Management Discussion and Analysis

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

Financial review

We are pleased to report the third consecutive year of robust financial performance of the Group. For the financial year ended 31 December 2008, the Group's revenue increased 44.8% year-on-year to HK$41,802.1 million, from HK$28,869.2 million in 2007, reflecting the growth in the sales volume and the impact of increasing prices. Our Group's profit attributable to the equity shareholders of the Company once again reached a record level of HK$2,624.9 million, representing a 138.6% increase from HK$1,100.4 million in 2007. This was achieved with the Group's moderate operations strategy and conservative hedging policy in the oilseed processing business operated effectively in the context of the significant fall in relevant commodity prices in the third quarter of 2008.

Out of the five major businesses, the oilseed processing unit remains the largest revenue generators of our Group. Its exceptional performance was mainly caused by robust demand for our edible oil and oilseed meal during the year. For the full year of 2008, oilseed processing business accounted for 65.9% of total revenue and 72.0% of segment results for the year, versus 67.2% and 49.6% in 2007, respectively.

Turnover of oilseed processing business rose 42.1% year-on-year in 2008 to HK$27,539.5 million. It was mainly due to the prices of our edible oils and oilseed meals increasing has over 2007. Since we import raw materials from overseas, we adjusted the prices of products according to the change of costs. Facing with worldwide fluctuation in prices of soft commodities in 2008, we also adjusted the prices accordingly and reduced the impact from fluctuating prices of raw materials by hedging, which improved the gross profit margin of the business to 11.5%, from 4.0% last year.

Turnover of rice trading and processing business rose 8.8% to HK$3,383.0 million mainly because we gripped the opportunity of rising prices in international market and transacted with high prices which resulting in an increase of gross margin from 12.7% to 22.8% in 2008. Domestic sales business developed rapidly, its business share and business scale had a larger increase comparing to last year. Rice unit became the third largest unit, in terms of the total operating results in 2008.

Operation in the biofuel and biochemical business, Guangxi Bio-Energy commenced in 2008, while companies COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd and COFCO Bio-Chemical Energy (Yushu) Co., Ltd operated for whole year, resulting in increase of 124.8% from last year to HK$5,824.5 million in the sales volume of biofuel and biochemical business. As the increase in costs was greater than the increase in income, the gross margin decreased, from 13.1% to 10.4%.

Jiangyin Phase I of our brewing materials business operated throughout 2008, with an operating scale increased of 62.3%, to HK$1,806.2 million. Under the impact of financial turmoil in second half of 2008, the consumption of beer increased slowly, and the competition of the industry was more violent. Decline in raw material prices lagged behind the drop in product prices, which resulted in decrease in gross margin from 27.6% to 17.1% for 2008.

Our advantages of scale and brand in our wheat processing business were fully exploited in 2008. Sales of wheat processing business increased 21.8%, to HK$3,248.9 million, due to adjustment of product structure, promotion of the extension of product chain, development of products with high additional value and expansion of market share. Gross margin was edged up from 6.4% a year earlier to 9.6%.

Group earnings

Operating profit (represented by segment result) was HK$4,524.8 million, representing an increase of 292.1% on a year-on-year basis.

Finance costs increased by 21.4%, to HK$389.0 million, during the year, fuelled by the increase in PRC borrowings costs, the increase in loans to finance working capital, and the new investment requirements.

Tax expense surged 3,364.8%, because our company had an increase in operations pre-tax profits, and the preferential tax policies for the subsidiaries of the company are expiring, such as tax credits for buying Mainland-made manufacturing equipment, tax credits and tax cuts for foreign-invested enterprises.

Liquidity and financial resources

As at 31 December 2008, the total assets of the Group amounted to HK$28,266.5 million (2007: HK$21,600.5 million). The equity attributable to equity holders of the Company was HK$13,602.4 million, a 30.8% rise from HK$10,400.3 million as at 31 December 2007.

In terms of available financial resources as at 31 December 2008, the Group had total available cash and bank deposits (including pledged deposits) of HK$4,958.0 million.

Interest-bearing borrowings (current) increased by HK$539.3 million, due mainly to the higher utilisation of bank borrowings for working capital, as a result of the rising commodity prices and higher sales volume of the Group. Out of the Group's total bank loans and other borrowings of HK$6,376.1 million, HK$5,220.1 million (approximately 81.9%) was repayable within one year and HK$1,156.0 million (approximately 18.1%) was repayable within two to five years. The Group's 69.6% of total bank loans and other borrowings, amounted to HK$4,440.4 millions are at fixed interest rates. As at 31 December 2008, the Group pledged assets with aggregate carrying value of HK$1,473.9 million (2007: HK$1,430.7 million) to secure bank loans and facilities of the Group.

As at 31 December 2008, the net gearing ratio for the Group was 10.4%, based on net debt of HK$1,418.1 million (representing the Group's interest-bearing bank and other borrowings less cash and cash equivalents and pledged deposits) and shareholders' equity of HK$13,602.4 million. The Group services its debts primarily with recurring cash flow generated from its stable operation. The Board is confident that the Group has adequate financial resources to support its working capital requirement, future expansion and meet its future debt repayment requirements.

The Group planned to centralise funding for all its operation at the Group level. This policy accomplishes better control of treasury operations and lower average funding cost. The Group uses derivative financial instruments, such as commodity futures contracts, to hedge its risks associated with price fluctuations in future purchases or sales of the related commodities.

Capital expenditures, commitments and contingencies

During the year ended 31 December 2008, the total capital expenditures were HK$1,065.3 million, of which HK$563.0 million (approximately 52.8%) was made by our biofuel and biochemical business, HK$104.7 million (approximately 9.8%) was made by our oilseed processing business, HK$313.1 million (approximately 29.4%) was made by our brewing materials business, HK$22.5 million (approximately 2.1%) was made by our wheat processing business, HK$61.7 million (approximately 5.8%) was made by our rice trading and processing business, and the remainder was for corporate and others.

Up to 31 December 2008, the future capital expenditure for property, plant and equipment which the Group had contracted but not provided for, and which the Group had authorized but not yet contracted, amounted to approximately HK$1,680.3 million. The capital commitments for investments were HK$556.2 million. Other than the commitments for commodity and currency forward contracts disclosed in note 37 to the financial statements under the sub-heading of "Other Commitments" on page 147, the Group had no material commitments or contingent liabilities.

Human resources

As at 31 December 2008, the Group employed 15,081 staff (2007: 14,177) of whom 3,602 (2007: 3,572) were employed in the oilseed processing business, 7,105 (2007: 6,583) in the biofuel and biochemical business, 726 (2007: 656) in the rice trading and processing business, 496 (2007: 436) in the brewing materials business and 3,075 (2007: 2,875) in the wheat processing business. The Group's employees are remunerated according to the nature of their jobs, individual performance and market trends, with built-in merit components. Total remuneration for the year ended 31 December 2008 was approximately HK$667.3 million (2007: approximately HK$465.6 million). Employees in Hong Kong receive retirement benefits, mostly in the form of a Mandatory Provident Fund entitlement, and a similar scheme is offered to employees in Mainland China. Of the total remuneration, pension scheme contribution amounted to approximately HK$44.0 million (2007: approximately HK$28.6 million).

Use of proceeds from the issue of new shares

The net proceeds from the issue of new shares were approximately HK$2,872 million, and approximately HK$1,307 million has been used for a number of projects.

Details of the use of proceeds are as follows:

	Planned amount HK$'million	Amount utilized up to 31 December 2008 HK$'million	Balance as at 31 December 2008 HK$'million
Capex for biofuel and biochemical business			
– Guangxi Zhuang Autonomous Region project	226	217	9
– Heilongjiang Zhaodong project	184	184	–
– Jilin Gongzhuling Biochemical project	226	209	17
– Eastern China Region Biochemical project	125	–	125
– Jilin Yushu Biochemical project phase I	108	108	–
– Jilin Yushu Biochemical project phase II	270	–	270
– Heilongjiang Longjiang Biochemical project	356	–	356
– Heilongjiang Suihua Biochemical project	356	–	356
Subtotal	**1,851**	**718**	**1,133**
Capex for oilseed processing business	**551**	**228**	**323**
Capex for rice trading and processing business	**172**	**102**	**70**
Capex for brewing materials business	**86**	**47**	**39**
Working capital	**212**	**212**	**–**
Grand total	**2,872**	**1,307**	**1,565**