Notes to the Financial Statements

31 December 2008

1. CORPORATE INFORMATION

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").

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 2008. 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 income, expenses and unrealised gains and loses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effects on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[*] Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are 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.

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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 interests 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 the acquisition of subsidiaries and associates represents the excess of the cost of the business combination, over the Group's interest in the fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

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 an 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 an impairment loss is credited to the income statement in the period in which it arises.

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 any of 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.

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%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least 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.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 policy 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.

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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 has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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.

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 are taken directly to the income statement as the Group does not adopt hedge accounting.

The fair value of forward currency contracts is determined using the rates quoted by the Group's bankers to terminate the contracts at the balance sheet date. The fair value of commodity future contracts is measured by reference to quoted market prices.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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) income from the sale of 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) storage income, on a time proportion basis over the lease terms;

(c) agency commission, when the significant risks and rewards of ownership have passed to the counterparty;

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(d) income 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) proceeds from the sales of investments, on the transaction dates when the relevant contract notes are exchanged; and

(h) 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.

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 the Black-Scholes-Merton option pricing model, further details of which are given in note 30 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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 scheme 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.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by either the relevant authorities or the local municipal governments of the provinces in Mainland China in which the Group's subsidiaries are located. The Group is required to contribute to the central pension 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 dates 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 JUDGEMENT AND 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.

Judgement

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends. The Group considered that if profits will not be distributed in the foreseeable future, then no withholding tax should be provided. As at 31 December 2008 the deferred tax liabilities arising thereon amounted to HK$119,786,000 (2007: Nil) as set out in note 28 to the financial statements.

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 2008 was HK$644,631,000 (2007: HK$620,443,000). More details are given in note 16.

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3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2008 was HK$57,223,000 (2007: HK$78,461,000). Further details are contained in note 28 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 that 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$16,222,000 (2007: HK$56,846,000) was recognised in the consolidated income statement for the year. The carrying amount of property, plant and equipment was HK$8,266,058,000 (2007: HK$7,373,787,000) as at 31 December 2008.

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 values 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$9,529,000 (2007: HK$10,865,000) was recognised in the consolidated income statement for the year. The aggregate carrying amount of accounts and bills receivable, and prepayments, deposits and other receivables as at 31 December 2008 was HK$4,578,900,000 (2007: HK$2,939,774,000).

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:

(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; and

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

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.

Notes to the Financial Statements

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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 2008 and 2007.

	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	Eliminations HK$'000	Total HK$'000
Year ended 31 December 2008								
Segment revenue:								
Sales to external customers	27,539,470	1,806,194	3,382,956	3,248,913	5,824,523	–	–	41,802,056
Intersegment sales	–	–	–	–	6,394	–	(6,394)	–
Other revenue	964,641	39,005	53,443	17,015	692,265	30,460	–	1,796,829
Segment results	3,257,819	199,242	479,992	103,944	555,501	(71,656)	–	4,524,842
Interest income								76,016
Gain on partial disposal of a subsidiary	–	–	–	–	3,368	–	–	3,368
Finance costs								(388,964)
Share of profits of associates	88,221	–	–	2,860	42,322	–	–	133,403
Profit before tax								4,348,665
Tax								(883,516)
Profit for the year								3,465,149
Assets and liabilities								
Segment assets	9,781,598	2,064,560	1,939,085	1,324,630	6,653,074	8,265,811	(8,462,519)	21,566,239
Interests in associates	1,170,978	–	–	61,733	362,984	–	–	1,595,695
Unallocated assets								5,104,594
Total assets								28,266,528
Segment liabilities	4,595,516	1,096,398	1,184,852	1,032,303	2,952,147	2,919,816	(8,462,519)	5,318,513
Unallocated liabilities								7,002,584
Total liabilities								12,321,097
Other segment information:								
Depreciation and amortisation	194,325	53,939	21,031	34,140	230,629	1,438	–	535,502
Impairment losses recognised/(reversed) in the consolidated income statement	24,080	(432)	488	4,266	(2,651)	–	–	25,751
Capital expenditure	104,686	313,056	61,745	22,498	562,991	328	–	1,065,304

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4. SEGMENT INFORMATION (continued)

	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	Eliminations HK$'000	Total HK$'000
Year ended 31 December 2007								
Segment revenue:								
Sales to external customers	19,386,808	1,112,559	3,110,086	2,668,472	2,591,319	–	–	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
Segment results	572,254	203,985	189,798	9,011	209,117	(28,732)	(1,424)	1,154,009
Interest income								173,679
Loss on disposal of subsidiaries	(1,917)	–	–	–	–	–	–	(1,917)
Finance costs								(320,416)
Share of profits of associates	244,094	–	–	2,609	22,865	–	–	269,568
Profit before tax								1,274,923
Tax								(25,500)
Profit for the year								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
Interests in associates	1,026,202	–	–	56,668	318,534	–	–	1,401,404
Unallocated assets								2,891,363
Total assets								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
Unallocated liabilities								5,935,945
Total liabilities								9,848,087
Other segment information:								
Depreciation and amortisation	182,167	39,971	14,777	31,639	106,714	56	–	375,324
Impairment losses recognised in the consolidated income statement	60,670	405	–	1,502	5,134	–	–	67,711
Capital expenditure	29,840	143,216	12,845	99,447	1,762,942	3,163	–	2,051,453

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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:

	2008 HK$'000	2007 HK$'000
Other income		
Agency commission	388,170	1,339
Bank interest income	76,016	173,679
Investment income from liquid investments	29,331	39,909
Government grants*	690,999	269,372
Compensation income	20,592	4,385
Logistic service and storage income	42,191	16,891
Tax refunds	35,098	14,577
Others	8,948	5,264
	1,291,345	525,416
Gains		
Gain on partial disposal of a subsidiary	3,368	–
Gain on disposal of raw materials, by-products and scrap items	–	39,028
Fair value gains on foreign currency forward contracts	38,831	8,232
Gain on foreign exchange, net	542,669	210,600
	584,868	257,860
	1,876,213	783,276

* Various government grants have been received for investments in certain provinces in Mainland China, 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 of the PRC for fuel ethanol producers, Zhaodong Bio-Energy and Guangxi Bio-Energy (as defined in note 39 to the financial statements) are entitled to a financial subsidy based on the quantity of fuel ethanol produced and sold. An amount of HK$608,280,000 (2007: HK$226,882,000) 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.

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6. PROFIT BEFORE TAX

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

	2008 HK$'000	2007 HK$'000
Cost of inventories sold	39,122,436	25,653,271
Write-down of inventories to net realisable value	270,319	4,284
Realised fair value (gains)/losses of derivative instruments	(3,247,626)	838,505
Unrealised fair value losses of derivative instruments	497,708	385,235
Cost of sales	36,642,837	26,881,295
Auditors' remuneration	5,150	4,578
Depreciation (note 14)	522,020	365,123
Amortisation of intangible assets (note 20)	1,642	–
Minimum lease payments under operating leases in respect of land, buildings and steel barrels	25,607	31,982
Recognition of prepaid land premiums (note 15)	11,840	10,201
Employee benefit expenses (excluding directors' remuneration (note 8)):		
Wages and salaries	597,836	424,243
Pension scheme contributions*	43,895	28,555
Equity-settled share option expense	16,312	5,708
	658,043	458,506
Loss on disposal of items of property, plant and equipment	8,384	1,122
Loss on disposal of subsidiaries (note 33)	–	1,917
Loss on disposal of raw materials, by-products and scrap items	11,932	–
Impairment of items of property, plant and equipment (note 14)	16,222	56,846
Impairment of accounts receivable (note 22)	8,561	2,997
Impairment of other receivables	968	7,868

* At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2007: Nil).

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7. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on:		
Bank loans wholly repayable within five years	**382,601**	317,289
Loans from a fellow subsidiary	**11,400**	9,385
Total interest expense on financial liabilities not at fair value through profit or loss	**394,001**	326,674
Less: Interest capitalised	**(8,432)**	(19,984)
	385,569	306,690
Other finance costs:		
Fair value loss on foreign currency forward contracts	**3,395**	13,726
	388,964	320,416

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	
	2008 HK$'000	2007 HK$'000
Fees:		
Independent non-executive directors	**920**	704
Executive directors and non-executive directors	**400**	349
	1,320	1,053
Other emoluments:		
Salaries, allowances and benefits in kind	**3,312**	3,778
Discretionary bonuses	**2,208**	1,320
Equity-settled share option expense	**2,332**	938
Pension scheme contributions	**72**	44
	7,924	6,080
	9,244	7,133

In prior year, certain directors were granted share options of the Company 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 30 to the financial statements. The fair value of the share 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 current and prior year is included in the above directors' remuneration disclosures.

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8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group 2008 HK$'000	Group 2007 HK$'000
Mr. Lam Wai Hon, Ambrose	310	244
Mr. Victor Yang	310	244
Mr. Patrick Vincent Vizzone	300	147
Mr. Shi Yuanchun	–	69
	920	704

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(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
2008						
Executive directors:						
Mr. Yu Xubo	–	1,200	800	418	24	2,442
Mr. Lu Jun	–	1,056	704	389	24	2,173
Mr. Yue Guojun	–	1,056	704	389	24	2,173
	–	3,312	2,208	1,196	72	6,788
Non-executive directors:						
Mr. Ning Gaoning	200	–	–	418	–	618
Mr. Chi Jingtao	100	–	–	359	–	459
Mr. Ma Wangjun	100	–	–	359	–	459
	400	–	–	1,136	–	1,536
	400	3,312	2,208	2,332	72	8,324
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

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2007: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2007: two) non-director, highest paid employees for the year are as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	2,118	1,816
Discretionary bonuses	936	730
Equity-settled share option expense	628	253
Pension scheme contributions	36	34
	3,718	2,833

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

	Number of employees	
	2008	2007
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	2	1
	2	2

In prior year, share options were granted to two non-director, highest paid employees, held share option of the Company in respect of their service to the Group, further the details of which are included in the disclosures in note 30 to the financial statements. The fair value of the share 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 and prior year was included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

Hong Kong profits has been provided at the rate of 16.5% (2007: Nil) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. 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.

	2008 HK$'000	2007 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	184,690	–
Current – Mainland China		
Charge for the year	643,506	217,121
Underprovision/(overprovision) provision in prior years	1,524	(3,497)
Investment tax credits	(52,674)	(85,518)
Deferred (note 28)	106,470	(102,606)
Total tax charge for the year	883,516	25,500

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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 – 2008

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	1,098,890		3,249,775		4,348,665	
Tax at the statutory tax rate	181,317	16.5	811,657	25.0	992,974	22.8
Lower tax rate for specific provinces or enacted by local authority *	–	–	(107,954)	(3.3)	(107,954)	(2.5)
Profit not subject to tax due to concessions **	–	–	(91,323)	(2.8)	(91,323)	(2.1)
Investment tax credit utilised during the year ***	–	–	(52,674)	(1.6)	(52,674)	(1.2)
Profits attributable to associates	–	–	(22,145)	(0.7)	(22,145)	(0.5)
Income not subject to tax	(9,600)	(0.9)	(7,172)	(0.2)	(16,772)	(0.3)
Expenses not deductible for tax	12,973	1.2	39,874	1.2	52,847	1.2
Effect on deferred tax of change in rates	–	–	1,323	–	1,323	–
Effect of withholding tax at 10% on the distribution profit of the Group's PRC subsidiaries	–	–	125,145	3.9	125,145	2.9
Adjustment in respect of current tax of previous periods	–	–	1,524	–	1,524	–
Tax losses utilised from previous periods	–	–	(600)	–	(600)	–
Tax losses not recognised	–	–	1,171	–	1,171	–
Tax charge at the Group's effective rate	184,690	16.8	698,826	21.5	883,516	20.3

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10. TAX (continued)

Group – 2007

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total 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 enacted by 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

* 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% for the year ended 31 December 2008. For the year ended 31 December 2008, enterprises were subject to corporate income tax ("CIT") at rate of 25% (2007: 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 subsequent three years.

*** Investment tax credit relating to direct investment in domestically manufactured property, plant and equipment was 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.

The share of tax attributable to associates amounting to HK$23,301,000 (2007: HK$22,386,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$19,255,000 (2007: profit of HK$136,736,000) which has been dealt with in the financial statements of the Company.

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12. DIVIDENDS

On 14 April 2009, the board of directors recommended a final dividend of a total of HK$524,624,000 with HK13.6 cents per ordinary share.

The amount of recommended dividend per ordinary share is calculated based on the number of 3,593,906,356 issued ordinary shares as at 31 December 2008 and the 263,626,483 ordinary shares to be issued by the end of April 2009 for the purpose of the acquisitions as mentioned in the announcement dated 17 February 2009.

The recommended final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. No dividend was declared by the Company for the year ended 31 December 2007.

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

The calculation of basic earnings per share amount for the year ended 31 December 2008 is based on the profit for the year attributable to ordinary equity holders of the Company of HK$2,624,937,000 (2007: HK$1,100,363,000), and the weighted average number of 3,593,906,356 ordinary shares (2007: 3,417,628,520 ordinary shares) in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. 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 follow:

Weighted average number of ordinary shares:

	Number of shares	
	2008	2007
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share	**3,593,906,356**	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	**3,593,906,356**	3,418,295,605

* Diluted earnings per share amount for the year ended 31 December 2008 has not been disclosed as there is an anti-dilutive effect.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant, machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2008				
At 31 December 2007 and at 1 January 2008:				
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
At 1 January 2008, net of accumulated depreciation and impairment	2,784,820	3,614,066	974,901	7,373,787
Additions	10,852	135,456	847,658	993,966
Acquisition of a subsidiary (note 32)	1,791	6,432	4	8,227
Impairment	(8,247)	(7,975)	–	(16,222)
Disposals	(4,885)	(35,381)	–	(40,266)
Depreciation provided during the year	(109,132)	(412,888)	–	(522,020)
Transfers	840,097	818,852	(1,658,949)	–
Exchange realignment	194,719	238,734	35,133	468,586
At 31 December 2008, net of accumulated depreciation and impairment	3,710,015	4,357,296	198,747	8,266,058
At 31 December 2008:				
Cost	4,384,903	6,606,760	198,747	11,190,410
Accumulated depreciation and impairment	(674,888)	(2,249,464)	–	(2,924,352)
Net carrying amount	3,710,015	4,357,296	198,747	8,266,058

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

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	(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 33)	–	(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

Notes to the Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Plant, machinery and equipment HK$'000
31 December 2008	
At 31 December 2007 and at 1 January 2008:	
Cost	**2,753**
Accumulated depreciation	**–**
Net carrying amount	**2,753**
At 1 January 2008, net of accumulated depreciation	**2,753**
Additions	**145**
Depreciation provided during the year	**(1,325)**
At 31 December 2008, net of accumulated depreciation	**1,573**
At 31 December 2008:	
Cost	**2,898**
Accumulated depreciation	**(1,325)**
Net carrying amount	**1,573**

	Plant, machinery and equipment HK$'000
31 December 2007	
Addition and balance at 31 December 2007, net of accumulated depreciation	2,753
At 31 December 2007:	
Cost	2,753
Accumulated depreciation	–
Net carrying amount	2,753

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

As at 31 December 2008, certain of the Group's property, plant and equipment with a net book value of approximately HK$1,406,004,000 (2007: HK$1,009,459,000) were pledged to secure banking facilities granted to the Group (note 27).

As at 31 December 2008, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net book value of approximately HK$622,384,000 (2007: HK$242,656,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

For the year ended 31 December 2008, an impairment loss was recognised in the income statement in respect of certain items of property, plant and equipment as a result of the dismantlement of an old factory. The recoverable amounts were based on those items' selling prices less cost to sell.

For the year ended 31 December 2007, an impairment loss 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 those items' scrap values.

15. PREPAID LAND PREMIUMS

	Group	
	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	443,400	379,273
Additions	47,887	45,917
Recognised during the year (note 6)	(11,840)	(10,201)
Exchange realignment	27,340	28,411
Carrying amount at 31 December	506,787	443,400
Current portion included in prepayments, deposits and other receivables	(12,085)	(10,473)
Non-current portion	494,702	432,927

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

As at 31 December 2008, certain of the Group's land use rights with a net book value of approximately HK$67,902,000 (2007: HK$69,112,000) were pledged to secure bank loans granted to the Group (note 27).

As at 31 December 2008, certificates of land use rights in respect of certain land of the Group in Mainland China with an aggregate net book value of HK$23,263,000 (2007: HK$21,022,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

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16. GOODWILL

	Group	
	2008	2007
	HK$'000	HK$'000
Cost and carrying amount at 1 January	620,443	584,806
Acquisition of a subsidiary (note 32)	1,070	–
Exchange realignment	23,118	35,637
Cost and carrying amount at 31 December	644,631	620,443

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 amount of the oilseed processing cash-generating unit is determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 12% and cash flows beyond the five-year period are extrapolated using a negative growth rate of 2% in perpetuity because of the long-term perspective within the Group of the business unit.

The recoverable amount of the rice trading and processing cash-generating unit is determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 11% and cash flows beyond the five-year period are extrapolated using a zero growth rate in perpetuity because of the long-term perspective within the Group of the business unit.

The recoverable amount of the biofuel and biochemical cash-generating unit is determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 13% and cash flows beyond the five-year period are extrapolated using a negative growth rate of 2% in perpetuity because of the long-term perspective within the Group of the business unit.

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	2008	2007
	HK$'000	HK$'000
Oilseed processing	116,124	116,124
Rice trading and processing	128,118	127,048
Biofuel and biochemical	397,206	374,088
Others	3,183	3,183
	644,631	620,443

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16. GOODWILL (continued)

Key assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2008 and 31 December 2007. 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 budget 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.

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.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**6,060,967**	6,060,967
Loans to subsidiaries	**1,252,116**	852,363
	7,313,083	6,913,330

The loans to subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and the Company does not expect to be repaid within the next 12 months. 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 the following, the amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed term of repayment:

(1) amounts due from subsidiaries of HK$680,000,000 (2007: HK$780,000,000), which are financing in nature and repayable within one year;

(2) an amount due from a subsidiary of HK$800,000,000 (2007: Nil), which is dividend receivable and repayable within one year; and

(3) an amount due from a subsidiary of HK$312,000,000 in 2007, which was repayable within one year and was subject to interest at a rate of 5.832% per annum.

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

Particulars of the Company's principal subsidiaries as at 31 December 2008 are set out in note 39 to the financial statements.

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18. INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	1,394,086	1,207,958
Goodwill on acquisition	28,356	28,356
	1,422,442	1,236,314
Loans to associates	173,253	165,090
	1,595,695	1,401,404

The loans to associates are capital in nature. The balances are unsecured, interest-free and the Company does not expect to be repaid within the next 12 months. 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.

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 amounts of goodwill allocated to each of the cash-generating units are as follows:

	2008	2007
	HK$'000	HK$'000
Oilseed processing	16,642	16,642
Biofuel and biochemical	11,714	11,714
	28,356	28,356

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 16 to the financial statements.

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18. INTERESTS IN ASSOCIATES (continued)

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

	2008 **HK$'000**	2007 HK$'000
Assets	**8,582,071**	7,971,797
Liabilities	**4,081,072**	4,202,418
Revenue	**20,818,552**	13,819,432
Profit	**393,518**	717,959

Particulars of the Group' principal associates as at 31 December 2008 are set out in note 40 to the financial statements.

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2008 **HK$'000**	2007 HK$'000
Unlisted equity investments outside Hong Kong, at cost	**9,621**	8,880

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.

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20. INTANGIBLE ASSETS

Group

	Golf club membership HK$'000	Others HK$'000	Total HK$'000
31 December 2008			
Cost at 1 January 2008, net of accumulated amortisation	**5,639**	**–**	**5,639**
Additions	**6,069**	**17,382**	**23,451**
Amortisation provided during the year	**–**	**(1,642)**	**(1,642)**
Exchange realignment	**537**	**504**	**1,041**
At 31 December 2008	**12,245**	**16,244**	**28,489**
At 31 December 2008:			
Cost	**12,245**	**17,886**	**30,131**
Accumulated amortisation	**–**	**(1,642)**	**(1,642)**
Net carrying amount	**12,245**	**16,244**	**28,489**
31 December 2007			
Additions	5,639	–	5,639
At 31 December 2007	5,639	–	5,639
At 31 December 2007:			
Cost	5,639	–	5,639
Accumulated amortisation	–	–	–
Net carrying amount	5,639	–	5,639

21. INVENTORIES

	Group 2008 HK$'000	Group 2007 HK$'000
Raw materials	**3,441,674**	1,639,814
Work in progress	**149,967**	95,855
Finished goods	**1,657,037**	1,820,764
	5,248,678	3,556,433

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22. ACCOUNTS AND BILLS RECEIVABLE

	Group 2008 HK$'000	2007 HK$'000
Accounts and bills receivable	**1,867,366**	1,552,280
Impairment	**(13,806)**	(5,616)
	1,853,560	1,546,664

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 receivable 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 receivable at the balance sheet date, based on the invoice date and bill issued date and net of impairment, is as follows:

	Group 2008 HK$'000	2007 HK$'000
Outstanding balances with ages:		
Within 3 months	**1,572,818**	1,408,224
3 to 12 months	**280,618**	135,226
1 to 2 years	**124**	3,214
	1,853,560	1,546,664

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22. ACCOUNTS AND BILLS RECEIVABLE (continued)

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

	Group	
	2008 HK$'000	2007 HK$'000
At 1 January	5,616	2,602
Impairment losses recognised (note 6)	8,561	2,997
Amount written off as uncollectible	(942)	(22)
Exchange realignment	571	39
	13,806	5,616

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 receivable that are not considered to be impaired is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Outstanding balances with ages:		
Neither past due nor impaired	1,826,919	1,529,611
Less than 1 month past due	8,839	4,613
1 to 3 months past due	17,678	9,226
More than 3 months but less than 12 months past due	124	3,214
	1,853,560	1,546,664

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.

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23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2008		Group 2007	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
Commodity future contracts	575	500,217	–	398,142
Foreign currency forward contracts	372	6,717	8,531	14,226
	947	506,934	8,531	412,368

The Group has entered into various commodity future contracts to manage its price exposures in future purchases or sales of soybean, soybean meal, barley and corn. The Group does not adopt hedge accounting. Net fair value gain on derivative financial instruments of HK$2,749,918,000 (2007: net losses of HK$1,223,740,000) was credited/charged to the income statement during the year.

In addition, the Group has entered into various foreign currency forward contracts to manage its exchange rate exposures. Net fair value gain of such currency derivatives amounting to HK$35,436,000 (2007: net losses of HK$5,494,000) was credited/charged to the income statement during the year.

24. LIQUID INVESTMENTS

As at 31 December 2007, the Group and the Company placed an aggregate amount of approximately HK$857,157,000 with a money market fund managed by a creditworthy international financial institution. The amount was highly liquid, readily convertible into known amounts of cash and was subject to an insignificant risk of changes in value. The liquid investments had a short maturity of one day when acquired, and formed an integral part of the Group's and the Company's cash management and were stated at fair value as at 31 December 2007. Such investments were fully disposed of during the year ended 31 December 2008.

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25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**3,728,613**	2,323,193	**63,198**	210,439
Time deposits	**1,229,339**	428,811	**1,066,806**	–
	4,957,952	2,752,004	**1,130,004**	210,439
Less: Pledged deposits:				
Pledged for short term bank loans (note 27)	**–**	(304,670)	**–**	–
Pledged for bank credit facilities	**(63,517)**	(17,848)	**–**	–
Cash and cash equivalents	**4,894,435**	2,429,486	**1,130,004**	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$3,292,374,000 (2007: HK$2,492,196,000). 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.

26. ACCOUNTS AND BILLS PAYABLE

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

	Group	
	2008	2007
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 3 months	**2,022,663**	1,324,436
3 to 12 months	**44,374**	121,711
1 to 2 years	**3,139**	963
Over 2 years	**1,478**	527
	2,071,654	1,447,637

The accounts and bills payable are non-interest-bearing and are normally settled on one to three months.

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2008			2007		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	1.97-5.81	2009	1,112,884	5.26-7.29	2008	1,308,518
Bank loans – unsecured	1.51-7.98	2009	3,795,248	5.26-6.58	2008	3,294,292
Other loans – unsecured	LIBOR + 1.08	2009	312,000	LIBOR + 0.446	2008	78,000
			5,220,132			4,680,810
Non-current						
Bank loans – secured	BLR-10%	2013	22,007	5.67-6.97	2009-2012	–
Bank loans – unsecured	BLR-10%	2011-2012	1,133,915	5.67-6.97	2009-2012	1,137,334
			1,155,922			1,137,334
			6,376,054			5,818,144

	2008 HK$'000	2007 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	4,908,132	4,602,810
In the second year	–	331,055
In the third to fifth years, inclusive	1,155,922	806,279
	6,064,054	5,740,144
Other loans repayable: #		
Within one year or on demand	312,000	78,000
	6,376,054	5,818,144

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

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

(i) certain property, plant and equipment of the Group with a net book value of approximately HK$1,406,004,000 (2007: HK$1,009,459,000) (note 14);

(ii) certain land use rights of the Group with a net book value of approximately HK$67,902,000 (2007: HK$69,112,000) (note 15);

(iii) a pledge of certain of the Group's time deposits amounting to HK$304,670,000 in 2007 (note 25); and

(iv) certain inventory of the Group amounting to HK$47,411,000 in 2007.

(b) Except for bank and other borrowings of HK$3,575,068,000 (2007: HK$2,735,650,000) which are denominated in United States dollars, all borrowings are in RMB.

The other loans represented loans due to a fellow subsidiary.

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

28. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

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 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 and at 1 January 2008	884	3,282	74,308	26,672	105,146
Deferred tax credited/(charged) to the income statement during the year (note 10)	**47,472**	**1,075**	**(61,214)**	**26,149**	**13,482**
Exchange realignment	**1,525**	**236**	**2,697**	**2,458**	**6,916**
Gross deferred tax assets at 31 December 2008	**49,881**	**4,593**	**15,791**	**55,279**	**125,544**

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28. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	Accelerated tax depreciation HK$'000	Deferred income HK$'000	Unrealised gain on derivative financial instruments HK$'000	Withholding tax HK$'000	Others HK$'000	Total HK$'000
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 and at 1 January 2008	11,714	7,541	2,134	–	–	21,389
Deferred tax (credited)/charged to the income statement during the year (note 10)	(3,458)	5,553	(1,967)	119,786	38	119,952
Exchange realignment	618	639	71	–	–	1,328
Gross deferred tax liabilities at 31 December 2008	8,874	13,733	238	119,786	38	142,669

For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2008 HK$'000	2007 HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	122,851	105,146
Net deferred tax liabilities recognised in the consolidated balance sheet	(139,976)	(21,389)
	(17,125)	83,757

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28. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

The Group has tax losses arising in Mainland China of HK$57,223,000 (2007: HK$78,461,000) that are available for offsetting against future taxable profits for 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.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

Shares

	2008 HK$'000	2007 HK$'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 ordinary shares of HK$0.1 each	359,391	359,391

The following changes in the Company's issued share capital took place during current and prior year:

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
Issued:			
At 1 January 2007		10	–
Issued on acquisition of China Agri-Industries Limited	(i)	2,791,383,346	279,138
Issue of new shares	(ii)	697,846,000	69,785
Issue of new shares	(iii)	104,677,000	10,468
As at 31 December 2007 and at 31 December 2008		3,593,906,356	359,391

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29. SHARE CAPITAL(continued)

Shares (continued)

Notes:

(i) On 10 January 2007, pursuant to the reorganisation, the Company acquired from China Foods Limited the entire issued share capital in China Agri-Industries Limited, a limited liability company incorporated in Bermuda, 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. Further details of the reorganisation are set out in the Company's listing prospectus dated 8 March 2007 (the "Prospectus").

(ii) 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.

(iii) 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 exercised the over-allotment option and accordingly, 104,677,000 new shares of HK$0.1 each were 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 30 to the financial statements.

30. 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 and under 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 shareholders 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.

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, but may not be less than 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; or the nominal value of a share.

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 vested in a period from 7 August 2007 to 6 August 2011 and had an exercise price of HK$4.666 per share and an exercise period from 7 August 2009 to 6 August 2014. The price of the Company's shares at the date of grant was HK$4.50 per share.

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30. SHARE OPTION SCHEME (continued)

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

	2008		2007	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	4.666	27,600	–	–
Granted during the year	–	–	4.666	27,600
Forfeited during the year	4.666	(230)	–	–
At 31 December	4.666	27,370	4.666	27,600

The vesting periods, exercise price and exercise periods of the share options outstanding as at balance sheet date are as follows:

2008

Number of options granted to Directors '000	Number of options granted to Employees '000	Total '000	Vesting period	Exercise price per share HK$	Exercise period
1,300	7,824	9,124	7-8-2007 to 6-8-2009	4.666	7-8-2009 to 6-8-2014
1,300	7,822	9,122	7-8-2007 to 6-8-2010	4.666	7-8-2010 to 6-8-2014
1,300	7,824	9,124	7-8-2007 to 6-8-2011	4.666	7-8-2011 to 6-8-2014
3,900	23,470	27,370			

2007

Number of options granted to Directors '000	Number of options granted to Employees '000	Total '000	Vesting period	Exercise price per share HK$	Exercise period
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			

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30. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year ended 31 December 2007 was approximately HK$45,700,000 (HK$1.656 each) of which the Company recognised a share option expense of HK$16,312,000 during the year ended 31 December 2008 (2007: HK$6,647,000). There is no share options granted during the year ended 31 December 2008.

The fair value of equity-settled share options granted during the year ended 31 December 2007 was estimated as at the date of grant, using the Black-Scholes-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.

At balance sheet date, the Company had 27,370,000 (2007: 27,600,000) share options outstanding under the Scheme. The options outstanding at balance sheet date had a remaining contractual life of 5.59 years (2007: 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 27,370,000 (2007: 27,600,000) additional ordinary shares of the Company and additional share capital of HK$2,737,000 (2007: HK$2,760,000) and share premium of HK$124,971,420 (2007: HK$126,021,600) (before issue expenses).

At the date of the approval of these financial statements, the shares issuable from the above outstanding share options represented approximately 0.76% of the Company's shares in issue as at that date.

31. 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.

The Group's capital reserve represents the difference between the nominal value of the shares/capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares on 21 March 2007 over the nominal value of the Company's shares issued in exchange therefor.

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.

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31. RESERVES (continued)

(b) Company

	Notes	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2007		–	–	–	(3,123)	(3,123)
Issue of shares	29	2,905,133	–	–	–	2,905,133
Share issue expenses		(158,834)	–	–	–	(158,834)
Acquisition of China-Agri Industries Limited		–	5,689,788	–	–	5,689,788
Equity-settled share option arrangements	30	–	–	6,647	–	6,647
Profit for the year		–	–	–	165,565	165,565
At 31 December 2007 and at 1 January 2008		2,746,299	5,689,788	6,647	162,442	8,605,176
Equity-settled share option arrangements	30	–	–	16,312	–	16,312
Profit for the year		–	–	–	1,282,939	1,282,939
Proposed final 2008 dividend	12	–	–	–	(524,624)	(524,624)
At 31 December 2008		2,746,299	5,689,788	22,959	920,757	9,379,803

The Company's capital reserve represents the excess of carrying amount of China Agri-Industries Limited acquired pursuant to the Group reorganisation prior to the listing of the Company's shares on 21 March 2007 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.

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32. BUSINESS COMBINATION

On 11 March 2008, the date of acquisition, the Group acquired the entire equity interest in Dalian Bainong Rice Processing Limited, which subsequently changed name to COFCO Dalian Rice Processing Limited, from independent third parties. COFCO Dalian Rice Processing Limited is engaged in the processing and sale of rice business.

The fair values of the identifiable assets and liabilities of COFCO Dalian Rice Processing Limited 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 14)	8,227	7,534
Inventories	31,763	31,763
Accounts and bills receivable	11,622	11,622
Prepayments, deposits and other receivables	311	311
Cash and bank balances	6,345	6,345
Accounts payable	(33,353)	(33,353)
Other payables and accruals	(13,622)	(13,622)
	11,293	10,600
Goodwill on acquisition (note 16)	1,070	
	12,363	
Satisfied by:		
Cash	12,363	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	HK$'000
Cash consideration	(12,363)
Cash and bank balances acquired	6,345
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	(6,018)

Since the acquisition date, the subsidiary contributed HK$275,296,000 to the Group's revenue and HK$21,831,000 to the Group's consolidated profit for the year.

Had the combination taken place at the beginning of the year, the revenue from continuing operation of the Group and the profit of the Group for the year would have been HK$41,810,980,000 and HK$3,465,917,000, respectively.

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33. DISPOSAL OF SUBSIDIARIES

	2008 HK$'000	2007 HK$'000
Net assets disposed of:		
Property, plant and equipment (note 14)	–	1,348
Inventories	–	1,508
Accounts and bills receivable	–	3,073
Prepayments, deposits and other receivables	–	1,284
Due from associates	–	153
Due from fellow subsidiaries	–	1,100
Cash and bank balances	–	3,523
Accounts and bills payable	–	(1,176)
Other payables and accruals	–	(2,929)
Tax payable	–	(1,299)
Minority interests	–	(414)
	–	6,171
Loss on disposal of subsidiaries (note 6)	–	(1,917)
	–	4,254
Satisfied by:		
Cash	–	4,254

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2008 HK$'000	2007 HK$'000
Cash consideration	–	4,254
Cash and bank balances disposed of	–	(3,523)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	731

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34. 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 eleven years and those for steel barrels for terms ranging from one to nine years.

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

	2008 HK$'000	2007 HK$'000
Within one year	**9,907**	18,311
In the second to fifth years, inclusive	**9,327**	15,562
After five years	**612**	748
	19,846	34,621

35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2008 HK$'000	2007 HK$'000
Guarantees given to banks in connection with facilities granted to a subsidiary	**3,892,200**	302,263

As at 31 December 2008, the banking facilities granted to a subsidiary subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$406,998,000 (2007: HK$2,622,000).

36. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the balance sheet date:

	2008 HK$'000	2007 HK$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**1,451,580**	215,240
Contracted, but not provided for	**228,749**	659,837
	1,680,329	875,077
Capital commitments in respect of investments:		
Authorised, but not contracted for	**556,151**	–

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37. OTHER COMMITMENTS

Commitments under commodity future contracts:

	2008 HK$'000	2007 HK$'000
Sales of soybean meal	89,120	2,454,224
Sales of soybean	2,822,679	1,998,356
Sales of soybean oil	1,858,913	636,752
Sales of rapeseed oil	229,956	90,855
Sales of palm oil	727,351	–
Sales of wheat	–	4,838
	5,728,019	5,185,025
Purchases of soybean	–	121,753
Purchases of corn	51,880	540,966
	51,880	662,719

Commitments under foreign currency forward contracts:

	2008 HK$'000	2007 HK$'000
Sales of United States dollars	1,266,360	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 (2007: Nil).

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38. 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	2008 HK$'000	2007 HK$'000
Transactions with fellow subsidiaries:			
Sales of goods**	(i)	7,293,549	3,495,892
Purchases of goods**	(i)	1,827,679	850,990
Operating lease rental paid**	(i)	11,223	11,247
Interest expense	(ii)	11,400	9,385
Commission paid	(i)	–	209
Building management fee paid	(i)	418	191
Brokerage fee paid**	(i)	31,000	14,762
Processing service fee paid*	(i)	–	7,223
Logistic service and storage income	(i)	5,666	–
Disposal of assets	(i)	3,300	–
Transactions with the ultimate holding company:			
Sales of goods*	(i)	246	1,701
Purchases of goods*	(i)	9,863,906	191,165
Operating lease rental received	(i)	–	1,712
Agency income*	(iii)	383,075	–
Logistic service and storage income*	(i)	97,964	–
Transactions with associates:			
Sales of goods**	(i)	570,490	241,566
Purchases of goods**	(i)	86,452	77,989
Purchases of steel barrels	(i)	–	24,494
Agency income*	(i)	110	–
Transactions with related companies: #			
Sales of goods**	(i)	1,034,039	160,248
Purchases of goods**	(i)	2,725,514	9,094,559
Transactions with minority shareholders of subsidiaries:			
Sales of goods**	(i)	144,519	–
Purchases of goods*	(i)	44,034	22,536

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

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

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

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38. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(i) Except for the transactions with a fellow subsidiary for sales of goods of HK$15,475,000 (2007: Nil) and with an associate for sales of goods of HK$103,871,000 (2007: Nil), which were carried out at cost, other 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 a fellow subsidiary, which were unsecured, bore interest at rates of LIBOR+1.08 per annum (2007: LIBOR+0.446 per annum).

(iii) As disclosed in the Company's announcement dated 21 August 2008, on 1 February 2008, the Group entered into an agency agreement with COFCO pursuant to which the Group engaged in providing import agency services in respect of purchasing certain raw materials for COFCO. The agency fee is calculated at 1% of the total offered contract prices by COFCO of the goods purchased, but subject to agency fee adjustment.

(b) Outstanding balances with related parties

Except for the following, the balances with the ultimate holding company, fellow subsidiaries, related companies, 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$312,000,000 (2007: HK$78,000,000), which bore interest at rate of LIBOR+1.08 per annum;

(2) amounts due to minority shareholders of subsidiaries of HK$129,476,000 (2007: HK$119,312,000), which are financing in nature and are not repayable within one year from the balance sheet date.

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

(c) Compensation of key management personnel of the Group

	2008 HK$'000	2007 HK$'000
Short term employee benefits	17,877	15,087
Post-employment benefits	310	257
Equity-settled share option expense	5,113	2,059
Total compensation paid to key management personnel	23,300	17,403

(d) 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 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 or unduly affected by the fact that the Group and those Stated-owned Enterprises are ultimately controlled or owned by the 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 requires separate disclosure.

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2008 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
COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. (formerly known as 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
COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd. (formerly known as Yellowsea Oils & Grains Industries (Shandong) Co., Ltd) **	The PRC/ Mainland China	US$47,773,776	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. **	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$25,420,000	100	Production and sale of edible oil
張家港保税區中糧四海豐貿易有限公司 ***	The PRC/ Mainland China	RMB10,000,000	57.43	Trading of soybean

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2008 are as follows: (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 Excel Joy (Tianjin) Co., Ltd**	The PRC/ Mainland China	US$11,423,550	100	Under construction
COFCO Malt Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
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 Malt (Hulunbeier) Co., Ltd **	The PRC/ Mainland China	US$6,000,000	100	Under construction
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 Dalian Rice Processing Limited **	The PRC/ Mainland China	RMB90,000,000	100	Trading and processing of rice
COFCO Biofuel Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
Techbo Limited	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. ***	The PRC/ Mainland China	RMB5,000,000	65	Wine brewery
Guangxi COFCO Bio-Energy Co., Ltd. ("Guangxi Bio-Energy")*	The PRC/ Mainland China	US$40,205,980	85	Production and sale of biofuel and biochemical

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2008 are as follows: (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 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
Jilin COFCO Bio-Chemical Energy Sales and Distributions Co., Ltd. ***	The PRC/ Mainland China	RMB10,000,000	100	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. **	The PRC/ Mainland China	RMB35,000,000	80	Production and sale of wheat products
COFCO Flour Industry Foods (Dezhou) Co., Ltd. *	The PRC/ Mainland China	RMB43,533,000	55	Production and sale of wheat products
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	95	Production and sale of wheat products
COFCO Flour Marketing Management (Beijing) Co., Ltd. ***	The PRC/ Mainland China	RMB2,800,000	100	Sale of wheat products

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2008 are as follows: (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
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 World 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
*** Domestic-funded enterprises

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, 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.

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40. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates as at 31 December 2008 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, and refining 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
COFCO Northsea Oils & Grains Industries (Tianjin) Co., Ltd. (formerly known as 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 Southeast 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.

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41. 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$947,000 (2007: HK$865,688,000) which represent 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, which represent the liquid investment amounting to nil (2007: HK$857,157,000), has been disclosed on the Company's balance sheet and the relevant note to the financial statements.

The carrying amount of loans and receivables of the Group with an aggregate amount of HK$11,334,343,000 (2007: HK$6,684,725,000) including due from and loans to associates, accounts and bills receivable, an aggregate amount of HK$2,091,185,000 (2007: HK$731,261,000) 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$4,309,634,000 (2007: HK$2,156,019,000) 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 amounting to HK$9,621,000 (2007: HK$8,880,000) has been disclosed on the consolidated balance sheet and the 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, which represent derivative financial instruments, amounting to HK$506,934,000 (2007: HK$412,368,000), has been disclosed on the consolidated balance sheet and the relevant note to the financial statements.

The carrying amount of financial liabilities at amortised cost of the Group with an aggregate amount of HK$10,454,638,000 (2007:HK$7,569,828,000) including, accounts and bills payable, an aggregate amount of HK$1,215,632,000 (2007: HK$1,132,919,000) included in other payables and accruals, interest-bearing bank and other borrowings, amounts due to fellow subsidiaries, an amount due to the ultimate holding company, an 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.

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42. 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 pledged 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 foreign currency forward contracts and commodity future contracts for the purpose to hedge its risks associated with foreign currency fluctuations and with price fluctuations in future purchases or sales of the related commodities. The Group's 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. 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 27. It is the Group's policy to negotiate the terms of the interest-bearing and other borrowings in order to minimise the respective finance cost. It is also the Group's policy not to use 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
2008			
	100	**(22,930)**	**(18,670)**
	(100)	**22,930**	**18,670**

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42. 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 16% (2007: 12%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 66% (2007: 54%) of cost are denominated in the units' functional currency. The Group partially hedge purchases and sales that are denominated 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**	**(Decrease)/ increase in equity**
	%	HK$'000	HK$'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
2008			
If Renminbi weakens against Hong Kong dollar	**5**	**–**	**(389,536)**
If Renminbi strengthens against Hong Kong dollar	**(5)**	**–**	**389,536**
If Renminbi weakens against United States dollar	**5**	**(313,913)**	**(255,593)**
If Renminbi strengthens against United States dollar	**(5)**	**313,913**	**255,593**

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profits before tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rates 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.

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42. 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, an amount due to the ultimate holding company, an 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 23, 27, 38, 18 to the financial statements. For accounts and bills payable, they are generally on credit terms of one to three months after the invoice date and the bill issued date. For the financial liabilities amounting to HK$1,215,632,000 (2007: HK$1,132,919,000) that are included in the items of other payables and accruals on the consolidated balance sheet, there are generally no specified contractual maturities, and they are paid on a regular basis or upon counterparty's formal notification.

Market price risk

The raw material costs and product selling prices of the Group's edible oil, soybean meal and other related commodity products are substantially correlated to the prices of the 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 the Group's major raw material 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
2008			
Soybean	**5**	**647,002**	**525,220**
Corn	**5**	**210,414**	**162,751**
Rice	**5**	**117,568**	**100,214**
Barley	**5**	**68,233**	**61,715**
Wheat	**5**	**125,509**	**109,396**

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42. 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the 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 for managing capital during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by the shareholders' equity. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents, pledged deposits and liquid investments. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Interest-bearing bank and other borrowings	**6,376,054**	5,818,144
Less: Cash and cash equivalents	**(4,894,435)**	(2,429,486)
Pledged deposits	**(63,517)**	(322,518)
Liquid investments	**–**	(857,157)
Net debt	**1,418,102**	2,208,983
Equity attributable to equity holders of the Company	**13,602,422**	10,400,271
Gearing ratio	**10.4%**	21.2%

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43. POST BALANCE SHEET EVENTS

(a) On 17 February 2009, the Group proposed to enter into five purchase agreements with COFCO HK and its subsidiary to acquire the 100% equity interests of four subsidiaries engaging in the business of food processing and certain property, plant and equipment for an aggregate consideration of HK$972,782,000 and HK$127,893,000, respectively. The total consideration will be satisfied by the issuance and allotment of an aggregate amount of 263,626,483 ordinary shares and a cash of HK$127,893,000, respectively, to COFCO HK.

Further details of these acquisitions were disclosed by the Company in the announcement dated 17 February 2009. Because these acquisitions had not yet completed up to the date of approval of these financial statements, it is not practicable to disclose further details about these acquisitions.

(b) On 6 February 2009, 26 February 2009, 16 March 2009, and 7 April 2009, the Company announced to establish certain joint venture companies with COFCO with total capital contribution by the Company of RMB546,590,000 (approximately to HK$619,787,000). Further details of these establishments were disclosed by the Company in the announcement dated 6 February 2009, 26 February 2009, 16 March 2009, and 7 April 2009, respectively.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2009.