

Managing Director's Message



Yu Xubo, *Managing Director*

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Financial Results

Revenue of China Agri in 2008 was HK\$41,802.1 million, up 44.8% from HK\$28,869.2 million in the previous year. Profit attributable to equity holders of the Company surged by 138.6% year-on-year to HK\$2,624.9 million. The Board has recommended a final dividend for 2008 of HK13.6 cents per share. The Board has proposed a regular dividend policy from 2009 with a preliminary payout ratio set between 20% and 30%. The dividend recommendation is in line with our longstanding policy of providing consistent increases in ordinary dividend, linked to the underlying earnings performance of the business.

A Closer Look

China Agri is committed to becoming one of the most eminent agricultural processing companies in China through diligently developing its five core businesses namely oilseed processing, rice trading and processing, biofuel and biochemical, brewing materials and wheat processing. Our efforts in implementing prudent operational strategies have once again delivered remarkable revenue growth for the Company for the year under review.

Risk Management

To control risks the Company has carried out hedging activities as an effective measure to prevent China Agri from being adversely impacted by wild swings in the prices of agricultural commodities in 2008. Our hedging activities are managed by a team of professionals overseen by the top executives. They work closely with our operational team to devise strategies on the helping China Agri to hedge against negative market movements on the one hand while seeking to outperform the market on the other. We do not engage in speculative activities and are not exposed to structured products. We will discuss in detail our hedging strategies under the Oilseed Processing business section.

In view of the lack of clarity in the global economic outlook, China Agri adopted a particularly prudent approach in its expansion plans in 2008. We believe liquid flexibility is paramount for protecting shareholder value and sustaining future growth. We spent HK\$1,065.3 million on capital expenditure and have approximately HK\$4,958.0 million in cash and cash equivalents and pledged deposits.

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Oilseed Processing

Oilseed processing remained the largest contributor of our business in 2008, with a revenue of HK\$27,539.5 million and operating profit (representing segment result) of HK\$3,257.8 million respectively. We are one of the largest edible oil and oilseed meal producers in China and are committed to expanding further our market share through organic growth. In August 2008, the National Development and Reform Commission released Guiding Opinions on Promoting the Sound Development of Soybean Processing Industry (《促進大豆加工業健康發展指導意見》) to encourage consolidation among domestic soybean oil processors so as to cultivate larger enterprises that would better integrate production, processing and sales with enhanced competitiveness. China Agri endeavors to capture this opportunity through leveraging our experienced management team, substantial asset network and dominant market position in China. We are spending the majority of our capital expenditure on increasing our oilseed processing capacity by 50% to about 8 million metric tons by 2011.

Wheat Processing

Our wheat processing business recorded a 3.2% increase in gross profit margin in 2008, attributable to the success of our strategy of adjusting the product mix and migrating to higher-end products. During the year, China Agri entered the domestic retail market by selling directly to supermarkets packaged flour products under our own brands and supplying restaurants and shops a variety of freshly baked goods.

Rice Trading and Processing

China Agri has also further broadened the market reach of its own-branded packaged rice in the Chinese market. Currently, there are over 2,543 supermarkets in 256 cities selling our own-branded packaged rice and we expect their sales will continue to increase.

Brewing Materials

With the commencement of operations at Phase II of the Jiangyin malt processing facility in Jiangyin, Jiangsu province, the annual malt processing capacity has increased to 660,000 metric tons. We are focusing on capitalizing the growing demand for high quality brewing materials in China and around the world and are committed to becoming a leading regional player in that area.

Biofuel and Biochemical

Furthermore, our fuel ethanol business has benefited from the Chinese government's initiative to encourage investment in the industry in the form of subsidies from the Ministry of Finance. That support has enabled China Agri to continue to maintain a steady profit margin.

The performance of our business in each of the five sectors is explained in detail in the Business Review section of this annual report.

Look Ahead into 2009

Edible oil, noodles and rice are staple Chinese foods. As the public is becoming more aware of the issue of food safety, we believe China Agri's high quality staple food products will continue to be in strong demand. Oilseed processing business will remain the key driver for the Group's business in 2009, with support especially from the increasing edible oil consumption.

Taking into account the current global climate, 2009 will be another challenging year for the Group. Nevertheless, we are well-prepared and determined to take China Agri to grow further and create additional value for the shareholders.

YU Xubo

Managing Director

Hong Kong, 14 April 2009