

Oilseed
processing
business



Business Review

Oilseed processing business

The Company is one of the largest bulk edible oil and oilseed meal producers in China, processing mainly soybean oil, palm oil and rapeseed oil, among which soybeans are the most important raw material for the manufacture of oilseed products. The oilseed processing business is the biggest revenue

contributor to the Company, accounting for 65.9% of total revenue and 72.0% of total operating profit (representing segment result) for 2008. This represented an increase of 42.1% and 469.3% respectively compared with 2007.

Products	2008		2007		Change	
	Volume <i>metric ton'000</i>	Revenue <i>HK\$ million</i>	Volume <i>metric ton'000</i>	Revenue <i>HK\$ million</i>	Volume	Revenue
Bulk edible oils	1,512.8	14,064.6	1,445.5	10,793.0	4.7%	30.3%
• Soybean oil	505.0	4,848.3	682.1	5,098.9	-26.0%	-4.9%
• Palm oil	405.0	3,298.7	262.6	1,733.4	54.2%	90.3%
• Rapeseed oil	67.1	691.1	48.8	393.8	37.5%	75.5%
• Small Pack oil	395.9	4,247.8	337.1	3,017.5	17.4%	40.8%
• Others	139.8	978.7	114.9	549.4	21.7%	78.1%
Oilseed meal and feeds	3,152.8	10,982.5	3,258.2	7,933.0	-3.2%	38.4%
Others	-	2,492.4	-	660.8	-	277.2%
Total		27,539.5		19,386.8		42.1%

The products processed by the Company include bulk edible oils, specialty oils and fats, oilseed meal, small pack oil and other products. These products are sold primarily under the Sihai (四海) and Xiyinying (喜盈盈) brands. Customers include renowned companies such as Unilever, Yili Industrial, Tingyi, WantWant, Pepsi Foods and Guangzhou Uni-President. Following the consolidation of the oilseed processing industry in China in 2007 and 2008, the Company's market share and pricing ability have increased significantly.

The Company imports raw materials from overseas and adjusts product prices according to changes in cost. In response to the fluctuations in global soft commodity prices in 2008, we adjusted our product prices and minimized the impact of fluctuating raw material prices through hedging.

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Hedging to reduce risk

Most of the raw materials the Company purchased were from overseas suppliers, mainly in the United States, Brazil and Argentina. As soybeans are an international commodity, their price is more volatile and experienced historical fluctuations in 2008. Taking first class soybean oil in China as an example, prices reached RMB17,100 per metric ton in March before dropping to approximately RMB6,800 per metric ton at one point in October. Hedging is a necessary measure for international trade, and thus we have established a team of over ten experienced personnel who report directly to our senior management. They communicate with the production departments and adopt proactive measures in accordance with our actual production needs, in order to manage and minimize exposure to risks from product price fluctuations and to lock up profits.

The Company has adopted a prudent attitude when conducting these hedging activities, which are performed out of operating needs only but not to engage in speculation or trading of relevant structured financial products. This essentially reflects the conservative yet flexible financial policies we have adopted over the years.

Solid foundation to capture the enormous market demand

As at the end of 2008, we had an annual crushing and refining capacity of approximately 4,860,000 and 1,170,000 metric tons respectively. The oilseed production facilities in which we have controlling interests are located strategically in the regions along the coast and the Yangtze River in China, which enable us to source domestic and imported raw materials in a more cost-effective manner.

As consumer spending in China and expenditure on food grains increase, so will the demand for edible oils and oilseed meal. Additionally, as China consumes more and more meat, the demand for edible oils for cooking is also rising. The growing frequency of dining-out also contributes to higher consumption of edible oils in restaurants and by food manufacturers. This market trend will create a solid foundation for the future growth of our business.

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Crushing capacity

Name of Plant	Location	Products	Production Capacity (metric ton'000)
COFCO Xiangrui Oils & Grains Industries (Jingmen) Co., Ltd.	Jingmen, Hubei	Rapeseed oil and meal	240
COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd.	Rizhao, Shandong	Soybean oil and meal	660
COFCO ADM Oils & Grains Industries (Heze) Co., Ltd.	Heze, Shandong	Soybean oil and meal	360
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.	Zhangjiagang, Jiangsu	Soybean oil and meal	3,600
Total Production Capacity			4,860

Refining capacity

Name of Plant	Location	Products	Production Capacity (metric ton'000)
COFCO Xiangrui Oils & Grains Industries (Jingmen) Co., Ltd.	Jingmen, Hubei	Rapeseed oil	120
COFCO Eastbay Oils & Grains Industries (Guangzhou) Co., Ltd.	Zengcheng, Guangdong	Soybean oil and palm oil	120
COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd.	Rizhao, Shandong	Soybean oil and palm oil	240
COFCO ADM Oils & Grains Industries (Heze) Co., Ltd.	Heze, Shandong	Soybean oil and peanut oil	120
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.	Zhangjiagang, Jiangsu	Soybean oil and palm oil	570
Total Production Capacity			1,170

Business Review

Government policies create positive business environment

The year 2008 was filled with opportunities and challenges for the grain industry in China. In September 2008, the National Development and Reform Commission (“NDRC”) issued the *Guiding Opinions on Promoting the Sound Development of Soybean Processing Industry* (促進大豆加工業健康發展的指導意見) (“*Guiding Opinions*”), which stated that the production volume of soybeans in China now ranks number four in the world, that soybean processing and consumption volume ranks second in the world and that China has become the largest soybean importing country. In recent years, as the living standard of the urban population has improved, the demand for edible vegetable oils and meat has increased rapidly. Along with the rising consumption of soybean oil and soybean meal in China, this has facilitated the rapid growth of the soybean processing industry. The consumption of vegetable oils and soybean meal in China will continue to grow, and the demand for soybean will increase as a result.

Among the various policy measures introduced in the *Guiding Opinions* are the acceleration of structural adjustments, enhancement of operations upgrade, and key support on the formation of cross-regional soybean oil and fat processing enterprises with integration of production, processing and sales through consolidation, mergers and reorganization. It also encourages enterprises to purchase domestic soybeans. With the introduction of these policies and the continued consolidation of the industry, a more favourable business environment will be created for the stable development of our oilseed processing business.

The Company has formulated a long-term development strategy and plan to utilize the majority of the capital expenditure on expanding the oilseed processing business. We will seize this favourable timing to further develop our oilseed processing business by enhancing production capacity, exerting economies of scale and production efficiency, increasing our market share and consolidating our market leading position. The Company will gradually implement this strategic plan and make dynamic adjustments in accordance with market changes. Under the plan, we will increase our production capacity to approximately 8 million metric tons by 2011 in order to meet the huge market demand.

Q&A

Question: Why does China Agri perform hedging and how does it do so? Why was there such a large unrealised loss?

Answer: Most of the raw materials purchased by China Agri, such as soybeans and crude palm oil, are sourced overseas. To reduce the risk from price fluctuations, it is necessary to perform hedging to lock up our profits.

China Agri enters into hedging positions for raw materials purchased and products being sold, which means that when the raw material is purchased, the corresponding amount of that commodity is sold in the futures market, so that the processing profits can be locked up at a stable level.

The Group has considered various market factors and relevant accounting requirements, and did not select to adopt hedge accounting. The Group recorded an unrealised loss of HK\$498.3 million at 31 December 2008 as a result of the “mark-to-market” requirement of Hong Kong Financial Reporting Standards (“HKFRSs”). The unrealised losses represent the difference between the initial contract price and the market price of the unsettled future contracts as at 31 December 2008. The substantial loss recorded was the result of the market price at 31 December 2008 being higher than the initial contracted selling price of the unsettled future contracts.

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The following examples of hedging activities illustrate how we lock up profit through hedging and explains the rationale behind the unrealised gain/loss booking.

Description of hedging

(Productions costs and other relevant costs are not included in the calculation, these figures are hypothetical examples and are for reference only)

31 October of Year 1		Three-month future price
<ul style="list-style-type: none"> China Agri entered into a soybean purchase contract and sold a soybean oil and soybean meal future contract at the same time on 31 October of Year 1 	Soybean	\$5,000
<ul style="list-style-type: none"> The locked-up profit is calculated as $\\$6,000 - \\$5,000 = \\$1,000$ (Income-cost = gross profit) 	Soybean oil and soybean meal	\$6,000

31 December of Year 1		Scenario 1	Scenario 2
Market price of soybean oil and soybean meal future contract as at 31 December of Year 1		\$5,000	\$7,000
Profit and loss for Year 1 Pursuant to HKFRSs, China Agri should mark the unsettled future contracts to the market price as at 31 December of Year 1	Accounted for the unrealised gain and loss in the cost of sales, affecting our gross profit	$\$6,000 - \$5,000 = \$1,000$ (unrealised gain)	$\$6,000 - \$7,000 = \$1,000$ (unrealised loss)

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31 January of Year 2		Scenario 1A	Scenario 1B	Scenario 2A	Scenario 2B
Market price of soybean oil and soybean meal future contract as at 31 January of Year 2		\$4,500	\$5,500	\$5,500	\$8,500
Part one When the future contract expires and to be settled by cash	Realised gain or loss of the future contract	\$5,000-\$4,500 = \$500 (realised gain) (As the price is \$500 lower than that as of 31 December of Year 1, a gain of \$500 is recorded)	\$5,000-\$5,500 = \$500 (realised loss) (As the price is \$500 higher than that as of 31 December of Year 1, a loss of \$500 is recorded)	\$7,000-\$5,500 = \$1,500 (realised gain) (As the price is \$1,500 lower than that as of 31 December of Year 1, a gain of \$1,500 is recorded)	\$7,000-\$8,500 = \$1,500 (realised loss) (As the price is \$1,500 higher than that as of 31 December of Year 1, a loss of \$1,500 is recorded)
Part two Products are delivered at spot price of soybean oil and soybean meal	Profit and loss for physical delivery of products (The spot price – purchase cost fixed on 31 October of Year 1)	\$4,500-\$5,000 = \$500 (loss)	\$5,500-\$5,000 = \$500 (profit)	\$5,500-\$5,000 = \$500 (profit)	\$8,500-\$5,000 = \$3,500 (profit)
Sub-total profit and loss for Year 2	Part one + Part two = financial effect for Year 2	\$0	\$0	\$2,000 (profit)	\$2,000 (profit)
Total profit and loss for Year 1 and Year 2	Total profit and loss of the whole transaction	\$1,000 (profit)	\$1,000 (profit)	\$1,000 (profit)	\$1,000 (profit)

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Products

Category	Product
Meals	<p>Major products include soybean meal, rapeseed meal, peanut meal, cottonseed meal and others.</p> 
Small pack oil products	<p>Small pack oil products include, vitamin-A soybean oil (維 A 大豆油), peanut oil (花生油), sunflower oil (葵花籽油), rapeseed oil (菜籽油) and other edible oils.</p> <p>Vitamin-A Soybean Oil (維 A 大豆油) Using high technology to refine vitamin A protoplasm, solution in advance, dissolution and homogenization, the protoplasm is fully dissolved in salad oil, which can be absorbed by the human body more evenly and effectively. This process complies with the strict requirements of the Chinese Nutrition Improvement Project (國家公眾營養改善項目).</p> <p>Peanut Oil (花生油) Made from selected raw materials to ensure purity and quality. By adopting unique technology, we do not pursue aroma traits narrowly or overcook which would otherwise result in loss of preserved nutrition. This technology also prevents the production of harmful substances. Our peanut oil has an original moderate fragrance free of cholesterol and aflatoxin and contains vitamins A, B and E as well as unsaturated fatty acid. It is tasty and shiny.</p> <p>Sunflower Oil (葵花籽油) Produced using modern technology and physically refined with strict quality management in accordance with international control standards. Our sunflower oil is natural and healthy with a fresh taste. The aroma of sunflowers provides a natural aftertaste.</p> <p>Rapeseed Oil (菜籽油) Made from domestic fine rapeseed from Hubei province. The raw material is full in shape and nutritious, containing rich unsaturated fatty acid. As it is extracted from seed cone, its components usually contain certain phospholipids from seeds, which are very important for the development of blood vessels, nerves and cerebrum.</p> 

Category	Product	
Oils for special use	<p>There are various kinds of oils for special use, include:</p> <p>Shortening (起酥油), Margarine (人造奶油), Frozen Fat (速凍油), Frying Fat (煎炸油), Soybean Milk Fat (豆奶油), Cream Fitting (夾心奶油), Pop Corn Fat (爆米花油), Chinese Cake Oil (中式點心專用油), Filling Oil (餡料專用油), Moon Cake Oil (月餅專用油), Cocoa Butter Substitute (代可可脂), Hydrogenated Palm Oil (氫化棕櫚油), Hydrogenated Coconut Oil (氫化椰子油), Hydrogenated Soybean Oil (氫化大豆油), Hydrogenated Palm Stearin (氫化棕櫚硬脂), Non-dairy Cream (植脂鮮奶油專用油) and others.</p>	
Lecithin	<p>These products mainly include lecithin for stock feed.</p>	
Specialty oils	<p>Camellia Oil (山茶油), Olive Oil (橄欖油) and others.</p> <p>Olive Oil (橄欖油) The best quality extra virgin olive oil extracted from the essence of the prime olives from Spain, the world's biggest olive oil producing country.</p>	

Quality Control

The oilseeds processing division has set up a comprehensive quality control system for the entire production process, including sourcing, production, processing, packaging, storage, distribution and logistics. Most of our subsidiaries under this division are accredited with ISO 9001 and HACCP certifications. COFCO East Ocean Oils & Grain Industries (Zhangjiagang) Co., Ltd has been accredited with three other certifications – ISO14001, OHSMS18001 and AIB (USA).

Rice trading and
processing
business



Business Review

Rice trading and processing business

The Company is the largest rice exporter in China, engaged primarily in the trading and processing of white and parboiled rice. At the end of 2008, export and domestic sales of rice (including white rice and parboiled rice) amounted to approximately 791,200 metric tons and 124,100 metric tons respectively. According to the statistics of China Customs, the

total export volume of rice in 2008 was 946,000 metric tons, of which the Company exported a total of 791,200 metric tons, representing 83.6% of the country's total export volume. In 2008, revenue from the rice trading and processing business of the Company (excluding intersegment sales) increased from HK\$3,110.1 million in 2007 to HK\$3,383.0 million in 2008, representing an increase of 8.8%.

Product	2008		2007		Change	
	Volume <i>metric ton'000</i>	Revenue <i>HK\$'M</i>	Volume <i>metric ton'000</i>	Revenue <i>HK\$'M</i>	Volume	Revenue
White rice	738.3	2,576.8	908.3	2,634.1	-18.7%	-2.2%
Parboiled rice	177.0	806.2	223.7	528.1	-20.9%	52.7%
		3,383.0		3,162.2		7.0%
Intersegment sales		-		(52.1)		
Total		3,383.0		3,110.1		8.8%

Export of Rice

In 2008, given the tightened demand and supply situation in the international grain market, the Chinese government adopted measures to limit the export of grains, and still the Company was able to maintain stable exports of specialty rice, including parboiled rice and rotation rice and has maintained stable export

to traditional markets like Japan, Korea, Hong Kong, Macau and other markets. The export quota granted by the Chinese government reinforced the position and role of the Company as a leading export channel of China.

Export and domestic sales volume of white rice and parboiled rice

		<i>metric ton'000</i>
Export	White rice	615.2
	Parboiled rice	176.0
	Total	791.2
Domestic sales	White rice	123.1
	Parboiled rice	1.0
	Total	124.1

The export volume of rice in 2008 dropped by 27.1% as compared with 2007 (1,085,000 metric tons), mainly due to the restrictive measures adopted by the Chinese government in rice exports. However, the Company was able to offset the effect of the decrease in trading volume caused by the government's

policies by taking advantage of price hikes in the international market for rice, allowing it to realize higher transaction prices and a substantial increase in gross profit margin of rice export business, and record a new high in earnings.

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Rice processing

As at the end of 2008, the rice processing capacity of the Company was 340,000 metric tons. The utilization rate of the rice processing plants located in Jiangxi, Jiangsu and Liaoning

was 100%. In terms of production capacity, our parboiled rice processing facilities are one of the largest in Asia.

Rice processing capacity

Name of Plant	Location	Product	Production Capacity (metric ton '000)
COFCO Jiangxi Rice Processing Ltd	Nanchang, Jiangxi	Parboiled rice and white rice	220
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd	Zhangjiagang, Jiangsu	White rice	75
COFCO Dalian Rice Processing Ltd	Dalian, Liaoning	White rice	45
Total Production Capacity			340

To further consolidate its position in the export and domestic sales of rice, in 2008 the Company established COFCO Dalian Rice Processing Limited (“Dalian Rice Processing”). Located at the DCT Cargo Terminal in Dayaowan Port, Dalian, this facility is China’s first port-neighboring integrated rice processing enterprise with 200,000 metric tons capacity.

The products of Dalian Rice Processing comprise high-quality short grain rice from the northeast of China for export to high-end international markets such as Japan and Korea as well as for domestic sales in markets such as the Yangtze River Delta and North China.

Processing + Sales + Brand = Our Successful Business Model

With production as its foundation and market scale and branding as its core competitive advantage, the Company operates its rice trading and processing business in both domestic and overseas markets, with a focus on building and enhancing its competitiveness in the domestic market. This “Processing + Sales + Brand” business model has enabled the Company to maintain its position as China’s largest rice exporter and among the top three in terms of processing capacity and domestic sales volume.

Over the past three years, the Company has been developing the domestic market through the establishment of sales distribution network and branding. In 2008, the Company accelerated the pace of development, with products covering the high- and mid-end to the mass consumer markets. During the year, the Company sold 124,100 metric tons of rice to domestic consumers, an significant increase of 164.6% as compared with 2007, which laid a strong foundation for the rapid development of our domestic business.

With respect to geographic reach of sales network, the Company shifted its focus from the original regional markets of the Yangtze River Delta and Xinjiang to nationwide markets. The Company has rapidly expanded its reach to the northern, southern, south-western and north-western parts of China with a rapid development of its sales network. Currently, there are over 2,543 supermarkets in 256 cities selling our own-branded packaged rice. Looking forward, the Company will continue to extend its footprint to cover all provinces across the country, with over 10 provinces planned to be added and the number of distributors to be increased to nearly 400.

Increasing awareness in brand by consumers presents vast business opportunity. By establishing its own brand and leveraging on its competitive edge in sourcing, production

management and capital, the Company added value to its rice products and has been successful in enhancing its profit margins. Given the huge scale of the rice market in China, there is enormous potential for continued expansion. The Company, in anticipation of rising domestic sales volumes of rice in 2009,

will continue to increase investment in the domestic market in order to enlarge its market share and increase the proportion of operating income and profit from domestic sales. Domestic sales is expected to be a growth driver of the rice-trading and processing business.

Q&A

Question 1: Will the Chinese government ban the export of rice?

Answer: Currently, the Chinese government does not ban the export of rice. China is the largest rice producing country in the world and is consistently a net exporting country. Exports account for less than 1% of the total production volume of rice in the country with little impact on supply in the domestic rice market. Pursuant to the agreement entered into under the World Trade Organization (“WTO”) by the Chinese, Japanese and Korean governments, Japan and Korea import rice in quantities determined by their commitment under the agreement. In order to fulfill the WTO agreement, China will maintain continuity in exporting rice to the Japanese and Korean markets. The central government will also maintain rice exports to Hong Kong and Macau to ensure stability of rice supply in both markets.

Question 2: Demand for rice in China has been very stable. What are the reasons for developing your own brand?

Answer: Rice is the most important staple food in China, and demand for rice is huge and has been increasing steadily with the growth of the population. China Agri has developed its own brand for the domestic rice market based on the following strategies:

Firstly, China has seen accelerated integration of the domestic rice market and growing brand awareness. There are now many enterprises in the domestic rice industry and competition is fierce. However, the increasing impact of the financial crisis and the entry of large enterprises in the domestic rice market have accelerated the industry’s consolidation which is favourable to the expansion of large enterprises. At the same time, brand awareness among domestic consumers has been on the rise, which has prompted demands for small pack branded rice, setting the required market conditions for the development of a rice brand.

Secondly, monitoring of the food industry in China has grown stronger, creating a need for distinctive brand names. Recent food safety concerns of Chinese consumers has grown along with the economic development and enhanced living standard which have led to strengthened controls of the food industry and tightened regulations on the transportation, sales and packaging of food products by the relevant Chinese authority. Therefore, small pack rice will become an important product in China’s rice industry and will see a boost in sales in the years to come.


Thirdly, modern retail channels such as supermarkets and megastores, which offer more convenient and comfortable and a one-stop shopping experience are becoming the preferred choice of urban consumers with faster pace of living. Small pack rice is sold mainly through these retail channels and therefore has great potential for future growth.

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Products

Category	Product
	<p>Our main products include short grain rice from north-eastern China and Jiangsu Province, long grain rice of southern origin and parboiled rice (all from selected high-quality paddy fields), and imported rice.</p>
<p>White Rice</p>	<p>Our products are divided into the domestic and imported categories:</p> <p>Our domestic product categories of rice include Dao Hua Xiang (稻花香), Crystal Rice (水晶米), Golden Classic Dongbei rice (金典東北米), and Golden Classic Chang Li Xiang (金典長粒香).</p> <p>Our imported rice includes Thai-Hom Mali Rice, Akitakomachi and Koshihikari.</p> <p>Dao Hua Xiang (稻花香) Originated from Wuchang, Heilongjiang Province, and grown in non-polluted dark soil. It is long, thin and transparent with natural freshness when raw, and has bright white, fragrant, soft but chewy characteristics when cooked.</p> <p>Crystal rice (水晶米) Originating from Panjin in north-eastern China, and is grown in saline soil. It is small, transparent and full in shape, and has a unique sweet, soft and juicy taste when cooked.</p> <p>Golden Classic Dongbei rice (金典東北米) Originating from the finest rice growing regions of north-eastern China and is grown in dark fertile soil. It has a full shape and a glowing clear white colour with natural fragrance and softness when cooked.</p> <p>Golden Classic Chang Li Xiang (金典長粒香) Originating from the finest rice growing regions of north-eastern China, ChangLixiang rice is grown in dark fertile soil. It has a full, fine shape and a natural fragrance with good texture when cooked.</p>



Category	Product
Parboiled rice	<p>Using advanced western parboiling technology, our parboiled rice retains maximum nutrition levels. It is rich in iron, zinc and vitamin B and has a light yellow crystal colour and natural fragrance.</p> 

Quality Control

As quality is a competitive advantage in the industry, the Company have adopted a Total Quality Management strategy to ensure the highest quality output at every stage of our production process. Our products are well recognized by the government and consumers worldwide.

Quality certifications obtained by the rice trading and processing business are as follow:

In May 2006, COFCO Jiangxi Rice Processing Limited obtained ISO9001: 2000 certification and, in August 2006, HACCP certification. We were the first production facility in Jiangxi Province to receive the HACCP accreditation. We also received a QS certificate in August 2004 and a certificate of hygiene for food export in December 2006.

The rice processing production line at COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd has been awarded an ISO 9001 in January 2001 and ISO 14001 certificate in January 2002 from SGS, a QS certificate and 'C' logo from Jiangsu Province Quality and Technology Supervision Bureau in 2003, and HACCP certification from China Quality Certification Centre in 2004 and AIB (USA) in 2006.

Since commencement of operations in 2008, the production line acquired by COFCO Dalian Rice Processing Limited has received QS certification and a hygiene license. Preparation for ISO/HACCP certification is underway simultaneously with the construction of a new production line.

Biofuel and biochemical business



Business Review

Biofuel business

The Company is one of the major fuel ethanol producers in China, with a total annual production capacity of 380,000 metric tons from COFCO Bio-Energy (Zhaodong) Co., Ltd. (“Zhaodong Bio-Energy”) and Guangxi COFCO Bio-Energy Co., Ltd. (“Guangxi Bio-Energy”).

In 2008, the Company sold a total of 303,700 metric tons of fuel ethanol, of which 180,300 metric tons were sold by Zhaodong Bio-Energy and 123,400 metric tons by Guangxi Bio-Energy. During the year, revenue from the biofuel business amounted to HK\$3,667.1 million, representing an increase of 95.9% compared with HK\$1,872.1 million in 2007.

Product	2008		2007		Change	
	Volume metric ton'000	Revenue HK\$ million	Volume metric ton'000	Revenue HK\$ million	Volume	Revenue
Fuel ethanol	303.7	1,562.3	160.4	645.7	89.3%	142.0%
Consumable ethanol*	87.8	419.7	72.9	327.8	20.4%	28.0%
Anhydrous ethanol	67.6	387.4	56.2	272.6	20.3%	42.1%
Crude corn oil	57.7	462.2	29.7	195.7	94.3%	136.2%
Corn DDGS	294.3	497.6	227.2	290.0	29.5%	71.6%
Others*		337.9		140.3		140.8%
Total		3,667.1		1,872.1		95.9%

* In order to classify our products in more detail, the HK\$252 million revenue which was disclosed under the “others” category of biochemical business in the interim report for the six months ended 30 June 2008 and included distribution of alcohol in biofuels, is now reclassified under the “others” category of biofuel business as above.

Adjustments in business direction in line with state policy

In response to changes made in the national fuel ethanol development strategy, the Company adjusted the direction of the fuel ethanol business to focus on fuel ethanol produced from non-food feedstock. With the establishment of Guangxi Bio-Energy which officially commenced production in March 2008, The Company became the only non-food feedstock fuel ethanol enterprise in China. This marked an important milestone in the strategic development of fuel ethanol from non-food feedstock. We will further strengthen cooperation, research and development among domestic and foreign scientific research units and large enterprises, as well as develop using cellulosic biomass to produce fuel ethanol in order to maintain our leading position.

Located in Beihai, Guangxi, Guangxi Bio-Energy is the first state-approved fuel ethanol production project making use of non-food feedstock as raw material. It uses tapioca as raw material and has an annual production capacity of 200,000 metric tons. The products are mainly sold to large enterprises such as Sinopec and PetroChina. In 2008, the Guangxi Bio-Energy production line recorded production of 126,000 metric tons. As 2008 was the first year of operation, production adjustments and testing kept capacity at a relatively low level during the first half of the year. In the second half of the year, the production line has operated at full capacity. Currently it is in smooth operation.

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In 2008, the Ministry of Finance (“MOF”) continued to provide subsidies to fuel ethanol producers. The Company regularly submitted the costs of its authorized production to the MOF and NDRC. The company receives the subsidies on a flexible basis, after the information submitted is verified and a review conducted by the MOF. As the selling price of fuel ethanol is pegged to the wholesale price of No. 90 gasoline and the government offers a sales discount, and since the domestic gasoline prices are not fully integrated with the international market, occasionally the gasoline prices in China will move against prices in the international market. In addition, raw materials for fuel ethanol are transacted at market prices which are subject to fluctuation, subsidies granted by the government to fuel ethanol production enterprises,

therefore, were mainly for covering possible losses and ensuring a reasonable profit and stable supply of fuel ethanol. At the same time, the fuel ethanol subsidy also reflects the government’s policy of supporting clean energy and a low-carbon, recycle economy. Tax concessions, including exemption from sales tax and refunds of paid value-added tax, are also provided to fuel ethanol production enterprises.

The NDRC adjusted the ex-factory prices of gasoline twice in 2008, and corresponding adjustments were made to the settlement prices of fuel ethanol (value-added tax included). Ex-factory prices of No. 90 gasoline and prices of fuel ethanol in 2008 are set out below:

Date	Ex-factory price of No. 90 gasoline (RMB)	Price of fuel ethanol (RMB)
20 June 2008	6,480	5,904
19 December 2008	5,580	5,084

Currently, biofuel ethanol projects in six provinces and city, namely, Wubei, Hebei, Jiangsu, Jiangxi, Chongqing and Sichuan, have passed the preliminary planning evaluation conducted by the NDRC. In the provinces and city approved for such evaluation, companies have to consider market demand and

growth trends to facilitate project approval and accelerate development of the fuel ethanol industry. The Company will closely monitor the project development progress in those provinces and city and capture growth opportunities in a timely manner.

Fuel ethanol capacity

Name of Plant	Location	Product	Production Capacity (metric ton'000)
COFCO Bio-Energy (Zhaodong) Co., Ltd.	Zhaodong, Heilongjiang	Fuel ethanol	180
Guangxi COFCO Bio-Energy Co., Ltd.	Beihai, Guangxi	Fuel ethanol	200
Total Production Capacity			380

Consumable ethanol and anhydrous ethanol capacity

Name of Plant	Location	Product	Production Capacity (metric ton'000)
COFCO Bio-Energy (Zhaodong) Co., Ltd.	Zhaodong, Heilongjiang	Consumable ethanol and anhydrous ethanol	400*
Total Production Capacity			400

* including the fuel ethanol capacity

In 2009, fuel ethanol from non-food feedstock will become the focus of our fuel ethanol business. To that end, we are carrying

out extensive research to expand our ethanol enterprises that use non-food feedstock as raw material when the opportunity arises.

Biochemical business

Our production lines at Yushu and Gongzhuling, Jilin Province, have a total annual corn processing capacity of 1,200,000 metric tons. Key products comprise corn starch, sweeteners (maltodextrin, fructose syrup and malt syrup), feed ingredients and crude corn oil. In 2008, our biochemical production facilities

have made steady progress, with gradual increases of production loading and decreases of unit and energy consumption compared with 2007, the first year of production, and overall efficiency has improved.

Products	2008		2007		Change	
	Volume metric ton'000	Revenue HK\$ million	Volume metric ton'000	Revenue HK\$ million	Volume	Revenue
Corn Starch	755.4	1,537.2	271.3	531.0	178.4%	189.5%
Corn Meal and Feed	298.5	626.6	107.9	159.4	176.6%	293.1%
Others*	–	–	–	33.8	–	-100.0%
Intersegment sales		2,163.8 (6.4)		724.2 (5.0)		198.8%
Total		2,157.4		719.2		200.0%

* In order to classify our products in more detail, the HK\$252 million revenue which was disclosed under the "others" category of biochemical business in the interim report for the six months ended 30 June 2008 and included distribution of alcohol in biofuels, is now reclassified under the "others" category of biofuel business as above.

The biochemical business plays a key role in the strategic development of the Company. Although the biochemical business is currently in the trough of the industrial cycle, the Company maintained performance levels considerably above its peers average. This was achieved through various measures, including strict cost controls, optimization of management, and the expansion of sales to internationally renowned food enterprises. The Company is confident that when the market recovers, our biochemical business will gain a leading position in the industry by capitalizing on its outstanding quality, technology and management.

In 2008, corn starch, a major product in the biochemical business, ended three consecutive years of price rises and had been declining during the year. However, as the Chinese government

has formulated policies to stimulate domestic demand and consumption, it is believed that such initiative will be favourable to the long-term growth of the biochemical business.

The Company has obtained State approval for the Yushu phase II project, Suihua project and Longjiang project, and following an analysis of the market environment, we adjusted the pace of new project development. Construction of these projects, therefore, is still pending. However, as the biochemical business is a strategic and core business of the Company, we will seek opportunities based on changes in external market conditions and the development of new biotechnologies such as polylactic acid. We will conduct indepth survey and study, and adopt prudent conclusion to expand into markets at the right time.

Biochemical (Corn processing capacity)

Name of Plant	Location	Product	Production Capacity (metric ton'000)
COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd.	Gongzhuling, Jilin	Sweeteners, corn starch, crude corn oil, corn meal and feed	600
COFCO Bio-Chemical Energy (Yushu) Co., Ltd	Yushu, Jilin	Starch, crude corn oil, corn meal and feed	600
		Total Production Capacity	1,200

Business Review

Q&A

Question 1: Why is the government providing a flexible subsidy?

Answer: The selling price of fuel ethanol is pegged to the wholesale price of No. 90 gasoline, and the gasoline prices in China may move against prices in the international market, as the domestic gasoline prices are not fully integrated with the international market. Moreover, the raw material for fuel ethanol is transacted at market price, which also fluctuates and may cause fuel ethanol production enterprises to incur losses. Therefore, the subsidies granted by the government is mainly for covering the possible losses suffered by fuel ethanol production enterprises, so as to ensure a reasonable profit and secure a stable supply of fuel ethanol. In addition, as fuel ethanol is a clean energy that can help create a low-carbon, recycling economy, subsidies reflect the policy direction of government.



Question 2: How can China Agri benefit from the flexible grant?






Answer: Currently, the flexible subsidy is calculated as the sum of sales income from fuel ethanol, income from by-products and a reasonable profit less the total cost (average cost for advanced technology of each fixed unit). The financial subsidy ensures the stable supply of clean fuel to the market from fuel ethanol production enterprises, even under adverse economic conditions (such as decline in oil prices).

Products

The Biofuel and Biochemical Division of the Company is primarily engaged in the production and sales of fuel ethanol, consumable ethanol, anhydrous ethanol, consumable cornstarch, fructose syrup, maltose syrup, maltodextrin, crude corn oil, corn DDGS, corn protein feed, corn gluten feed,




liquefied carbon dioxide in food additives, and more. We promote research, development and production of alternative energy to encourage environmental protection and energy safety, as well as to provide consumers with biochemical products that meet their demand for a better quality of life.

Category	Product	
Fuel ethanol	Fuel ethanol refers to anhydrous ethanol that can be used as fuel without adding denaturants. When denaturant-free and gasoline components are mixed at a certain proportion, anhydrous ethanol is converted into ethanol oil, a new type of clean fuel.	
Consumable ethanol	Our products are made from corn grown at green facilities via fermentation and distillation which meet the national standard of the People's Republic of China for consumable ethanol (GB10343-2002). With quality ethanol as a major raw material, our consumable ethanol is transparent and odourless. Our product categories include; premium grade consumable ethanol, ordinary ethanol and customized super and premium grades of ethanol produced at the request of consumers. We also produce medical ethanol which meets the standard of the 2005 version of Pharmacopoeia of China.	

Category	Product	
Anhydrous ethanol	It is a type of low water content ethanol, produced by dehydrating 95% (V/V) proof aqueous ethanol. Anhydrous ethanol is an important organic chemical. It is primarily used as an underlying raw material and solvent in the chemical reagent, pharmaceutical, cosmetics and fragrance industries. Using advanced techniques, we produce anhydrous ethanol with over 99.9% (V/V) purity.	
Consumable corn starch	A reliable product of advanced technology, produced from the corn wet milling process and closed-loop production process. Our high-quality product has few impurities and is an essential raw material in the food, medical, textile, paper and chemical industries.	
Fructose syrup	Made from corn starch milk, with enzymatic conversion and heterogeneous technology, and with the world's most advanced micro-filtration membrane technology, our fructose syrup products are available in two categories, F42 and F55, depending on the fructose content.	
Maltose syrup	This maltase-based, colourless and transparent viscous liquid is produced by a hydrolysis enzymatic process. With low sweetness and a malty aroma, it is mainly applied in the production of toffee, beverages, bakery products and beer.	
Maltodextrin	With high solubility, good taste, excellent thickening capabilities and an emulsifying qualities, maltodextrin is an ideal carrier in food processing. In milk powder, it helps remove the mutton smell, guarantees nutrition, and maintains taste to improve product quality. In cereal and soymilk, it helps combine the materials and remove odours. In egg and fat powder products, it helps enhance the stability of protein and fat, increases solubility, and improves product taste.	

Business Review

Category	Product	
<p>Corn DDGS</p>	<p>A kind of animal feed with high protein produced during the yeast fermentation of grain to ethanol in a process that includes distillation, evaporation and drying. The feed is not only rich in protein but also amino acids, vitamins and various minerals that benefit the growth of animals. It contains no anti-nutritional factors. With a protein content of over 22%, DDGS has become a widely used ingredient in the animal feed industry all over the world. DDGS is beneficial in the growth and health of poultry, livestock, aquatic products and special animals. In livestock feed and aquatic products, it is normally used as a substitute for soybean meal or fishmeal in the proportion of up to 25%. Furthermore, DDGS can be fed directly to ruminants.</p>	
<p>Corn gluten feed</p>	<p>Corn gluten feed is produced in the wet process during the production of cornstarch. Made from corn after it has been separated from the germ, endosperm and other organisms, the processed materials are then added into corn steep liquor and dried. Corn gluten feed contains polysaccharides such as starch and cellulose, and is rich in soluble protein and degradation products such as peptides and various amino acids. In addition, it contains lactic acid, phytic acid calcium, phytic acid magnesium and soluble carbohydrate that have high nutritional value. Corn gluten feed is not only suitable for herbivorous animals, such as cattle, sheep and herbivorous fish, but also a good ingredient for feed for monogastric animals, such as pigs and chickens. When added to feed at a 3-5% proportion, it provides essential nutrients beneficial to maintaining the healthy function of an animal's digestive system.</p>	
<p>Corn protein feed</p>	<p>It is the remaining part of corn after it has been separated from germ and bran and extracted from starch during the wet processing of corn. Mainly used as feed for poultry and aquatic animals, it is rich in lutein, which helps the colouring of the skin and eggs of poultry when added to their feed in a certain proportion. Over the long term, corn protein feed helps increase the speed of growth and quality of poultry, as well as reduces the cost and maximizes the efficiency of animal feed.</p>	
<p>Corn gem meal</p>	<p>It is made from corn germ after compression, solvent extraction and drying. Corn meal and corn germ meal differ based on nutritional ingredients. Corn meal is a palatable feed of high energy and nutritional efficiency, but with a protein content of about 8.4%, and no lysine or tryptophan. Corn germ meal is even more palatable, and is expanded to improve the physical properties of compound feed. The protein content of corn germ meal is about 10% higher than that of corn meal. Furthermore, corn germ meal is rich in essential amino acids, and its protein quality is better than that of corn meal.</p> <p>The energy and protein content of corn germ meal addresses the nutritional needs of livestock and poultry diets. Hence, corn germ meal can be easily added to mixed feed and helps lower the overall cost of feed itself. It is best used by commercial breeders.</p>	

Category	Product	
Crude corn oil can be further processed into corn	It can be further processed into corn salad oil. It contains a high level of linoleic acid (58.7%), a type of unsaturated yet indispensable fatty acid with an absorption rate of 95%. Linoleic acid in corn oil is essential in human diets and cannot be synthesized within the human body. Linoleic acid helps lower blood cholesterol and soften blood vessels to help prevent or treat cardiovascular disease. The chemical stability of corn oil makes it a good ingredient for deep-frying as it is less harmful to health.	
Corn oil	Carried under the green "Tiancaogang" trademark, has high nutrition value. It is rich in unsaturated fatty acids and can prevent arteriosclerosis or high blood pressure. It has become the top choice in edible oils among consumers.	
Liquefied carbon dioxide in food additives	Liquefied carbon dioxide, which is used in food additives, is made by purifying, condensing and compressing the carbon dioxide gas derived from corn fermentation during the production of alcohol. In strict accordance with the Regulations on Liquefied Carbon Dioxide as Food Additive GB10621-2006 and the standards of Coca Cola and Pepsi Cola, this product has been widely used to maintain the freshness of various beverages and foods.	

Quality control

The Company consistently attaches great importance to product quality control, which is reflected in the state mandatory certification we have received, as well our quality systems and laboratory certification, enforcement of high business standards, and compliance with the regulations and measures recognized by government institutions and consumers.

COFCO Bio-Chemical Energy (Zhaodong) Co., Ltd.

Awarded Quality Management System Certification (Registration No. 00608Q10025R2L), and Good Standardizing Practice Certification (Certificate No. GPS(23L)003-2005).

COFCO Bio-Chemical Energy (Yushu) Co., Ltd.

Awarded Quality Safety Certification, Production Permit of Food Product No. QS2201 2301 0013 and ISO 9001 Quality Management System Certification (Certificate No. 00207Q14154ROM).

COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd.

Awarded Sanitation Permit No. (Ji) WSZZ (2007) No. 220381-SC0005 Certification from Jilin CIQ Certificated Laboratory (No. IRS 018), Export Sanitation Permit of P.R. China (No. 2200/15036), Quality Safety Certification, Production Permit of Food Product (No. QS2203 2301 0012) (for starch) and Production Permit of Food Product (No. QS2203 2302 0004) (for starch sugar).

Brewing
materials
business



Business Review

Brewing materials business

The Company's brewing materials business primarily covers the production and sales of malt. The product quality has always been recognized by premium beer breweries in China and overseas. The Company owns the largest single malt production plant in China, enjoying leading market position and brand advantage for years.

China is the largest beer-consuming country in the world with 41.03 million metric tons of beer consumed in 2008, an increase of 4.4% from 2007. Revenue from the Company's brewing materials business increased 62.3% from HK\$1,112.6 million in 2007 to HK\$1,806.2 million in 2008, driven by the continuing passion of Chinese consumers for beer, growing market demand and the rising price of malt. During the year, malt export volume also increased significantly by 100.3% to 197,500 metric tons.

Product	2008		2007		Change	
	Volume <i>metric ton'000</i>	Revenue <i>HK\$ million</i>	Volume <i>metric ton'000</i>	Revenue <i>HK\$ million</i>	Volume	Revenue
Malt	388.3	1,786.7	331.7	1,095.8	17.1%	63.0%
• Domestic Sales	190.8	911.9	233.1	741.1	-18.1%	23.0%
• Export	197.5	874.8	98.6	354.7	100.3%	146.6%
Malting barley	–	–	0.4	1.0	–	–
Others	–	19.5	–	15.8	–	23.4%
Total		1,806.2		1,112.6		62.3%

Capacity enhancement for consolidating market share

The construction of the malt production plant phase II in Jiangyin, Jiangsu Province, was completed and in operation as scheduled in October 2008. The additional production capacity of 180,000 metric tons has increased the Company's total production capacity to 660,000 metric tons by the end of 2008. Despite the adverse effects of significant rises in construction materials and labour costs during 2008, the average metric ton capacity investment of Jiangyin facilities phase I and II were much lower than other domestic producers that adopted the tower malting system. This was achieved through the optimization of the infrastructure construction, equipment, technology and logistic plans.

Located in the Yangtze River region, the malt production plant in Jiangyin has its own deep-water berth, which allows the direct delivery of raw materials (barley) purchased to be delivered

directly to the the production facilities for greater operating efficiency. The plant's geographical position matches the Company's long-term strategic goal of expanding malt market shares in the eastern and southern regions of China.

The Company's plant in Dalian, Liaoning Province is the largest single malt production facility in China in terms of annual production capacity. It covers the vast north-eastern China market, the country's most important area in both beer production and consumption, and fortifies the Company's leading position in the industry.

At the same time, the Company aims to develop the market potential of using domestic malt and become one of the largest malt producers in China. The Company's compelling edge of economies of scale will bring more bargaining power for purchasing barley, which will enable a further control in production costs and enhance corporate competitiveness.

Business Review

Malt processing capacity

Name of Plant	Location	Product	Production Capacity (metric ton'000)
Dalian COFCO Malt Co., Ltd.	Dalian, Liaoning Province	Malt	360
Phase I in COFCO Malt (Jiangyin) Co., Ltd.	Jiangyin, Jiangsu Province	Malt	120
Phase II in COFCO Malt (Jiangyin) Co., Ltd.	Jiangyin, Jiangsu Province	Malt	180
Total Production Capacity			660

Strict quality control gains trust of customers

The Company complies with stringent internal quality control guidelines across the entire purchasing and production process of malt. The production facilities in Dalian and Jiangsu are ISO9001:2000 and HACCP certified. The Company's commitment to quality has allowed us to gain the recognition and trust of the customers, which include large domestic and foreign-invested breweries such as China Resources Snow Breweries, Carlsberg Group, Anheuser-Busch InBev, Tsingtao Brewery, Beijing Yanjing Brewery, Suntory, Kirin Brewery, Asahi, San Miguel and Blue Ribbon Beer.

The brewing materials business of the Company also covers malt exports. In 2008, the Company exported products to Russia, Korea, Malaysia, Vietnam, Thailand, Brazil, Taiwan and other regions. Last year, when the supply of malt experienced cyclical shortages and price increases around the world, the Company seized this timely opportunity and increased export volume, which accounted for approximately 50.9% of the Company's

total malt sales. The Company's export volume in 2008 amounted to 197,500 metric tons, representing 62.9% of the total export volume of 314,000 metric tons in China.

Overcoming challenges

As the global financial crisis took hold in the second half of 2008, the world economy slowed down and food prices dropped. Despite the slowed growth rate of beer consumption and raw material demand, China maintained its leading position in beer consuming. As the downstream continues to develop, excess production capacity will be absorbed through optimization, integration and other means, and the brewing materials industry will gradually enter a healthy development stage in the long run. In the face of keen market competition, the Company will control raw material price risk through the stringent dynamic matching of purchases and sales volumes. At the same time, the Company will further broaden its purchasing channels, control the purchase cost of raw materials and improve product structure to enhance competitiveness.

Q&A

Question 1: Why was there no hedging in your brewing materials business?

Answer: There is no futures market for malt barley or malt in China or abroad for the time being, and therefore there was no mechanism for hedging.

Question 2: The financial turmoil will have an impact on global consumption. Will demand for brewing materials be affected?

Answer: We think that the financial turmoil will not have a significant impact on the total demand. On the contrary, there are predictions that the demand for alcoholic drinks will increase during this recessionary period.

Products

Product Category	Product
Malt	<p>Malt is the essence of beer and the main raw material of brewing. Malt contains rich hydrolases and significant quantities of carbohydrates, amino acid and plant gallate, which provide the nutrition required for yeast to ferment. It is widely used by brewers around the world.</p> <p>After steeping, germinating and kilning, a chemical change takes place in barley kernel and rich nutritional enzymes, carbohydrates and amino acids are produced. At the same time, the excess vapour and grassy aroma are eliminated and a special fragrance is produced. In the final stage of processing, barley malt is created which plays the most critical role in the brewing process, as it directly affects the texture, colour and clarity of beer. Only very fine malt can produce high quality beer.</p> <p>Our core products include the following:</p> <p>Australian Barley Malt Processed from fine Australian two-row malt barley, the first choice of world-famous breweries.</p> <p>Canadian Barley Malt Processed from fine Canadian malt barley. Thanks to its unique character, it is widely used by international brewers such as Anheuser-Busch InBev and Suntory.</p> <p>Specially Selected Domestic Barley Malt Specially processed from high-quality malt barley selected from Xinjiang and Gansu.</p> <p>Premium Barley Malt Combining the special requirements of texture and perfection of quality control to ensure stability and evenness characterized by high quality malt for premium beer.</p>



Quality Control

Our production facilities at COFCO Malt (Dalian) Co., Ltd. and COFCO Malt (Jiangyin) Co., Ltd. have been accredited with ISO9001:2000 and HACCP certifications.

The Company pursue the concept of “Customer First, Quality First”, combining our quality management system, food safety system and production procedures to provide excellent brewing materials to our customers.

Wheat
processing
business



Business Review

Wheat processing business

As one of the largest wheat processors in China, the Company processes and distributes a broad range of flour (including general purpose flour and customized flour) as well as other flour products such as noodles. In 2008, the Company expanded market share and enhanced profitability by taking full advantage

of economies of scale, meeting customer demand, developing retail and related markets, adjusting product structure and diversifying product range. Income from the wheat processing business rose from HK\$2,668.5 million in 2007 to HK\$3,248.9 million in 2008, representing an increase of 21.8%.

Product	2008		2007		Change	
	Volume <i>metric ton'000</i>	Revenue <i>HK\$ million</i>	Volume <i>metric ton'000</i>	Revenue <i>HK\$ million</i>	Volume	Revenue
Flour	1,071.3	2,572.8	988.8	2,119.4	8.3%	21.4%
• customized	751.3	1,902.3	600.2	1,375.5	25.2%	38.3%
• general purpose	320.0	670.5	388.6	743.9	-17.7%	-9.9%
Noodles	49.4	154.6	45.1	115.0	9.5%	34.4%
Others	–	521.5	–	434.1	–	20.1%
Total		3,248.9		2,668.5		21.8%

As at the end of 2008, the Company had a total of 1,586,000 metric tons of annual wheat processing capacity with an average utilization rate of 96%, reflecting the high market demand for the Company's products. The 9 processing factories in Shenyang, Shandong, Hebei, Henan, Jinagsu and Fujian are strategically located and divided into five operational zones: northeastern China, Beijing-Tianjin-Tanggu, central China, the Yangtze River Delta region and the Pearl River Delta region. All areas of China were covered through our nationwide distribution network.

The Company's customized flour is produced from high-quality wheat to customer specifications, and its quality is widely recognized by leading food brands in China and around the world, including Danone, Nabisco, Tingyi and Hualong.

Building our own consumer brand

The Company produces a wide and diverse variety of dried noodle products, with enhanced processing technologies at all of the production facilities. In 2008, the Company speeded up the development of the noodle production business, extended production chain, added value to our products and launched new categories to satisfy the changing tastes of consumers and the huge demand for quality foods. To maximize the brand potential, the Company now processes and produces noodle products in four series under Xiangxue (香雪) brand.

Xiangxue series and target consumers

Series	Target Group
Gift series	Consumers with distinctive characters
Noble series	High income families
Original series	White collars
Popular series	Mass market

Business Review

The latest overseas proprietary technologies are adopted in the production of noodles. The high added value resulted in a higher gross profit margin for the Company.

The distribution network of our noodle products covers a majority of provinces and cities in China, except the Xinjiang and Tibet autonomous regions. Leading customers in China include Carrefour, Wal-Mart, Loogoo, Wu Mart Vanguard and others. The Company's products are also exported to markets in the USA and Canada. As at the end of 2008, the Company had a total dried noodle production capacity of 59,700 metric tons.

Developing bread and cake business

With rising consumption and changing food and drink habits in China, the Company established a joint venture, COFCO TTC (Beijing) Foods Co., Ltd. ("COFCO TTC"), with Toyota Tsusho in 2008, to develop the bread business and produce Chinese and western styles of bread and cake as part of our long term strategic plan of extending our production chain. The Company diversified the distribution channels to include supermarkets and convenience stores. The Company supplied breads for 7-Eleven convenience stores to be sold under their own brands and also set up own counters in supermarkets as well as established business arrangements with companies, schools and other institutions. Currently, the Company sells bread products mainly to customers in Beijing and began supplying Starbuck shops in Shenyang and Dalian in February 2009 which will be expanded to other cities and provinces in the future. In line with

the continued pursuit of quality, the Company was successful at winning the trust of leading customers for the bread business. During the Beijing Olympics, the Company provided all freshly-baked bread for the opening and closing ceremonies, as well as supplied bread during the games. Moreover, the Company was cooperated with the Great Hall of the People to process moon cakes. COFCO TTC has an annual baking production capacity of 1,980 metric tons.

The Company also engages in the production and distribution of bran. Bran, a by-product in wheat processing, is what remains after the extraction of wheat endosperm. It is used as a gradient in feed for pigs, chicken, cattle and other livestock. Bran is also used as a food additive (bread, cakes, biscuits) and in the fermenting process of soy, vinegar and other seasonings in place of corn steep liquor. The Company has been selling bran through intermediaries to breeders and directly to large feed producers in high seasons.

The demand for quality flour and other flour products has been increasing in China with the rise in living standards. Although the flour industry in China has experienced oversupply, small scale producers with backward facilities were eliminated or integrated into larger enterprises, resulting in a healthier market environment for the Company. This has allowed us to develop and produce high end products with a higher profit margin. Through the strong nationwide brand, economies of scale, concern for food safety and continued investment in new technologies, we have been able to form a solid foundation on which to become an industry leader in the country.

Wheat processing capacity

Name of Plant	Location	Products	Production Capacity (metric ton'000)
COFCO Flour Industry (Qinhuangdao) Pangthai Co., Ltd.	Qinhuangdao, Hebei	Flour and bran	340
COFCO Flour Industry (Puyang) Co., Ltd.	Puyang, Henan	Flour and bran	110
Shenyang Xiangxue Flour Limited Liability Company	Shenyang, Liaoning	Flour and bran	180
Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd.	Dongda, Shenyang	Flour and bran	100
Xiamen Haijia Flour Mills Co., Ltd.	Xiamen, Fujian	Flour and bran	100
COFCO Flour Industry Foods (Dezhou) Co., Ltd.	Dezhou, Shandong	Flour and bran	170
Zhengzhou Haijia Food Co., Ltd.	Zhengzhou, Henan	Flour and bran	220
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.	Zhangjiagang, Jiangsu	Flour and bran	216
COFCO Flour Industry (Luohe) Co., Ltd.	Luohe, Henan	Flour and bran	150
Total Production Capacity			1,586

Business Review

Dried noodle capacity

Name of Plant	Location	Product	Production Capacity (metric ton'000)
COFCO Flour Industry (Puyang) Co., Ltd.	Puyang, Henan	Dried noodle	24
Shenyang Xiangxue Flour Limited Liability Company	Shenyang, Liaoning	Dried noodle	22.5
COFCO Flour Industry Foods (Dezhou) Co., Ltd.	Dezhou, Shandong	Dried noodle	7.2
Zhengzhou Haijia Food Co., Ltd.	Zhengzhou, Henan	Dried noodle	6
Total Production Capacity			59.7

Bakery capacity

Name of Plant	Location	Product	Production Capacity (metric ton'000)
COFCO TTC (Beijing) Foods Co., Ltd.	Beijing	Bread	1.98
Total Production Capacity			1.98

Q&A


Question 1: Why did China Agri start its own branded noodles in 2008 and expand into the bread and cake business?

Answer: In recent years, the noodle and cake business has developed rapidly in China, offering huge market potential. China Agri started its own branded noodles and expanded into the bread and cake business in 2008 in order to extend the wheat processing value chain and strengthen profitability. The result has been encouraging.

Question 2: Agricultural provinces experienced droughts in the previous months, and wheat production volumes declined as a result. Will the wheat processing business in 2009 be affected by rising costs caused by the shortage of wheat?

Answer: We have implemented a centralized purchasing strategy by establishing cooperative relationships with a large number of high quality suppliers, which has allowed us to lower our purchasing costs effectively. We also persist in following the B2B business model and are focusing on growing our premium customer base and entering into strategic cooperation agreements with them to shift the cost burden downstream. Therefore, the drought will not affect our business.

Products

Category	Product
<p>Wheat flour</p>	<p>Three major types of flour with different gluten levels: strong, medium and weak, produced for bread, dumplings, steamed buns, noodles and cake purposes.</p> <p>Products are under the Xiangsue (香雪) brand.</p> <p>Xiangsue Flour Main products include Prime Flour (極品雪花粉), Self-raising Flour (麥香自發粉), Bread Flour (家用麵包粉), Plain Flour (麥純富強粉), Whole-Wheat Flour (全麥粉) and Dumpling Flour (筋爽餃子粉).</p> <p>Xiangsue flour uses 100% premium imported wheat and the latest flour production technology. It is processed with the highest precision in a fully enclosed production environment. The flour has moderate gluten levels with fine texture, natural colour and a strong aroma.</p> <p><i>Prime Flour (極品雪花粉)</i> Exceptional quality for steaming with translucent, chewy and delectable textures.</p> <p><i>Self-raising Flour (麥香自發粉)</i> With quality yeast added, it meets all requirements for making steamed buns and bread. An ideal ingredient for cooking noodles at home.</p> <p><i>Bread Flour (家用麵包粉)</i> With strong gluten and a rich aroma, it has good baking characteristics and is ideal for baking bread at home.</p> <p><i>Plain Flour (麥純富強粉)</i> This flour has good steaming characteristics and is ideal for cooking at home. It has a strong wheat aroma and chewy texture.</p> <p><i>Whole-wheat Flour (全麥粉)</i> This high fiber, nutritious and healthy flour is ideal for cooking noodle dish at home.</p> <p><i>Dumpling Flour (筋爽餃子粉)</i> This flour meets all requirement for making Chinese dumplings. Chewy and translucent when cooked.</p> 

Business Review

Category	Product
Noodle	<p>Products are mainly sold under Xiangxue brand, with four series targeting different groups of consumers.</p> <p>Gift series: Consumers with distinctive Characters Noble series: High income families Original series: White collars Popular series: The mass market</p> <p>Xiangxue Noodles Main products include Buckwheat Noodle (蕎麥麵), Egg Noodle (雞蛋龍鬚麵), Yangchun Noodle (爽滑陽春麵), Spirulina Noodle (螺旋藻麵), Wheat Noodle (純麥筋爽麵) and High Gluten Noodle (高筋海撈麵).</p> <p>Xiangxue series noodles contain natural color, aroma and taste. They are nutritious, healthy and of high quality. The innovative technologies used have solved the limitation of thickness, cracking and short shelf life of traditional Chinese noodles. Various shapes, standards and texture of noodles are available to suit the preferences of different consumers. Products are also sold in North America, Japan, Korea and Southeast Asia.</p> <p><i>Buckwheat Noodle (蕎麥麵)</i> Characteristics: soft, delectable, easy multipurpose. Cooking method: noodles in soup.</p> <p><i>Egg Noodle (雞蛋龍鬚麵)</i> A high starch food containing nutrition from eggs to give more energy and replenish strength. Highly nutritious.</p> <p><i>Yangchun Noodle (爽滑陽春麵)</i> Characteristics: thin, smooth and delectable. Cooking method: mixing fried noodles and in soup.</p> <p><i>Spirulina Noodle (螺旋藻麵)</i> Selected original ecological spirulina from Chenghai Lake, Yunnan, one of the three largest wild spirulina areas in the world. It is added to high-quality specific flour for noodles and pure water from deep underground. The most advanced proprietary technology from Japan is used, ensuring preservation of the primary composition of spirulina.</p> <p><i>Wheat Noodle (純麥筋爽麵)</i> Characteristics: smooth, chewy Cooking method: mixing noodles, noodles with gravy and cool braised noodles.</p> <p><i>High Gluten Noodle (高筋海撈麵)</i> Characteristics: chewy, firm and stand continuous boiling and soaking. Cooking method: mixing noodles, noodles with gravy and cool braised noodles.</p>



Category	Product
Bread	<p>We produce a variety of freshly baked bread and cakes, including fruit bread, prepared bread, staple bread, puff bread and cakes, which are mainly sold under the Xiangxue brand.</p> <p>Xiangxue Bread Using purified air leaching technology, this bread meets international hygiene management standards.</p> <p>It uses pure water at the molecular level to protect bread from impurities such as heavy metals.</p> <p>Made from flour using 100% imported fine wheat, which have passed strict inspections.</p> <p>Baked with supreme technology that meets the international health trend.</p>



Quality control

Member companies in the Company's wheat processing business put a premium on product quality and implement the quality management concept and flow to ensure full control over the production process. The quality control system undergoes continuous improvement.

Shenyang Xiangxue Flour Company Limited Liability Company

Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

COFCO Industry (Qinhuangdao) Pangthai Co., Ltd.

Awarded ISO9001: 2000 International Quality Management system Certification, HACCP Food Safety System Certificate, ISO14001 Environmental Management System Certification, QS Certification and Export Hygiene Certifications.

COFCO Flour Industry (Dezhou) Co., Ltd.

Awarded ISO9000 Quality Management System, ISO14000 Environmental Management System, HACCP Food Safety System, QS Certification and Export Hygiene Certifications.

Zhengzhou Haijia Food Co., Ltd.

Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

Puyang COFCO Flour Industry Co. Ltd.

Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

COFCO Flour Industry (Luohe) Co., Ltd.

Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.

Awarded ISO9000 Quality Management System, ISO14000 Environmental Management System, ISO18000 Occupational Safety System, HACCP Food Safety System, QS and Export Hygiene Certifications.

Xiamen Haijia Flour Mills Co., Ltd.

Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS and Export Hygiene Certifications.

COFCO TTC (Beijing) Foods Co., Ltd.

Awarded ISO9000 Quality Management System, HACCP Food Safety System, QS Certifications.