others HK$'000	Elimin-ations HK$'000	Total HK$'000	Consumer-pack edible oil HK$'000	Trading of non-rice foodstuffs HK$'000	Total HK$'000	Con-solidated HK$'000
Segment revenue:												
Sales to external customers	11,885,460	878,835	2,065,982	1,764,426	1,304,620	-	-	17,899,323	1,843,671	540,330	2,384,001	20,283,324
Intersegment sales	1,603,998	-	-	-	-	-	(1,603,998)	-	-	-	-	-
Other revenue	119,322	364	1,003	63,662	206,881	-	-	391,232	341	25,215	25,556	416,788
Segment results	464,243	71,262	128,735	76,035	228,206	(4,079)	-	964,402	59,587	45,028	104,615	1,069,017
Interest income								16,393			4,332	20,725
Loss on disposal of a subsidiary								(2,241)			-	(2,241)
Finance costs								(200,463)			(19,193)	(219,656)
Share of profits of associates	175,026	-	-	3,373	22,646	-	-	201,045	-	-	-	201,045
Profit before tax								979,136			89,754	1,068,890
Tax								(129,598)			(25,213)	(154,811)
Profit for the year								849,538			64,541	914,079
Assets and liabilities												
Segment assets	6,500,643	1,297,652	1,228,914	934,444	2,601,419	2,379,940	(3,070,228)	11,872,784	370,331	832,327	1,202,658	13,075,442
Interests in associates	745,418	-	-	51,582	284,928	-	-	1,081,928	-	-	-	1,081,928
Unallocated assets								1,056,888			246,779	1,303,667
Total assets								14,011,600			1,449,437	15,461,037
Segment liabilities	2,094,939	592,211	764,669	704,113	1,089,287	31,725	(3,070,228)	2,206,716	304,620	423,638	728,258	2,934,974
Unallocated liabilities								4,834,504			602,392	5,436,896
Total liabilities								7,041,220			1,330,650	8,371,870
Other segment information:												
Depreciation	175,984	29,335	12,724	25,673	64,630	-	-	308,346	805	1,066	1,871	310,217
Impairment losses recognised in the consolidated income statement	2,227	-	-	245	(646)	-	-	1,826	-	845	845	2,671
Capital expenditure	185,347	172,678	5,591	48,438	802,026	109	-	1,214,189	2,595	109	2,704	1,216,893

5. 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:

	2007 HK$'000	2006 HK$'000
Other income		
Agency commission	**1,339**	23,194
Bank interest income	**173,679**	18,220
Interest income from fellow subsidiaries	**–**	2,505
Investment income from liquid investments	**39,909**	–
Government grants*	**269,372**	187,937
Compensation income	**4,385**	56,607
Rental of containers	**16,891**	6,541
Tax refunds	**14,577**	26,725
Others	**5,264**	27,757
	525,416	349,486
Gains		
Gain on disposal of by-products and scrap items	**39,028**	27,308
Unrealised fair value gains on forward currency contracts	**8,232**	–
Gain on foreign exchange, net	**210,600**	58,478
	257,860	85,786
	783,276	435,272
Represented by:		
Other income and gains attributable to discontinued operations (note 13)	**–**	29,888
Other income and gains attributable to continuing operations reported in the consolidated income statement	**783,276**	405,384
	783,276	435,272

* 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 in the PRC for fuel ethanol producers, Zhaodong Bio-Energy (as defined in note 41 to the financial statements) is entitled to a financial subsidy based on a fixed amount per metric ton of fuel ethanol produced and sold. An amount of HK$226,882,000 (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.

6. PROFIT BEFORE TAX

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

	2007 HK$'000	2006 HK$'000
Cost of inventories sold	**25,653,271**	18,642,694
Provision against inventories	**4,284**	2,542
Realised fair value losses/(gains) of derivative instrument transactions not qualifying as hedges	**838,505**	(115,677)
Unrealised fair value losses of derivative instrument transactions not qualifying as hedges	**385,235**	11,966
Cost of sales	**26,881,295**	18,541,525
Auditors' remuneration	**4,578**	2,550
Depreciation (note 15)	**365,123**	310,217
Minimum lease payments under operating leases in respect of land, buildings and steel barrels	**31,982**	23,283
Recognition of prepaid land premiums (note 16)	**10,201**	8,453
Employee benefits expenses (excluding directors' remuneration (note 8)):		
Wages and salaries	**264,454**	217,814
Pension scheme contributions*	**16,360**	15,927
Equity-settled share option expense	**5,708**	–
	286,522	233,741
Loss on disposal of items of property, plant and equipment	**1,122**	13,257
Loss on disposal of subsidiaries (note 34)	**1,917**	2,241
Impairment of items of property, plant and equipment (note 15)	**56,846**	2,193
Impairment of accounts receivable (note 22)	**2,997**	478
Impairment of other receivables	**7,868**	–

* 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 the discontinued operations.

7. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
Bank loans wholly repayable within five years	**317,289**	153,194
Loans from the ultimate holding company and a fellow subsidiary	**9,385**	74,059
Total interest expense on financial liabilities not at fair value through profit or loss	**326,674**	227,253
Less: Interest capitalised	**(19,984)**	(7,597)
	306,690	219,656
Other finance costs:		
Unrealised loss on forward currency contracts	**13,726**	–
	320,416	219,656
Represented by:		
Attributable to discontinued operations (note 13)	**–**	19,193
Attributable to continuing operations reported in the consolidated income statement	**320,416**	200,463
	320,416	219,656

8. 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:		
Independent non-executive directors	**704**	–
Executive directors and non-executive directors	**349**	–
	1,053	–
Other emoluments:		
Salaries, allowances and benefits in kind	**3,778**	487
Discretionary bonuses	**1,320**	663
Equity-settled share option expense	**938**	–
Pension scheme contributions	**44**	14
	6,080	1,164
	7,133	1,164

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 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:

	Group	
	2007	2006
	HK$'000	HK$'000
Mr. Lam Wai Hon, Ambrose	**244**	–
Mr. Victor Yang	**244**	–
Mr. Patrick Vincent Vizzone (appointed on 20 June 2007)	**147**	–
Mr. Shi Yuanchun (resigned on 20 June 2007)	**69**	–
	704	–

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

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	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. Yu Xubo	**–**	**1,744**	**–**	**168**	**–**	**1,912**
Mr. Lu Jun	**–**	**1,017**	**660**	**156**	**22**	**1,855**
Mr. Yue Guojun	**–**	**1,017**	**660**	**156**	**22**	**1,855**
	–	**3,778**	**1,320**	**480**	**44**	**5,622**
Non-executive directors:						
Mr. Ning Gaoning	**175**	**–**	**–**	**168**	**–**	**343**
Mr. Chi Jingtao	**87**	**–**	**–**	**145**	**–**	**232**
Mr. Ma Wangjun	**87**	**–**	**–**	**145**	**–**	**232**
	349	**–**	**–**	**458**	**–**	**807**
	349	**3,778**	**1,320**	**938**	**44**	**6,429**
2006						
Executive director:						
Mr. Yue Guojun	–	487	663	–	14	1,164

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2006: four) non-director, highest paid employees for the year are as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Salaries, allowances and benefits in kind	**1,816**	770
Discretionary bonuses	**730**	1,224
Equity-settled share option expense	**253**	–
Pension scheme contributions	**34**	123
	2,833	2,117

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	–
	2	4

During the year, share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of which are set out in note 31 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 employees' remuneration disclosures.

10. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits 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	2006
	HK$'000	HK$'000
Group:		
Current – Mainland China		
Provision for the year	**217,121**	118,465
Overprovision in prior years	**(3,497)**	–
Investment tax credits	**(85,518)**	–
Deferred (note 29)	**(102,606)**	11,133
Total tax charge for the year	**25,500**	129,598

10. 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	135,789		1,139,134		1,274,923	
Tax at the statutory tax rate	23,763	17.5	375,915	33.0	399,678	31.3
Lower tax rate for specific provinces or local authority*	–	–	(81,604)	(7.2)	(81,604)	(6.4)
Profit not subject to tax due to concessions**	–	–	(118,167)	(10.4)	(118,167)	(9.3)
Investment tax credit utilised during the year***	–	–	(85,518)	(7.5)	(85,518)	(6.7)
Profits attributable to associates	–	–	(88,138)	(7.7)	(88,138)	(6.9)
Income not subject to tax	(34,843)	(25.7)	(7,547)	(0.7)	(42,390)	(3.3)
Expenses not deductible for tax	11,080	8.2	43,757	3.8	54,837	4.3
Effect on deferred tax of change in rates	–	–	(13,395)	(1.2)	(13,395)	(1.1)
Adjustment in respect of current tax of previous periods	–	–	(3,497)	(0.3)	(3,497)	(0.3)
Tax losses utilised from previous periods	–	–	(7,219)	(0.6)	(7,219)	(0.5)
Tax losses not recognised	–	–	10,913	1.0	10,913	0.9
Tax charge at the Group's effective rate	–	–	25,500	2.2	25,500	2.0

10. TAX (continued)

Group – 2006

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before tax#	(2,763)		1,071,653		1,068,890	
Tax at the statutory tax rate	(484)	17.5	353,646	33.0	353,162	33.0
Lower tax rate for specific provinces or local authority*	–	–	(80,536)	(7.5)	(80,536)	(7.5)
Profit not subject to tax due to concessions**	–	–	(48,819)	(4.6)	(48,819)	(4.6)
Profits attributable to associates	–	–	(63,394)	(5.9)	(63,394)	(5.9)
Income not subject to tax	(298)	10.8	(24,281)	(2.3)	(24,579)	(2.3)
Expenses not deductible for tax	782	(28.3)	22,761	2.1	23,543	2.2
Tax losses utilised from previous periods	–	–	(15,318)	(1.4)	(15,318)	(1.4)
Tax losses not recognised	–	–	10,752	1.0	10,752	1.0
Tax charge at the Group's effective rate	–	–	154,811	14.4	154,811	14.5
Represented by:						
Tax charge attributable to discontinued operations (note 13)					25,213	
Tax charge attributable to continuing operations reported in the consolidated income statement					129,598	
					154,811	

* 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 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 rate for the next subsequent three years.

*** Investment tax credits relating to direct investment in domestically manufactured property, plant and equipment were granted to the Group's certain subsidiaries in Mainland China. The directors are of the opinion that the Group will comply with all the conditions that attached to the investment tax credit.

\# Included profit before tax from the discontinued operations

10. 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%. 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$13,395,000, which has been credited to the income tax expense during the year.

The share of tax attributable to associates amounting to HK$22,386,000 (2006: HK$26,862,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

11. 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 profit of HK$136,736,000 (2006: a loss of HK$3,123,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

No dividend has been declared by the Company for the year ended 31 December 2007. The dividends for the year ended 31 December 2006 represented dividends payable by companies now comprising the Group to their then shareholders.

13. DISCONTINUED OPERATIONS

Pursuant to the Reorganisation as detailed in note 1 to the financial statements, the Group discontinued its consumer-pack edible oil and the trading of non-rice foodstuffs businesses on 31 December 2006.

The results of the consumer-pack edible oil and the trading of non-rice foodstuffs businesses for the years are presented below:

	2007 HK$'000	2006 HK$'000
Revenue	–	2,384,001
Cost of sales	–	(2,034,828)
Gross profit	–	349,173
Other income and gains (note 5)	–	29,888
Expenses	–	(270,114)
Finance costs (note 7)	–	(19,193)
Profit before tax from the discontinued operations	–	89,754
Tax related to pre-tax profit (note 10)	–	(25,213)
Profit for the year from the discontinued operations	–	64,541
Attributable to:		
Equity holders of the Company	–	45,927
Minority interests	–	18,614
	–	64,541

As no assets and liabilities of the consumer-pack edible oil and the trading of non-rice foodstuffs businesses will be disposed of by the Group, neither assets nor liabilities of the consumer-pack edible oil and the trading of non-rice foodstuffs businesses was classified as held for sale.

13. DISCONTINUED OPERATIONS (continued)

The net cash flows incurred by the consumer-pack edible oil and the trading of non-rice foodstuffs businesses are as follows:

	2007 HK$'000	2006 HK$'000
Operating activities	–	(503,891)
Investing activities	–	(1,849)
Financing activities	–	598,027
Net cash inflow	–	92,287
Basic earnings per share from the discontinued operations	–	HK1.6 cents

The calculation of basic earnings per share from the discontinued operations for the year ended 31 December 2006 was based on the consolidated profit attributable to ordinary equity holders of the Company from discontinued operations of HK$45,927,000, and on the assumption that 2,791,383,356 shares had been in issue throughout that year.

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

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit for the year attributable to ordinary equity holders of the Company of HK$1,100,363,000 and the weighted average number of 3,417,628,520 ordinary shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2006 was based on the profit for the year attributable to ordinary equity holders of the Company of HK$755,416,000, and on the assumption that 2,791,383,356 shares had been in issue throughout the year.

The calculation of basic earnings per share from the continuing operations for the year ended 31 December 2006 was based on the profit for the year attributable to ordinary equity holders of the Company from continuing operations of HK$709,489,000, and on the assumption that 2,791,383,356 shares had been in issue throughout the year.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(continued)*

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit for the year attributable to ordinary equity holders of the Company of HK$1,100,363,000, and the weighted average number of 3,418,295,605 ordinary shares in issue during the year. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares, calculated as follows:

Weighted average number of ordinary shares:

	Numbers of shares 2007
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share	**3,417,628,520**
Weighted average number of ordinary shares: Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**667,085**
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**3,418,295,605**

A diluted earnings per share for the year ended 31 December 2006 has not been disclosed as no diluting events existed during that year.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant, machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2007				
At 31 December 2006 and at 1 January 2007:				
Cost	2,357,878	3,593,026	1,030,012	6,980,916
Accumulated depreciation and impairment	(406,551)	(1,198,159)	–	(1,604,710)
Net carrying amount	1,951,327	2,394,867	1,030,012	5,376,206
At 1 January 2007, net of accumulated depreciation and impairment	1,951,327	2,394,867	1,030,012	5,376,206
Additions	22,646	86,298	1,890,953	1,999,897
Impairment	(1,969)	(54,877)	–	(56,846)
Disposal of subsidiaries (note 34)	–	(1,348)	–	(1,348)
Disposals	(4,026)	(15,643)	–	(19,669)
Depreciation provided during the year	(66,473)	(298,650)	–	(365,123)
Transfers	719,516	1,295,614	(2,015,130)	–
Exchange realignment	163,799	207,805	69,066	440,670
At 31 December 2007, net of accumulated depreciation and impairment	2,784,820	3,614,066	974,901	7,373,787
At 31 December 2007:				
Cost	3,307,572	5,402,386	974,901	9,684,859
Accumulated depreciation and impairment	(522,752)	(1,788,320)	–	(2,311,072)
Net carrying amount	2,784,820	3,614,066	974,901	7,373,787

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

	Buildings HK$'000	Plant, machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006				
At 1 January 2006:				
Cost	1,884,906	2,855,266	312,367	5,052,539
Accumulated depreciation and impairment	(306,513)	(972,725)	–	(1,279,238)
Net carrying amount	1,578,393	1,882,541	312,367	3,773,301
At 1 January 2006, net of accumulated depreciation and impairment	1,578,393	1,882,541	312,367	3,773,301
Additions	15,525	163,242	975,097	1,153,864
Acquisition of subsidiaries (note 33)	150,882	431,280	31,761	613,923
Impairment	–	(2,193)	–	(2,193)
Disposals	(5,651)	(32,265)	(78)	(37,994)
Disposal of a subsidiary (note 34)	–	(1,588)	–	(1,588)
Depreciation provided during the year	(89,145)	(221,072)	–	(310,217)
Transfers	233,721	90,636	(324,357)	–
Exchange realignment	67,602	84,286	35,222	187,110
At 31 December 2006, net of accumulated depreciation and impairment	1,951,327	2,394,867	1,030,012	5,376,206
At 31 December 2006:				
Cost	2,357,878	3,593,026	1,030,012	6,980,916
Accumulated depreciation and impairment	(406,551)	(1,198,159)	–	(1,604,710)
Net carrying amount	1,951,327	2,394,867	1,030,012	5,376,206

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Plant, machinery and equipment HK$'000
31 December 2007	
At 31 December 2006 and at 1 January 2007:	
Cost	–
Accumulated depreciation and impairment	–
Net carrying amount	–
At 1 January 2007, net of accumulated depreciation and impairment	–
Additions	**2,753**
At 31 December 2007, net of accumulated depreciation and impairment	**2,753**
At 31 December 2007:	
Cost	**2,753**
Accumulated depreciation and impairment	–
Net carrying amount	**2,753**

All of the Group's buildings are held under medium term leases in Mainland China.

As at 31 December 2007, certain of the Group's property, plant and equipment with a net book value of approximately HK$1,009,459,000 (2006: HK$1,050,876,000) were pledged to secure banking facilities granted to the Group (note 28).

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 approximately HK$242,656,000 (2006: HK$35,818,000) 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.

16. PREPAID LAND PREMIUMS

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 January	**379,273**	272,628
Acquisition of subsidiaries (note 33)	**–**	39,338
Additions	**45,917**	63,029
Recognised during the year (note 6)	**(10,201)**	(8,453)
Exchange realignment	**28,411**	12,731
Carrying amount at 31 December	**443,400**	379,273
Current portion included in prepayments, deposits and other receivables	**(10,473)**	(9,042)
Non-current portion	**432,927**	370,231

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

As at 31 December 2007, certain of the Group's land use rights with a net book value of approximately HK$69,112,000 (2006: HK$103,113,000) were pledged to secure bank loans granted to the Group (note 28).

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$21,022,000 (2006: HK$6,110,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

17. GOODWILL

	Group	
	2007	2006
	HK$'000	HK$'000
Cost and carrying amount at 1 January	**584,806**	246,355
Acquisition of subsidiaries (note 33)	**–**	338,451
Exchange realignment	**35,637**	–
Cost and carrying amount at 31 December	**620,443**	584,806

17. GOODWILL (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;
- Rice trading and processing cash-generating unit; and
- Biofuel and biochemical cash-generating unit.

The recoverable amounts of the oilseed processing cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 11.50%.

The recoverable amount of the rice trading and processing cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 10.50%.

The recoverable amount of the biofuel and biochemical cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 13.00%.

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

	2007	2006
	HK$'000	HK$'000
Oilseed processing	**116,124**	116,124
Rice trading and processing	**127,048**	127,048
Biofuel and biochemical	**374,088**	338,451
Others	**3,183**	3,183
	620,443	584,806

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 budgeted 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.

17. GOODWILL (continued)

Impairment testing of goodwill ***(continued)***

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.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**6,060,967**	–
Loans to subsidiaries	**852,363**	–
	6,913,330	–

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

Except for an amount due from a subsidiary of HK$312,000,000 which is subject to interest at a rate of 5.832% per annum, the amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and repayable within one year.

The amounts due to subsidiaries included in the Company's current liabilities are unsecured, interest-free and repayable on demand.

The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Particulars of the Company's principal subsidiaries as at 31 December 2007 are set out in note 41 to the financial statements.

19. INTERESTS IN ASSOCIATES

	Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**1,207,958**	879,122
Goodwill on acquisition	**28,356**	28,356
	1,236,314	907,478
Due from associates	**–**	18,167
Loans to associates	**165,090**	156,283
	1,401,404	1,081,928

The above amounts due from associates were unsecured, interest-free and fully settled during the year. The carrying amounts of the amounts approximate to their fair values.

The loans to associates are capital in nature. 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 balances with associates included in current assets and current liabilities are unsecured, interest-free and repayable within one year. The carrying amounts of these balances approximate to their fair values.

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	**16,642**	16,642
Biofuel and biochemical	**11,714**	11,714
	28,356	28,356

19. INTERESTS IN ASSOCIATES *(continued)*

Impairment testing of goodwill *(continued)*

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 17 to the financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements, or where appropriate, management accounts:

	2007	2006
	HK$'000	HK$'000
Assets	**7,971,797**	6,048,529
Liabilities	**4,202,418**	3,003,780
Revenues	**13,819,432**	9,687,303
Profit	**717,959**	550,358

Particulars of the Group' principal associates as at 31 December 2007 are set out in note 42 to the financial statements.

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted equity investments outside Hong Kong, at cost	**8,880**	2,387

The above available-for-sale investments are stated at cost less any impairment because the directors are of the opinion that their fair values cannot be measured reliably.

21. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**1,639,814**	2,316,824
Work in progress	**95,855**	156,027
Finished goods	**1,820,764**	1,201,612
	3,556,433	3,674,463

22. ACCOUNTS AND BILLS RECEIVABLES

	Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables	**1,552,280**	1,048,287
Impairment	**(5,616)**	(2,602)
	1,546,664	1,045,685

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 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 and are normally settled within one to three months, and one to six months, respectively.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 3 months	**1,408,224**	1,041,689
3 to 12 months	**135,226**	3,996
1 to 2 years	**3,214**	–
	1,546,664	1,045,685

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

22. ACCOUNTS AND BILLS RECEIVABLES *(continued)*

The movements in provision for impairment of accounts receivable are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**2,602**	5,178
Impairment losses recognised (note 6)	**2,997**	478
Amount written off as uncollectible	**(22)**	(3,187)
Exchange realignment	**39**	133
	5,616	2,602

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.

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	**1,529,611**	1,041,689
Less than 1 month past due	**4,613**	333
1 to 3 months past due	**9,226**	667
More than 3 months but less than 12 months past due	**3,214**	2,996
	1,546,664	1,045,685

Receivables that were neither past due nor impaired relate to bills receivable and 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.

23. DEFERRED INITIAL PUBLIC OFFERING EXPENSES

The deferred initial public offering expenses were incurred for the purpose of the Company's new listing. Subsequent to the listing of the Company's shares on the Stock Exchange on 21 March 2007, the portion of the deferred initial public offering expenses relating to the Company's existing shares, prior to the listing of the Company, was charged to the income statement and the remaining portion relating to the issuance of new shares was charged to the Company's share premium account.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2007		Group 2006	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Commodity future contracts	**–**	**398,142**	537	–
Forward currency contracts	**8,531**	**14,226**	–	–
	8,531	**412,368**	537	–

The Group has entered into various commodity futures contracts to manage its price exposures in future purchases or sales of soybean, soybean meal, barley and corn which did not meet the criteria for hedge accounting. Net fair value losses of non-hedging derivative financial instruments not qualifying as hedges of HK$1,223,740,000 (2006: net gains of HK$103,711,000) were charged to the income statement during the year.

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Net fair value losses of non-hedging currency derivatives amounting to HK$5,494,000 (2006: Nil) were charged to the income statement during the year.

25. LIQUID INVESTMENTS

As at 31 December 2007, the Group has placed an aggregate amount of approximately HK$857,157,000 (2006: Nil) with a money market fund managed by a creditworthy international financial institution. The amount is highly liquid, readily convertible into known amounts of cash and is subject to an insignificant risk of changes in value. Such investment has a short maturity of one day when acquired, and forms an integral part of the Group's cash management.

Liquid investments are stated at fair value at the balance sheet date.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**2,323,193**	1,190,268	**210,439**	–
Time deposits	**428,811**	110,998	**–**	–
	2,752,004	1,301,266	**210,439**	–
Less: Pledged time deposits				
Pledged for short-term bank loans (note 28)	**(304,670)**	(51,878)	**–**	–
Pledged for bank credit facilities	**(17,848)**	–	**–**	–
Cash and cash equivalents	**2,429,486**	1,249,388	**210,439**	–

At the balance sheet date, the cash and cash equivalents and pledged deposits of the Group denominated in Renminbi ("**RMB**") amounted to approximately HK$2,492,196,000 (2006: HK$1,290,571,000). 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.

27. ACCOUNTS AND BILLS PAYABLES

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

	Group	
	2007	2006
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 3 months	**1,324,436**	867,397
3 to 12 months	**121,711**	6,557
1 to 2 years	**963**	335
Over 2 years	**527**	274
	1,447,637	874,563

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

28. 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	**5.26 – 7.29**	**2008**	**1,308,518**	5.51 – 7.01	2007	564,800
Bank loans – unsecured	**5.26 – 6.58**	**2008**	**3,294,292**	5.02 – 6.30	2007	2,536,390
Other loans – unsecured	**LIBOR+0.446**	**2008**	**78,000**	5.02 – 5.85	2007	201,336
			4,680,810			3,302,526
Non-current						
Bank loans – unsecured	**5.67 – 6.97**	**2009 – 2012**	**1,137,334**	5.67 – 6.00	2008 – 2011	1,106,349
Other loans – unsecured	**–**	**–**	**–**	5.18 – 6.30	2009	958,736
			1,137,334			2,065,085
			5,818,144			5,367,611

	2007 HK$'000	2006 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**4,602,810**	3,101,190
In the second year	**331,055**	598,026
In the third to fifth years, inclusive	**806,279**	508,323
	5,740,144	4,207,539
Other loans repayable:#		
Within one year or on demand	**78,000**	201,336
In the second year	**–**	–
In the third to fifth years, inclusive	**–**	958,736
	78,000	1,160,072
	5,818,144	5,367,611

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

Group *(continued)*

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

  (i) a charge over certain property, plant and equipment of the Group with a net book value of approximately HK$1,009,459,000 (2006: HK$1,050,876,000) (note 15);

  (ii) a charge over certain land use rights of the Group with a net book value of approximately HK$69,112,000 (2006: HK$103,113,000) (note 16);

  (iii) a pledge of certain of the Group's time deposits amounting to HK$304,670,000 (2006: HK$51,878,000) (note 26); and

  (iv) a charge over certain inventory of the Group amounting to HK$47,411,000 (2006: Nil).

(b) Except for bank and other borrowings of HK$2,735,650,000 (2006: HK$2,314,935,000) which are denominated in United States dollars, all borrowings are in RMB.

The other loans represented loans due to a fellow subsidiary, which bear interest at a rate of LIBOR+0.446% per annum (2006: rates ranging from 5.02% to 6.30% per annum). The loans due to a fellow subsidiary as at 31 December 2006 of HK$566,900,000 were guaranteed by the Group's ultimate holding company, which were fully repaid by the Group during the year.

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

29. 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	Unrealised gain on derivative financial instruments HK$'000	Others HK$'000	Total HK$'000
At 1 January 2006	–	–	–	–	–
Acquisition of subsidiaries (note 33)	10,221	1,142	–	666	12,029
Deferred tax charged to the income statement during the year (note 10)	3,739	4,817	81	2,189	10,826
Exchange realignments	408	146	–	71	625
At 31 December 2006 and at 1 January 2007	14,368	6,105	81	2,926	23,480
Deferred tax (credited)/charged to the income statement during the year (note 10)	(3,576)	965	1,975	(3,000)	(3,636)
Exchange realignment	922	471	78	74	1,545
At 31 December 2007	**11,714**	**7,541**	**2,134**	**–**	**21,389**

29. DEFERRED TAX *(continued)*

Deferred tax assets

	Provision against inventories HK$'000	Impairment of receivables HK$'000	Unrealised loss on derivative financial instruments HK$'000	Others HK$'000	Total HK$'000
At 1 January 2006	243	95	–	2,278	2,616
Deferred tax charged to the income statement during the year (note 10)	(247)	(7)	–	(53)	(307)
Exchange realignments	4	4	–	84	92
At 31 December 2006 and at 1 January 2007	–	92	–	2,309	2,401
Deferred tax credited to the income statement during the year (note 10)	853	3,072	71,697	23,348	98,970
Exchange realignment	31	118	2,611	1,015	3,775
At 31 December 2007	**884**	**3,282**	**74,308**	**26,672**	**105,146**

The Group has tax losses arising in Mainland China of HK$78,461,000 (2006: HK$107,835,000) 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.

30. SHARE CAPITAL

Shares

	2007 **HK$'000**	2006 HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.1 each	**400,000**	400,000
Issued and fully paid:		
3,593,906,356 (2006:10) ordinary shares of HK$0.1 each	**359,391**	–

The following changes in the Company's authorised and issued share capital took place during the period from 18 November 2006 (date of incorporation) to 31 December 2007:

	Notes	**Number of ordinary shares**	**Nominal value of ordinary shares** HK$'000
Authorised:			
Upon incorporation (10,000 shares of HK$1 each)		10,000	10
Subdivision of each authorised share of HK$1 into 10 shares of HK$0.1 each	(i)	90,000	–
		100,000	10
Increase in authorised capital	(ii)	3,999,900,000	399,990
As at 31 December 2006 and 31 December 2007		4,000,000,000	400,000

30. SHARE CAPITAL (continued)

Shares ***(continued)***

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
Issued:			
Upon incorporation (1 share of HK$1 each)		1	–
Subdivision of each authorised share of HK$1 into 10 shares of HK$0.1 each	(i)	9	–
As at 31 December 2006		10	–
On acquisition of China Agri-Industries	(iii)	2,791,383,346	279,138
Pro forma issued capital as at 31 December 2006		2,791,383,356	279,138
Issue of new shares	(iv)	697,846,000	69,785
Issue of new shares	(v)	104,677,000	10,468
As at 31 December 2007		**3,593,906,356**	**359,391**

Notes:

(i) Pursuant to an ordinary resolution passed on 29 December 2006, the authorised and issued share capital of the Company were divided into 100,000 ordinary shares and 10 ordinary shares of HK$0.1 each, respectively.

(ii) Pursuant to a special resolution passed on 29 December 2006, the authorised capital of the Company was increased from HK$10,000 to HK$400,000,000 by the creation of an additional 3,999,900,000 ordinary shares of HK$0.1 each, ranking pari passu in all respects with the existing share capital of the Company.

(iii) On 10 January 2007, pursuant to the Reorganisation, the Company acquired from China Foods the entire issued share capital in China Agri-Industries, the holding company of the subsidiaries now comprising the Group, in consideration for the allotment and issue of 2,791,383,346 ordinary shares of HK$0.1 each in the share capital of the Company, credited as fully paid.

(iv) In connection with the Company's initial public offering, 697,846,000 new shares of HK$0.1 each were issued at a price of HK$3.72 per share for a total cash consideration, before expenses, of approximately HK$2,595,987,000. Dealings in these shares on the Stock Exchange commenced on 21 March 2007.

30. SHARE CAPITAL *(continued)*

Shares ***(continued)***

(v) In connection with the Company's initial public offering, an over-allotment option was granted to the Global Coordinator (as defined in the Prospectus) whereby the Global Coordinator, on behalf of the International Purchasers (as defined in the Prospectus), has the right to request the Company to issue and allot up to an aggregate of 104,677,000 additional shares of HK$0.1 each to subscribers under the initial public offering. On 26 March 2007, the Global Coordinator had exercised the over-allotment option and accordingly, 104,677,000 new shares of HK$0.1 each was issued by the Company at a price of HK$3.72 per share for a total cash consideration, before expenses, of approximately HK$389,398,000. Dealings in these shares on the Stock Exchange commenced on 30 March 2007.

Share options

Details of the Company's share option scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

On 12 January 2007, the shareholders of the Company conditionally approved and adopted a share option scheme (the "**Scheme**") for the purpose of attract, retain and motivate directors and eligible participants to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company. Eligible participants include, but not limited to, any directors, (excluding independent non-executive directors), officers and employees of the Group, or any other person the board of directors (the "**Board**") may proposed. The Scheme became unconditional and effective upon listing of the shares of the Company on 21 March 2007 and, unless otherwise cancelled, amended or terminated in accordance with the Scheme, will remain in force for 10 years from 21 March 2007.

The maximum number of shares of the Company which may be issued upon exercise of all share options granted under the Scheme or any other share option scheme shall not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issued and to be issued on exercise of all share options granted and to be granted to each eligible participant in any 12-month period is limited to 1% of the shares in issue at the relevant time unless it is approved by shareholder in a general meeting of the Company.

Any grant of share options under the Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors. Any share options granted to a substantial shareholder of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

31. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by each grantee. The exercise period of the share options granted is determinable by the Board.

The exercise price of share options is determinable by the Board and shall be the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 7 August 2007, a total of 27,600,000 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 7 August 2007 to 6 August 2011 and have an exercise price of HK$4.666 per share and exercise period ranging from 7 August 2009 to 6 August 2014. The price of the Company's shares at the date of grant was HK$4.35 per share.

The following share options were outstanding under the Scheme during the year:

	2007	
	Weighted average exercise price HK$ per share	**Number of options** '000
At 1 January	–	–
Granted during the year	4.666	27,600
At 31 December	4.666	27,600

31. SHARE OPTION SCHEME (continued)

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			Vesting period	Exercise price per share	Exercise period
Directors	Employees	Total			
'000	'000	'000		HK$	
1,300	7,900	9,200	7-8-2007 to 6-8-2009	4.666	7-8-2009 to 6-8-2014
1,300	7,900	9,200	7-8-2007 to 6-8-2010	4.666	7-8-2010 to 6-8-2014
1,300	7,900	9,200	7-8-2007 to 6-8-2011	4.666	7-8-2011 to 6-8-2014
3,900	23,700	27,600			

The fair value of the share options granted during the year was approximately HK$45,700,000 (HK$1.656 each) of which the Company recognised a share option expense of HK$6,647,000 during the year ended 31 December 2007.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a Black-Schole-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 (%)	1
Expected volatility (%)	42.95
Historical volatility (%)	42.95
Risk-free interest rate (%)	4.369
Expected life of options (year)	5
Weighted average share price (HK$)	4.350

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 27,600,000 share options outstanding under the Scheme. The option outstanding at 31 December 2007 had a remaining contractual life of 6.59 years. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 27,600,000 additional ordinary shares of the Company and additional share capital of HK$2,760,000 and share premium of HK$126,021,600 (before issue expenses).

31. SHARE OPTION SCHEME (continued)

At the date of the approval of these financial statements, the shares issuable from the above outstanding share options represented approximately 0.77% of the Company's shares in issue as at that date.

32. RESERVES

(a) 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 67 to 68 of the financial statements.

The Group's capital reserve represents:

(i) the difference between the nominal value of the shares/capital and the share premium account of the subsidiaries acquired pursuant to the Reorganisation set out in note 1 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor.

(ii) capitalisation of amounts due to the Group's fellow subsidiaries and the immediate holding company of HK$1,088,195,000 and HK$1,015,000,000, respectively, pursuant to the Reorganisation. Further details are set out in the Prospectus.

(iii) contribution from the immediate holding company of HK$1,326,354,000 pursuant to the Reorganisation. Further details are set out in the Prospectus.

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

32. RESERVES (continued)

(b) Company

	Notes	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2006		–	–	–	–	–
Loss for the year		–	–	–	(3,123)	(3,123)
At 31 December 2006		–	–	–	(3,123)	(3,123)
Issue of shares	30	2,905,133	–	–	–	2,905,133
Share issue expenses		(158,834)	–	–	–	(158,834)
Acquisition of China-Agri Industries		–	5,689,788	–	–	5,689,788
Equity-settled share option arrangements	31	–	–	6,647	–	6,647
Profit for the year		–	–	–	165,565	165,565
At 31 December 2007		**2,746,299**	**5,689,788**	**6,647**	**162,442**	**8,605,176**

The Company's capital reserve represents the excess of carrying amount of China Agri-Industries acquired pursuant to the Reorganisation as detailed in note 1 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor.

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 2.4 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.

33. BUSINESS COMBINATION

On 27 January 2006, the date of acquisition, the Group acquired a 100% interest in Techbo, which has 100% and 65% interests in Zhaodong Bio-Energy and Heilongjiang Winery (as defined in note 41 to the financial statements), 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.

33. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Techbo 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:

	Fair value recognised on acquisition HK$'000	Carrying amount HK$'000
Property, plant and equipment (note 15)	613,923	594,536
Prepaid land premiums (note 16)	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
Accounts payable	(25,236)	(25,236)
Other payables and accruals	(65,747)	(65,747)
Interest-bearing bank and other borrowings	(615,029)	(615,029)
Due to minority shareholders	(520)	(520)
Due to fellow subsidiaries	(125,760)	(125,760)
Deferred income	(10,995)	(10,995)
Deferred tax liabilities (note 29)	(12,029)	(12,029)
Minority interests	(4,729)	(2,578)
	404,127	379,244
Goodwill on acquisition (note 17)	338,451	
	742,578	
Satisfied by:		
An amount due to the immediate holding company	742,578	

33. BUSINESS COMBINATION *(continued)*

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

During 2006, the Techbo Group generated revenue and net profit of HK$1,405,432,000 and HK$199,826,000, respectively. Since the acquisition date, 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.

Had the combination taken place at the beginning of 2006, the revenue from continuing operations of the Group and the profit of the Group for the year ended 31 December 2006 would have been HK$18,000,135,000 and HK$771,283,000, respectively.

34. DISPOSAL OF SUBSIDIARIES

	2007	2006
	HK$'000	HK$'000
Net assets disposed of:		
Property, plant and equipment (note 15)	**1,348**	1,588
Inventories	**1,508**	–
Accounts and bills receivables	**3,073**	–
Prepayments, deposits and other receivables	**1,284**	3,422
Due from associates	**153**	7,417
Due from fellow subsidiaries	**1,100**	11,219
Tax recoverable	**–**	70
Cash and bank balances	**3,523**	4,518
Accounts and bills payables	**(1,176)**	–
Other payables and accruals	**(2,929)**	(6,727)
Tax payable	**(1,299)**	–
Minority interests	**(414)**	(722)
	6,171	20,785
Loss on disposal of subsidiaries (note 6)	**(1,917)**	(2,241)
	4,254	18,544
Satisfied by:		
Amounts due from fellow subsidiaries	**–**	18,544
Cash	**4,254**	–
	4,254	18,544

34. 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	**4,254**	–
Cash and bank balances disposed of	**(3,523)**	(4,518)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**731**	(4,518)

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(a) During the year ended 31 December 2006, 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) During the year ended 31 December 2006, 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 33 above.

(c) During the year ended 31 December 2006, amounts of HK$1,088,195,000 and HK$1,015,000,000 due to fellow subsidiaries and the immediate holding company, respectively, were capitalised in the consolidated capital reserve of the Group pursuant to the Reorganisation.

(d) During the year ended 31 December 2006, certain deferred initial public offering expenses of HK$6,585,000 was settled by a fellow subsidiary on behalf of the Group. In addition, HK$29,938,000 of the deferred initial public offering expenses was remained unpaid and included in the Group's "other payables and accruals" as at 31 December 2006.

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and steel barrels under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to nine years and those for steel barrels for terms ranging from one to eleven years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**18,311**	13,154
In the second to fifth years, inclusive	**15,562**	7,770
After five years	**748**	1,204
	34,621	22,128

37. 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 bank and a fellow subsidiary in connection with facilities granted to subsidiaries	**302,263**	–

As at 31 December 2007, the Company has given the following guarantees:

(a) a guarantee to a bank in respect of a bank loan of HK$224,263,000 (2006: Nil) granted to a wholly owned subsidiary; and

(b) a guarantee to a fellow subsidiary in respect of loan granted to a wholly owned subsidiary of HK$78,000,000 (2006: Nil).

38. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	2007 HK$'000	2006 HK$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**215,240**	383,308
Contracted, but not provided for	**659,837**	822,119
	875,077	1,205,427

39. OTHER COMMITMENTS

Commitments under commodity future contracts:

	2007 HK$'000	2006 HK$'000
Sales of soybean meal	**2,454,224**	873,943
Sales of soybean	**1,998,356**	298,992
Sales of soybean oil	**636,752**	–
Sales of rapeseed oil	**90,855**	–
Sales of wheat	**4,838**	–
	5,185,025	1,172,935
Purchases of soybean	**121,753**	–
Purchases of corn	**540,966**	–
	662,719	–

Commitments under forward currency contracts:

	2007 HK$'000	2006 HK$'000
Sales of United States dollars	**304,032**	–
Purchases of United States dollars	**965,250**	–

Other than disclosed above, the Group did not have any significant commitments or contingent liabilities as at the balance sheet date (2006: Nil).

40. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	**2007** **HK$'000**	2006 HK$'000
Transactions with fellow subsidiaries:			
Sales of goods**	(i)	**3,495,892**	634,851
Purchases of goods**	(i)	**850,990**	28,361
Operating lease rental paid	(i)	**11,247**	4,828
Interest expense	(ii)	**9,385**	51,312
Interest income*	(iv)	**–**	2,505
Commission paid	(i)	**209**	4,760
Reimbursement of advertising expense*	(iii)	**–**	12,162
Building management fee paid	(i)	**191**	–
Brokerage fee paid	(i)	**14,762**	2,429
Processing service fee paid*	(i)	**7,223**	–
Transactions with the ultimate holding company:			
Sales of goods	(i)	**1,701**	–
Purchases of goods**	(i)	**191,165**	–
Management fee paid*	(i)	**–**	7,575
Interest expense*	(ii)	**–**	15,847
Operating lease rental received*	(i)	**1,712**	–
Transactions with associates:			
Sales of goods**	(i)	**241,566**	128,605
Purchases of goods*	(i)	**77,989**	95,879
Purchases of steel barrels	(i)	**24,494**	22,960
Processing fee expenses	(i)	**–**	14,980
Reimbursement of advertising expense*	(iii)	**–**	3,419
Transactions with related companies: #			
Sales of goods**	(i)	**160,248**	7,666
Purchases of goods*	(i)	**9,094,559**	7,542,999
Transactions with minority shareholders of subsidiaries:			
Purchases of goods*	(i)	**22,536**	29,489

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

** Certain amounts of these related party transactions are connected transactions disclosable in accordance with the Listing Rules.

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

40. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

(a) ***(continued)***

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) The interest expense arose from the loans from the ultimate holding company and a fellow subsidiary. Further details of the loans from the ultimate holding company and a fellow subsidiary are set out in note 28 above.

(iii) The reimbursement of advertising expense was calculated with reference to the actual advertising expense.

(iv) The interest income for the year ended 31 December 2006 arose from the deposits placed with a fellow subsidiary of the Group, which 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 is applicable to all financial institutions. The interest rates offered by the fellow subsidiary are the same as the rates promulgated by the PBOC which are applicable to account deposits with banks of the PRC or finance companies. There was no deposit placed with the fellow subsidiary by the Group as at the balance sheet date (2006: Nil).

(b) Transactions 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 prior year were waived by the related party.

(c) Outstanding balances with related parties

Except for the following, the balances with the holding companies, fellow subsidiaries, related companies, associates and minority shareholders of the Group's subsidiaries as at the balance sheet date are unsecured, interest-free and have no fixed terms of repayment:

(1) loans due to a fellow subsidiary of HK$78,000,000 (2006: loans due to the ultimate holding company and a fellow subsidiary with aggregate amount of HK$1,160,072,000), the terms of which are detailed in note 28 to the financial statements;

(2) an amount due to a fellow subsidiary of Nil (2006: HK$356,038,000), which is financing in nature;

(3) amounts due to minority shareholders of subsidiaries of HK$119,312,000 (2006: HK$111,665,000), which are financing in nature and are not repayable within one year from the balance sheet date.

The carrying amounts of balances with related parties approximate to their fair values.

40. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

(d) Compensation of key management personnel of the Group

	2007	2006
	HK$'000	HK$'000
Short term employee benefits	**15,087**	1,522
Post-employee benefits	**257**	140
Equity-settled share option expense	**2,059**	–
Total compensation paid to key management personnel	**17,403**	1,662

(e) Indemnity given by COFCO (HK)

The Group's immediate holding company, COFCO (HK), undertook to indemnify the Group from and against all claims, liabilities losses, costs and expenses which the Group may suffer or incur in connection with any underpayment, non-payment or late payment of social insurances and housing fund contributions, for the Group's subsidiaries established in the PRC. The indemnity expired on 31 December 2006.

(f) 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 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.

(g) Discontinued operations

As detailed in notes 1 and 13 to the financial statements, the Group discontinued its consumer-pack edible oil and trading of non-rice foodstuffs businesses on 31 December 2006 pursuant to the Reorganisation. During the year, the Group fulfilled the obligations of certain sales and purchases commitment relating to the Discontinued Operations. The revenue and net profit arising from fulfilling these commitments amounted to HK$555,000,000 and HK$12,000,000, respectively. The Group has entered into agreement with China Foods and COFCO (HK) that the risk and economic benefits relating to these transactions are entitled by China Foods and COFCO (HK). Accordingly, these transactions have not been recorded in the Group's financial statements.

41. 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 issued ordinary/registered share capital	Percentage of equity attributable to the Company	Principal activities
China Agri-Industries Limited	Bermuda/ Hong Kong	Ordinary HK$269,238,336	100	Investment holding
Full Extent Group Limited	British Virgin Islands ("**BVI**")/ Hong Kong	Ordinary US$3	100	Investment holding
COFCO Oils & Fats Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
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 soybean and rapeseed
Yellowsea Oils & Grains Industries (Shandong) Co., Ltd. **	The PRC/ Mainland China	US$33,306,779	72.94	Production and sale of edible oil
COFCO ADM Oils & Grains Industries (Heze) Co., Ltd. **	The PRC/ Mainland China	US$22,399,989	70	Production and sale of edible oil
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
China Agri Oils Trading Limited	Hong Kong/ Hong Kong	Ordinary HK$1	100	Trading of soybean
COFCO Xiangrui Oils & Grains Industries (Jingmen) Co., Ltd. **	The PRC/ Mainland China	US$12,500,000	100	Production and sale of edible oil

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Malt Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
Shanghai COFCO Brewing Materials Co., Ltd **	The PRC/ Mainland China	RMB1,000,000	100	Production and sale of brewing materials
Dalian COFCO Malt Co., Ltd. **	The PRC/ Mainland China	US$32,526,000	100	Production and sale of brewing materials
COFCO Malt (Jiangyin) Co., Ltd. **	The PRC/ Mainland China	US$35,000,000	100	Production and sale of brewing materials
COFCO International (Beijing) Co., Ltd. **	The PRC/ Mainland China	RMB60,000,000	100	Trading of rice
COFCO (BVI) No. 1 Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
COFCO Jiangxi Rice Processing Limited *	The PRC/ Mainland China	RMB60,200,000	83.47	Trading and processing of rice
COFCO Biofuel Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
Techbo Limited ("**Techbo**")	BVI/Hong Kong	Ordinary US$1	100	Investment holding
COFCO Bio-Energy (Zhaodong) Co., Ltd.** ("**Zhaodong Bio-Energy**")	The PRC/ Mainland China	RMB380,000,000	100	Production and sale of biofuel and biochemical
COFCO Heilongjiang Brewery Co., Ltd. *** ("**Heilongjiang Winery**") (formerly known as China Resources Winery (Heilongjiang) Co., Ltd.)	The PRC/ Mainland China	RMB5,000,000	65	Wine brewery

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company	Principal activities
Guangxi COFCO Bio-Energy Co., Ltd. **	The PRC/ Mainland China	US$40,205,980	100	Production and sale of biofuel and biochemical
COFCO Biochemical Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
COFCO Bio-Chemical Energy (Yushu) Co., Ltd. **	The PRC/ Mainland China	US$38,000,000	100	Production and sale of biofuel and biochemical
Cofco Bio-Chemical Energy (Gongzhuling) Co., Ltd. **	The PRC/ Mainland China	US$71,880,000	100	Production and sale of biofuel and biochemical
Jinlin COFCO Bio-Chemical Energy Sales and Distributions Co., Ltd. ***	The PRC/ Mainland China	RMB10,000,000	100	Sale of biofuel and biochemical
COFCO Bio-Chemical Energy (Hengshui) Co., Ltd. *	The PRC/ Mainland China	US$13,407,050	88	Production and sale of biofuel and biochemical
COFCO Flour Holdings Limited	BVI/Hong Kong	Ordinary US$3	100	Investment holding
Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd. *	The PRC/ Mainland China	RMB55,000,000	66.9	Production and sale of wheat products
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
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

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company	Principal activities
Shenyang Xiangxue Flour Limited Liability Company *	The PRC/ Mainland China	RMB80,350,000	69.3	Production and sale of wheat products
COFCO Flour Industry (Qinhuangdao) Pangthai Co., Ltd. **	The PRC/ Mainland China	US$17,340,000	100	Production and sale of wheat products
COFCO TTC (Beijing) Foods Co., Ltd. **	The PRC/ Mainland China	US$5,450,000	51	Production and sale of wheat products
COFCO Flour Industry (Luohe) Co., Ltd. *	The PRC/ Mainland China	RMB40,000,000	100	Production and sale of wheat products
Conomer Investments Limited	BVI/Hong Kong	Ordinary US$1	100	Investment holding
Zhengzhou Haijia Food Co., Ltd. *	The PRC/ Mainland China	RMB30,000,000	55	Production and sale of wheat products
Sunny Word Limited	BVI/Hong Kong	Ordinary US$1	100	Investment holding
Xiamen Haijia Flour Mills Co., Ltd. *	The PRC/ Mainland China	RMB71,325,000	60	Production and sale of wheat products

* Sino-foreign equity joint ventures

** Wholly foreign-owned enterprises

*** Limited company established in the PRC

Except for China Agri Oils Trading Limited, the statutory audits for the above subsidiaries are not performed by Ernst & Young Hong Kong or other member firm of Ernst & Young global network.

Except for China Agri-Industries Limited, China Agri Oils Trading Limited and COFCO Bio-Chemical Energy (Hengshui) Co., Ltd., all of the above subsidiaries are indirectly held by the Company.

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.

42. PARTICULARS OF PRINCIPAL ASSOCIATES

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

Name	Particulars of issued and paid-up share/ registered capital	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
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
Laiyang Luhua Fragrant Peanut Oil Co., Ltd.#	US$19,219,300	The PRC	24	Production and sale of peanut oil
Northsea Oils & Grains Industries (Tianjin) Co., Ltd.#	US$51,557,000	The PRC	50.44	Production and sale of edible oil
Lassiter Limited#	Ordinary share US$100	Samoa	49	Investment holding*
Shenzhen Nantian Oilmills Co., Ltd.#	US$10,000,000	The PRC	20	Oilseed processing
Jilin Fuel Ethanol Co., Ltd.#	RMB1,200,000,000	The PRC	20	Production and sale of biofuel and biochemical

* 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 wheat products in Mainland China.

Not audited by Ernst & Young Hong Kong or other member firm of Ernst & Young global network.

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

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

43. 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$865,688,000 (2006: HK$537,000) representing derivative financial instruments and liquid 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$857,157,000 (2006: Nil) representing the liquid 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$6,684,725,000 (2006: HK$3,186,767,000) including due from and loans to associates, accounts and bills receivables, an aggregate amount of HK$731,261,000 (2006: HK$460,524,000) included in prepayments, deposits and other receivables, amounts due from fellow subsidiaries, amounts due from related companies, amounts due from the ultimate holdings 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$2,156,019,000 (2006: Nil) including amounts due from and loans to subsidiaries, 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$8,880,000 (2006: HK$2,387,000), 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 fair value through profit or loss and financial liabilities at amortised cost.

The carrying amount of financial liabilities at fair value through profit or loss of the Group amounts to HK$412,368,000 (2006: Nil) representing derivative financial instruments, has been disclosed on the consolidated balance sheet and relevant note to the financial statements.

The carrying amount of financial liabilities at amortised cost of the Group with an aggregate amount of HK$7,569,828,000 (2006: HK$5,812,409,000) including, accounts and bills payables, an aggregate amount of HK$1,132,919,000 (2006: HK$703,531,000) 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.

44. 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, accounts payable and balances with related parties, 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 operations. The accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and market price risk arising from the Group's edible oil, soybean meal and related products operations. 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 and other borrowings with a floating interest rate. The effective interest rates and terms of repayment of the interest-bearing bank and other borrowings of the Group are disclosed in note 28. 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.

		Group	
	Increase/ (decrease) in basis points	**(Decrease)/ increase in profit before tax** HK$'000	**(Decrease)/ increase in equity** HK$'000
2007			
	100	(10,842)	(9,293)
	(100)	10,842	9,293
2006			
	100	(5,342)	(4,647)
	(100)	5,342	4,647

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

The Group mainly operates in Mainland China with most of the Group's monetary assets, liabilities and transactions principally denominated in Hong Kong dollars, Renminbi and United States dollars. Approximately 12% (2006: 15%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 54% (2006: 48%) of cost are denominated in the units' functional currency. The Group partially hedge purchases and sales that are dominated in United States dollars, at the discretion of management.

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 %	(Decrease)/ increase in profit before tax HK$'000	(Decrease)/ increase in equity HK$'000
2007			
If Renminbi weakens against Hong Kong dollar	5	–	(471,120)
If Renminbi strengthens against Hong Kong dollar	(5)	–	471,120
If Renminbi weakens against United States dollar	5	(228,603)	(195,936)
If Renminbi strengthens against United States dollar	(5)	228,603	195,936
2006			
If Renminbi weakens against Hong Kong dollar	5	–	(289,580)
If Renminbi strengthens against Hong Kong dollar	(5)	–	289,580
If Renminbi weakens against United States dollar	5	(108,095)	(94,043)
If Renminbi strengthens against United States dollar	(5)	108,095	94,043

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 monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

The contractual maturities of financial liabilities including derivative financial instruments, 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 24, 28, 40, 19 to the financial statements. For accounts and bills payables, they are generally on credit terms of one to three months after the invoice date and the bill issued date. For the financial liabilities amounted to HK$1,132,918,000 (2006: HK$703,531,000) included in the items of other payable and accruals 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 material cost and product selling price 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 material cost and product selling price during the delivery, production and storage processes. To minimise the Group's market price risk exposure, the Group enters into commodities future contracts of soybean, soybean meal, barley and corn.

The following table demonstrates the sensitivity to a reasonably possible change in Group major raw materials prices, with all other variables held constant and no hedging investments available, of the Group's profit before tax and the Group's equity.

		Group	
	Change in raw materials prices	**Change in profit before tax**	**Change in equity**
	%	HK$'000	HK$'000
2007			
Soybean	5	485,218	400,790
Corn	5	86,134	71,663
Rice	5	121,084	86,212
Barley	5	36,202	35,840
Wheat	5	112,937	107,290
2006			
Soybean	5	287,864	238,927
Corn	5	38,863	33,034
Rice	5	82,768	57,937
Barley	5	31,473	31,158
Wheat	5	75,249	72,991

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents, pledged deposits and liquid investments. Capital includes total equity. The gearing ratios as at the balance sheet dates were as follows:

Group

	2007 HK$'000	2006 HK$'000
Interest-bearing bank and other borrowings	**5,818,144**	5,367,611
Less: Cash and cash equivalents	**(2,429,486)**	(1,249,388)
Pledged deposits	**(322,518)**	(51,878)
Liquid investments	**(857,157)**	–
Net debt	**2,208,983**	4,066,345
Total capital	**11,752,381**	7,089,167
Gearing ratio	**18.80%**	57.36%

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2008.