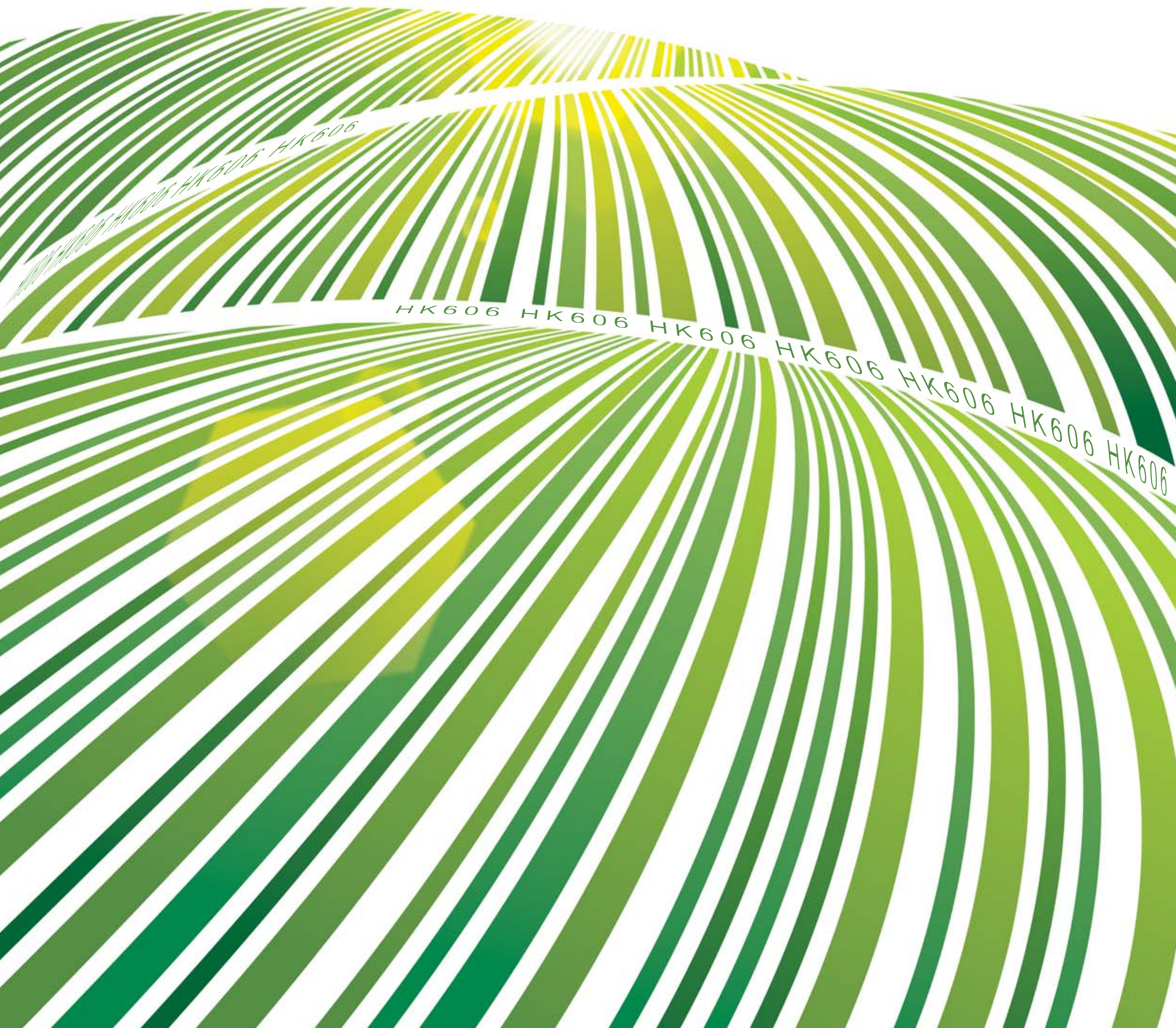
2010 ANNUAL REPORT

CHINA AGRI-INDUSTRIES HOLDINGS LIMITED
中國糧油控股有限公司

Stock Code: 606

中粮
COFCO
自然之源 重塑你我

Excellent food chain, quality products



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2010
ANNUAL REPORT
年度業績報告

China Agri-Industries Holdings Limited

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Excellent food chain, quality products

China Agri at a glance

Company Information	Oilseeds processing business	Biofuel and biochemical business
Market position	One of the largest edible oil and oilseeds meal producers in China	A leading fuel ethanol producer and one of the largest corn processing manufacturers in China
Major products	Soybean oil, palm oil, rapeseed oil and oilseeds meals	Biofuel: Fuel ethanol, consumable ethanol, anhydrous ethanol, crude corn oil and corn DDGS Biochemical: Corn starch, sweeteners and feed ingredients
Major brands	Fuzhanggui (福掌柜), Sihai (四海), Xiyingying (喜盈盈) and Guhua (谷花)	
		
2010 Performance		
Operating Highlights	Sales of edible oil grew further as a result of broadened sales channels in order to ensure seamless supply of products to meet the needs of key customers To ensure continued stability of raw material supply, we have widened our sourcing channels by strengthening cooperation with multinational suppliers. We judiciously entered into hedging arrangements for raw materials and related products in order to manage the inherent risks associated with the price volatility of raw materials and related products	Biofuel business remained stable, while sales of fuel ethanol were bolstered by enhanced operational efficiency and proactive communications with key customers Biochemical business recorded solid growth in sales. The brisk demand for biochemical products enabled a prompt pass through of cost increments to downstream customers
Revenue	HK$32,992.1 million	HK$10,131.4 million
GP Margin	1.7%	13.2%
OP Margin	0.7%	9.1%
2011 Outlook		
Mission for Year 2011	Continue to enlarge our market share by optimising our strategic layout, expanding our operations and strengthening our brand equity, while managing the process of our new projects to ensure production will commence as planned	With an objective to enrich product mix and expand high value-added product offerings, we will align our research and development efforts with market needs in order to fulfill the different requirements of our customers

Rice trading and processing business	Wheat processing business	Brewing materials business
China's largest rice exporter and leading supplier of packaged rice	One of the largest wheat processing manufacturers in China	A leading brewing material supplier in China
White rice and parboiled rice	Flour, noodles and bread	Malt
Fortune (福临门), Jinying (金盈), Five Lakes (五湖), Golden Terra (金地), Xin (薪) and Donghai Mingzhu (东海明珠)	Fortune (福临门) and Xiangxue (香雪)	
		
Shifted our focus to domestic sales and dedicated efforts to build up our market share in the consumer-pack sector. Maintained our competitive position as the nation's No. 1 rice brand Thanks to strong business acumen and an effective pricing strategy, we were able to maintain our prominent leadership position in China's rice export industry and strengthen our market share in core markets	Through an integrated operation and a sophisticated management system, we were able to exercise stringent cost control and continued to optimise customer base and product mix. As a result, sales grew further	Capitalising on the sales opportunities arising from vigorous demands led by fallen material prices during the year, the business posted a record high in sales volume
HK$4,319.6 million	HK$4,394.2 million	HK$1,654.5 million
12.6%	9.0%	21.3%
(0.4%)	3.4%	14.7%
Strive to broaden our distribution channels, increase brand awareness and win more market share in the domestic market	Focus on the development of high value-added products in order to meet the market needs and provide customers with one-stop solutions	To capture greater market share through further optimising our product mix and improving our customer service

Contents

Corporate Information

Corporate Information

Directors

Chairman of the Board and Non-executive Director

NING Gaoning

Executive Directors

YU Xubo *(Managing Director)*
LU Jun *(Vice President)*
YUE Guojun *(Vice President)*

Non-executive Directors

CHI Jingtao*
MA Wangjun
WANG Zhiying**

Independent Non-executive Directors

LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Audit Committee

LAM Wai Hon, Ambrose *(Chairman)*
Victor YANG
CHI Jingtao*
MA Wangjun
WANG Zhiying**
Patrick Vincent VIZZONE

Remuneration Committee

CHI Jingtao* *(Chairman)*
WANG Zhiying** *(Chairman)*
MA Wangjun
LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Nomination Committee

NING Gaoning *(Chairman)*
CHI Jingtao*
WANG Zhiying**
LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Executive Committee

YU Xubo *(Chairman)*
LU Jun
YUE Guojun

Qualified Accountant

CHAN Ka Lai, Vanessa

Company Secretary

LOOK Pui Fan

Auditors

Ernst & Young
Certified Public Accountants

Legal Advisor

Herbert Smith LLP

Principal Bankers

Industrial and Commercial Bank of China Limited

China Construction Bank Corporation

Bank of China Limited

Agricultural Bank of China Limited

Rabobank International (Hong Kong Branch)

Bank of China (Hong Kong) Limited

Australia and New Zealand Banking Group Limited

Standard Chartered Bank (Hong Kong) Limited

Banco Santander, S.A.

Bank of Communications Co., Ltd. (Hong Kong Branch)

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Registered Office

31st Floor, Top Glory Tower
262 Gloucester Road
Causeway Bay, Hong Kong

Hong Kong Share Registrar and Transfer Office

Tricor Progressive Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Investor Relations

FAN Wing Yu, Winnie
Telephone: +852 2833 0606
Facsimile: +852 2833 0319
E-mail: ir@cofco.com

Company Website

www.chinaagri.com

Stock Code

606

* *resigned on 30 March 2011*
** *appointed on 30 March 2011*

Five-Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated is set out below:

RESULTS	**2010 HK$'000**	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000 (Restated)
CONTINUING OPERATIONS					
REVENUE	**53,491,700**	43,827,891	41,802,056	28,869,244	17,899,323
PROFIT FROM OPERATING ACTIVITIES	**1,499,192**	2,219,513	4,604,226	1,325,771	978,554
Finance costs	**(376,878)**	(239,121)	(388,964)	(320,416)	(200,463)
Share of profits of associates	**352,955**	355,168	133,403	269,568	201,045
PROFIT BEFORE TAX	**1,475,269**	2,335,560	4,348,665	1,274,923	979,136
Income tax expense	**(191,918)**	(291,980)	(883,516)	(25,500)	(129,598)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**1,283,351**	2,043,580	3,465,149	1,249,423	849,538
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	**0**	0	0	0	64,541
PROFIT FOR THE YEAR	**1,283,351**	2,043,580	3,465,149	1,249,423	914,079
Attributable to :					
Owners of the Company	**1,701,644**	1,952,042	2,624,937	1,100,363	755,416
Non-controlling interests	**(418,293)**	91,538	840,212	149,060	158,663
	1,283,351	2,043,580	3,465,149	1,249,423	914,079
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**56,719,663**	36,091,614	28,266,528	21,600,468	15,461,037
TOTAL LIABILITIES	**(35,543,972)**	(17,696,077)	(12,321,097)	(9,848,087)	(8,371,870)
NON-CONTROLLING INTERESTS	**(2,089,268)**	(2,565,491)	(2,343,009)	(1,352,110)	(1,120,240)
	19,086,423	15,830,046	13,602,422	10,400,271	5,968,927

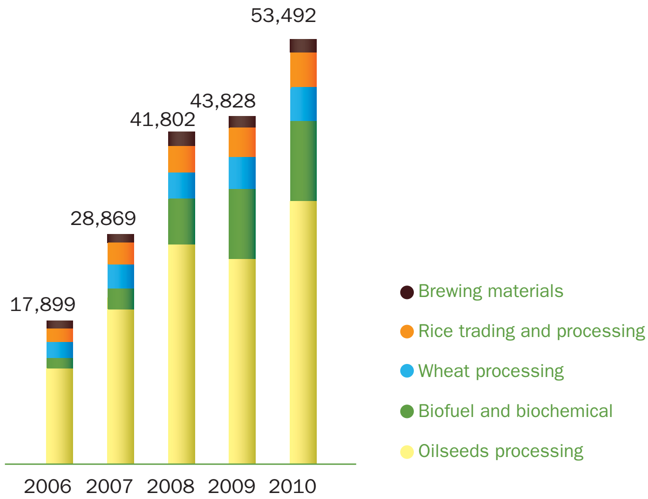
Financial Highlights

For the year ended 31 December 2010

	Unit	2010	2009	Increase/ (Decrease) %
Revenue:	HK$ million	**53,491.7**	43,827.9	22.0%
– Oilseeds processing	HK$ million	**32,992.1**	26,811.7	23.1%
– Biofuel and biochemical	HK$ million	**10,131.4**	7,750.6	30.7%
– Rice trading and processing	HK$ million	**4,319.6**	4,106.8	5.2%
– Wheat processing	HK$ million	**4,394.2**	3,661.0	20.0%
– Brewing materials	HK$ million	**1,654.4**	1,497.8	10.5%
Profit before tax	HK$ million	**1,475.3**	2,335.6	(36.8%)
Operating profit (segment results)	HK$ million	**1,409.3**	2,137.4	(34.1%)
Operating profit before depreciation and amortisation	HK$ million	**2,169.3**	2,840.8	(23.6%)
Operating margin	%	**2.6**	4.9	N/A
Profit attributable to owners of the Company	HK$ million	**1,701.6**	1,952.0	(12.8%)
Earnings per share:				
– Basic	HK$	**0.4321**	0.5174	(16.5%)
– Diluted	HK$	**0.4259**	0.5171	(17.6%)
Dividend per share for the year	HK$	**0.105**	0.126	(16.7%)
Total assets	HK$ million	**56,719.7**	36,091.6	57.2%
Total equity attributable to owners of the Company	HK$ million	**19,086.4**	15,830.0	20.6%
Closing price per share at year-end	HK$	**8.82**	10.20	(13.5%)
Market capitalisation at year-end	HK$ million	**35,618.4**	39,357.6	(9.5%)

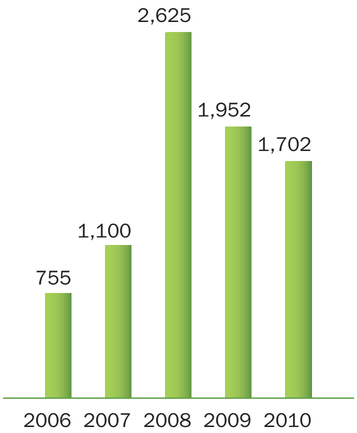
Revenue for Continuing Operations

(HK$M)



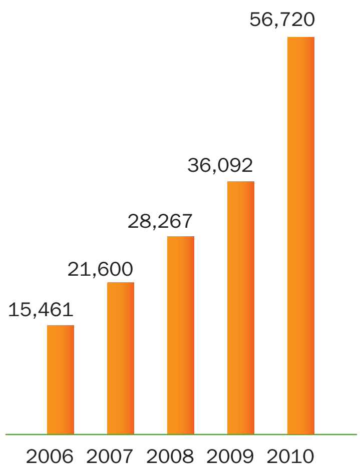
Profit Attributable to Owners of the Company

(HK$M)



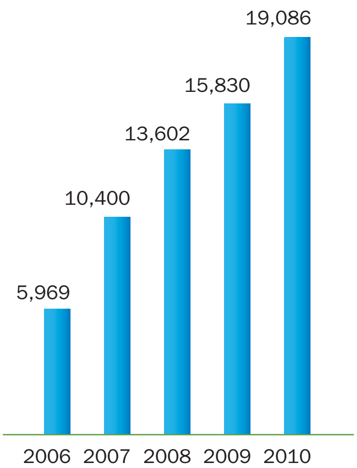
Total Assets

(HK$M)



Equity Attributable to Owners of the Company

(HK$M)



Capacity Distribution

- Oilseeds processing
- Biofuel
- Biochemical
- Rice trading and processing
- Wheat processing
- Brewing materials

2010 Capacity

Unit: metric ton'000

Oilseeds Processing Business	
Crushing Capacity	**7,080**
Zhangjiagang, Jiangsu	3,600
Rizhao, Shandong	1,800
Dongguan, Guangdong	600
Heze, Shandong	360
Jiujiang, Jiangxi	300
Jingmen, Hubei	240
Feixian, Shandong	180
Refining Capacity	**2,250**
Zhangjiagang, Jiangsu	870
Rizhao, Shandong	480
Dongguan, Guangdong	300
Jiujiang, Jiangxi	180
Heze, Shandong	120
Jingmen, Hubei	120
Zengcheng, Guangdong	120
Feixian, Shandong	60
Biofuel and Biochemical Business	
Fuel Ethanol, Consumable Ethanol and Anhydrous Ethanol Capacity	**600**
Beihai, Guangxi	200
Zhaodong, Heilongjiang	400
Biochemical (Corn Processing Capacity)	**1,850**
Gongzhuling, Jilin	1,250
Yushu, Jilin	600
Sweeteners Capacity	**450**
Gongzhuling, Jilin	300
Jinshan District, Shanghai	150
Rice Trading and Processing Business	
Rice Processing Capacity	**865**
Dalian, Liaoning	230
Nanchang, Jiangxi	220
Suihua, Heilongjiang	200
Ningxia Autonomous Region	75
Zhangjiagang, Jiangsu	75
Wuchang, Heilongjiang	65
Wheat Processing Business	
Wheat Processing Capacity	**2,011**
Luohe, Henan	390
Qinhuangdao, Hebei	340
Zhengzhou, Henan	220
Zhangjiagang, Jiangsu	216
Shenyang, Liaoning	180
Xiamen, Fujian	180
Dezhou, Shandong	170
Puyang, Henan	110
Taixing, Jiangsu	105
Shenyang, Liaoning	100
Dried Noodle Capacity	**67.2**
Shenyang, Liaoning	30
Puyang, Henan	24
Dezhou, Shandong	7.2
Zhengzhou, Henan	6
Bakery Capacity	**1.98**
Beijing	1.98
Brewing Materials Business	
Malt Processing Capacity	**740**
Dalian, Liaoning	360
Jiangyin, Jiangsu	300
Yakeshi, Inner Mongolia	80

Chairman's Statement

"China Agri will develop healthily in line with the economic growth in China through unwavering efforts to optimise strategic layout, expand production capacity and enhance operational efficiency. We are committed to becoming a world-class integrated oil and grain enterprise spanning the entire value chain, creating greater value for our shareholders."

NING Gaoning
Chairman

Dear Shareholders,

With the developing economies as the driving force of world economic growth, the global economy continued its recovery in 2010. In China, the economic growth has been rapid and steady. During the year, China Agri-Industries Holdings Limited ("China Agri" or the "Company") succeeded in growing its market share and further enhancing its leadership position in the industry through unwavering efforts to expand production capacity, optimise strategic layout, develop innovative business models, strengthen management professionalism and pursue brand development. All these initiatives helped to lay a solid foundation for transforming the Company into a world-class integrated oil and grain enterprise spanning the entire value chain, underlined by a commitment to delivering safe, nutritious, healthy, and quality products to customers.

2011 marks the start of China's Twelfth Five-Year Plan, during which one of China's economic development strategies will be to promote the development of modern agriculture to ensure effective supply of agricultural products and boost consumer demand. With the ever-rising income levels of the Chinese people, more sophisticated consumption requirements and a growing consumer market fuelled by domestic demand, the Company will avail itself of the vast opportunities arising from the development of China's economy to become a world-class integrated oil and grain enterprise spanning the entire value chain. Through stepping up efforts in product innovation and launching quality, high value-added products the Company will be able to fulfill market demands with a broader range of products. A greater product variety will help attract more consumers and in turn enhance our product recognition and market share.

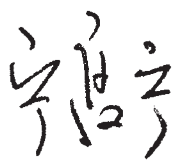
The Company has always been focused on strategic layout and business development. Upon completion and operation of a number of major production plants in 2011, regional layout will be further optimised and a sizable, high-quality, efficient, safe, environment-friendly and low-cost production system will be in place. With respect to product marketing, the Company will target the high-growth consumer market with efforts to accelerate distribution coverage, strengthen network development and adopt a flexible strategy for penetrating key regional markets. At the same time, joint marketing campaigns among business units to service key clients were encouraged and sales channels were shared to provide customers with one-stop services and custom-made solutions.

With regard to corporate governance, we recognise the importance of corporate transparency and accountability. The Board is committed to upholding a high standard of corporate governance practices. Through the establishment of a management structure that is of high transparency and accountability, the Company ensures its business objectives are achieved with all aspects conducted in compliance with applicable laws and regulations. Risk management, being the key for an enterprise to achieve sustainable operation and growth in this fast changing economic environment, is also the most important part of our management structure. The objective of our risk management system is to identify any risks that may hamper the Company from achieving its strategic and operational goals, and control them within an acceptable level through a reasonable, standardised and scientific approach. Our risk management system not only contributes to the Company's success in its strategic and operational objectives, but also mitigates our exposure to major risk.

As China's largest state-owned oil and grain enterprise, we play an active role in protecting the environment as part of our social responsibility. During the year, we strengthened management of energy conservation and emission reduction in the production process, with results achieved through technology transformation and stringent control. Environmental protection, energy conservation and emission reduction have become the Company's major initiatives in promoting sustainable development. In July 2010, the Company was selected by Hang Seng Indexes Company Limited as a constituent stock of its newly launched Hang Seng Corporate Sustainability Index, in recognition of the Company's outstanding performance in three aspects of sustainable development – environmental protection, social responsibility and corporate governance.

Looking ahead, international and domestic environment will be increasingly complicated in the future. Factors that impact the food industry are also increasing while competition intensifies in the market. With established long-term objectives in focus, the Company will take steady steps towards these goals progressively. This will enable the Company to develop healthily in line with the economic growth in China. With sound financial position and a well-established business model, China Agri will continue to improve its operational efficiency and management standard. The Company is also committed to becoming a world-class integrated oil and grain enterprise spanning the entire value chain. In return, we will be able to create value for our shareholders.

Finally, I would like to extend my sincerest gratitude, on behalf of China Agri, to our shareholders, customers and business partners for their support to the Company. I would also like to thank members of the Board, the management and the staff for their contributions and diligence over the past year.



Chairman

Hong Kong, 30 March 2011

Managing Director's Report

"With established long-term objectives in focus, the Company will take proactive steps to further strengthen our management professionalism, develop new capabilities and propel the parallel growth in the upstream and downstream businesses. Guided by a consumer-focused business philosophy, we are confident of delivering safe, nutritious, healthy and quality products to our customers."

YU Xubo

Managing Director

During 2010, China Agri pursued its strategic objective of building a world-class integrated oil and grain enterprise spanning the entire value proactively and progressively. By focusing on growth acceleration, business transformation and system enhancement, the Company was able to expedite its business expansion, strengthen its management professionalism, develop its core competencies and improve its leadership in the industry. As a whole, the Company's development was healthy during 2010.

In 2010, China Agri reported revenue of HK$53,491.7 million, up 22.0% from 2009. Profit attributable to the owners of the Company amounted to HK$1,701.6 million, down 12.8% from 2009. Such decrease was mainly due to a year-on-year decline in profits derived from the Company's oilseeds processing and rice processing businesses. The Board has recommended a final dividend of 3.9 HK cents per share for 2010. Together with the interim dividend of 6.6 HK cents, the total dividend for the year was 10.5 HK cents per share.

During the year, the Company's biofuel business remained stable. The brisk demand for biochemical products fuelled solid growth in sales, and enabled a prompt pass through of cost increments to downstream customers. Wheat processing business achieved solid operational results through its stringent cost control measures and continued optimisation of customer base and product mix. Capitalising on the sales opportunities arising from vigorous demands led by fallen material prices during the year, the brewing materials business posted a record high in sales volume.

With regard to oilseeds processing business, sales channels were expanded to ensure a seamless supply of products to meet the needs of key customers. As a result, sales of edible oil grew further. As part of the business operation, the Company entered into commodity futures contracts, which sought to manage the inherent risks associated with the price volatility of raw materials and related products. Owing to extreme price fluctuations of agricultural commodities in the second half of 2010, the Company incurred a loss for its futures contracts, where profits arising from physical stocks could only be recognised on a later date when the actual sale of products has been completed. For the rice processing business, the Company grasped the opportunities arising from China's enormous rice market and changing consumption patterns to grow its domestic business. It shifted its focus to domestic sales and dedicated efforts to build up its market share in the consumer-pack sector. According to the research report issued by AC Nielsen on consumer-pack rice sold in large stores in 16 major cities in China, China Agri's aggregate market share in 2010 reached 13%, maintaining its competitive edge as the nation's No.1 rice brand. Nevertheless, rapid expansion into the consumer market requires major upfront investment, resulting in a lower profitability.

In 2010, China Agri pushed ahead its strategic plan to expedite the expansion of its operation and further optimise its layout. The production capacities of rice, flour and oil products grew substantially from a year ago. Oilseeds crushing capacity increased by 27% to 7,080,000 metric tons, refining capacity rose by 47% to 2,250,000 metric tons; rice processing capacity grew by 65% to 865,000 metric tons; while wheat processing capacity improved by 14% to 2,011,000 metric tons. All new plants are strategically located either close to the sources of raw materials or sales markets, which in turn help optimise the Company's regional layout and establish a sizable, quality, efficient, safe and low-cost production system.

In order to promote the Company's healthy growth in the long-run, we explore continuously in product development. With a technology-driven approach, we developed and introduced high value-added products with varieties, which are in demand by the general consumers. During the year, we further advanced and successfully introduced isomaltooligosaccharide, corn starch specifically for beer brewery and whole-grain rice. These products will enable the Company to meet with the ever-changing market demands efficiently.

During 2010, through enhanced structure and efficient resource allocation, the Company further strengthened its management capabilities. Together with improved synergies internally, the Company will eventually be operated on an integrated management model.

Looking ahead, the food processing industry is expected to enjoy bright prospects, supported by improving living standards in line with the fast-growing Chinese economy. However, industry consolidation and increasingly stiff competition will pose challenges to the Company. In particular, the prices of agricultural products are anticipated to become more volatile in 2011 given greater market liquidity and global climate changes. We will remain committed to implementing our strategic objectives and reinforcing management professionalism. We will continue to be guided by a consumer-focused business philosophy to proactively develop our brand business and propel the parallel growth in the upstream and downstream businesses. We are confident of delivering safe, nutritious, healthy and quality products to our customers while improving market share and solidifying our leadership position in the industry.

Managing Director

Hong Kong, 30 March 2011

Corporate Milestones 2010

2010

Jan

Guangxi COFCO Bio-Energy Co., Ltd. was honoured with the Guangxi First Class Technology Advancement Award in recognition of the technological achievements of its "annual output of 200,000 metric tons tapioca-fueled ethanol exemplary project", at the 2010 Guangxi Technology Week Opening and Technological Award Ceremony in Nanning, China.

Xiamen Haijia Flour Mills Co., Ltd., a subsidiary under the wheat processing division of China Agri, commenced operation of its second production line, making it the largest wheat flour producer in Fujian province in terms of scale.

Mar

"Fortune (福临门)", a brand under the rice division of the Company, topped the composite index on market share of rice products in China in 2009, rated by the 2009 (the 18th session) China Commodity Sales Survey.

Apr

The Company came second in the "Best Corporate Governance (Greater China)" category of the "2010 IR Global Rankings", which is an eloquent illustration of its commitment to upholding high standards of corporate governance.

Jun

The Company received, for the third year in a row, the "Annual Recognition Awards" from Corporate Governance Asia.

The Company signed an agreement with Funing County Government, Yancheng, Jiangsu, China, pursuant to which, China Agri's 300,000 metric tons per annum of paddy processing capacity project will be built in Funing. It will be the first integrated rice processing facility operated by the rice division in the northern part of Jiangsu, a major growing region of Jiangsu Japonica rice.

Jul

The Company was admitted as a constituent of the Hang Seng Corporate Sustainability Index launched by Hang Seng Indexes Company Limited in recognition of its efforts and achievements in three areas for sustainable development: environmental protection, social responsibility and corporate governance.

The Company was certified as a "Credible Enterprise of China Accreditation for 2010-2012", which illustrates the Company credibility and brand awareness are highly regarded.

178,000,000 shares of the Company were issued by way of placing at a subscription price of HK$8.75 per share.

Glory River Holdings Limited, a subsidiary of the Company, issued HK$ Fixed Rate Guaranteed Convertible Bonds Due 2015 with an aggregate principal amount of HK$3,875,000,000. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK$11.375 per share.

Aug

A foundation laying ceremony was held at the construction site for the Haining wheat processing project in the Haining Economic Development Zone of Zhejiang province, China, the first grain processing project in Zhejiang by the Company through COFCO Flour Industry (Haining) Co., Ltd., a subsidiary of the Company.

Nov

A completion ceremony was held for the launch of 1.2 million metric tons annual crushing capacity at COFCO Yellowsea Oils & Grains Industries (Shandong) Co., Ltd., a subsidiary of the Company.

Oct

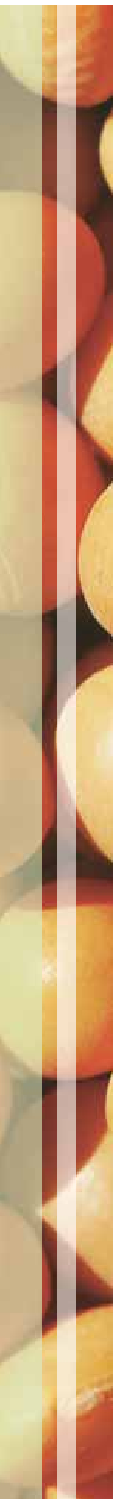
A commencement of operation ceremony was held at Jiujiang for the annual crushing capacity of 300,000 metric tons rapeseed processing project in Jiujiang at COFCO Oils & Grains Industries (Jiujiang) Co., Ltd., a subsidiary of the Company, marking the official commencement of operation of the largest rapeseed processing project in Jiangxi, China.

COFCO Bio-Chemical Energy (Yushu) Co., Ltd., COFCO Bio-Energy (Zhaodong) Co., Ltd. and COFCO Jiangxi Rice Processing Limited, our subsidiaries, were on the list of the first batch of key enterprises in China passing the assessment, inspection and approval procedure of clean production audit conducted by the Ministry of Environmental Protection, paving the way for promoting clean production in the Group.

A signing ceremony for a sweetener production base in Yangluo was held in Wuhan, Hubei province. China Agri will develop a sweetener plant with an annual output of 100,000 metric tons, which is our debut fructose syrup project in Hubei province and will enhance our ability to supply fructose syrup in the Yangtze River Delta area.

Dec

COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd., our subsidiary, was on the list of second batch of key enterprises passing the assessment, inspection and approval procedure of clean production audit conducted by the Ministry of Environmental Protection.



Business Review

Oilseeds Processing Business

The Company is one of the largest edible oil and oilseeds meal producers in China. Its products include soybean oil, palm oil, rapeseed oil and oilseeds meals, which are sold primarily under brands such as Fuzhanggui (福掌柜), Sihai (四海), Xiyingying (喜盈盈) and Guhua (谷花).

The oilseeds processing business is the largest revenue contributor of the Company, accounting for 61.7% of the total revenue in 2010. Thanks to rise in product prices and sales volume, the business recorded a 23.1% year-on-year growth in revenue to HK$32,992.1 million. Operating profit, however, decreased 77.0% year-on-year to HK$239.1 million, mainly due to extreme price fluctuations in agricultural commodities in the second half of 2010, commodity prices generally soared and the Company incurred a loss for its futures contracts, where profits arising from physical stocks could only be recognised on a later date when the actual sale of products has been completed.

In the first half of 2010, the prices of soybean and related products were relatively stable as abundant harvests in major soybean producing countries had provided the market with plentiful supply. In the latter half of 2010, with scaled-back soybean production announced by the U.S. Department of Agriculture and a substantial decline in wheat output from drought-stricken Russia and Ukraine, the agricultural commodity market had become very volatile and the prices of soybean and other agricultural products hiked. The demand for palm oil in early 2010 was adversely affected by the rather cold temperatures in China.

To ensure continued stability of raw material supply, the Company widened its sourcing channels by strengthening cooperation with numerous multinational suppliers. At the same time, the Company judiciously entered into hedging arrangements for raw materials and related products, which sought to manage the inherent risks associated with the price volatility of raw materials and related products. Furthermore, the Company took effective measures to control the freight-in costs of raw materials, shipping contracts were used to secure rates in advance against rising freight charges.

Through an in-depth analysis of market trends, the Company was able to broaden its sales channels and ensure a seamless supply of products to meet the demands of its core customers. As a result, revenue from edible oil sales grew further. In 2010, the Company sold a total of 2,284,000 metric tons of edible oil, representing a 12.4% volume growth from last year. Of the edible oil sold, soybean oil accounted for 901,000 metric tons, reporting a 28.3% volume growth from last year; palm oil accounted for 568,000 metric tons, up 1.9% year-on-year. During the year, the Company sold 4,272,000 metric tons of oilseeds meals and feeds, registering an increase of 9.8% from 2009.

To gain greater market share and appeal to high end customers, the Company stepped up its advertising efforts and established a Key Account Department during the year to better serve large-scale end users. At the same time, the Company continued to optimise its product portfolio and offer custom-made products to satisfy the ever-changing demands of customers. To meet growing demands for packaged oil from the food and restaurant industry, the Company launched a new medium-sized pack of edible oil under the Fuzhanggui (福掌柜) brand, which gained wide market acceptance.

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In view of growing demands for edible oil and oilseeds meals in China, the Company will continue to optimise its strategic layout, expand its production capacity and enhance its operational efficiency through technology innovation. As at 31 December 2010, the Company operated a total of eight processing plants in Shandong, Jiangsu, Jiangxi, Guangdong and Hubei, with an aggregate crushing capacity of 7,080,000 metric tons and refining capacity of 2,250,000 metric tons per annum. The two new plants, which are located in Rizhao, Shandong and Jiujiang, Jiangxi have been making good progress since their commencement of production in the fourth quarter of 2010. Construction of four new rapeseed processing plants in Anhui, Hubei and Chongqing, with an aggregate crushing and refining capacities of 900,000 metric tons and 600,000 metric tons, respectively, were approved in 2010. Together with two other projects under construction in Guangxi and Tianjin, these six plants will increase the Company's crushing and refining capacities by 3,300,000 metric tons and 1,740,000 metric tons, respectively, and are expected to commence operation one after the other in 2011.

All of the Company's plants are strategically located to yield the benefit of lower transportation costs from reduced distance between raw material sources and the product markets. In addition to strategic locations, most plants are equipped with bulk cargo terminals, high-capacity silos and other logistic facilities. When in operation, these new plants will further expand the Company's processing capacity and help boost the Company's market share in the industry. All of these four rapeseed processing plants will be built in the country's rapeseed producing regions, providing convenience for raw material sourcing and cost savings on transportation. The completion of plant expansion in Rizhao, Shandong has tripled its processing capacity. Together with the plant under construction in Tianjin, the Company's market share in oilseeds processing in Northern China is expected to grow further. Moreover, the plant under construction in Qinzhou, Guangxi is anticipated to strengthen the Company's presence in the Southwest part of China and further optimise the Company's overall layout.

Looking ahead, rapid urbanisation and sustainable development of the food and restaurant industry and livestock feeds market will fuel strong growth for edible oil and oilseeds meal consumptions. Nevertheless, with increasing market liquidity, the commodity market in 2011 may experience even greater fluctuations. Competition among players is likely to become more intense. The Company will step up its procurement efforts to widen its sourcing channels while maintaining stringent control over raw material costs by making forward contracts. It will also continue to manage the inherent risks associated with the price volatility in raw materials and related products through effective hedging. On the sales front, the Company will accelerate its marketing efforts to optimise sales channels and raise customer service standards. Furthermore, the Company will continue to expand its business scale and optimise its strategic layout. It will also closely monitor and manage the construction progress of its new plants to ensure production will commence as planned. With all these measures, the Company is confident to provide customers with safe, nutritious and healthy products, resulting in stronger brand equity, greater market share and a more prominent leadership position in the industry.

Biofuel and Biochemical Business

In 2010, the Company's biofuel and biochemical businesses reported revenues and operating profit of HK$10,131.4 million and HK$918.2 million respectively, representing increases of 30.7% and 20.5% from last year.

Biofuel Business

The Company is one of China's major fuel ethanol producers. It operates the business mainly through two subsidiaries, namely COFCO Bio-Energy (Zhaodong) Co., Ltd. and Guangxi COFCO Bio-Energy Co., Ltd. In addition to fuel ethanol, the Company's product offering includes consumable ethanol, anhydrous ethanol, crude corn oil, and corn distiller's dried grains with solubles (corn DDGS).

Currently, the price of fuel ethanol in China is pegged to the ex-factory price of No. 90 gasoline, which is determined by the National Development and Reform Commission ("NDRC"). In 2010, the NDRC raised the price of gasoline several times, leading to an increase of revenue of the Company's biofuel business to HK$4,528.6 million, up 20.6% compared to a year earlier. In particular, fuel ethanol sales reached 362,000 metric tons, translating into a 1.3% volume growth year-on-year; sales of crude corn oil and corn DDGS amounted to 387,000 metric tons, bringing a 0.6% year-on-year decrease in volume.

In 2010, demand for fuel ethanol was strong, spurred by rapid and sustained growth of China's automobile industry. During the year, the Company continued to enhance its operational efficiency and to lower costs with a more streamlined production process. Striving to boost fuel ethanol sales, the Company worked closely with its key customers such as PetroChina and Sinopec to support their market expansion. It also assisted the State Administration for Industry and Commerce in market regulatory work.

As at 31 December 2010, the Company operated two plants in Guangxi and Heilongjiang. The plants have a combined production capacity of 600,000 metric tons of fuel ethanol, consumable ethanol and anhydrous ethanol, of which, fuel ethanol alone accounts for 380,000 metric tons.

Looking ahead, China's economy is expected to maintain rapid growth, fuelling robust demand for biofuel products. The Company will strive to strengthen its competitiveness through innovative efforts and cost control measures and to meet customers' ever-changing needs for quality products.

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Biochemical Business

The Company's biochemical business is primarily engaged in corn processing. Products include corn starch, sweeteners and feed ingredients.

During the year under review, corn prices continued to grow due to severe drought in Southwest China followed by delayed seeding in the Northeast region. Thanks to robust market demand, the rise in product prices outpaced that of the corn prices. The Company grasped the opportunity to market its products and strengthen its relationship with core customers by sustaining a stable product supply. As a result, the business achieved strong growth in both revenue and volume. During the year, the Company's biochemical business reported a revenue of HK$5,602.8 million, representing a year-on-year increase of 40.3%. Corn starch sales reached 1,205,000 metric tons, representing a 4.8% volume growth from 2009. Sales of sweeteners amounted to 315,000 metric tons, registering a 55.4% volume growth from last year.

In 2010, the Company broadened its product portfolio and expanded its consumer base through innovative research and development efforts and technological transformation driven by market needs. During the year, the Company launched a new corn starch specifically for beer brewery, which gained wide market acceptance. The Company also has a number of new specialty products under development, such as syrup for beer and monosodium glutamate (MSG), corn starch specifically for papermaking and medical uses, which will be marketed at an appropriate time.

As at 31 December 2010, the Company operated a total of four plants in Jilin and Shanghai, with an aggregate annual processing capacity of 1,850,000 metric tons for corn, and a production capacity of 450,000 metric tons for sweeteners. The Company's projects under construction in Heilongjiang and Wuhan are scheduled to commence operation in 2011, offering an annual processing capacity of 600,000 metric tons of corn, and 100,000 metric tons of sweeteners.

For the coming year, market demand for biochemical products is expected to remain robust which will spur growth in sales. The Company will actively optimise its strategic layout and expand its production capacity. With an objective to enrich product mix and expand high value-added product offerings, the Company will align its research and development efforts with market needs. The Company will exercise greater control over raw materials and further develop channels to source high-quality raw materials. For marketing, the proportion of direct sales to end users will grow further with key customers being served more efficiently. At the same time, the Company will continue to rigorously control its production cost and bolster its market competitiveness by enhancing productivity.

Rice Trading and Processing Business

The Company is the largest rice exporter in China and a leading domestic supplier of packaged rice, engaging primarily in the processing and trading of white and parboiled rice. The Company exports white rice to traditional core markets such as Japan, South Korea, Hong Kong and Macau and parboiled rice to countries in the Middle East, Eastern Europe, Africa, Middle Asia and the Americas. Domestically, the Company sells rice primarily under brands such as Fortune (福临门) and Five Lakes (五湖).

In 2010, the rice trading and processing business generated a revenue of HK$4,319.6 million, representing a year-on-year increase of 5.2%, mainly attributable to a rapid growth in domestic sales. In view of China's enormous rice market and rising consumption levels, the Company began to sell domestically in 2006 and drove the changes of consumption patterns in the market. After years of effort in transforming the business, the Company's domestic sales in 2010 surpassed export sales. Nevertheless, the consumer-pack rice market in China is still at an early stage of development, rapid expansion into this market to win market share requires considerable upfront investments. Together with the surge in raw material prices, the profit margin grew thinner than expected. The combined impact of these factors adversely affected the profitability.

In 2010, international demand for rice was relatively stable. Abundant harvests in major rice producing countries such as Vietnam and Thailand had provided the market with plentiful supply. In China, however, rice prices stood at a high level as paddy prices hiked. The Renminbi appreciation further inflated the export costs, making China's rice exports less competitive. As a result, the Company's export volume dropped by 28.2% year-on-year to 422,000 metric tons in 2010. Thanks to strong business acumen and an effective pricing strategy, the Company was able to maintain its prominent leadership position in China's rice export industry and strengthen its market share in core markets including Japan, Korea, Hong Kong and Macau. Apart from bulk exports, the Company is also looking to promote its consumer-pack rice under brands like Fortune (福临门), Jinying (金盈) and Golden Terra (金地) in overseas markets.

Domestically, the Company has set up a total of 19 sales offices throughout the country to expedite market expansion and to extend its reach into different cities. With the Company's sales network covering approximately 40,000 points of sales in major hypermarkets, supermarkets, food stores and outlets, the Company achieved a breakthrough of 500,000 metric tons of sales during the year, posting a 52.8% year-on-year growth to 524,000 metric tons. At the same time, the Company actively sought quality distributors and strengthened strategic cooperation with international catering chains such as YUM! and Yoshinoya in order to solidify its distribution basis. Furthermore, the Company is able to respond to the market in a timely manner through an established sales information system.

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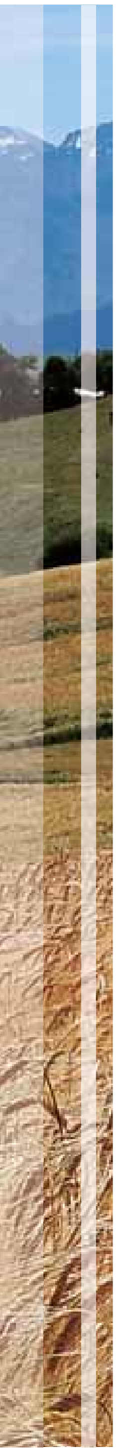
With regard to brand building, Fortune (福临门) is gradually becoming a product of premier brand through years of market development. Second and third-tier brands of packaged rice, which include Five Lakes (五湖), Xin (薪) and Donghai Mingzhu (东海明珠), also recorded a substantial increase in sales volume. According to the research report issued by AC Nielsen on consumer-pack rice sold in large stores in 16 major cities in China, the Company's aggregate market share in 2010 reached 13%, maintaining its competitive edge as the nation's No.1 rice brand. During the year, COFCO was appointed a senior sponsor of the Shanghai Expo, with its Fortune (福临门) brand selected as the only official oil and grain product for the event. The Company also leveraged on this favourable opportunity to launch a marketing campaign, with its brand image substantially enhanced as a result.

The Company actively optimised its raw material procurement plans and strengthened its risk management to ensure the quality of grains. The Company's plants are strategically located near paddy growing regions, which in turn enable timely purchase of raw materials and allow cost savings on logistics. With a combination of measures such as contract farming, direct sourcing, trading, reserve rotation and government reserve auctions, the Company was able to effectively alleviate the pressure of increasing paddy prices.

In addition, the Company increased investment in research and development ("R&D") of new products. During the year, a rice R&D committee and three other R&D centres were set up to focus on product development, reserve planning and marketing campaign. Collaborations between procurement, processing and marketing units are strengthened to support the growth of the branding business. During the year, the Company introduced whole-grain rice (全稻原米), a nutritious and healthy new product to meet different needs of the market.

As at 31 December 2010, the Company operated six rice processing plants in Liaoning, Jiangxi, Jiangsu, Heilongjiang and Ningxia with an aggregate rice processing capacity of 865,000 metric tons per annum, representing an increase of 64.8% compared to last year. The Company will further optimise its strategic layout with a view to becoming one of China's largest rice processing enterprises. At present, the Company is building a total of five new rice processing plants in Heilongjiang, Jilin, Liaoning, Jiangsu, Anhui with an aggregate processing capacity of 862,500 metric tons per annum. The new plants are expected to be ready for trial run one after the other in 2011.

Looking ahead, the price of rice in China is expected to maintain an upward trend. Further consolidation in the rice industry is expected and greater emphasis will be placed on branded products. In order to boost sales, the Company will continue to broaden its distribution channels and increase sales points, as well as building up brand awareness and reputation by penetrating into major cities. The Company will step up its marketing efforts in different regions and optimise its sales model and product mix, in addition to strengthening its strategic partnership with international hypermarkets, supermarkets and large distributors so as to acquire big clients such as large food and beverage groups, industrial users and bulk purchasers. For its rice export business, the focus will be on strengthening its presence in traditional markets and intensifying its market development in order to solidify its leadership position. The Company will continue to strengthen its efforts in building a business model that covers the entire supply chain. By refining its procurement system and tightening its control over the raw materials, the Company will be able to propel parallel growth in its upstream and downstream businesses. Greater operational efficiencies will be achieved by expanding production capacity and improving product quality, the Company's leading position in the consumer pack rice market is expected to be further strengthened.



Wheat Processing Business

The Company is one of the largest wheat processors in China engaging in the sales of general purpose flour, customised flour as well as other flour products such as noodles and breads under the Fortune (福临门) and Xiangxue (香雪) brands.

In 2010, wheat prices rose continuously and cost pressure increased. Through an integrated operation and a sophisticated management system, the Company was able to exercise stringent cost control and continued to optimise customer base and product mix. During the year, the wheat processing business achieved a 20.0% year-on-year growth in revenue to HK$4,394.2 million. Operating profit amounted to HK$150.1 million, a 31.1% increase from 2009.

For procurement, the Company conducts in-depth analyses of the raw grain market and implements activities on a centralised basis. With the support of an information platform, the Company was able to improve management capabilities and synergies internally. A variety of measures have been adopted, including auction bidding, reserve rotation, direct sourcing, general trading and contract farming to better manage the timing and the cost of purchase.

On the sales front, the Company pursues a customer-driven approach with a focus on development of high value-added customised flour to accelerate business growth. During the year, the Company strived to develop flours catering to food manufacturers and caterers while building strategic partnerships with key customers. The Company also worked with food manufacturers and chain restaurants with growth potential, providing them with all-round services and one-stop solutions. In 2010, the Company sold 1,187,000 metric tons of flour, representing a 10.3% growth year-on-year. Of the flour sold, customised flour accounted for 861,000 metric tons, representing an 18.5% increase compared to last year. General purpose flour sold was 326,000 metric tons, down 6.6% year-on-year. With increased efforts in expanding distribution channels and sales network, consumer-packaged flour and dried noodle registered a favourable growth in sales in 2010.

In recent years, the wheat processing industry has been growing at a steady pace with rising output every year. Wheat, a staple crop and an important raw material for food manufacturers and caterers, is well poised to benefit from strong consumer base and market growth potential. As China's population further increases, the aggregate demand for flour will continue to grow steadily, especially in orders from the food manufacturing and catering industries.

The Company's production plants are strategically situated in the grain producing regions or the product markets to ensure timely purchase of raw materials and great efficiency in customer service. As at 31 December 2010, the Company operated 11 plants in Hebei, Henan, Jiangsu, Liaoning, Fujian, Shandong and Beijing with an aggregate annual processing capacity of 2,011,000 metric tons for wheat, 67,200 metric tons for dried noodles and around 2,000 metric tons for bakery products. In 2011, the Company's new production plants in Liaoning and Jiangsu are expected to boost dried noodle production capacity by 49.1% to 100,200 metric tons per annum.

Looking ahead, the wheat processing industry will continue to expand in view of the growing economy and the rising consumption of Chinese people. In 2011, the price of wheat is expected to maintain a steady upward trend, putting pressure to raw grain purchases. By adhering to an integrated operation and a sophisticated management system, as well as building on its own strengths, the Company will enhance its market competitiveness by exercising stringent cost control over raw grain purchase. It will also continue to develop and optimise its customer base and product mix. Based on a customer-driven approach and long-accumulated experience, the Company seeks to deliver high value-added products and increase the percentage of sales to key customers by offering them one-stop solutions and technical support. Leveraging on market growth opportunities, the Company will further raise its management capabilities and optimise its resource allocation to meet evolving market demands.

Brewing Materials Business

The Company is a leading supplier of brewing materials in China engaging in the production and sales of malt to domestic market and exports to Southeast Asian countries.

In 2010, thanks to strong market demand, the brewing materials business achieved a 10.5% year-on-year growth in revenue amounting to HK$1,654.5 million. Operating profit was HK$243.2 million and profit margin was on the rise again after 2009.

During the first half of 2010, prices of malting barley in the international market dropped as compared with the corresponding period last year, stimulating market demand for malt. The Company seized the opportunity to sell more malt. Nevertheless, due to scaled-back production in Europe and a substantial decline in output from interrupted harvest in Australia and Canada, malting barley prices progressively returned to high levels and cost pressure increased.

As the world's largest beer producer and consumer, China maintained steady growth in beer sales and production in 2010, driving up demand for malt. While seeing strong growth potential in the domestic market, the Company grasped the opportunity to boost product sales in a timely manner and continued to broaden its customer base and sales channels. At the same time, it also strengthened its cooperation with existing key customers, such as China Resources Snow Breweries, Carlsberg Group and Anheuser-Busch InBev to boost sales. As a result, malt sales in 2010 reached a record high of 501,000 metric tons, representing a 16.0% increase from 2009. The Company also focused on research and development of new products and placed great emphasis on product and technology innovations to cater customers' needs. Specialty and refined malt products were launched during the year, targeting mid and high-end customers, which helped to enhance product value and market competitiveness.

During the year, the Company strengthened its operational and management capabilities. It also took advantage of lower prices in early 2010 to stock up on raw materials and also secured sales contracts with customers in a prompt manner.

As at 31 December 2010, the Company operated three malt plants in Liaoning, Jiangsu and Inner Mongolia, with an aggregate production capacity of 740,000 metric tons per annum. The new malting plant in Yakeshi, Inner Mongolia, commenced operation in November 2010. The new facility targets domestic market, capitalising on its proximity to barley growing areas and providing convenience for raw material sourcing and cost savings on logistics.

Looking ahead, China, as the world's largest beer consumer, is well-positioned to benefit from the sustainable growth of brewing material market supported by product demands. The Company intends to strengthen its control over raw materials and production costs, optimise its product mix and improve customer service in order to capture greater market share.

Management Discussion and Analysis

Financial Review

The Group's full year 2010 results

In 2010, the Chinese economy maintained a steady and upward growth trend supported by market-driven investment, stronger domestic demand and growing exports. Amid this phenomenal economic expansion in 2010, the Group's oilseeds processing business pushed ahead in an orderly manner its strategic plans to add 1.5 million metric tons in crushing capacity. The biofuel and biochemical business and the wheat processing business managed to successfully mitigate the adverse impact of rising materials costs by adjusting their respective product portfolios, extending the value chain and enhancing synergy benefits. In rice trading and processing business, domestic rice sales grew significantly and outweighed exports in terms of total revenue. The brewing materials business recovering from the negative impact out of the financial crisis, led to a substantial increase in both sales and profitability.

For the year ended 31 December 2010, the Group recorded steady growth in revenue of 22.0% from HK$43,827.9 million in 2009 to HK$53,491.7 million in 2010. Remaining as the largest revenue contributor among the Group's five segments, the oilseeds processing unit accounted for 61.7% of the Group's total revenue during the year as compared to 61.2% in the preceding year.

For the year ended 31 December 2010, the Group's profit attributable to the owners of the Company was HK$1,701.6 million, down HK$250.4 million from HK$1,952.0 million in 2009. Basic earnings per share also decreased from 51.7 HK cents in 2009 to 43.2 HK cents this year. The decline in profit was primarily attributed to lower gross profit margins of the oilseeds processing and rice trading and processing businesses. However, the Company maintained steady development across its operations.

Finance costs increased by 57.6% to HK$376.9 million during the year, attributable mainly to the new loans raised to meet working capital requirements. Nonetheless, benefiting from the continuous low interest rate environment during the year, the rise in loan amounts was greater than the increase in total finance costs.

During the year, income tax expense declined 34.3% year-on-year to HK$191.9 million (2009: HK$292.0 million), mainly due to reduced profits as a result of lower profitability.

Management Discussion and Analysis

Segment information

Oilseeds processing business

For the year ended 31 December 2010, revenue from the oilseeds processing business amounted to HK$32,992.1 million, representing an increase of 23.1% over last year due to a rebound in oilseeds product prices and growth in sales volume. Affected by bad weather conditions and the recovering global economy, oilseeds product prices rose generally with the average selling prices of soybean oil and palm oil gaining 19.9% and 19.8% respectively. By hedging in futures market, the Company managed to mitigate the potential risks of price fluctuations in raw materials and related products and lock in profits. In the late second half of 2010, hedging losses were recorded, resulting from the soaring prices in agricultural products, while profits from physical sale are to be realised on a later date. As a result, the profit margin of the oilseeds processing business declined by 2.6 percentage points to 1.7% compared to last year. The oilseeds division is dedicated to solidifying its industry leadership position by increasing its market share and orderly implementing its strategic plans. With the gradual release of new capacity in 2011, the sales volume of oilseeds products are expected to rise further.

Biofuel and biochemical business

The biofuel and biochemical business reported an increase in revenue to HK$10,131.4 million in 2010, up 30.7% from HK$7,750.6 million in 2009. In 2010, the biochemical industry experienced a recovery led by surges in selling prices of major products that contributed significant growth in revenue. Corn starch and sweetener prices increased by 28.2% and 28.3% respectively compared to the preceding year. In the biofuel business, due to the higher international oil prices, the fuel ethanol prices showed a 18.3% year-on-year increment, and the sales volume of 362,000 metric tons was recorded. In the biochemical business, the Group pursued intense efforts to develop high value-added sweeteners to meet the customers demand, contributing to a 55.4% growth in the sales during the year. At the same time, the Group strived to provide customised service. By strengthening R&D and innovation efforts, different types of specialty starch were developed to satisfy the needs of different customers, thus generating significant growth in sales. Despite the substantial price increase of major raw materials in 2010, the Company had successfully passed out the rising costs by strengthening synergy internally, costs control and lower energy consumption with effective marketing efforts. As a result, the biofuel and biochemical business recorded an overall profit margin of 13.2% (2009: 11.6%), with a steadily rising level of profitability.

Rice trading and processing business

As the largest rice exporter and one of the leading producers in China's consumer packaged rice sector, the Group's rice trading and processing business recorded a revenue of HK$4,319.6 million in 2010, representing an increase of 5.2% compared to the previous year. During the year, the Group underwent a transformation of business model by focusing on expanding domestic rice sales. As a result, the Group's domestic sales volume increased from 343,000 metric tons in 2009 to 524,000 metric tons in 2010, up 52.8% year-on-year. Increasing by 79.8% year-on-year to HK$2,166.0 million, domestic sales became a key contributor to an overall increase in total revenue. However, massive costs and resources on marketing and sales channel are required to ensure a rapid growth of market share in consumer packaged rice. In addition, the substantial rise in raw material prices had eroded the expected profit margin. It also weakened the competitiveness of China's rice exports, resulting in lower export sales from 587,000 metric tons in 2009 to 422,000 metric tons in 2010. Due to the negative factors mentioned above, the rice trading and processing business saw its overall gross profit margin decreased from 18.0% in 2009 to 12.6% this year. Looking ahead, the Group will reinforce its market leadership position and enhance its profitability through well-established domestic sales channels, further expanding production capacity, optimising its product portfolio and increasing domestic market share in China.

Wheat processing business

As a leading wheat processor in China, the Group continued to develop steadily by building on economies of scale with extensive industry experience and sound marketing strategies. During the year, the Group remained focusing on its high value-added customised flour business. At the same time, it benefited from the implementation of professional management and integrated operation practice. As a result, both the selling prices and sales volume increased. During the year ended 31 December 2010, revenue from the wheat processing business increased by 20.0% to HK$4,394.2 million. Despite a rise in raw material costs, the Group strengthened its sourcing ability by good control of sourcing pace. Together with active communication with customers and timely adjustment of pricing strategy, a stable profit margin of 9.0% (2009: 9.3%) was maintained. With a gradual improvement in the layout of capacity allocation and the continued optimisation of products mix and customer base, the Group will continue to expand the market share of its wheat processing business and strengthen its overall competitiveness.

Brewing materials business

For the year ended 31 December 2010, the brewing materials business recorded an increase in revenue to HK$1,654.5 million from HK$1,497.8 million in 2009. During the year, lower raw material prices dragged down the selling price of malt, effectively stimulating market demand. The Group capitalised on this opportunity by stepping up marketing efforts that achieved a sharp rise of 16.0% in sales from 431,000 metric tons to 501,000 metric tons. Thanks to timely purchase, profit margin rose from 7.6% in 2009 to a market-leading level of 21.3% in 2010, as raw material prices dropped much more than that of products. During the year, the brewing materials business successfully turned from loss to profit with more market share to be gained at both the domestic and overseas markets.

Material acquisition

On 26 January 2010, the Group completed the acquisition of the entire issued shares of COFCO (BVI) No.84 Limited from COFCO (Hong Kong) Limited at a consideration of HK$154.8 million, whereby the Group acquired their wholly-owned subsidiary, COFCO (Jiangyin) Cereals, Oil & Warehouse Corporation Limited as a full-service logistics company. COFCO (Jiangyin) Cereals, Oil & Warehouse Corporation Limited is principally engaged in the provision of logistic services including warehousing and cargo handling businesses.

Liquidity and financial resources

The Group adheres to a prudent financial management policy in the management of its financial affairs. Its liquidity and financial resources are closely monitored to ensure that the cash inflows from operating activities together with undrawn banking facilities are sufficient to meet the needs of daily operation, loan repayments, capital expenditure and potential business expansion. During the year, the Group's operations were mainly financed by its own funds and bank loans.

The Group entered into the Financial Services Agreement and the Entrustment Loan Framework Agreement with COFCO Finance Co., Ltd. through COFCO Agri-Industries Management Co., Ltd. (a subsidiary of the Company) in order to provide for more efficient employment of funds within the Group, reduce the use of external loans of the Group and better facilitate intra-Group settlement services. During the year, the Group enhanced the liquidity of cashflows, reduced external loans size and effectively monitored cash management through this treasury platform.

On 21 July 2010, the Company entered into the following agreements: (1) Wide Smart Holdings Limited (one of the substantial shareholders) placed 178,000,000 existing shares of the Company at HK$8.75 per share for a total consideration of HK$1,557.5 million to independent third parties and subscribed for the same amount of new issue of the Company's shares at HK$8.75 per share; and (2) Glory River Holdings Limited ("Glory River") (a wholly-owned subsidiary of the Company) issued HK$ Fixed Rate Guaranteed Convertible Bonds Due 29 July 2015 in an aggregate amount of HK$3,875.0 million. The Company has unconditionally and irrevocably guaranteed the due payments of all sums to be payable by Glory River. The respective net proceeds from the above share subscription and the bonds issue of HK$1,524.7 million and HK$3,792.7 million are used for funding capital expenditure for capacity expansion, working capital and general operation purposes. All transactions have been completed. The bonds have been listed and quoted on Singapore Exchange Securities Trading Limited with effect from 2 August 2010. The top-up placing of 178,000,000 new shares of the Company was also allotted on the same date. Please refer to the Company's announcements dated 22 July 2010 and 29 July 2010 for further details.

The Group uses commodity futures contracts to timely hedge its risks associated with price fluctuations in raw materials and sales of the related products, as well as foreign currency forward contracts to mitigate the exchange rate exposure between Hong Kong dollars, United States dollars and Renminbi.

Cash position

The Group maintained a strong financial position with available cash and bank deposits (including pledged deposits) amounting to HK$7,522.5 million (31 December 2009: HK$5,539.1 million) as at 31 December 2010. During the year, net cash outflow from operations of approximately HK$8,211.5 million (2009: net cash outflow of HK$3,116.3 million) was recorded. These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

Bank loans and other borrowings

As at 31 December 2010, the total interest-bearing bank loans and other borrowings (including the liabilities component of convertible bonds) amounted to HK$25,843.0 million (31 December 2009: HK$12,829.3 million). The increase was mainly due to the issue of convertible bonds to meet daily operation and expansion needs. These loans are repayable within the following periods:

	31 December 2010 HK$ million	31 December 2009 HK$ million
Within one year or on demand	**19,767.2**	11,712.9
In the second year	**217.4**	855.2
In the third to fifth years, inclusive	**5,810.9**	261.2
Beyond five years	**47.5**	–
	25,843.0	12,829.3

Among the above total loans, HK$23,487.9 million or 90.9% (31 December 2009: HK$11,118.1 million or 86.7%) are at fixed interest rates. As at 31 December 2010, the Group had pledged assets with an aggregate carrying value of HK$1,006.5 million (31 December 2009: HK$391.7 million) to secure bank loans and banking facilities for the Group. The Group had no unutilised committed banking facilities (31 December 2009: HK$1,950.0 million) as at 31 December 2010.

Financial ratios

The Group's financial ratios at 31 December 2010 are set out below:

	31 December 2010	31 December 2009
Net gearing ratio (the ratio of net debt to shareholders' equity)	**96.0%**	46.1%
Liquidity ratio (the ratio of current assets to current liabilities)	**1.32**	1.38
Quick ratio (the ratio of current assets less inventories to current liabilities)	**0.76**	0.94

The net debt, representing the Group's interest-bearing bank loans and other borrowings (including the liabilities component of convertible bonds) less cash and cash equivalents and pledged deposits, amounted to HK$18,320.5 million (31 December 2009: HK$7,290.2 million) at 31 December 2010.

Capital expenditures

The total capital expenditures of the Group for the year ended 31 December 2010 are tabulated below:

	31 December 2010 HK$ million	31 December 2009 HK$ million
Business units:		
Oilseeds processing	**2,535.7**	1,317.5
Biofuel and biochemical	**1,026.8**	817.5
Rice trading and processing	**487.0**	187.7
Wheat processing	**114.9**	88.0
Brewing materials	**348.0**	158.1
Corporate and others	**9.8**	5.9
	4,522.2	2,574.7

Capital commitments

Capital commitments outstanding and not provided for in the Group's consolidated financial statements as at 31 December 2010 are set out below. These commitments are to be financed by loans and working capital of the Group.

	31 December 2010 HK$ million	31 December 2009 HK$ million
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**5,677.4**	5,442.9
Contracted, but not provided for	**2,734.3**	1,001.4
	8,411.7	6,444.3

Human resources

The Group employed 20,186 (31 December 2009: 16,485) staff as at 31 December 2010:

	31 December 2010 Number of staff	31 December 2009 Number of staff
Business units:		
Oilseeds processing	**5,139**	3,790
Biofuel and biochemical	**9,220**	7,910
Rice trading and processing	**1,900**	1,063
Wheat processing	**3,136**	3,095
Brewing materials	**679**	544
Corporate	**112**	83
	20,186	16,485

The Group's employees are remunerated according to job nature, individual performance and market trends with built-in merit components. Total remuneration (excluding directors' remuneration) for the year ended 31 December 2010 amounted to approximately HK$1,010.3 million (2009: HK$713.6 million). Employees in Hong Kong receive retirement benefits, mostly in form of a Mandatory Provident Fund entitlement, and a similar benefit scheme is offered to employees in the PRC. Of the total remuneration, pension scheme contribution amounted to HK$91.8 million (2009: HK$66.4 million) for the year.

The Group adopted a share option scheme on 12 January 2007 to attract, retain and motivate senior management personnel and key employees, and provide eligible participants with an opportunity to acquire equity interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares.

Corporate Governance Report

Introduction

The Company recognises the importance of corporate transparency and accountability. The Directors are committed in achieving a high standard of corporate governance practices and procedures and striving for a transparent and accountable management framework on enhancing the interests of shareholders. The corporate principles of the Company emphasise on upholding sound ethics and integrity in all aspects of its businesses, and on ensuring that affairs are conducted in accordance with the applicable laws and regulations.

Throughout the year ended 31 December 2010, the Company has complied with all the applicable code provisions and, where appropriate, the applicable recommended best practices of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except the absence of the Chairman of the Board at the annual general meeting of the Company held on 25 May 2010 due to another business commitment.

Corporate governance event calendar 2010

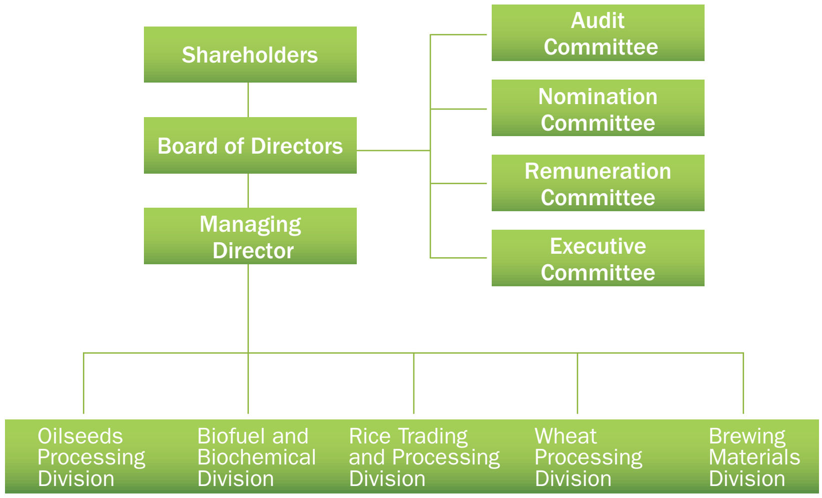
Jan	Directors training on laws and regulations relating to market manipulations and insider dealings.
Apr	The Company came second in the "Best Corporate Governance (Greater China)" category of the "2010 IR Global Rankings", which is an eloquent illustration of its commitment to upholding high standards of corporate governance.
Jun	The Company received, for the third year in a row, the "Annual Recognition Awards" from Corporate Governance Asia.
Jul	The Company was admitted as a constituent of the Hang Seng Corporate Sustainability Index launched by Hang Seng Indexes Company Limited.
Oct	Directors training on matters relating to recent amendments to the Listing Rules and the Companies Ordinance and the Codes on Takeovers and Mergers update.

Securities transactions by directors and relevant employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the principal standards of securities transactions for the Directors. Upon specific enquiries on all the Directors, each of them confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2010 in relation to their securities dealings, if any.

The Company has also adopted a code for securities transactions by relevant employees based on the Model Code concerning dealings by the relevant employees in the securities of the Company (the "Employees Model Code"). Specified employees who are likely to be in possession of unpublished price-sensitive information related to the Group and its activities must comply with guidelines as exacting as those set out in the Model Code. During the year, the Company has not received any non-compliance report from any of such employees.

Corporate governance structure



The Board

The Board is responsible for the leadership and control of the Company and overseeing the Group's business, strategic decisions and performances. The management is delegated with the authority and responsibility by the Board for the management of the Group. In addition, the Board has also established various Board committees and delegated various responsibilities to the Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") (together, the "Board Committees") and the executive committee (the "Executive Committee"). All the Board Committees perform their distinct roles in accordance with their respective terms of reference. Further details of these committees are set out hereunder.

Other than resolutions passed by means of resolutions in writing of all Directors, the Board held eight meetings (including one independent non-executive Directors' meeting, four regular Board meetings and three other meetings) during the year to, among other things, consider and approve the interim and annual results of the Group, and discuss business strategy. The information on the number of the Board meetings attended by each Director during the year is set out in the following table:

	Board		
Name of Director	**Regular meetings**	**Meetings of independent non-executive Directors**	**Other meetings**
Chairman and Non-executive Director			
NING Gaoning	2/4	N/A	0/3
Executive Directors			
YU Xubo *(Managing Director)*	3/4	N/A	3/3
LU Jun	3/4	N/A	2/3
YUE Guojun	2/4	N/A	3/3
Non-executive Directors			
CHI Jingtao*	4/4	N/A	1/3
MA Wangjun	4/4	N/A	0/3
Independent Non-executive Directors			
LAM Wai Hon, Ambrose	4/4	1/1	3/3
Victor YANG	4/4	1/1	3/3
Patrick Vincent VIZZONE	4/4	1/1	2/3

* *resigned on 30 March 2011*

The Company adopts the practice of holding regular Board meetings at least four times a year. Notice of each meeting is sent to Directors at least fourteen days prior to a regular Board meeting, and Directors may request inclusion of matters in the agenda for Board meetings. For ad hoc Board meetings, reasonable notices are given.

It is the practice of the Company that minutes of meetings of the Board and Board Committees be recorded in sufficient detail of the matters considered by the Board and Board Committees, decisions reached, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of minutes of the Board and/or Board Committees (as the case may be) are sent to the Directors, on average within 3 weeks after the date of the respective meeting, for their comments and records respectively. The decisions of the Board can be made via written resolutions authorised by all Directors.

All Board members have access to the advice and services of the company secretary. Minute books (including minutes of meetings of all Board Committees) are kept by the company secretary and are open for inspection during office hours on reasonable notice by any Director.

If necessary, Directors also have access to external professional advice at the Company's expense.

Chairman and managing director

The chairman of the Board is Mr. Ning Gaoning, and the chief executive officer (or managing director, in the case of the Company) is Mr. Yu Xubo. The chairman's and the managing director's roles are clearly defined to ensure their respective independence.

The chairman takes lead in formulating the overall strategies and policies of the Group, and ensures effective performance by the Board of its functions, including compliance with good corporate governance practices, and encourages and facilitates active contribution of Directors in Board activities and constructive relations between executive and non-executive Directors. The chairman also ensures that a system of effective communication with shareholders of the Company and receipt by the Directors of adequate and complete information is in place.

The managing director, as the chairman of the Executive Committee, supported by other Board members and the senior management, is responsible for the daily business operations and management of the Group. He is accountable to the Board for the implementation of the Group's overall strategies as well as co-ordination of overall business operations.

Board composition

The Board currently comprises nine Directors, namely, Mr. Ning Gaoning as the chairman and non-executive Director; Messrs. Yu Xubo (Managing Director), Lu Jun and Yue Guojun as executive Directors; Messrs. Ma Wangjun and Wang Zhiying as non-executive Directors; and Messrs. Lam Wai Hon, Ambrose, Victor Yang and Patrick Vincent Vizzone as independent non-executive Directors. Mr. Wang Zhiying was appointed as Director in place of Mr. Chi Jingtao on 30 March 2011.

The Board members have no financial, business, family or other material or relevant relationships with each other. The composition of the Board has met the standard of recommended best practice under the Code for the Board to have at least one-third of its members comprising independent non-executive Directors.

The Company has received annual written confirmations from each of the independent non-executive Directors confirming their independence in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive Directors are independent within the definition of the Listing Rules.

Appointment, re-election and removal

Currently, each of the Directors has a specific term of appointment for three years.

Pursuant to Article 106 of the articles of association of the Company (the "Articles of Association"), at every annual general meeting, one-third of the Directors or, if their number is not a multiple of three, then the number nearest to and at least one-third shall retire from office by rotation at least once every three years. Further, pursuant to Article 111 of the Articles of Association, the newly appointed Director shall retire at the next following annual general meeting. A retiring Director shall be eligible for re-election. The Company considers that sufficient measures have been taken to ensure that the Company's practices in appointment of Directors are no less exacting than those set out in the Code.

Messrs. Yue Guojun, Ma Wangjun, Wang Zhiying and Patrick Vincent Vizzone will retire at the forthcoming 2011 annual general meeting of the Company and, being eligible, each of them have offered himself for re-election pursuant to Articles 106 and 111 of the Articles of Association.

To enable shareholders of the Company to make an informed decision on the re-election of Directors, the biographies of the retiring Directors are set out in this annual report under the section "Directors and Senior Management Profile", which demonstrates a diversity of skills, expertise, experience and qualifications among the Directors.

Responsibilities of directors

The Company ensures that every newly appointed Director has a proper understanding of the operations and businesses of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. The Company sponsors Directors to attend professional development seminars where necessary. In addition, the Company's legal adviser would provide training (including any update) on the Listing Rules and regulatory requirements (if required) to the Directors.

The independent non-executive Directors take an active role in Board meetings, contribute to the development of strategies, internal control and policies and make independent judgment on issues relating to the Group. They will take lead where potential conflicts of interest arise. The independent non-executive Directors also represented the majority in all three of the Nomination Committee, the Remuneration Committee and the Audit Committee to ensure sufficient independence in the Board's decision making process.

Board committees

Nomination committee

The Nomination Committee was established on 16 February 2007 with specific written terms of reference in accordance with the requirements of the Code. The terms of reference of the Nomination Committee are available in writing upon request to the company secretary and on the Company's website. The Nomination Committee currently comprises Mr. Ning Gaoning (the chairman of the Company and non-executive Director) as the chairman of the Nomination Committee, Mr. Wang Zhiying (non-executive Director), Messrs. Lam Wai Hon, Ambrose, Victor Yang and Patrick Vincent Vizzone (independent non-executive Directors).

The Nomination Committee is primarily responsible for the procedure of nominating appropriate persons and appointing its members, either to fill a casual vacancy or as an addition to the Board.

During the year, the Nomination Committee held one meeting to review the composition of the Board Committees and to consider the rotation of retirement of Directors at the annual general meeting of the Company. Details of attendance of each Nomination Committee members are as follows:

Name of Nomination Committee member	No. of Nomination Committee meetings held during the year	No. of Nomination Committee meetings attended	Attendance rate
NING Gaoning	1	0	0%
(Chairman of Nomination Committee)			
CHI Jingtao*	1	1	100%
LAM Wai Hon, Ambrose	1	1	100%
Victor YANG	1	1	100%
Patrick Vincent VIZZONE	1	1	100%

* *resigned on 30 March 2011*

During the year, the executive Directors were appointed based on their qualifications and experience in relation to the Group's businesses. The non-executive Directors were appointed based on their qualifications and experience within COFCO Corporation and its subsidiaries. The independent non-executive Directors were appointed based on their professional qualifications and experience in their respective areas.

The circular of the Company dated 28 April 2011 contains detailed information on re-election of Directors including biographies of those Directors standing for re-election to enable shareholders to make informed decisions.

Remuneration committee

The Remuneration Committee was established on 16 February 2007 with specific written terms of reference in accordance with the requirements of the Code. The terms of reference of the Remuneration Committee are available in writing upon request to the company secretary and on the Company's website. The Remuneration Committee currently comprises Mr. Wang Zhiying (non-executive Director) as the chairman of the Remuneration Committee, Mr. Ma Wangjun (non-executive Director), Messrs. Lam Wai Hon, Ambrose, Victor Yang and Patrick Vincent Vizzone (independent non-executive Directors).

The primary role of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for remuneration of executive Directors and senior management.

The Remuneration Committee may consult with the chairman and managing director of the Company regarding proposals for the remuneration of other executive Directors. The remuneration of the non-executive Directors is determined by the chairman of the Company (except for his own remuneration) and the executive Directors. Where necessary, the Remuneration Committee may have access to external professional services at the Company's expenses.

The existing remuneration policy of the executive Directors is determined by the Remuneration Committee having considered the qualifications and experience of each of the executive Directors and with reference to the remuneration policy of other listed companies of similar business and size. The remuneration policy of the non-executive Directors and the independent non-executive Directors is determined by their participation in the Board and the Board Committees.

During the year, the Remuneration Committee held one meeting to review the existing remuneration packages of the executive Directors and senior management. Details of attendance of each Remuneration Committee members are as follows:

Name of Remuneration Committee member	No. of Remuneration Committee meetings held during the year	No. of Remuneration Committee meetings attended	Attendance rate
CHI Jingtao* *(Chairman of Remuneration Committee)*	1	1	100%
MA Wangjun	1	1	100%
LAM Wai Hon, Ambrose	1	1	100%
Victor YANG	1	1	100%
Patrick Vincent VIZZONE	1	1	100%

* *resigned on 30 March 2011*

Audit committee

The Audit Committee was established in 16 February 2007 with specific written terms of reference which clearly deal with its authority and duties. The terms of reference of the Audit Committee are available in writing upon request to the company secretary and on the Company's website. The Audit Committee currently comprises Mr. Lam Wai Hon, Ambrose (independent non-executive Director) as the chairman of the Audit Committee, Messrs. Ma Wangjun and Wang Zhiying (non-executive Directors), Messrs. Victor Yang and Patrick Vincent Vizzone (independent non-executive Directors). In compliance with Rule 3.21 of the Listing Rules, the chairman of the Audit Committee has possessed the appropriate professional and accounting qualifications.

During the year, the Audit Committee held three meetings with the external auditors and the senior management of the Company to review and discuss, among other things, the financial reporting and audit planning, internal control and the financial results of the Group. Details of attendance of each Audit Committee members are as follows:

Name of Audit Committee member	No. of Audit Committee meetings held during the year	No. of Audit Committee meetings attended	Attendance rate
LAM Wai Hon, Ambrose *(Chairman of Audit Committee)*	3	3	100%
Victor YANG	3	3	100%
Patrick Vincent VIZZONE	3	3	100%
CHI Jingtao*	3	2	67%
MA Wangjun	3	3	100%

* *resigned on 30 March 2011*

Under its terms of reference, the Audit Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control, risk management and external audit functions. In the meantime, it is the management's duty to ensure the Company's accounting and financial reporting function maintains an adequate amount of qualified and experienced staff (the information on the number of Certified/Chartered Accountants of the Company as listed below). The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and may make recommendations to the Board to take appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel, records, external auditors and senior management, as may be appropriate in discharging its functions.

Certified/Chartered accountants in the Company

Name of Professional Institution	No. of staff
The Chinese Institute of Certified Chartered Accountants	25
Association of Certified Chartered Accountants	4*
Hong Kong Institute of Certified Public Accountants	4
American Institute of Certified Public Accountants	2**

* *Two out of these four individuals are also members of the Hong Kong Institute of Certified Public Accountants.*
** *Both individuals are also members of the Hong Kong Institute of Certified Public Accountants.*

Executive committee

The Executive Committee was established on 27 February 2009 with specific written terms of reference. The Executive Committee currently comprises Mr. Yu Xubo (Managing Director) as the chairman of the Executive Committee, Messrs. Lu Jun and Yue Guojun as executive Directors.

Under its terms of reference, the primary responsibility of the Executive Committee is to deal with and supervise the day-to-day business operations, management and administration of the Company.

Auditors' remuneration

During the year under review, the remunerations paid or payable to Ernst & Young in respect of its audit services and non-audit services are HK$5.7 million and HK$1.4 million, respectively.

Accountability and audit

The Directors acknowledge their responsibilities for preparing all information and representations contained in the financial statements of the Company for the year under review. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting principles in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the management with an appropriate enquires, were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The Company's operating results for the year ended 31 December 2010 were reviewed by the management during the annual management meeting. Management personnel of all business units and functional departments of the Company had attended the meeting and the Managing Director presented the Company's overall and divisional operating results during the meeting. Variations from the budget and from the previous year's results were reviewed and analysed. In this review process, the management identified the effects of the key risk factors that affected the Company's businesses during the year and consolidated them with their expectations of the business performance they accumulated during their daily management of the businesses to form a basis for comparison and verification of the details of the reported operating results for the year.

Based on the results of the above management review and the business risks identification, an overall business strategy of the Company for the coming year was also developed during this annual management meeting. To ensure the achievement of the goals and objectives set for the coming year, this overall business strategy also includes plan for continuing risks assessment and the development of the necessary internal control procedures.

The Company has announced its annual results for the financial year ended 31 December 2010 on 30 March 2011. An independent Auditors' Report is included in this annual report on pages 77 and 78.

Internal control

The Board acknowledges that a properly designed internal control system is one of the key elements to monitor and safeguard the resources of the Group; to produce reliable financial reports for the stakeholders of the Company, and to enhance better corporate governance and compliance in return reduces the possibility of significant errors and irregularities by timely detection.

The COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework is adopted by the Company in developing its internal control system. The major elements of the governance framework include a stable control environment that supports sustainable growth, a comprehensive risk management system, a system of effective control activities, an efficient information and communications system, and a management monitoring process. The Board empowered the management with the responsibilities and the necessary authorities to develop and implement an effective system of internal controls.

Business objectives set by the Board were fully discussed among the management team during the annual management meeting. Risks associated with achieving or not achieving these objectives were identified and assessed during these management discussions. Based on the results of these discussions, the management developed detailed business strategies for the year. These strategies include the plan for the development and the implementation of the necessary control activities and management monitoring process. Periodic review on the effectiveness of these business strategies are performed by the management to ensure the necessary adjustments be made to accommodate the changes in internal and external environment. The Company's Risk Management Committee which reports directly to the Managing Director is responsible for overseeing the Company's overall risk management practice and the related policies setting process (also refer to the "Risk Management" section of this annual report for details regarding the development of the Company's Risk Management System).

Internal audit

The Company's Audit and Supervision Department is led by the General Manager of Audit and Supervision Department and includes over 50 professional staff. The General Manager of Audit and Supervision Department reports directly to the Audit Committee and the Managing Director and attends all Audit Committee and Board of Directors' meetings.

The Audit and Supervision Department's primary responsibilities include:

- Assist the Audit Committee in its review of the Company's overall system of internal controls;
- Perform reviews on the design and the proper implementation of policies, procedures and controls of all major business units and functional departments;
- Perform reviews on the compliance status on rules and regulations that are relevant to the Company's businesses;
- Perform efficiency and compliance reviews on major investment and construction projects; and
- Perform special reviews on areas of concern identified by the Audit Committee or the management.

An annual internal audit plan is prepared by the Audit and Supervision Department based on a risk-based auditing approach. The approach focuses on the internal controls of material transactions and operations of major business units and functional departments. The annual internal audit plan is reviewed and approved by the Audit Committee at the beginning of each year.

In addition to the review of the Company's internal control activities, the Audit and Supervision Department is also responsible for providing recommendations to the Board on the continuing development of other aspects of the Company's internal control framework, including the risk management process, information and communication system and management monitoring process.

Internal control review

The Board assesses the effectiveness of the overall system of internal control by considering reviews performed by the Audit Committee, the management, as well as both internal and external auditors with the understanding that such system is an ongoing process to identify, evaluate and manage significant risks faced by the Group. The internal control system of the Group has been in place and was functioning effectively for the year under review and the process is regularly reviewed.

Whistle-blowing policy

A whistle-blowing policy was set up by the Company to ensure inappropriate business practices and behaviors are properly reported and handled. The policy includes the set up of an electronic reporting mailbox. The Audit Committee and the Managing Director have full and direct access to this mailbox. Follow up review will be performed by the Audit and Supervision Department on the request of the Audit Committee or the Managing Director. Procedures and controls are in place to ensure the informant's identity is kept confidential.

Investor relations

Investor relations have always been a top priority for the Company. We are committed to conducting open and effective communications with local and overseas investors through timely disclosures of corporate information and regular liaison with the financial community, in order to facilitate the market to build a better understanding of our development strategies and business models. Our investor relations team reports the market updates as well as investors' feedback, concerns and opinions to the senior management on a regular and timely basis, fostering a two-way communication between the management and the investment community.

A variety of activities to enhance investor relations were being organised during 2010, including "Investors & Analysts Tour", an on-site visit to our production plants was arranged, with members of our senior management present to give updates on our operations. Such visit provided an opportunity for direct and mutual communications and strengthened the market's confidence in our operations. In addition, the Company was engaged in active communications with investors throughout the year, providing them with timely information on our business development via regular activities such as post-results press conferences and analyst presentations, conference calls, luncheons and non-deal investor roadshows.

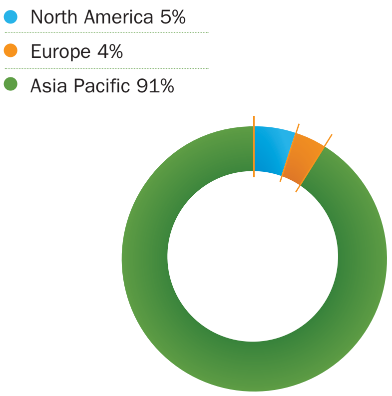
The Company is well recognised among leading institutions and the media for its efforts in corporate governance and investor relations. During the year, the Company came second in the "Best Corporate Governance (Greater China)" category of the "2010 IR Global Rankings". The Company was granted the "Annual Recognition Awards" for the third consecutive year, and Mr. Ning Gaoning, Chairman, was honoured with "Asian Corporate Director Recognition Awards 2010" by Corporate Governance Asia. These awards demonstrated our commitment to upholding high standards of corporate governance. The company was also awarded "Credible Enterprise for 2010-2012" by Reputation Institute (China) and China Enterprise Reputation and Credibility Association (Overseas), which illustrates the Company's credibility and brand awareness are highly regarded.

Moreover, the Company was selected by Hang Seng Indexes Company Limited in July 2010 as a constituent stock of its newly launched Hang Seng Corporate Sustainability Index, in recognition of the Company's outstanding performance in three aspects of sustainable development, namely environmental protection, social responsibility and corporate governance. In addition, the Company has been admitted as a constituent of a number of key benchmark indexes, including the Hang Seng Composite Index, Hang Seng Composite Industry Index – Consumer Goods, Hang Seng Composite MidCap Index, Hang Seng China-Affiliated Corporations Index, Hang Seng Mainland 100 and FTSE Environmental Opportunities Index Series.

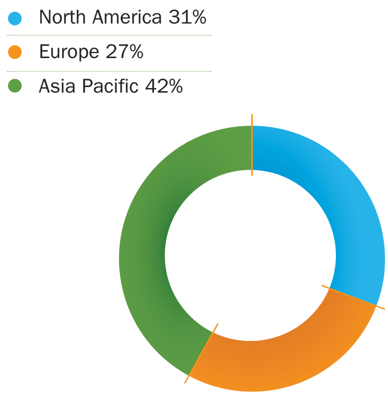
Our business performance is being tracked and analysed by numerous investment banks and financial institutions. For a complete list of analysts tracking the Company, please visit our website at www.chinaagri.com.

We review the Company's shareholding structure from time to time to identify any changes in shareholdings by different types of investors. Such review will enable us to develop constructive relationships with existing and potential shareholders and maintain a sound and diversified shareholder base. The geographical distribution of our top 20 investors is shown below:

By number of shares



By number of investors



Risk Management

Our philosophy

We believe that risk management is the key to the survival and sustainability of an organisation. This is specially true in an ever changing economy like the one we are facing now. We also believe that risk management is the responsibility of management personnel at all level of the organisation. Risk management is an integral and inseparable part of the duty of management's daily businesses.

Our objectives

The objectives of establishing our risk management system are: to control the risks which may hamper the achievement of our strategic and operational goals within a level acceptable to our management through reasonable, standardised and scientific risk management and monitoring processes; to ensure compliance with the relevant laws and regulations of the state and of the relevant authorities; to ensure the proper implementation of key measures in achieving the Company's strategic goals; and to enhance our operational efficiency; and to minimise the uncertainty in achieving our strategic goals.

The development of our risk management system

The Company has started to build a risk management system according to the COSO framework since its inception. Details of the development of our risk management system are set out as follows:

- Identification of risk exposures of the Company has been completed. A risk database consisting of 34 types of risks has been established and 9 of them have been confirmed as significant risk exposures for the Company following assessment by the management of the Company.

- Specifically in response to the 9 significant risks identified by the management, the Company started a process to match the internal control designs with these risks. Deficiencies in the management system and business processes have been identified and departments concerned have been asked to carry out rectification. Further improvements in the specific control measures designed to address the 9 significant risks have been made and the standard of significant risk management has been enhanced as a result.

- Compilation of the Manual on Key Risk Indicators (KRI) of China Agri-Industries Holdings Limited (the "KRI Manual") has been completed. The KRI Manual has defined standardised control indicators in respect of the Company's risk exposures to provide the basis for the development of the Company's KRI monitoring system, which will form a critical part of the Total Risk Management Framework System of the Company as a quantitative management tool that takes risk management to operation levels and helps improving raising the risk management standards of the Company.

Risk Management

In 2010, the Company further implemented and improved its risk management system on the basis of work accomplished in previous periods. Major tasks in 2010 are set out below:

1. Tracking of rectifications of matching between significant risks and internal control designs

To address deficiencies in the management system and business processes identified in the matching of internal control designs with the 9 significant risks, the Audit and Supervision Department conducted monthly tracking and review of rectifications carried out by all business units and functional departments, procuring each of them to supply documentations evidencing the rectifications and inspecting such documentations. Any issues identified in the course of supervising the rectification process were feedback in a timely manner for analysis of any discrepancies, so as to ensure that progress was made in rectification.

At year-end, the Audit and Supervision Department summarised the overall rectification work of the Company and furnished a report on the completion of rectification work for the management's review, with a view to facilitating improvements in our internal control system.

2. KRI application and training

The KRI Manual were distributed to all business units and functional departments, which were required to incorporate risk management into their day-to-day management, especially in relation to the financial management system, so that risk controls and risk warning system are implemented in daily operations for achieving effective risk management. Meanwhile, the Audit and Supervision Department engaged external experts to conduct trainings on KRI application, while the Managing Director of the Company also made a statement on the requirements and guiding principles for the further development of a comprehensive KRI control system.

Key risks and their relevant control procedures and structures

Risks	Risk owners	Risk management measures		
		Business policies and processes	Management departments and structure	Management reporting
Safety risks (food safety, employee safety and production safety)	Deputy general manager in charge of production	A series of safety management systems have been formulated at the company level, while corresponding safety management systems and specific operational processes have also been drawn up by each of our business units and profit centres according to their respective specific conditions.	Safety and environment protection departments have been set up at the company level, business unit and profit centre, and the system and appraisal methods for safety and environment protection have also been formulated.	Safety incidents are promptly reported to our Executive Committee upon occurrence, and timely safety education is provided to all employees in accordance with the instructions of our Executive Committee in response to such incidents.
Legal compliance risks	General manager of Legal Department	In accordance with relevant laws and regulations, our Legal Department formulates regulations on contract review, listing compliance, investment compliance and labour laws compliance generally applicable at the company level, and has formulated relevant operational processes for the handling of various legal matters.	The mission and duties of our Legal Department have been defined in "Mission and Duties of China Agri Legal Service".	Reports on compliance on laws and regulations, usually being reports on specific matters, will be submitted to our Executive Committee for review, and a general report on the legal compliance risk management system will be made in the annual reporting of the department's work. Our board of directors and its committees may consult Legal Department at any time for professional legal opinion on various issues.
Environment protection risks	Deputy general manager in charge of production	Environment protection requirements and day-to-day administrative rules relating to waste water, gas emissions, solid wastes and noise have been formulated at the company level, business unit and profit centre of China Agri. Environment protection risks assessment and control requirements and a detailed standardised procedural document have also been formulated.	Departments and positions in charge of energy conservation and environment protection have been established at the company level, business unit and profit centre in accordance with relevant requirements. Methods for the appraisal of environment protection and emission reduction have also been formulated.	Environment protection and energy conservation reports, usually being reports on specific matters and control reports, will be submitted to our Executive Committee in a timely manner and an overall analysis of the estahlishment of our environment protection management regime will be made in the annual reporting of our Safety and Environment Protection Department.

Risk Management

Risks	Risk owners	Risk management measures		
		Business policies and processes	Management departments and structure	Management reporting
Financial market risks	General manager of Finance Department/ Deputy general manager in charge of finance	"Measures for Treasury and Risk Management" formulated at the company level comprises management systems for the prevention of foreign exchange and interest rate risks, such as those relating to the settlement and sale of forward exchange contracts, while our business units have each formulated relevant operational requirements for the settlement and sale of forward exchange contracts.	The mission and role of our Finance Department in the settlement and sale of forward exchange contracts and interest rates have been stipulated in "Roles and Duties of China Agri Finance Department" and "Measures for the Administration of Finance Personnel" has been formulated for the appointment, removal, appraisal, management and change of relevant management personnel.	General manager of our Finance Department and deputy general manager in charge of finance will be briefed on financial market movements on a daily basis. A monthly report will be submitted by Finance Department to our Executive Committee for review.
Channel effectiveness risks	Deputy general manager in charge of sales	Systems such as "Rules for the Administration of Credit and Transaction Amounts" and "Measures for the Administration of Distributors" have been formulated at the company level to regulate the control of relevant risks, and a handbook of processes has been formulated comprising flowcharts drawn up for the specific operation of various businesses.	Our Major Customer Department at the company level and sales departments at various business units have each created relevant job positions with clearly defined duties to be in charge of the maintenance and management of business channels.	Analyses of channel status will be conducted on quarterly basis and reported by the responsible departments to the deputy general manager in charge of sales. A monthly analysis will be submitted to our Executive Committee for review.
Human resources risks	General manager of Human Resources Department	Our Human Resources Department controls associated risks by formulating management systems and business processes for areas such as personnel policies, human resources planning, management of key personnel, staff capabilities and staff mobility.	Positions and duties of each department, including relevant positions at our Human Resources Department, are stipulated in "China Agri Human Resources Management and Control System".	Our Human Resources Department currently adopts the EHR information system to collect staff data and information and submit a consolidated analysis report to our Executive Committee for review.
Raw material prices volatility risks	Deputy general manager in charge of purchases	Systems relating to purchases and hedging such as "Measures for the Administration of Hedging Activities" have been formulated to provide guidelines for such operations; the duty rotation system and mandatory holiday system have also been implemented for staff involved in hedging operations.	A steering group, under the direct leadership of the deputy general manager in charge of purchases, has been set up for our hedging activities; the positions of futures trader, futures settlement clerk and risk controller have also been created, each with specific duties and requirements.	Reports on hedging activities are submitted to the steering group on a daily basis. A daily position report is submitted to our Finance Department and Executive Committee for review.
Budget and planning risks	General manager of Finance Department/ Deputy general manager in charge of finance	At China Agri, budget management is implemented at the Company levels, business units and profit centres, with budget management systems and relevant business operation processes formulated at each level. Annual budgets are formulated in accordance with these requirements to facilitate budget control.	The duties of budget preparation and management for each business department, functional department and finance department are specified in the relevant budget management systems, and corresponding appraisal measures have also been implemented.	Our Finance Department will consolidate relevant reports in accordance with the standards and requirements of budget management and submit the consolidated report to our Executive Committee on a monthly basis for review.
Financial risks	General manager of Finance Department/ Deputy general manager in charge of finance	Systems such as "Internal Accounting Control System" and the "Measures for Treasury and Risk Management" have been formulated at the company level of China Agri, covering risks associated with fund security, fund deficiency and fund application efficiency to regulate operation processes.	The mission and role of our Finance Department in financial management have been stipulated in "Roles and Duties of China Agri Finance Department", while the "Measures for the Administration of Finance Personnel" regulates the appointment, removal, appraisal, management and change of treasury management personnel.	Finance Department will submit a financial management report to our Executive Committee each month for review, as well as report the status of financial management to our Audit Committee on a quarterly basis.

Directors and Senior Management Profile

Chairman and Non-executive Director

Mr. NING Gaoning, aged 52, was appointed as a non-executive Director and the Chairman of the Company in January 2007. Mr. Ning holds directorships in COFCO Corporation and/or its subsidiaries (together but excluding the Company and its subsidiaries, collectively referred to as "COFCO Group" in this section "Directors and Senior Management Profile") from December 2004. Mr. Ning is the chairman of COFCO Corporation, a director of Wide Smart Holdings Limited and the chairman of COFCO (Hong Kong) Limited, all of them are substantial shareholders of the Company. Mr. Ning is an executive director and the chairman of China Foods Limited, a non-executive director of CPMC Holdings Limited and a non-executive director and vice-chairman of China Mengniu Dairy Company Limited and was a non-executive director of Lippo China Resources Limited, all of them are Hong Kong-listed companies. Mr. Ning is also a director of BOC International Holdings Limited, and an independent director of Huayuan Property Co., Ltd. (a company listed on the Shanghai Stock Exchange). He had been a director of Smithfield Foods, Inc. (a U.S. listed company) until 2 March 2011. Before joining COFCO Group, Mr. Ning held various positions such as vice-chairman, director and general manager at China Resources (Holdings) Company Limited and certain of its subsidiaries. He was the general manager of China Resources National Corporation from June 1999 to December 2004.

Mr. Ning holds a Bachelor's degree in Economics from Shandong University in China and a Master of Business Administration degree from University of Pittsburgh in the United States.

Executive Directors

Mr. YU Xubo, aged 45, was appointed as an executive Director and the managing director of the Company in January 2007. Mr. Yu joined COFCO Group in 1988. He has been the president of COFCO Corporation since April 2007 and previously served at COFCO Group in various positions including the general manager of COFCO Futures Co., Ltd. (中糧期貨經紀有限公司) and the vice president of COFCO Corporation. Mr. Yu is the chairman both of COFCO Meat Investment Co. Ltd. and COFCO Coca-Cola Beverages Ltd., a non-executive director of China Mengniu Dairy Company Limited (a company listed in Hong Kong) and a director of Glory River Holdings Limited (a wholly-owned subsidiary of the Company and whose convertible bonds are listed and quoted in Singapore). He is also a director of Wide Smart Holdings Limited, COFCO (BVI) No.108 Limited and COFCO (Hong Kong) Limited, all of them are substantial shareholders of the Company. Mr. Yu holds a Bachelor's degree in Economics from University of International Business and Economics in Beijing and an Executive Master of Business Administration (EMBA) from China Europe International Business School.

Mr. LU Jun, aged 43, was appointed as an executive Director and vice-president of the Company in January 2007. Mr. Lu is also the general manager of the oilseeds processing division. Mr. Lu joined COFCO Group in 1993. He has been the vice president of COFCO Corporation since May 2010 and was previously the general manager of COFCO Futures Co., Ltd. (中糧期貨經紀有限公司) and the assistant president of COFCO Corporation. Mr. Lu holds a Bachelor's degree and a Master's degree in Engineering from China Agricultural University in Beijing.

Mr. YUE Guojun, aged 47, was appointed as an executive Director and the vice-president of the Company in January 2007. Mr. Yue is also the general manager of the biofuel and biochemical division. Mr. Yue joined COFCO Group in November 2005 and has been the assistant president of COFCO Corporation since February 2007. He has been a director and the chairman of Anhui BBCA Biochemical Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since November 2007. He was elected as one of the deputies of the 11th National People's Congress of the People's Republic of China in February 2008. Mr. Yue holds a Bachelor's degree from Chemical Engineering Department of Jilin Institute of Chemical Technology, a Master's degree from Environmental Engineering from Harbin Institute of Technology and a Engineering PhD's degree from Chemical Engineering and Technology from Beijing University of Chemical Technology. He has over 20 years of experience in the production and sales of bio-chemical products.

Non-executive Directors

Mr. CHI Jingtao, aged 48, was appointed as a non-executive Director of the Company in January 2007 and resigned on 30 March 2011. Mr. Chi joined COFCO Group in August 2003. He is the vice president of COFCO Corporation since May 2010. He has been appointed as an executive director and executive vice-chairman of China Foods Limited with effect from 10 February 2011. He has also been appointed as an independent director of China Hainan Rubber Industry Group Co., Ltd., a company listed in Shanghai, since January 2011. Prior to joining COFCO Group, Mr. Chi had served at China Minmetals Corporation (中國五礦集團公司) as the general manager of human resources and at various positions. Mr. Chi holds a Bachelor's degree in Engineering from the Academy of Armored Forces Engineering in Beijing and an Executive Master of Business Administration (EMBA) from University of International Business and Economics in Beijing.

Mr. MA Wangjun, aged 46, was appointed as a non-executive Director of the Company in January 2007. Mr. Ma joined COFCO Group in August 1988 and has been the assistant president and vice chief financial controller of COFCO Corporation since May 2010. He held various positions in COFCO Group, including the deputy general manager of finance and planning, the general manager of asset management and the deputy head and head of the finance department. Mr. Ma has been a non-executive director of China Mengniu Dairy Company Limited since 1 March 2010. Mr. Ma holds a Bachelor's degree in Economics from Beijing Technology and Business University and an Executive Master of Business Administration (EMBA) from Cheung Kong Graduate School of Business.

Mr. WANG Zhiying, aged 40, was appointed as a non-executive Director of the Company on 30 March 2011. Mr. Wang had worked in training and education, human resources development, project management and general management in China Agricultural University and a government department and had been involved in various human resources development and talent development projects and in charge of the planning, design and management of various education institutions. Mr. Wang joined China Foods Limited (a company listed in Hong Kong) as a deputy general manager in September 2009, with responsibility for strategy management, food safety, production safety and innovation, research and development and was its director during the period from 15 April 2010 to 28 March 2011. He is the head of human resources of COFCO Corporation. Mr. Wang has extensive experience in organisation development, talent development, strategy planning, project management and general management. Mr. Wang graduated from Peking University with a Bachelor of Arts degree in sociology, and is currently studying at China Europe International Business School for a degree of Executive Master of Business Administration (EMBA).

Independent Non-executive Directors

Mr. LAM Wai Hon, Ambrose, aged 57, was appointed as an independent non-executive Director of the Company in January 2007. Mr. Lam is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Arts (Honours) degree from University of Newcastle Upon Tyne in England. Mr. Lam is a Director and a founder of Access Capital Limited. He has over two decades of experience in corporate finance and advisory transactions in investment banking institutions. Prior to establishing Access Capital Limited in 2000, Mr. Lam was the managing director and head of Global Investment Banking for Greater China of Deutsche Bank AG (Hong Kong). He was also the managing director and head of Greater China Investment Banking of the Bankers Trust Company, and the managing director of Yuanta Securities (Hong Kong) Company Limited. Mr. Lam started his investment banking career with Kleinwort Benson Group (in London and Hong Kong) before joining Standard Chartered Asia Limited in Hong Kong where he held the position of managing director in corporate finance. Mr. Lam is also a director of Hong Kong Professional Consultants Association Limited and an independent non-executive director of Shenzhen Expressway Company Limited (a listed company).

Mr. Victor YANG, aged 65, was appointed as an independent non-executive Director of the Company in January 2007. Mr. Yang holds a Bachelor of Commerce degree and a Juris Doctorate degree from the University of British Columbia, Canada. He is a founding partner of Boughton Peterson Yang Anderson, a Canadian based law firm, and is presently the managing partner of Boughton Peterson Yang Anderson in Hong Kong. He is a solicitor of the Supreme Court of Hong Kong, a barrister and solicitor in British Columbia, Canada and a solicitor in England and Wales. Mr. Yang is presently a governor of the Canadian Chamber of Commerce in Hong Kong and an immediate past member of the Major Sports Committee of the Home Affairs Bureau, Hong Kong. He is an independent non-executive director of Playmates Toys Limited and Singamas Container Holdings Limited, all of which are companies, shares of which are listed on the Stock Exchange of Hong Kong. He is also a non-executive director of Lei Shing Hong Limited, shares of which were listed on the Stock Exchange up to 17 March 2008 before their withdrawal on that date. Mr. Yang was also a director of Media Chinese International Limited until his resignation on 1 October 2009, shares of which were listed on the Stock Exchange of Hong Kong, and Eupa International Corporation, shares of which were listed on the NASDAQ (Over-the-Counter Bulletin Board).

Mr. Patrick Vincent VIZZONE, aged 39, was appointed as an independent non-executive Director of the Company in June 2007. Mr. Vizzone holds a Bachelor's degree in History and Political Science from Monash University, Australia and a Master of Business Administration degree in finance from Manchester Business School, the United Kingdom. Presently, Mr. Vizzone is Head of Strategy at GE Capital Asia Pacific. Prior to joining GE Capital, Mr. Vizzone was Regional Head of Food & Agribusiness of Rabobank International Asia and Assistant General Manager of Rabobank International Hong Kong Branch. Mr. Vizzone has 14 years experience working in China's agribusiness arena. Commencing with Shanghai Asia-Pac International Vegetable Co., where he was a Founding Director and Deputy General Manager and as a cofounder of China Green Concepts.

Senior Management

Ms. YANG Hong, aged 47, is the vice president of the Company and the general manager of the rice division. Ms. Yang joined COFCO Group in 1989. She served at COFCO Group as a department manager of the grains division, the deputy general manager of COFCO Cereals, Oils & Feedstuffs Import & Export Company (中糧糧油飼料進出口公司), the general manager of the rice division and at various positions. Ms. Yang holds a Bachelor's degree in Economics from University of International Business and Economics in Beijing and an Executive Master of Business Administration (EMBA) from China Europe International Business School.

Mr. SHI Bo, aged 44, is the vice president of the Company, taking charge of the overall financial management. Mr. Shi joined COFCO Group in 2005 and was the deputy general manager of the biofuel and biochemical division. He was the general manager of the finance department of the Company. Prior to that, Mr. Shi was the financial controller of CR Alcohol and also served at Shougang Group as the assistant general manager of group finance, a director and the general manager of finance and planning of Shougang Hierro Peru SA and at other positions. Mr. Shi is a member of The Chinese Institute of Certified Public Accountants. He holds a Bachelor's degree in Accounting from Anhui University of Finance & Economics and an Executive Master of Business Administration (EMBA) from China Europe International Business School.

Ms. NIU Yanxia, aged 45, is the general manager of the general administration department of the Company. Ms. Niu joined COFCO Group in 1999. She was the assistant to general manager of the general administration office of COFCO Top Glory International (Beijing) Ltd. (中糧鵬利國際(北京)有限公司), the assistant to general manager of the state-owned assets administration division under the finance department of COFCO Corporation, the deputy director of the general administration office of COFCO Grain & Oil Import & Export Co. (中糧糧油進出口公司), the deputy general manager of the secretarial department and the public relations department under COFCO Corporation's office. Ms. Niu holds a Bachelor's degree in Economics from Jilin Institute of Finance and Trade.

Mr. GAO Xiang, aged 39, is the general manager of the human resources department of the Company. Mr. Gao joined COFCO Group in 1993. He held various positions in China National Native Produce & Animal By-products Import & Export Corporation (中國土畜產進出口總公司) and COFCO Group, including department manager and training division deputy head. Mr. Gao holds a Bachelor's degree in Economics and a Doctoral degree in Corporate Management from Renmin University of China.

Ms. LIU Yong, aged 38, is the general manager of the legal department of the Company. Ms. Liu joined COFCO Group in 1995. She was the deputy general manager of the contract and company law division under the legal affairs department of COFCO Corporation. Ms. Liu holds a LLB degree from University of International Business and Economics in Beijing and an LLM degree from Northwestern University School of Law in the United States. She possesses bar qualifications in China and the New York State of the United States.

Directors and Senior Management Profile

Mr. LEUNG Wai Fung, Joseph, aged 40, is the general manager of the audit and supervision department of the Company. Mr. Leung joined the Company in 2007 as the head of audit department. Prior to that, Mr. Leung headed the internal Audit and Supervision Department of USI Holdings Limited, a company listed in Hong Kong. Mr. Leung started his professional career at PricewaterhouseCoopers and specialised in financial and Sarbane-Oxley compliance audit of China state-owned enterprises and multinational companies. He has extensive corporate governance and auditing experience. Mr. Leung holds a Bachelor's degree of Commerce, with major in Accountancy, from Concordia University. He is a member of each of the Hong Kong Institute of Certified Public Accountants, American Institute of Certified Public Accountants, Washington State Board of Accountants and Association of Certified Fraud Examiners.

Mr. XU Xiaochun, aged 49, is the general manager of operation management department of the Company in Hong Kong. Mr. Xu joined COFCO Group in 1985. He was the deputy general manager of the grains, oils and feed division of COFCO Group, the general manager of the export division of China National Liangfeng Grains Import & Export Co. (中國良豐穀物進出口公司), the executive vice president of BNU Corporation in the United States and the deputy general manager of the oilseeds processing division of COFCO Group. Mr. Xu holds a Bachelor's degree in Economics from University of International Business and Economics. He is a Senior Economist in International Business.

Mr. MENG Fanjie, aged 46, is the general manager of the project management department of the Company. Mr. Meng joined COFCO Group in 1993. He served at COFCO Group as the general manager of Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd. (瀋陽東大糧食品實業有限公司), the general manager of Shenyang Xiangxue Flour Limited Liability Company (瀋陽香雪麵粉股份有限公司) and the deputy general manager of the wheat processing division. Mr. Meng holds a Bachelor's degree from Beijing University of Aeronautics and Astronautics and a Master's degree from Tsinghua University and is a Senior Engineer. He was offered a special government grant by the State Council in 2008. He is also an Emeritus Professor of Food Industrial Faculty of Shenyang Agricultural University.

Directors and Senior Management Profile

Mr. XU Jianong, aged 46, is the general manager of the brewing materials division of the Company. Mr. Xu joined COFCO Group in 1987. He served at COFCO Group as a department manager of COFCO Cereals, Oils & Feedstuffs Import & Export Company (中糧糧油飼料進出口公司), the deputy general manager of COFCO Electromechanics Import & Export Co., Ltd (中糧機電進出口有限責任公司), the deputy general manager of COFCO Project Management Dept No. 1 (中糧總公司項目一部), the deputy general manager of COFCO Intertrans Company (中糧國際倉儲運輸公司) and previously served as the deputy general manager and executive deputy general manager of the brewing materials division. Mr. Xu holds a Bachelor's degree in Economics from Shanghai Institute of Foreign Trade. He is a Senior Economist in International Business.

Mr. TIAN Tao, aged 40, is the general manager of the wheat processing division of the Company. Mr. Tian joined COFCO Group in 1991. He had served at COFCO Group as the deputy general manager of finance and finance manager in various departments as well as the assistant to general manager, the deputy general manager and the executive deputy general manager of wheat processing division. Mr. Tian holds an Executive Master of Business Administration (EMBA) from Renmin University of China.

Ms. DA Zhaohui, aged 41, is the general manager of the finance department of the Company. Ms. Da joined COFCO Group in 1994 and was the deputy manager of the finance department of COFCO Trade Development Co. (中糧貿易發展公司), the head of finance of COFCO International (Beijing) Co., Ltd. (中糧國際(北京)有限公司), the assistant to general manager of the rice division at COFCO Group and the deputy general manager of that division. Ms. Da holds a Bachelor's degree from Capital University of Economics and Business and is an Accountant.

Report of The Directors

The directors (the "Directors") of China Agri-Industries Holdings Limited (the "Company") are pleased to present this annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

Corporate information

The Company was incorporated on 18 November 2006 in Hong Kong with limited liability. Pursuant to a special resolution passed by shareholders on 29 December 2006, the name of the Company was changed from Sino Vision Hong Kong Limited to China Agri-Industries Holdings Limited and became effective on 9 January 2007.

The Company has one class of shares in issue. These shares commenced trading on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 March 2007.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates of the Company comprise production, processing and distribution of agricultural products and related businesses. The Group's principal products and businesses are oilseeds processing, biofuel and biochemical, rice trading and processing, wheat processing and brewing materials. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 79 to 182.

The Board of Directors recommended a final dividend for the year ended 31 December 2010 of 3.9 HK cents (2009: 5.9 HK cents) per share. Subject to shareholders approving this recommendation at the forthcoming annual general meeting, the final dividend will be paid on or around Tuesday, 28 June 2011 to the shareholders whose names appear on the register of members of the Company on Thursday, 9 June 2011.

The proposed final dividend together with the interim dividend of 6.6 HK cents per share paid on 29 September 2010 amounts to a total of about HK$424.0 million.

Financial information summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 3 of this annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

Share capital

Details of movements in the Company's share capital during the year, together with the reasons thereof, are set out in note 29 to the financial statements.

Share option scheme

The Company maintains a share option scheme (the "Scheme"), which was conditionally adopted on 12 January 2007 and became effective upon listing of the Company's shares on 21 March 2007. Amendment to the Scheme relating to the vesting schedule was approved by the shareholders on 25 May 2010. Details of the Scheme are set out below.

1. Purpose of the Scheme

The purpose of the Scheme is to attract, retain and motivate senior management personnel and key employees of the Group, and provide eligible participants with an opportunity to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

2. Participants of the Scheme

Pursuant to, and subject to, the terms and conditions stipulated in the Scheme, the Board of Directors may in its discretion grant share options to persons selected from: (i) any executive or non-executive directors of any members of the Group; (ii) any senior executives, key technical staff, professional staff, managers or employees of any members of the Group; or (iii) any other individuals as may be proposed by the Board. No independent non-executive director of the Company shall be granted an option.

3. Total number of shares available for issue under the Scheme

The maximum number of shares which may be issued upon exercise of all options granted under the Scheme and all other share option schemes of the Company (if any) shall not in aggregate exceed 10% of the number of shares in issue on the date on which dealings in the shares first commenced on the Stock Exchange, i.e. 348,922,935 shares. The Company may renew the 10% limit at any time subject to prior shareholders' approval, provided that the limit as renewed shall not exceed 10% of the number of shares in issue as at the date of the relevant approval.

As at the date of this annual report, the total number of shares available for issue, save for those granted but yet to be exercised, under the Scheme is 322,436,935 shares, which represented approximately 8% of the issued share capital of the Company as at the date of this annual report.

4. Maximum entitlement of each participant under the Scheme

The total number of shares issued and to be issued upon exercise of the options granted to any grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the share capital of the Company in issue at the relevant time. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval with such grantee and his associates abstaining from voting.

5. Option period

The option period shall be such period determined by the Board and notified to the grantee but shall not exceed a period of 7 years commencing on the date of acceptance of the option and expiring on the last date of such 7-year period, subject to the provisions for early termination thereof contained in the Scheme.

6. Vesting schedule

An option must be held for a minimum period of 2 years from the date on which it was granted before it can be exercised. In addition, an option shall be subject to the following vesting schedule:

Periods	Percentage of an option which may be exercised
Upon and after the second anniversary of the grant but no later than the third anniversary of the grant	20%
Upon and after the third anniversary of the grant but no later than the fourth anniversary of the grant	40%
Upon and after the fourth anniversary of the grant but no later than the fifth anniversary of the grant	60%
Upon and after the fifth anniversary of the grant but no later than the sixth anniversary of the grant	80%
Upon and after the sixth anniversary of the grant but no later than the seventh anniversary of the grant	100%

7. Acceptance of an offer of options

The offer of the grant of an option may be accepted within 28 days from the date of offer. The grantee is required to pay HK$1.00 as consideration for the grant of an option upon acceptance of the granted option.

8. Exercise price

The exercise price of a share in the Company shall be such price determined by the Board and notified to the grantee but shall be at least the higher of:

(a) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer;

(b) the average closing prices of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; or

(c) the nominal value of the share.

9. Period of the Scheme

The Scheme has a life of 10 years until 20 March 2017.

10. Movements in the share options

Details of the movements in the share options during the year ended 31 December 2010 are as follows:

Category of participants	Date of grant (d-m-yyyy)	Exercise price per share (HK$)	Vesting date (d-m-yyyy)	Exercise period (d-m-yyyy)	Number of share options At 1 January 2010	Exercised	Lapsed	At 31 December 2010
(A) Directors								
NING Gaoning	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	140,000	–	–	140,000
			7-8-2010	7-8-2010 to 6-8-2014	140,000	–	–	140,000
			7-8-2011	7-8-2011 to 6-8-2014	140,000	–	–	140,000
			7-8-2012	7-8-2012 to 6-8-2014	140,000	–	–	140,000
			7-8-2013	7-8-2013 to 6-8-2014	140,000	–	–	140,000
					700,000	–	–	700,000
YU Xubo	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	140,000	–	–	140,000
			7-8-2010	7-8-2010 to 6-8-2014	140,000	–	–	140,000
			7-8-2011	7-8-2011 to 6-8-2014	140,000	–	–	140,000
			7-8-2012	7-8-2012 to 6-8-2014	140,000	–	–	140,000
			7-8-2013	7-8-2013 to 6-8-2014	140,000	–	–	140,000
					700,000	–	–	700,000
LU Jun	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	–	–	–	–
			7-8-2010	7-8-2010 to 6-8-2014	130,000	–	–	130,000
			7-8-2011	7-8-2011 to 6-8-2014	130,000	–	–	130,000
			7-8-2012	7-8-2012 to 6-8-2014	130,000	–	–	130,000
			7-8-2013	7-8-2013 to 6-8-2014	130,000	–	–	130,000
					520,000	–	–	520,000
YUE Guojun	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	130,000	–	–	130,000
			7-8-2010	7-8-2010 to 6-8-2014	130,000	–	–	130,000
			7-8-2011	7-8-2011 to 6-8-2014	130,000	–	–	130,000
			7-8-2012	7-8-2012 to 6-8-2014	130,000	–	–	130,000
			7-8-2013	7-8-2013 to 6-8-2014	130,000	–	–	130,000
					650,000	–	–	650,000
CHI Jingtao*	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	120,000	120,000	–	–
			7-8-2010	7-8-2010 to 6-8-2014	120,000	–	–	120,000
			7-8-2011	7-8-2011 to 6-8-2014	120,000	–	–	120,000
			7-8-2012	7-8-2012 to 6-8-2014	120,000	–	–	120,000
			7-8-2013	7-8-2013 to 6-8-2014	120,000	–	–	120,000
					600,000	120,000	–	480,000
MA Wangjun	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	120,000	–	–	120,000
			7-8-2010	7-8-2010 to 6-8-2014	120,000	–	–	120,000
			7-8-2011	7-8-2011 to 6-8-2014	120,000	–	–	120,000
			7-8-2012	7-8-2012 to 6-8-2014	120,000	–	–	120,000
			7-8-2013	7-8-2013 to 6-8-2014	120,000	–	–	120,000
					600,000	–	–	600,000

* *resigned on 30 March 2011*

Category of participants	Date of grant (d-m-yyyy)	Exercise price per share (HK$)	Vesting date (d-m-yyyy)	Exercise period (d-m-yyyy)	Number of share options: At 1 January 2010	Exercised	Lapsed	At 31 December 2010
(B) Employees of the Group	7–8–2007	4.666	7–8–2009	7–8–2009 to 6–8–2014	3,753,700	1,665,000	37,700	2,051,000
			7–8–2010	7–8–2010 to 6–8–2014	4,580,000	–	–	4,580,000
			7–8–2011	7–8–2011 to 6–8–2014	4,580,000	–	–	4,580,000
			7–8–2012	7–8–2012 to 6–8–2014	4,580,000	–	–	4,580,000
			7–8–2013	7–8–2013 to 6–8–2014	4,580,000	–	–	4,580,000
					22,073,700	1,665,000	37,700	20,371,000
	Total				25,843,700	1,785,000	37,700	24,021,000

Notes:

1. *The amended vesting schedule under the Scheme was approved by the shareholders on 25 May 2010 and the resulting amendments to the terms of the share options granted took effect accordingly.*

2. *Weighted average closing price of the Company's shares immediately before the date on which the options were exercised by the Director was HK$10.78.*

3. *Weighted average closing price of the Company's shares immediately before the date on which the options were exercised by the employees was HK$10.98.*

Additional information in relation to the Scheme is set out in note 30 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity on page 83 of this annual report.

Distributable reserves

As at 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the provisions of section 79B of the Companies Ordinance, the laws of Hong Kong, amounted to approximately HK$2,411.5 million, of which HK$157.5 million has been proposed as a final dividend for the year. In addition, the Company's share premium account in the amount of approximately HK$5,275.2 million may be distributable in the form of fully paid bonus shares.

Major customers and suppliers

In the year under review, no sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for over 30% of the total sales for the year and of the total purchases for the year, respectively.

Apart from the continuing connected transactions with COFCO Corporation, the controlling shareholder, and its subsidiaries (other than the Group) as disclosed in the section "Continuing Connected Transactions" below, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the five largest customers or five largest suppliers of the Group.

Directors

The Directors during the year and up to the date of this report were:

Chairman and Non-executive Director

NING Gaoning

Executive Directors

YU Xubo

LU Jun

YUE Guojun

Non-executive Directors

CHI Jingtao*

MA Wangjun

WANG Zhiying**

Independent Non-executive Directors

LAM Wai Hon, Ambrose

Victor YANG

Patrick Vincent VIZZONE

* *resigned on 30 March 2011*

** *appointed on 30 March 2011*

The Directors are appointed with a specific term of three years and are subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. According to Article 106 thereof, Mr. Yue Guojun, Mr. Ma Wangjun and Mr. Patrick Vincent Vizzone, and in accordance with Article 111, Mr. Wang Zhiying will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' and senior management's biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 46 to 52 of this annual report.

Directors' service contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

Directors' remuneration

Details of the Directors' fees for the year are set out in note 8 to the financial statements. Other emoluments are determined by the Remuneration Committee pursuant to the Articles of Association with reference to market conditions, directors' duties, responsibilities and performance and the results of the Group.

Management contracts

No contracts concerning management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Convertible securities, options, warrants or similar rights

On 21 July 2010, the Company entered into a bond subscription agreement in connection with the issue of HK$ Fixed Rate Guaranteed Convertible Bonds Due 2015 in an aggregate principal amount of HK$3,875 million by Glory River Holdings Limited, a wholly-owned subsidiary of the Company. The convertible bonds are guaranteed by the Company and convertible into 340,659,341 ordinary shares of the Company at an initial conversion price of HK$11.375 per share. The particulars of convertible bonds are set out in note 27 to the financial statements.

Save as mentioned above and the outstanding options granted under the Scheme, there is no conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted during the year by the Company or any of its subsidiaries.

Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 2010, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (together, "Discloseable Interests") were as follows:

Interests in underlying shares of the Company

Name	Capacity	Number of underlying shares held *(Note 1)*	Percentage *(Note 2)*
NING Gaoning	Beneficial owner	700,000	0.02%
YU Xubo	Beneficial owner	700,000	0.02%
LU Jun	Beneficial owner	520,000	0.01%
YUE Guojun	Beneficial owner	650,000	0.02%
CHI Jingtao*	Beneficial owner	480,000	0.01%
MA Wangjun	Beneficial owner	600,000	0.01%

* *resigned on 30 March 2011*

Notes:

1. *Interests in the underlying shares are long positions. These are share options granted pursuant to the share option scheme of the Company, particulars of which are set out in the section "Share Option Scheme" above.*

2. *The percentages of interests is calculated based on the total number of shares of the Company in issue as at 31 December 2010, being 4,038,369,839 shares.*

Interests in underlying shares of associated corporation

Name	Name of associated corporation	Capacity	Number of underlying shares held *(Note 1)*	Percentage *(Note 2)*
NING Gaoning	China Foods Limited	Beneficial owner	880,000	0.03%

Notes:

1. *Interests in the underlying shares are long positions. Those are share option granted by China Foods Limited on 27 September 2007 at an exercise price of HK$4.952 per share and, subject to a vesting schedule, exercisable during the period from 27 September 2009 to 26 September 2014.*

2. *The percentage of interests is calculated based on the total number of shares of China Foods Limited in issue as at 31 December 2010, being 2,792,459,756 shares.*

Save as disclosed above, as at 31 December 2010, none of the Directors, chief executives or their respective associates had any other Discloseable Interests.

Substantial shareholders' interests in the shares of the Company

As at 31 December 2010, the following persons had an interest or short position in the shares and underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO:

Name	Capacity	Number of shares held *(Note 1)*	Percentage *(Note 2)*
Wide Smart Holdings Limited	Beneficial owner	1,922,550,331	47.61%
COFCO (BVI) No.108 Limited	Beneficial owner	140,000,000	3.47%
COFCO (Hong Kong) Limited	Beneficial owner	273,764,483	6.78%
	Interest of controlled corporations *(Note 3)*	2,062,550,331	51.07%
COFCO Corporation	Interest of controlled corporations *(Note 4)*	2,336,314,814	57.85%

Notes:

1. *Long positions in the shares of the Company.*

2. *The percentage of interests is calculated based on the total number of shares of the Company in issue as at 31 December 2010, being 4,038,369,839 shares.*

3. *COFCO (Hong Kong) Limited is deemed to be interested in any shares held by Wide Smart Holdings Limited and COFCO (BVI) No.108 Limited, as it is entitled to control the exercise of or exercise one-third or more of the voting power at their general meetings.*

4. *COFCO Corporation is deemed to be interested in any shares held by Wide Smart Holdings Limited, COFCO (BVI) No.108 Limited and COFCO (Hong Kong) Limited, as it is entitled to control the exercise of or exercise one-third or more of the voting power at their general meetings.*

Save as disclosed above, as at 31 December 2010, so far as was known to the Directors, no other persons had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register kept by the Company under section 336 of the SFO.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

Continuing connected transactions

During the year, the Group conducted the following transactions with certain connected persons of the Company. These transactions constituted continuing connected transactions and are subject to reporting requirements under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

1. New COFCO Mutual Supply Agreement

The Company and COFCO Corporation ("COFCO") entered into an agreement on 21 November 2008 (the "New COFCO Mutual Supply Agreement") to regulate the relationship between COFCO and its associates (other than the Group and China Foods Limited ("China Foods") and its subsidiaries) (collectively referred to as "COFCO Group") and the Group in respect of the mutual supply of raw materials, products, finance, logistics, agency and other related services. The New COFCO Mutual Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of raw materials, products, finance, logistics, agency and other related services supplied by COFCO Group to the Group including soybeans, palm oil, oil tanks, wheat, white rice, barley and other relevant products as well as logistics and support services was approximately RMB1,279.71 million, while the aggregate value of products and services supplied by the Group to COFCO Group including bulk edible oil, soybean feed, soybean meal, alcohol and rice husk powder, malt, feed and other relevant products as well as logistics and support services was approximately RMB807.68 million.

According to the Listing Rules, COFCO is the controlling shareholder of the Company and thus each of the members of COFCO Group is a connected person of the Company.

2. China Foods Supply Agreement

The Company and China Foods entered into an agreement on 21 November 2008 (the "China Foods Supply Agreement"), pursuant to which certain members of the Group would supply raw materials, products, logistics and other services to China Foods and its subsidiaries. The China Foods Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the raw materials, products, logistics and other services supplied by the Group to China Foods and its subsidiaries was approximately RMB3,867.06 million.

According to the Listing Rules, China Foods and its subsidiaries are connected persons of the Company by virtue of their being indirect subsidiaries of COFCO.

3. Wilmar Mutual Supply Agreement

The Company and Wilmar International Limited ("Wilmar International") entered into an agreement on 21 November 2008 (the "Wilmar Mutual Supply Agreement"), pursuant to which Wilmar International and its subsidiaries ("Wilmar International Group") and the Group would mutually supply raw materials, products, logistics and other related services. The term of the Wilmar Mutual Supply Agreement is 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products and services supplied by Wilmar International Group to the Group was approximately RMB1,847.58 million, and the aggregate value of the products and services supplied by the Group to Wilmar International Group was approximately RMB2,031.86 million.

According to the Listing Rules, Wilmar International is a substantial shareholder of certain of the Company's subsidiaries and, therefore, Wilmar International Group is a connected person of the Company.

4. New Lude Mutual Supply Agreement

Shandong Dezhou Grains & Oil Group Corporation ("Dezhou Grains") and the Company entered into an agreement on 21 November 2008 (the "New Lude Mutual Supply Agreement"), pursuant to which the Group and Dezhou Grains and its associates ("Dezhou Grains Group") would mutually supply raw materials and products. The New Lude Mutual Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products supplied by Dezhou Grains Group to the Group was approximately RMB29.97 million, and the aggregate value of the products supplied by the Group to Dezhou Grains Group was Nil.

According to the Listing Rules, Dezhou Grains is a substantial shareholder of COFCO Flour Industry (Dezhou) Co., Ltd. ("COFCO Dezhou"), a subsidiary of the Company, and thus Dezhou Grains Group is a connected person of the Company. Accordingly, the transactions between the Company and Dezhou Grains Group constitute connected transactions under the Listing Rules.

Before the amendments to the Listing Rules (the "Amended Rules") became effective on 3 June 2010, Dezhou Grains Group constituted our connected person and the continuing transactions between the Company and Dezhou Grains Group were subject to reporting, announcement and independent shareholders' approval requirements. Under the Amended Rules, COFCO Dezhou is regarded as an "insignificant subsidiary" thus any continuing transactions between the Company and Dezhou Grains Group, being our connected person due to its connection with COFCO Dezhou (the insignificant subsidiary) only, are, and will be exempted from reporting, announcement and independent shareholders' approval requirements.

We will continue to review the status of COFCO Dezhou closely. If, due to change of circumstance, the insignificant subsidiary exemption is no longer applicable, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

5. New No.2 Storage Mutual Supply Agreement

The Company and Shenyang No.2 Grains Storage Depot ("No.2 Storage") entered into an agreement on 21 November 2008 (the "New No.2 Storage Mutual Supply Agreement"), pursuant to which No.2 Storage and its associates ("No.2 Storage Group") and the Group would mutually supply raw materials, products, logistics and other related services. The term of the New No.2 Storage Mutual Supply Agreement is 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products supplied by No.2 Storage Group to the Group was approximately RMB0.89 million, and the aggregate value of the products supplied by the Group to No.2 Storage Group was Nil.

According to the Listing Rules, No.2 Storage is a substantial shareholder of Shenyang Xiangxue Flour Limited Liability Company ("Shenyang Xiangxue"), a subsidiary of the Company, and thus No.2 Storage Group is a connected person of the Company. Accordingly, the transactions between the Company and No.2 Storage Group constitute connected transactions under the Listing Rules.

Before the Amended Rules became effective on 3 June 2010, No.2 Storage Group constituted our connected person and the continuing transactions between the Company and No.2 Storage Group were subject to reporting, announcement and independent shareholders' approval requirements. Under the Amended Rules, Shenyang Xiangxue is regarded as an "insignificant subsidiary" thus any continuing transactions between the Company and No.2 Storage Group, being our connected person due to its connection with Shenyang Xiangxue (the insignificant subsidiary) only, are, and will be exempted from reporting, announcement and independent shareholders' approval requirements.

We will continue to review the status of Shenyang Xiangxue closely. If, due to change of circumstance, the insignificant subsidiary exemption is no longer applicable, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

6. COFCO ADM Mutual Supply Agreement

COFCO ADM Oils & Grains Industries (Heze) Co., Ltd. ("COFCO ADM") and the Company entered into an agreement on 21 November 2008 (the "COFCO ADM Mutual Supply Agreement"), pursuant to which the Group (other than COFCO ADM) and COFCO ADM and its associates would mutually supply raw materials and products. The COFCO ADM Mutual Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products supplied by COFCO ADM and its associates to the Group (other than COFCO ADM) was approximately RMB17.27 million. The aggregate value of the products supplied by the Group (other than COFCO ADM) to COFCO ADM and its associates was approximately RMB936.47 million.

COFCO ADM is the Company's non-wholly-owned subsidiary, in which Archer Daniels Midland Company ("ADM") (connected person of the Company being substantial shareholder of certain subsidiaries of the Company) holds a 30% equity interest through a trust arrangement. As COFCO ADM is an associate of ADM, our connected person, COFCO ADM was regarded as a connected person of the Company before the Amended Rules became effective on 3 June 2010, and the continuing transactions between the Company and COFCO ADM were subject to reporting, announcement, and independent shareholders' approval requirements.

Under Rule 14A.12A(1)(b) of the Amended Rules, COFCO ADM is no longer be regarded as our connected person only by virtue of being an associate of a connected person of the Company. Therefore any future continuing transactions between the Company and COFCO ADM will no longer be considered continuing connected transactions and in turn, no continuing connected transaction requirements will be applied to transactions with COFCO ADM.

We will continue to review the status of COFCO ADM closely. If, due to change of circumstance, COFCO ADM becomes our connected person on other premise, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

7. Supply Agreement

On 27 June 2008, the Company entered into a framework supply agreement with CPMC (Hong Kong) Limited (the "Supply Agreement"). Under the Supply Agreement, the subsidiaries of CPMC (Hong Kong) Limited would supply to the Group steel barrels and rectangular cans at the prevailing market price for a term of three years up to 30 June 2011. The Supply Agreement was entered into on normal commercial terms and can be renewed by mutual agreement between both parties. This transaction was only subject to the announcement and reporting requirements under the Listing Rules as the percentage ratios were less than 2.5% at the time of entering into the Supply Agreement.

During the year, the aggregate value of the steel barrels and rectangular cans supplied by CPMC (Hong Kong) Limited was RMB5.79 million.

According to the Listing Rules, CPMC (Hong Kong) Limited is a connected person of the Company by virtue of its being an associate of COFCO.

8. ADM Mutual Supply Agreement

The Company and ADM entered into an agreement on 21 November 2008 (the "New ADM Mutual Supply Agreement"), pursuant to which ADM products would be mutually supplied between the Group and ADM and its subsidiaries ("ADM Group"). The New ADM Mutual Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products supplied by ADM Group to the Group was approximately RMB4,286.76 million, and the aggregate value of the products supplied by the Group to ADM Group was Nil.

According to the Listing Rules, ADM is a substantial shareholder of certain subsidiaries of the Company and thus ADM Group is a connected person of the Company.

9. Toyota Tsusho Mutual Supply Agreement

On 21 November 2008, the Company and Toyota Tsusho Corporation ("Toyota Tsusho") entered into the Toyota Tsusho Mutual Supply Agreement to regulate the mutual supply relationship between the Group and Toyota Tsusho and its associates in respect of the mutual supply of raw materials, products, technology and the related services. The Toyota Tsusho Mutual Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products and services supplied by Toyota Tsusho and its associates to the Group was approximately RMB2.18 million, and the aggregate value of the products and services supplied by the Group to Toyota Tsusho and its associates was approximately RMB27.99 million.

According to the Listing Rules, each of Toyota Tsusho and its associates is a connected person of the Company by virtue of Toyota Tsusho being a substantial shareholder of COFCO TTC (Beijing) Foods Co., Ltd. ("COFCO Fengtong"), a subsidiary of the Company. Accordingly, the transactions between the Company and Toyota Tsusho (and its associates) constitute connected transactions under the Listing Rules.

Before the Amended Rules became effective on 3 June 2010, Toyota Tsusho constituted our connected person and the continuing transactions between the Company and Toyota Tsusho were subject to reporting, announcement and independent shareholders' approval requirements. Under the Amended Rules, COFCO Fengtong is regarded as an "insignificant subsidiary" thus any continuing transactions between the Company and Toyota Tsusho, being our connected person due to its connection with COFCO Fengtong (the insignificant subsidiary) only, are, and will be exempted from reporting, announcement and independent shareholders' approval requirements.

We will continue to review the status of COFCO Fengtong closely. If, due to change of circumstance, the insignificant subsidiary exemption is no longer applicable, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

10. Hakubaku Mutual Supply Agreement

On 21 November 2008, the Company and Hakubaku Co., Ltd. ("Hakubaku") entered into the Hakubaku Mutual Supply Agreement to regulate the mutual supply relationship between the Group and Hakubaku and its associates in respect of the mutual supply of raw materials, products and related services. The Hakubaku Mutual Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products and services supplied by Hakubaku and its associates to the Group was approximately RMB0.45 million, and the aggregate value of the products and services supplied by the Group to Hakubaku and its associates was Nil.

According to the Listing Rules, Hakubaku, being a substantial shareholder of COFCO Flour Industry (Puyang) Co., Ltd. ("COFCO Puyang"), a subsidiary of the Company, together with its associates are connected persons of the Company. Accordingly, the transactions between the Company and Hakubaku (and its associates) constitute connected transactions under the Listing Rules.

Before the Amended Rules became effective on 3 June 2010, Hakubaku constituted our connected person and the continuing transactions between the Company and Hakubaku were subject to reporting, announcement and independent shareholders' approval requirements. Under the Amended Rules, COFCO Puyang is regarded as an "insignificant subsidiary" thus any continuing transactions between the Company and Hakubaku, being our connected person due to its connection with COFCO Puyang (the insignificant subsidiary) only, are, and will be exempted from reporting, announcement and independent shareholders' approval requirements.

We will continue to review the status of COFCO Puyang closely. If, due to change of circumstance, the insignificant subsidiary exemption is no longer applicable, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

11. Xiamen Seashine Mutual Supply Agreement

On 21 November 2008, the Company and Xiamen Seashine Group Co., Ltd. ("Xiamen Seashine") entered into the Xiamen Seashine Mutual Supply Agreement to regulate the mutual supply relationship between the Group and Xiamen Seashine and its associates in respect of the mutual supply of raw materials, products, technology and the related services. The Xiamen Seashine Mutual Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products and services supplied by Xiamen Seashine and its associates to the Group was approximately RMB3.83 million, and the aggregate value of the products and services supplied by the Group to Xiamen Seashine and its associates was Nil.

According to the Listing Rules, Xiamen Seashine, being a substantial shareholder of Xiamen Haijia Flour Mills Co., Ltd. ("Xiamen Haijia"), a subsidiary of the Company, together with its associates are connected persons of the Company. Accordingly, the transactions between the Company and Xiamen Seashine (and its associates) constitute connected transactions under the Listing Rules.

Before the Amended Rules became effective on 3 June 2010, Xiamen Seashine constituted our connected person and the continuing transactions between the Company and Xiamen Seashine were subject to reporting, announcement and independent shareholders' approval requirements. Under the Amended Rules, Xiamen Haijia is regarded as an "insignificant subsidiary" thus any continuing transactions between the Company and Xiamen Seashine, being our connected person due to its connection with Xiamen Haijia (the insignificant subsidiary) only, are, and will be exempted from reporting, announcement and independent shareholders' approval requirements.

We will continue to review the status of Xiamen Haijia closely. If, due to change of circumstance, the insignificant subsidiary exemption is no longer applicable, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

12. Zhengzhou Flour Mutual Supply Agreement

On 21 November 2008, the Company and China Zhengzhou No.2 Flour Factory ("Zhengzhou Flour") entered into the Zhengzhou Flour Mutual Supply Agreement to regulate the mutual supply relationship between the Group and Zhengzhou Flour and its associates in respect of the mutual supply of raw materials, products, technology and the related services. The Zhengzhou Flour Mutual Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products and services supplied by Zhengzhou Flour and its associates to the Group was Nil, and the aggregate value of the products and services supplied by the Group to Zhengzhou Flour and its associates was Nil.

According to the Listing Rules, Zhengzhou Flour, being a substantial shareholder of Zhengzhou Haijia Food Co., Ltd. ("Zhengzhou Haijia"), a subsidiary of the Company, together with its associates are connected persons of the Company. Accordingly, the transaction between the Company and Zhengzhou Flour (and its associates) constitute connected transactions under the Listing Rules.

Before the Amended Rules became effective on 3 June 2010, Zhengzhou Flour constituted our connected person and the continuing transactions between the Company and Zhengzhou Flour were subject to reporting, announcement and independent shareholders' approval requirements. Under the Amended Rules, Zhengzhou Haijia is regarded as an "insignificant subsidiary" thus any continuing transactions between the Company and Zhengzhou Flour, being our connected person due to its connection with Zhengzhou Haijia (the insignificant subsidiary) only, are, and will be exempted from reporting, announcement and independent shareholders' approval requirements.

We will continue to review the status of Zhengzhou Haijia closely. If, due to change of circumstance, the insignificant subsidiary exemption is no longer applicable, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

13. No.5 Storage Mutual Supply Agreement

On 21 November 2008, the Company and Shenyang No.5 Grains Storage Depot ("No.5 Storage") entered into the No.5 Storage Mutual Supply Agreement to regulate the mutual supply relationship between the Group and No.5 Storage and its associates in respect of the mutual supply of raw materials, products, technology and related services. The No.5 Storage Mutual Supply Agreement is for a term of 3 years from 1 January 2009 to 31 December 2011.

During the year, the aggregate value of the products and services supplied by No.5 Storage and its associates to the Group was approximately RMB0.9 million, and the aggregate value of the products and services supplied by the Group to No.5 Storage and its associates was Nil.

According to the Listing Rules, No.5 Storage, being a substantial shareholder of Shenyang Dongda Grains Oils & Foodstuffs Industries Co., Ltd. ("Shenyang Dongda"), a subsidiary of the Company, together with its associates are connected persons of the Company. Accordingly, the transaction between the Company and No.5 Storage (and its associates) constitute connected transactions under the Listing Rules.

Before the Amended Rules became effective on 3 June 2010, No.5 Storage constituted our connected person and the continuing transactions between the Company and No.5 Storage were subject to reporting, announcement and independent shareholders' approval requirements. Under the Amended Rules, Shenyang Dongda is regarded as an "insignificant subsidiary" thus any continuing transactions between the Company and No. 5 Storage, being our connected person due to its connection with Shenyang Dongda (the insignificant subsidiary) only, are, and will be exempted from reporting, announcement and independent shareholders' approval requirements.

We will continue to review the status of Shenyang Dongda closely. If, due to change of circumstance, the insignificant subsidiary exemption is no longer applicable, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

14. East Ocean Supply Agreement

On 1 January 2008, the Company and COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. ("East Ocean") entered into the East Ocean Supply Agreement. Pursuant to which, during the period from 1 January 2008 to 31 December 2012, East Ocean and its subsidiaries ("East Ocean Group") would supply to the Group soybeans, oilseeds, oils and soybean meal products, wheat, rice and the related products, financing and services, and the Group would supply to the East Ocean Group soybeans, oilseeds, oils and soybean meal products, wheat, rice and the related products, financing and services. The prices would be determined with reference to the prevailing market prices at the relevant time or, should there be no market price available for reference, based on their reasonable costs.

East Ocean has been a non-wholly-owned subsidiary of the Company. On 13 November 2008, Wilmar International through its wholly-owned subsidiary, Kenspot International Pte Limited, acquired a further 22% equity interest in East Ocean to 44%. Since then, by virtue of their being associates of Wilmar International and according to the Listing Rules before the amendments became effective on 3 June 2010, East Ocean Group was regarded as a connected person of the Company, and the continuing transactions between the Company and East Ocean Group were subject to reporting, announcement, and independent shareholders' approval requirements.

Under Rule 14A.12A(1)(b) of the Amended Rules, East Ocean Group is no longer regarded as our connected person only by virtue of being an associate of a connected person of the Company. Therefore any future continuing transactions between the Company and East Ocean Group will no longer be considered continuing connected transactions and in turn, no connected transaction requirements will be applied to transactions with East Ocean Group.

We will continue to review the status of East Ocean Group closely. If, due to change of circumstance, East Ocean Group becomes the Company's connected person on other premise, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

15. Sinopec Framework Agreement

On 1 January 2008, the Company and China Petroleum & Chemical Corporation ("Sinopec Corp.") entered into the Sinopec Framework Agreement for a term of 3 years from 1 January 2008 to 31 December 2011. Pursuant to which, the Group would supply alcohol and other related products and services to Sinopec Corp. and its subsidiaries ("Sinopec Corp. Group"), and Sinopec Corp. Group would supply gasoline, diesel fuel and other related products and services to the Group.

On 20 November 2008, Sinopec Corp. Group became a connected person of the Company as a result of Sinopec Corp.'s acquisition of 15% equity interest in Guangxi COFCO Bio-Energy Co., Ltd. ("COFCO Guangxi"), a subsidiary of the Company.

Before the amendments to the Listing Rules (the "Amended Rules") became effective on 3 June 2010, Sinopec Corp. Group constituted our connected person and the continuing transactions between the Company and Sinopec Corp. Group were subject to reporting, announcement and independent shareholders' approval requirements. Under the Amended Rules, COFCO Guangxi is regarded as an "insignificant subsidiary" thus any continuing transactions between the Company and Sinopec Corp Group, being our connected person due to its connection with COFCO Guangxi (the insignificant subsidiary) only, are, and will be exempted from reporting, announcement and independent shareholders' approval requirements.

We will continue to review the status of COFCO Guangxi closely. If, due to change of circumstance, the insignificant subsidiary exemption is no longer applicable, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

16. Financial Services Agreement and Entrustment Loan Framework Agreement

On 27 October 2009, the Company, COFCO Finance Co., Ltd. ("COFCO Finance") and COFCO Agri-Industries Management Co., Ltd. (the "Management Company") entered into the following agreements for more efficient employment of funds within the Group, to reduce the external loans of the Group effectively and to better facilitate intra-Group settlement services.

(a) Financial Services Agreement relates to the financial services provided by COFCO Finance to the Management Company and the Group. Pursuant to which, relevant members of the Group (including the Management Company) have maintained RMB depository accounts with COFCO Finance which, acting as a financial agent on a free-of-charge basis, would advance entrustment loans to the Management Company. During the year, the maximum daily transaction amount of deposits (including accrued interests) placed by the Group with COFCO Finance was approximately RMB923.91 million.

(b) Entrustment Loan Framework Agreement relates to the entrustment loans provided by the Management Company to the Group. Pursuant to which, the Management Company would provide entrustment loans to the subsidiaries of the Company through COFCO Finance as a financial agent in respect of the entrustment loans. COFCO Finance is entitled to receive handling charges at a percentage of the entrustment loan advanced. Such percentage will be determined by the parties involved with reference to the prevailing market conditions and, in any event, should not be less favourable to members of the Group than the prevailing market rate.

The term of both agreements is from the execution date (i.e. 27 October 2009) to 31 December 2011. According to the Listing Rules, COFCO Finance is a connected person by virtue of its being an indirectly wholly-owned subsidiary of COFCO.

Besides, before the Amended Rules became effective on June 3, 2010, the provision of entrustment loans under the Entrustment Loan Framework Agreement by the Management Company to East Ocean and COFCO ADM (both of them are non-wholly-ownded subsidiaries of the Company) also constituted continuing connected transactions by virtue of their being associates of Wilmar International and ADM respectively. Under Rule 14A.12A(1)(b) of the Amended Rules, East Ocean and COFCO ADM will no longer be regarded as the Company's connected person only by virtue of being an associate of a connected person of the Company. Therefore any future continuing transactions between the Company and East Ocean or COFCO ADM will no longer be considered continuing connected transactions and in turn, no connected transaction requirements will be applied to our transactions with East Ocean and COFCO ADM. During the year, the maximum amount of entrustment loans (including accrued interests) advanced by the Management Company to East Ocean and COFCO ADM (on an aggregate basis) was RMB100.0 million.

We will continue to review the status of East Ocean and COFCO ADM closely. If, due to change of circumstance, East Ocean and/or COFCO ADM become(s) our connected person(s) on other premise, we will resume to comply with all applicable connected transaction requirements for subsequent continuing transactions.

Several related party transactions as disclosed in note 37 to the financial statements fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements for the above connected transactions in accordance with Chapter 14A of the Listing Rules.

Annual review of continuing connected transactions

The independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2010 (collectively, the "CCTs") and confirmed that the CCTs were: (a) entered into in the ordinary and usual course of business of the Group; (b) entered into on normal commercial terms; (c) in accordance with the terms of the respective agreements that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) carried out in accordance with the terms of the agreements governing such transactions or, where there was no such agreement, on terms no less favourable than those available to or from independent third parties.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Directors' interests in competing business

Pursuant to Rule 8.10 of the Listing Rules, during the year and up to the date of this annual report, the following Directors are considered to have business interests which are likely to compete directly or indirectly with the business of the Group:

1. As disclosed in the section "Non-competition Deed" below, COFCO holds equity interests in certain companies which compete or may compete with the Company's business. Mr. Ning Gaoning is a director and the chairman of the board of COFCO. At COFCO, Mr. Yu Xubo is the president, Mr. Lu Jun and Mr. Chi Jingtao are vice presidents, and Mr. Yue Guojun and Mr. Ma Wangjun are assistant presidents, and Mr. Wang Zhiying is the general manager of human resources. Mr. Yue Guojun is a director and the chairman of the board of Anhui BBCA Biochemical Co., Ltd. Mr. Lu Jun is a director and the chairman of the board of COFCO Tayuan Safflower (Xinjiang) Co., Ltd.

2. Wilmar International holds certain business which is similar to our oilseeds processing business. Mr. Yu Xubo is a director of Wilmar International. Mr. Lu Jun is a director of Wilmar Holdings Pte. Ltd., which is a substantial shareholder of Wilmar International, Grand Silver (Laiyang) Co., Limited (嘉銀萊陽有限公司) and Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co. Ltd., which are Wilmar International's subsidiaries.

Save as disclosed above, no Directors are considered to have interests in any business which is likely to compete directly or indirectly with that of the Group during the year and up to the date of this annual report.

Purchase, redemption or sale of the Company's listed securities

To raise capital for the Company while broadening the shareholder base and capital base of the Company and to obtain immediate funding, the Company entered into a share placing and subscription agreement on 21 July 2010. Pursuant to the agreement, Wide Smart Holdings Limited, a substantial shareholder of the Company, placed 178,000,000 ordinary shares to independent third parties at HK$8.75 per share. Upon completion of the placing, the Company issued 178,000,000 ordinary shares of an aggregate nominal value of HK$17.8 million to Wide Smart Holdings Limited at a subscription price of HK$8.75 per share, with net proceeds of HK$1,524.7 million which is for funding capital expenditures in connection with the expansion of production capacity, working capital and general corporate purposes. The closing market price of the shares on the Stock Exchange was HK$9.50 per share on 21 July 2010.

Save as mentioned above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2010.

Non-competition deed

COFCO, COFCO (Hong Kong) Limited and the Company executed a non-competition deed on 16 February 2007 (the "Non-competition Deed"), pursuant to which, COFCO and COFCO (Hong Kong) Limited have granted to the Company options to acquire all or part of the prescribed retained interests which compete or may compete with the Company's businesses held by COFCO (the "Retained Business"), on the basis of a valuation to be conducted by an independent valuer, subject to any relevant laws and applicable rules, relevant authorities' approvals and existing third-party pre-emptive rights (if any). Under the Non-competition Deed, if COFCO or COFCO (Hong Kong) Limited intends to transfer, sell, lease, license or dispose to any third party any direct or indirect interest in any of such Retained Interests, then the Company has pre-emptive rights to purchase any Retained Interests on terms no less favorable than those offered to such third party.

The option of the Company to acquire from COFCO any interest in China Resources Maize Industry Co., Ltd. ("Cerestar CR") became effective on 26 February 2009. Having taken into account the principal factors and considerations set out in the announcement of the Company dated 25 August 2010, all Independent Non-executive Directors unanimously made a final and definitive decision not to exercise the option to acquire from COFCO interest in Cerestar CR, and requested COFCO to dispose of its interest in Cerestar CR to independent third parties pursuant to the Non-Competition Deed. COFCO transferred its interest in Cerestar CR to an independent third party, Cargill International Luxembourg 2 S.AR.L. on 27 September 2010.

The options of the Company to acquire from COFCO any interest or business in Anhui BBCA Biochemical Co., Ltd. ("Anhui BBCA") and COFCO Tayuan Safflower (Xinjiang) Co., Ltd. ("Xinjiang Tayuan") became effective on 3 April 2007 and 10 April 2007 respectively. COFCO is holding 20.74% equity interest in Anhui BBCA (which is listed on the Shenzhen Stock Exchange and carries on bio-chemical business) and 49.08% equity interest in Xinjiang Tayuan (whose business includes edible safflower oil extraction). Having taken into account the principal factors and considerations set out in the announcement of the Company dated 25 August 2010, all Independent Non-executive Directors considered that it was not appropriate and not in the best interests of the Company and the shareholders of the Company as a whole to exercise those options at that time. Accordingly, the Board decided not to exercise the options in relation to Anhui BBCA and Xinjiang Tayuan during the year.

The options will remain in effect so long as the Non-competition Deed remains effective and will be reviewed by the Independent Non-executive Directors on an annual basis. A final and definitive decision will be made as to whether to exercise an option or not on the fifth anniversary of the relevant options becoming effective, if such decision has not been taken before such time. COFCO and COFCO (Hong Kong) Limited have undertaken to the Company that if, on the fifth anniversary of the option having become effective, a decision is made not to exercise such option by the Company, then they will dispose of the relevant Retained Business to independent third parties within six months of such decision having become effective. If for any reason further time after the fifth anniversary is deemed necessary for the proper evaluation of the option, such decision to extend would be voted on solely by the Independent Non-executive Directors and be decided by majority vote.

Corporate governance

The Company is committed in developing good corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 29 to 42 of this annual report.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$12.3 million.

Review by the Audit Committee

The Audit Committee has reviewed with the auditors of the Company the audited financial statements for the year ended 31 December 2010 and has also discussed auditing, internal control and financial reporting matters, including the review of the accounting practices and principles adopted by the Group.

Auditors

Ernst & Young shall retire at the forthcoming annual general meeting, and a resolution for their reappointment as auditors of the Company will be proposed at the meeting.

On behalf of the Board

NING Gaoning
Chairman

Hong Kong, 30 March 2011

Audited Financial Statements

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of China Agri-Industries Holdings Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Agri-Industries Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 79 to 182, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong
30 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	4, 5	53,491,700	43,827,891
Cost of sales	6	(50,280,599)	(40,568,455)
Gross profit		3,211,101	3,259,436
Other income and gains	5	1,384,450	1,377,830
Selling and distribution costs		(2,009,302)	(1,552,314)
Administrative expenses		(1,064,113)	(837,887)
Other expenses		(22,944)	(27,552)
Finance costs	7	(376,878)	(239,121)
Share of profits of associates		352,955	355,168
PROFIT BEFORE TAX	6	1,475,269	2,335,560
Income tax expense	10	(191,918)	(291,980)
PROFIT FOR THE YEAR		1,283,351	2,043,580
Attributable to:			
Owners of the Company		1,701,644	1,952,042
Non-controlling interests		(418,293)	91,538
		1,283,351	2,043,580
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		43.21 HK cents	51.74 HK cents
Diluted		42.59 HK cents	51.71 HK cents

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR	1,283,351	2,043,580
Exchange difference on translation of financial statements of overseas entities	536,441	13,563
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	536,441	13,563
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,819,792	2,057,143
Attributable to:		
Owners of the Company	2,158,728	1,962,511
Non-controlling interests	(338,936)	94,632
	1,819,792	2,057,143

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	13,349,306	9,572,103
Prepaid land premiums	15	1,422,127	1,038,265
Deposits for purchases of items of property, plant and equipment		625,669	301,590
Goodwill	16	1,020,635	1,020,635
Interests in associates	18	1,942,472	1,644,724
Available-for-sale investments	19	2,739	2,728
Intangible assets	20	37,349	36,134
Deferred tax assets	28	471,435	222,172
Total non-current assets		18,871,732	13,838,351
CURRENT ASSETS			
Inventories	21	15,966,257	7,031,225
Accounts and bills receivables	22	2,398,510	1,921,473
Prepayments, deposits and other receivables		6,308,185	3,759,310
Derivative financial instruments	23	305,622	10,211
Due from fellow subsidiaries	37	3,818,865	3,103,759
Due from related companies	37	262,133	57,938
Due from the ultimate holding company	37	370	214
Due from non-controlling shareholders of subsidiaries	37	30,901	28,734
Due from associates	18	958,686	683,028
Tax recoverable		275,874	118,307
Pledged deposits	24	118,219	23,784
Cash and cash equivalents	24	7,404,309	5,515,280
Total current assets		37,847,931	22,253,263
CURRENT LIABILITIES			
Accounts and bills payables	25	3,426,523	1,270,984
Other payables and accruals		3,778,451	1,865,747
Deferred income		48,019	12,649
Derivative financial instruments	23	830,598	855,246
Interest-bearing bank and other borrowings	26	19,767,214	11,712,861
Due to fellow subsidiaries	37	334,816	128,784
Due to the ultimate holding company	37	12,977	–
Due to related companies	37	280,103	15,886
Due to non-controlling shareholders of subsidiaries	37	5,433	36,165
Due to associates	18	18,694	139,473
Tax payable		125,545	98,513
Total current liabilities		28,628,373	16,136,308
NET CURRENT ASSETS		9,219,558	6,116,955
TOTAL ASSETS LESS CURRENT LIABILITIES		28,091,290	19,955,306

Consolidated Statement of Financial Position
31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	2,310,466	1,116,411
Convertible bonds	27	3,765,329	–
Due to non-controlling shareholders of subsidiaries	37	203,523	129,606
Long-term payable		–	5,918
Deferred income		423,115	111,092
Deferred tax liabilities	28	213,166	196,742
Total non-current liabilities		6,915,599	1,559,769
Net assets		21,175,691	18,395,537
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	403,837	385,858
Reserves	31(a)	18,525,090	15,216,531
Proposed final dividends	12	157,496	227,657
		19,086,423	15,830,046
Non-controlling interests		2,089,268	2,565,491
Total equity		21,175,691	18,395,537

Yu Xubo
Director

Lu Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Notes	Attributable to owners of the Company									Non-controlling interests HK$'000	Total equity HK$'000
		Issued capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividends HK$'000	Total HK$'000		
At 1 January 2009		359,391	2,746,299	4,754,699	22,959	312,253	1,246,596	3,635,601	524,624	13,602,422	2,343,009	15,945,431
Total comprehensive income for the year		–	–	–	–	–	10,469	1,952, 042	–	1,962,511	94,632	2,057,143
Transfer from retained profits		–	–	–	–	211,103	–	(211,103)	–	–	–	–
Contribution from a non-controlling shareholder		–	–	–	–	–	–	–	–	–	222,672	222,672
Issue of shares for acquisition of subsidiaries	29, 32	26,362	1,004,417	–	–	–	–	–	–	1,030,779	208,855	1,239,634
Exercise of share options	29	105	6,545	–	(1,742)	–	–	–	–	4,908	–	4,908
Share issue expenses		–	(34)	–	–	–	–	–	–	(34)	–	(34)
Equity-settled share option arrangements	30	–	–	–	12,539	–	–	–	–	12,539	–	12,539
Dividends paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	(303,677)	(303,677)
Final 2008 dividend declared		–	–	–	–	–	–	–	(524,624)	(524,624)	–	(524,624)
2009 interim dividend declared	12	–	–	–	–	–	–	(258,455)	–	(258,455)	–	(258,455)
Proposed final 2009 dividend	12	–	–	–	–	–	–	(227,657)	227,657	–	–	–
At 31 December 2009		385,858	3,757,227*	4,754,699*	33,756*	523,356*	1,257,065*	4,890,428*	227,657	15,830,046	2,565,491	18,395,537

	Notes	Attributable to owners of the Company										Non-controlling interests HK$'000	Total equity HK$'000
		Issued capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Equity component of convertible bonds HK$'000	Employee share-based compensation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividends HK$'000	Total HK$'000		
At 1 January 2010		385,858	3,757,227	4,754,699	–	33,756	523,356	1,257,065	4,890,428	227,657	15,830,046	2,565,491	18,395,537
Total comprehensive income for the year		–	–	–	–	–	–	457,084	1,701,644	–	2,158,728	(338,936)	1,819,792
Transfer from retained profits		–	–	–	–	–	143,972	–	(143,972)	–	–	–	–
Contribution from a non-controlling shareholder		–	–	–	–	–	–	–	–	–	–	3,269	3,269
Issue of shares	29	17,800	1,539,700	–	–	–	–	–	–	–	1,557,500	–	1,557,500
Exercise of share options	29	179	11,106	–	–	(2,956)	–	–	–	–	8,329	–	8,329
Share issue expenses		–	(32,877)	–	–	–	–	–	–		(32,877)	–	(32,877)
Equity-settled share option arrangements	30	–	–	–	–	7,242	–	–	–	–	7,242	–	7,242
Dividends paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	(140,556)	(140,556)
Issue of convertible bonds	27	–	–	–	51,739	–	–	–	–	–	51,739	–	51,739
Final 2009 dividend declared	12	–	–	–	–	–	–	–	(100)	(227,657)	(227,757)	–	(227,757)
2010 interim dividend declared	12	–	–	–	–	–	–	–	(266,527)	–	(266,527)	–	(266,527)
Proposed final 2010 dividend	12	–	–	–	–	–	–	–	(157,496)	157,496	–	–	–
At 31 December 2010		403,837	5,275,156*	4,754,699*	51,739*	38,042*	667,328*	1,714,149*	6,023,977*	157,496	19,086,423	2,089,268	21,175,691

* These reserve accounts comprise the consolidated reserves of HK$18,525,090,000 (2009: HK$15,216,531,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,475,269	2,335,560
Adjustments for:			
Finance costs	7	376,878	239,121
Write-down/(reversal) of inventories to net realisable value	6	9,874	(12,338)
Impairment/(reversal of impairment) of receivables	6	(3,252)	1,594
Depreciation and amortisation	6	728,811	678,221
Losses on disposal of items of property, plant and equipment	6	8,093	11,987
Gain on disposal of an available-for-sale investment	5	–	(614)
Impairment of items of property, plant and equipment	6	–	232
Recognition of prepaid land premiums	6	31,219	25,094
Share of profits of associates		(352,955)	(355,168)
Interest income	5	(80,233)	(43,613)
Unrealised losses on derivative financial instruments		512,831	845,010
Unrealised gains on foreign currency forward contracts		(1,241)	(654)
Gain on bargain purchase	5	(9,672)	(37,847)
Government grants	5	(753,835)	(955,321)
Equity-settled share option expense	30	7,242	12,539
		1,949,029	2,743,803
Increase in inventories		(8,557,499)	(1,053,886)
Decrease/(increase) in accounts and bills receivables		(400,979)	108,411
Increase in prepayments, deposits and other receivables		(2,407,000)	(817,225)
Increase in amounts due from fellow subsidiaries		(596,938)	(1,289,025)
Increase in amounts due from associates		(268,312)	(288,407)
Increase in amounts due from related companies		(198,723)	(20,025)
Decrease in derivative financial instruments		(859,641)	(538,283)
Decrease/(increase) in an amount due from the ultimate holding company		(146)	160,917
Decrease/(increase) in amounts due from non-controlling shareholders of subsidiaries		(1,454)	15,194
Increase/(decrease) in accounts and bills payables		2,092,254	(1,159,308)
Increase in other payables and accruals		762,848	53,244
Increase/(decrease) in amounts due to fellow subsidiaries		198,106	(497,184)
Increase/(decrease) in an amount due to the ultimate holding company		12,755	(424,942)
Increase/(decrease) in amounts due to related companies		259,177	(179,930)
Increase/(decrease) in amounts due to associates		(123,483)	134,082
Increase in amounts due to non-controlling shareholders of subsidiaries		–	652
Government grants received		730,929	978,115
Cash used in operations		(7,409,077)	(2,073,797)
Interest received		80,233	43,613
Interest paid		(334,367)	(239,121)
Income tax paid		(548,324)	(846,964)
Net cash flows used in operating activities		(8,211,535)	(3,116,269)

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in pledged deposits		(92,007)	60,875
Acquisition of subsidiaries	32	(153,343)	50,662
Dividends from associates		48,826	285,963
Disposal of an available-for-sale investment	5	–	614
Proceeds from disposal of items of property, plant and equipment		18,610	5,608
Purchases of items of property, plant and equipment		(3,611,160)	(1,582,787)
Additions to prepaid land premiums	15	(348,221)	(441,353)
Receipt of government grants		383,598	8,311
Additions to intangible assets	20	(1,017)	(1,824)
Decrease in loans to associates		7,399	20,342
Net cash flows used in investing activities		(3,747,315)	(1,593,589)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in amounts due to non-controlling shareholders of subsidiaries		71,131	–
New bank loans		57,013,975	45,195,985
New other loans		1,995,922	340,445
Repayments of bank loans		(48,252,153)	(39,048,978)
Repayments of other loans		(1,855,201)	(312,000)
Proceeds from issue of convertible bonds		3,793,932	–
Capital contribution from non-controlling shareholders		3,269	172,237
Dividends paid		(445,066)	(705,190)
Dividends paid to non-controlling shareholders of subsidiaries		(171,999)	(317,185)
Proceeds from exercise of share options		8,329	4,908
Proceeds from issue of shares		1,557,500	–
Share issue expenses		(32,877)	(34)
Interest paid		(27,815)	(1,103)
Net cash flows from financing activities		13,658,947	5,329,085
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,700,097	619,227
Cash and cash equivalents at beginning of year		5,515,280	4,894,435
Effect of foreign exchange rate changes, net		188,932	1,618
CASH AND CASH EQUIVALENTS AT END OF YEAR		7,404,309	5,515,280
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	6,320,684	5,021,509
Non-pledged time deposits with original maturity of less than three months when acquired	24	1,083,625	493,771
		7,404,309	5,515,280

Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	166	248
Investments in subsidiaries	17	14,051,175	8,991,388
Total non-current assets		14,051,341	8,991,636
CURRENT ASSETS			
Due from subsidiaries	17	2,914,867	830,615
Prepayments, deposits and other receivables		496	473
Cash and cash equivalents	24	2,736,957	1,047,988
Total current assets		5,652,320	1,879,076
CURRENT LIABILITIES			
Other payables and accruals		146,437	89,228
Due to subsidiaries	17	3,793,917	–
Total current liabilities		3,940,354	89,228
NET CURRENT ASSETS		1,711,966	1,789,848
TOTAL ASSETS LESS CURRENT LIABILITIES		15,763,307	10,781,484
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	1,945,000	–
Total non-current liabilities		1,945,000	–
Net assets		13,818,307	10,781,484
EQUITY			
Issued capital	29	403,837	385,858
Reserves	31(b)	13,256,974	10,167,969
Proposed final dividends	12	157,496	227,657
Total equity		13,818,307	10,781,484

Yu Xubo
Director

Lu Jun
Director

Notes to the Financial Statements

31 December 2010

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 31st 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:

- oilseeds 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 Corporation (“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 Hong Kong Financial Reporting Standards, 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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

Basis of consolidation from 1 January 2010 (continued)

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest event if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group losses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received; (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 Changes in Accounting Policy and Disclosures

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 5, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

2.2 Changes in Accounting Policy and Disclosures (continued)

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements* (continued)

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs

There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

(c) HK Interpretation 5: *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The interpretation requires a term loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement. The changes introduced by this interpretation is applied retrospectively but no comparative amounts have been restated.

2.3 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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27, are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that 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 investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 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 and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

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

(b) an associate, if the Group does not have unilateral or joint control/dominant influence, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(c) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 Summary of Significant Accounting Policies (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position 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 investments 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 investments in associates and is not individually tested for impairment.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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 combinations, 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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

Business combinations prior to 1 January 2010 but after 1 January 2005 (continued)

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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.

An assessment is made at the end of each reporting period 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.

2.4 Summary of Significant Accounting Policies (continued)

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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%
Machinery and equipment	4.5% to 18%

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.

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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

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.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within 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, or as derivatives as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and cash equivalents, trade and other receivables, amounts due from related parties, available-for-sale investments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do 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. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other income and removed from the available-for-sale investment valuation reserve. 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.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

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.

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivative financial instruments, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties, derivative financial instruments and interest-bearing bank and other borrowings, and convertible bonds.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities 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 interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active financial markets is determined by reference to quoted market prices or dealer price (quotations price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as foreign currency forward contracts and commodity futures contracts to hedge its foreign currency risk, commodity price risk and interest risk, respectively. 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.

The fair value of commodity contracts that meet the definition of a derivative as defined by HKAS 39 but are entered into in accordance with the Group's expected purchase requirements is recognised in the income statement in cost of sales.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement as the Group does not adopt hedge accounting.

The fair value of foreign currency forward contracts is determined using the rates quoted by the Group's bankers to terminate the contracts at the end of the reporting period. The fair value of commodity futures contracts is measured by reference to quoted market prices.

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 statement of cash flows, 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 Summary of Significant Accounting Policies (continued)

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 end of the reporting period 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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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.

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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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 or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

2.4 Summary of Significant Accounting Policies (continued)

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 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 right to receive commission has been established;

(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 sale 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.

2.4 Summary of Significant Accounting Policies (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 for grants after 7 November 2002 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.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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, if the original terms of the reward are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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. All cancellations of equity-settled transaction awards are treated equally.

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 benefit 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.

2.4 Summary of Significant Accounting Policies (continued)

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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

For the purpose of the consolidated statement of cash flows, 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 Judgements 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 end of the reporting period. 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

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

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 or on whether the Chinese resident enterprise identity of certain companies of the Group can be approved by the PRC governing tax authorities in the future. As at 31 December 2010, the deferred tax liabilities arising thereon amounted to HK$138,380,000 (2009: HK$143,235,000) (note 28), representing the withholding taxes accrued on profits generated by certain subsidiaries of the Group in 2008 and 2009 and expected to be distributed to their holding company incorporated outside Mainland China. Management considered that it is not probable that the Group's PRC subsidiaries will distribute additional profits earned on or after 1 January 2008 in the foreseeable future before the Chinese resident enterprise identity is approved by PRC governing tax authorities, and accordingly no additional provision for withholding tax was made in 2010. Where the final outcome of these matters are different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the differences realise.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

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 2010 was HK$1,020,635,000 (2009: HK$1,020,635,000). More details are included in note 16 to the financial statements.

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 2010 was HK$1,630,428,000 (2009: HK$531,849,000). Further details are included 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. No impairment of property, plant and equipment (2009: HK$232,000) was recognised in the consolidated income statement for the year. The carrying amount of property, plant and equipment was HK$13,349,306,000 (2009: HK$9,572,103,000) as at 31 December 2010.

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. Reversal of impairment of receivables of HK$3,252,000 (2009: impairment of receivables of HK$1,594,000) was recognised in the consolidated income statement for the year. The aggregate carrying amount of accounts and bills receivables, and prepayments, deposits and other receivables as at 31 December 2010 was HK$8,706,695,000 (2009: HK$5,680,783,000).

4. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has six reportable operating segments as follows:

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

(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 products;

(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.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Interest income, finance costs, gain on bargain purchase, gain on disposal of an available-for-sale investment and share of profits of associates are managed on a group basis and are not allocated to reportable operating segments.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents and interests in associates as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, convertible bonds, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

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.

During the year, no revenue from transaction with a single external customer amounted to 10% or more of the Group's total revenue (2009: Nil).

4. Operating Segment Information (continued)

Year ended 31 December 2010	Oilseeds 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
Segment revenue:								
Sales to external customers	32,992,054	1,654,480	4,319,574	4,394,195	10,131,397	–	–	53,491,700
Intersegment sales	75,698	–	533	1,232	45,943	–	(123,406)	–
Other revenue	438,000	48,288	89,786	21,826	711,226	–	(14,581)	1,294,545
Segment results	239,088	243,173	(18,506)	150,123	918,246	(122,837)	–	1,409,287
Interest income								80,233
Gain on bargain purchase								9,672
Finance costs								(376,878)
Share of profits of associates								352,955
Profit before tax								1,475,269
Income tax expense								(191,918)
Profit for the year								1,283,351
Assets and liabilities								
Segment assets	25,369,837	2,675,718	5,901,967	2,859,422	9,799,704	10,940,130	(11,039,424)	46,507,354
Unallocated assets								10,212,309
Total assets								56,719,663
Segment liabilities	8,838,763	1,152,927	3,568,198	1,823,926	4,693,130	305,357	(11,039,424)	9,342,877
Unallocated liabilities								26,201,095
Total liabilities								35,543,972
Other segment information:								
Depreciation and amortisation#	234,910	78,969	41,802	51,972	349,894	2,483	–	760,030
Impairment losses reversed in the consolidated income statement	(2,613)	–	–	(445)	(194)	–	–	(3,252)
Capital expenditure*	2,535,704	347,952	486,962	114,947	1,026,770	9,881	–	4,522,216

4. Operating Segment Information (continued)

Year ended 31 December 2009	Oilseeds 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
Segment revenue:								
Sales to external customers	26,811,771	1,497,773	4,106,780	3,660,958	7,750,609	–	–	43,827,891
Intersegment sales	–	–	–	142	21,216	–	(21,358)	–
Other revenue	392,623	21,654	76,175	7,918	808,452	–	(11,066)	1,295,756
Segment results	1,040,070	8,423	337,251	114,486	762,282	(125,073)	–	2,137,439
Interest income								43,613
Gain on bargain purchase								37,847
Finance costs								(239,121)
Gain on disposal of an available-for-sale investment								614
Share of profits of associates								355,168
Profit before tax								2,335,560
Income tax expense								(291,980)
Profit for the year								2,043,580
Assets and liabilities								
Segment assets	14,983,805	2,035,199	2,391,299	1,856,793	7,341,159	6,026,459	(6,067,367)	28,567,347
Unallocated assets								7,524,267
Total assets								36,091,614
Segment liabilities	4,114,023	814,805	960,198	1,320,067	3,207,575	222,249	(6,067,367)	4,571,550
Unallocated liabilities								13,124,527
Total liabilities								17,696,077
Other segment information:								
Depreciation and amortisation#	219,051	75,978	32,474	44,039	329,885	1,888	–	703,315
Impairment losses recognised/(reversed) in the consolidated income statement	1,202	–	–	(82)	706	–	–	1,826
Capital expenditure*	1,317,443	158,123	187,731	88,006	817,523	5,919	–	2,574,745

\# Depreciation and amortisation consists of depreciation of property, plant and equipment, recognition of prepaid land premium and amortisation of intangible assets.

* Capital expenditure consists of additions to property, plant and equipment, prepaid land premiums and intangible assets including assets from the acquisition of subsidiaries.

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:

	2010 HK$'000	2009 HK$'000
Other income		
Interest income	80,233	43,613
Government grants*	753,835	955,321
Compensation income	4,251	58,982
Tax refunds	92,902	63,426
Agency commission	–	4,241
Others	16,844	23,544
	948,065	1,149,127
Gains		
Gains on disposal of raw materials, by-products and scrap items	59,227	36,599
Logistic service and storage income	7,744	47,929
Realised and unrealised fair value gains on foreign currency forward contracts, net (note 23)	5,432	1,521
Gains on foreign exchange, net	351,058	102,730
Gain on bargain purchase (note 32)	9,672	37,847
Gain on disposal of an available-for-sale investment	–	614
Others	3,252	1,463
	436,385	228,703
	1,384,450	1,377,830

* 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 38 to the financial statements) are entitled to a financial grant based on the quantity of fuel ethanol produced and sold. An amount of HK$544,025,000 (2009: HK$561,784,000) has been included in the government grants for the year. There are no unfulfilled conditions or contingencies relating to these grants.

6. Profit Before Tax

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

	2010 HK$'000	2009 HK$'000
Cost of inventories sold or services provided	48,321,063	38,647,766
Write-down/(reversal) of inventories to net realisable value	9,874	(12,338)
Realised and unrealised fair value losses of derivative financial instruments, net (note 23)	1,949,662	1,933,027
Cost of sales	50,280,599	40,568,455
Auditors' remuneration	5,665	5,570
Depreciation (note 14)	727,307	677,399
Amortisation of intangible assets (note 20)	1,504	822
Minimum lease payments under operating leases in respect of land and buildings	50,823	28,049
Recognition of prepaid land premiums (note 15)	31,219	25,094
Employee benefit expenses (excluding directors' remuneration (note 8)):		
Wages and salaries	912,176	636,498
Pension scheme contributions*	91,811	66,446
Equity-settled share option expense	6,274	10,641
	1,010,261	713,585
Losses on disposal of items of property, plant and equipment	8,093	11,987
Impairment of items of property, plant and equipment (note 14)	–	232
Reversal of impairment of accounts receivable (note 22)	(1,966)	(1,463)
Impairment/(reversal of impairment) of other receivables	(1,286)	3,057

* At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

7. Finance Costs

An analysis of finance costs is as follows:

	2010 HK$'000	2009 HK$'000
Interest on:		
Bank loans wholly repayable within five years	321,879	227,380
Bank loans wholly repayable over five years	2,173	–
Loans from a fellow subsidiary	38,130	12,844
Convertible bonds	42,511	–
Total interest expenses	404,693	240,224
Less: Interest capitalised	(27,815)	(1,103)
	376,878	239,121

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Fees:		
Independent non-executive directors	1,080	1,410
Executive directors and non-executive directors	400	400
	1,480	1,810
Other emoluments:		
Salaries, allowances and benefits in kind	3,463	2,892
Discretionary bonuses	2,278	1,928
Equity-settled share option expense	968	1,898
Pension scheme contributions	99	86
	6,808	6,804
	8,288	8,614

In prior years, 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 the current and prior year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	Group	
	2010 HK$'000	2009 HK$'000
Mr. Lam Wai Hon, Ambrose	360	470
Mr. Victor Yang	360	470
Mr. Patrick Vincent Vizzone	360	470
	1,080	1,410

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

8. Directors' Remuneration (continued)

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2010						
Executive directors:						
Mr. Yu Xubo	–	1,200	800	174	33	2,207
Mr. Lu Jun	–	1,154	739	161	33	2,087
Mr. Yue Guojun	–	1,109	739	161	33	2,042
	–	3,463	2,278	496	99	6,336
Non-executive directors:						
Mr. Ning Gaoning	200	–	–	174	–	374
Mr. Chi Jingtao	100	–	–	149	–	249
Mr. Ma Wangjun	100	–	–	149	–	249
	400	–	–	472	–	872
	400	3,463	2,278	968	99	7,208
2009						
Executive directors:						
Mr. Yu Xubo	–	1,200	800	341	32	2,373
Mr. Lu Jun	–	846	564	316	27	1,753
Mr. Yue Guojun	–	846	564	316	27	1,753
	–	2,892	1,928	973	86	5,879
Non-executive directors:						
Mr. Ning Gaoning	200	–	–	341	–	541
Mr. Chi Jingtao	100	–	–	292	–	392
Mr. Ma Wangjun	100	–	–	292	–	392
	400	–	–	925	–	1,325
	400	2,892	1,928	1,898	86	7,204

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2009: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2009: two) non-director, highest paid employees for the year are as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Salaries, allowances and benefits in kind	1,933	2,530
Discretionary bonuses	922	643
Equity-settled share option expense	260	423
Pension scheme contributions	42	29
	3,157	3,625

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

	Number of employees	
	2010	2009
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	2	–
HK$2,000,001 to HK$2,500,000	–	1
	2	2

In prior years, share options were granted to two non-director, highest paid employees in respect of their services 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 in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current and prior years was included in the above non-director, highest paid employees' remuneration disclosures.

10. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2010 HK$'000	2009 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	234,600	156,927
Current – Mainland China		
Charge for the year	225,234	226,222
Underprovision/(overprovision) in prior years	(15,285)	8,299
Tax rebates and credits	(22,424)	(43,575)
Deferred tax (note 28)	(230,207)	(55,893)
Total tax charge for the year	191,918	291,980

A reconciliation of the tax expense applicable to profit before tax at 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 – 2010

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	1,302,017		173,252		1,475,269	
Tax at the statutory tax rate	214,843	16.5	43,313	25.0	258,156	17.5
Lower tax rate for specific provinces or enacted by local authority*	–	–	(2,043)	(1.2)	(2,043)	(0.1)
Profit not subject to tax due to concessions**	–	–	(244,382)	(141.1)	(244,382)	(16.6)
Investment tax credit utilised during the year***	–	–	(22,424)	(12.9)	(22,424)	(1.5)
Profits attributable to associates	(56,086)	(4.3)	(2,868)	(1.7)	(58,954)	(4.0)
Income not subject to tax	(14,082)	(1.1)	(18,218)	(10.5)	(32,300)	(2.2)
Tax expenses on dividend from an associate	3,420	0.3	–	–	3,420	0.2
Expenses not deductible for tax	23,422	1.8	29,949	17.3	53,371	3.6
Effect on deferred tax of change in rates	–	–	(23,977)	(13.8)	(23,977)	(1.6)
Adjustment in respect of current tax of previous periods	–	–	(15,285)	(8.8)	(15,285)	(1.0)
Tax losses utilised during the year	–	–	(12,515)	(7.2)	(12,515)	(0.8)
Tax losses not recognised	–	–	288,851	166.7	288,851	19.6
Tax charge at the Group's effective rate	171,517	13.2	20,401	11.8	191,918	13.1

10. Income Tax Expense (continued)

Group – 2009

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
Profit before tax	1,183,078		1,152,482		2,335,560	
Tax at the statutory tax rate	195,208	16.5	288,120	25.0	483,328	20.7
Lower tax rate for specific provinces or enacted by local authority*	–	–	(19,788)	(1.7)	(19,788)	(0.8)
Profit not subject to tax due to concessions**	–	–	(228,031)	(19.8)	(228,031)	(9.8)
Investment tax credit utilised during the year***	–	–	(7,139)	(0.6)	(7,139)	(0.3)
Profits attributable to associates	(56,593)	(4.8)	(2,436)	(0.2)	(59,029)	(2.5)
Income not subject to tax	(5,921)	(0.5)	(5,871)	(0.5)	(11,792)	(0.5)
Tax expenses on dividend from an associate	2,734	0.2	–	–	2,734	0.1
Expenses not deductible for tax	13,283	1.1	21,051	1.8	34,334	1.5
Effect on deferred tax of change in rates	–	–	(12,838)	(1.1)	(12,838)	(0.5)
Effect of withholding tax at 10% on the distributable profit of the Group's PRC subsidiaries	–	–	30,102	2.6	30,102	1.3
Adjustment in respect of current tax of previous periods	–	–	8,299	0.7	8,299	0.4
Tax rebates in respect of current tax of previous period	–	–	(36,436)	(3.2)	(36,436)	(1.6)
Tax losses utilised during the year	–	–	(5,625)	(0.5)	(5,625)	(0.2)
Tax losses not recognised	–	–	113,861	9.9	113,861	4.9
Tax charge at the Group's effective rate	148,711	12.5	143,269	12.4	291,980	12.7

* PRC corporate income tax ("CIT") represents tax charged on the estimated assessable profits arising in Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25%. 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 22%.

** 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. Besides, the Group's certain subsidiaries are also granted income tax exemption on the profit generated from processing of certain agricultural products.

*** 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$37,288,000 (2009: HK$33,345,000) is included in "Share of profits of associates" in the consolidated income statement.

11. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of HK$1,990,913,000 (2009: HK$252,553,000) which has been dealt with in the financial statements of the Company (note 31(b)).

12. Dividend

	2010 HK$'000	2009 HK$'000
Interim – 6.6 HK cents (2009: 6.7 HK cents) per ordinary share	266,527	258,455
Proposed final – 3.9 HK cents (2009: 5.9 HK cents) per ordinary share	157,496	227,657
	424,023	486,112

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$1,701,644,000 (2009: HK$1,952,042,000), and the weighted average number of 3,937,697,034 ordinary shares (2009: 3,773,087,391 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, adjusted to reflect the interest on the convertible bonds. 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 or conversion of all dilutive potential ordinary shares into ordinary shares.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Company (continued)

The calculations of basic and diluted earnings per share are based on:

Earnings

	2010 HK$'000	2009 HK$'000
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	1,701,644	1,952,042
Interest on convertible bonds	42,511	–
Profit attributable to ordinary equity holders of the Company before interest on convertible bonds	1,744,155	1,952,042

Number of shares

	Number of shares	
	2010	2009
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	3,937,697,034	3,773,087,391
Effect of dilution-weighted average number of ordinary shares:		
Share options	12,334,243	2,174,406
Convertible bonds	145,596,869	–
	4,095,628,146	3,775,261,797

14. Property, Plant and Equipment

Group

	Buildings HK$'000	Machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010				
At 31 December 2009 and at 1 January 2010:				
Cost	5,062,011	7,268,425	792,892	13,123,328
Accumulated depreciation and impairment	(860,251)	(2,690,742)	(232)	(3,551,225)
Net carrying amount	4,201,760	4,577,683	792,660	9,572,103
At 1 January 2010, net of accumulated depreciation and impairment	4,201,760	4,577,683	792,660	9,572,103
Additions	18,715	236,969	3,697,772	3,953,456
Acquisition of subsidiaries (note 32)	13,415	1,908	169,369	184,692
Disposals	(1,730)	(11,929)	(13,044)	(26,703)
Depreciation provided during the year (note 6)	(180,679)	(546,628)	–	(727,307)
Transfers	787,972	943,739	(1,731,711)	–
Exchange realignment	156,184	169,390	67,491	393,065
At 31 December 2010, net of accumulated depreciation and impairment	4,995,637	5,371,132	2,982,537	13,349,306
At 31 December 2010:				
Cost	6,074,005	8,681,822	2,982,537	17,738,364
Accumulated depreciation and impairment	(1,078,368)	(3,310,690)	–	(4,389,058)
Net carrying amount	4,995,637	5,371,132	2,982,537	13,349,306

14. Property, Plant and Equipment (continued)

Group

	Buildings HK$'000	Machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009				
At 1 January 2009:				
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
At 1 January 2009, net of accumulated depreciation and impairment	3,710,015	4,357,296	198,747	8,266,058
Additions	205,771	137,693	799,035	1,142,499
Acquisition of subsidiaries (note 32)	332,684	447,627	64,838	845,149
Impairment (note 6)	–	–	(232)	(232)
Disposals	(4,912)	(12,683)	–	(17,595)
Depreciation provided during the year (note 6)	(203,715)	(473,684)	–	(677,399)
Transfers	155,850	114,622	(270,472)	–
Exchange realignment	6,067	6,812	744	13,623
At 31 December 2009, net of accumulated depreciation and impairment	4,201,760	4,577,683	792,660	9,572,103
At 31 December 2009:				
Cost	5,062,011	7,268,425	792,892	13,123,328
Accumulated depreciation and impairment	(860,251)	(2,690,742)	(232)	(3,551,225)
Net carrying amount	4,201,760	4,577,683	792,660	9,572,103

14. Property, Plant and Equipment (continued)

Company

	Office equipment HK$'000
31 December 2010	
At 31 December 2009 and at 1 January 2010:	
Cost	2,898
Accumulated depreciation	(2,650)
Net carrying amount	248
At 1 January 2010, net of accumulated depreciation	248
Depreciation provided during the year	(82)
At 31 December 2010, net of accumulated depreciation	166
At 31 December 2010:	
Cost	2,898
Accumulated depreciation	(2,732)
Net carrying amount	166
31 December 2009	
At 1 January 2009:	
Cost	2,898
Accumulated depreciation	(1,325)
Net carrying amount	1,573
At 1 January 2009, net of accumulated depreciation	1,573
Depreciation provided during the year	(1,325)
At 31 December 2009, net of accumulated depreciation	248
At 31 December 2009:	
Cost	2,898
Accumulated depreciation	(2,650)
Net carrying amount	248

As at 31 December 2010, certain of the Group's property, plant and equipment with a net carrying amount of approximately HK$673,473,000 (2009: HK$260,145,000) were pledged to secure banking facilities granted to the Group (note 26).

As at 31 December 2010, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net carrying amount of approximately HK$772,109,000 (2009: HK$515,329,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

15. Prepaid Land Premiums

	Group	
	2010 HK$'000	2009 HK$'000
Carrying amount at 1 January	1,061,575	506,787
Additions	348,221	441,353
Acquisition of subsidiaries (note 32)	34,830	137,340
Recognised during the year (note 6)	(31,219)	(25,094)
Exchange realignment	40,299	1,189
Carrying amount at 31 December	1,453,706	1,061,575
Current portion included in prepayments, deposits and other receivables	(31,579)	(23,310)
Non-current portion	1,422,127	1,038,265

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

As at 31 December 2010, certain land use rights of the Group with a net carrying amount of HK$100,450,000 (2009: Nil) were pledged to secure bank loans granted to the Group (note 26).

As at 31 December 2010, certificates of land use rights in respect of certain land of the Group in Mainland China with an aggregate net carrying amount of HK$62,877,000 (2009: HK$64,323,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

16. Goodwill

	Group	
	2010 HK$'000	2009 HK$'000
Cost and carrying amount at 1 January	1,020,635	644,631
Acquisition of subsidiaries (note 32)	–	376,004
Cost and carrying amount at 31 December	1,020,635	1,020,635

16. Goodwill (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable operating segments, for impairment testing:

- Oilseeds processing cash-generating unit;
- Rice trading and processing cash-generating unit; and
- Biofuel and biochemical cash-generating unit.

The recoverable amount of the oilseeds 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 13% (2009: 12%) and cash flows beyond the five-year period are extrapolated using a negative growth rate of 2% (2009: 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 14% (2009: 11%) and cash flows beyond the five-year period are extrapolated using a negative growth rate of 2% (2009: 0%) 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% (2009: 12%) and cash flows beyond the five-year period are extrapolated using a negative growth rate of 2% (2009: 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:

	2010 HK$'000	2009 HK$'000
Oilseeds processing	476,817	476,817
Rice trading and processing	128,118	128,118
Biofuel and biochemical	412,517	412,517
Others	3,183	3,183
	1,020,635	1,020,635

16. Goodwill (continued)

Impairment testing of goodwill (continued)

Key assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2010 and 31 December 2009. 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 the raw materials are sourced.

The values assigned to key assumptions are consistent with external information sources.

17. Investments in Subsidiaries

	Company	
	2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	6,138,967	6,099,967
Loans to subsidiaries	7,912,208	2,891,421
	14,051,175	8,991,388

The loans to subsidiaries included in the investments in subsidiaries above are unsecured, interest-free and the Company does not expect these loans 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.

Except for amounts due from subsidiaries of HK$2,798,353,000 (2009: HK$719,000,000), which are financing in nature and repayable within one year, the amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed term of repayment.

The amounts due to subsidiaries at 31 December 2010 included in the Company's current liabilities are unsecured, interest-free and repayable on demand.

Particulars of the Company's principal subsidiaries as at 31 December 2010 are set out in note 38 to the financial statements.

18. Interests in Associates

	Group	
	2010 HK$'000	2009 HK$'000
Share of net assets	1,768,604	1,463,457
Goodwill on acquisition	28,356	28,356
	1,796,960	1,491,813
Loans to associates	145,512	152,911
	1,942,472	1,644,724

The loans to associates are unsecured, interest-free and the Company does not expect these loans 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 associates.

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 operating segments, for impairment testing:

- Oilseeds 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:

	2010 HK$'000	2009 HK$'000
Oilseeds 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.

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:

	2010 HK$'000	2009 HK$'000
Assets	20,556,382	16,116,024
Liabilities	15,144,780	11,592,448
Revenue	20,368,429	18,766,950
Profit	950,520	1,060,155

Particulars of the Group' principal associates as at 31 December 2010 are set out in note 39 to the financial statements.

19. Available-for-sale Investments

	Group	
	2010 HK$'000	2009 HK$'000
Unlisted equity investments outside Hong Kong, at cost	2,739	2,728

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.

20. Intangible Assets

	Group		
	Golf club membership HK$'000	Others HK$'000	Total HK$'000
31 December 2010			
Cost at 1 January 2010, net of accumulated amortisation	14,089	22,045	36,134
Additions	1,017	–	1,017
Amortisation provided during the year (note 6)	–	(1,504)	(1,504)
Exchange realignment	460	1,242	1,702
At 31 December 2010	15,566	21,783	37,349
At 31 December 2010:			
Cost	15,566	26,763	42,329
Accumulated amortisation	–	(4,980)	(4,980)
Net carrying amount	15,566	21,783	37,349
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation	12,245	16,244	28,489
Additions	1,824	–	1,824
Acquisition of subsidiaries (note 32)	–	6,580	6,580
Amortisation provided during the year (note 6)	–	(822)	(822)
Exchange realignment	20	43	63
At 31 December 2009	14,089	22,045	36,134
At 31 December 2009:			
Cost	14,089	25,130	39,219
Accumulated amortisation	–	(3,085)	(3,085)
Net carrying amount	14,089	22,045	36,134

21. Inventories

	Group	
	2010 HK$'000	2009 HK$'000
Raw materials	11,960,954	4,760,553
Work in progress	386,230	186,917
Finished goods	3,619,073	2,083,755
	15,966,257	7,031,225

As at 31 December 2010, certain of the Group's inventories with a net carrying amount of HK$176,284,000 (2009: HK$131,562,000) were pledged to secure bank loans granted to the Group (note 26).

22. Accounts and Bills Receivables

	Group	
	2010 HK$'000	2009 HK$'000
Accounts and bills receivables	2,406,425	1,935,834
Impairment	(7,915)	(14,361)
	2,398,510	1,921,473

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 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivables are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively.

22. Accounts and Bills Receivables (continued)

An aged analysis of the accounts and bills receivables at the end of the reporting period, based on the invoice date and bill issue date, net of provision for impairment, is as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Within 3 months	2,147,725	1,680,066
3 to 12 months	249,861	240,535
1 to 2 years	553	851
2 to 3 years	371	21
	2,398,510	1,921,473

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

	Group	
	2010 HK$'000	2009 HK$'000
At 1 January	14,361	13,806
Acquisition of subsidiaries	–	2,331
Reversal of impairment losses (note 6)	(1,966)	(1,463)
Amount written off as uncollectible	(4,861)	(336)
Exchange realignment	381	23
At 31 December	7,915	14,361

Included in the above provision for impairment of accounts receivables is a provision for individually impaired accounts receivables of HK$7,915,000 (2009: HK$14,361,000) with a carrying amount of HK$7,915,000 (2009: HK$14,361,000).

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.

22. Accounts and Bills Receivables (continued)

An aged analysis of the accounts and bills receivables that are not considered to be impaired is as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Neither past due nor impaired	2,334,241	1,633,351
Less than 1 month past due	27,154	34,293
1 to 3 months past due	23,572	210,333
More than 3 months but less than 12 months past due	12,636	40,985
More than 1 year past due	907	2,511
	2,398,510	1,921,473

Receivables that were neither past due nor impaired relate to bills receivable and a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. Derivative Financial Instruments

	Group		Group	
	2010		2009	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
Commodity futures contracts	304,359	830,598	9,335	855,024
Foreign currency forward contracts	1,263	–	876	222
	305,622	830,598	10,211	855,246

The Group has entered into various commodity futures contracts to manage its price exposures in future purchases or sales of soybean, soybean meal, barley and corn. The Group does not adopt hedge accounting. Net fair value loss on derivative financial instruments of HK$1,949,662,000 (2009: HK$1,933,027,000) (note 6) was 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$5,432,000 (2009: HK$1,521,000) (note 5) was credited to the income statement during the year.

24. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Cash and bank balances	6,320,684	5,021,509	1,675,975	1,008,973
Time deposits	1,201,844	517,555	1,060,982	39,015
	7,522,528	5,539,064	2,736,957	1,047,988
Less: Deposits pledged for:				
– bank borrowings (note 26)	(56,269)	–	–	–
– bills payable (note 25)	(61,950)	(23,784)	–	–
	(118,219)	(23,784)	–	–
Cash and cash equivalents	7,404,309	5,515,280	2,736,957	1,047,988

At the end of the reporting period, the cash and cash equivalents and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to approximately HK$3,941,849,000 (2009: HK$3,561,875,000). 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.

25. Accounts and Bills Payables

An aged analysis of the accounts and bills payables at the end of the reporting period, based on the invoice date and bill issue date, is as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Within 3 months	3,187,825	1,061,408
3 to 12 months	230,150	201,031
1 to 2 years	4,559	6,850
Over 2 years	3,989	1,695
	3,426,523	1,270,984

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

As at 31 December 2010, certain of the Group's bills payable are secured by time deposits of the Group with a carrying amount of HK$61,950,000 (2009: HK$23,784,000) (note 24).

26. Interest-bearing Bank and Other Borrowings

Group

	2010			2009		
	Effective contractual interest rate (%)	Maturity	HK$'000	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	2.57–5.96	2011	266,082	0.62–6.93	2010	374,235
Bank loans – unsecured	0.65–5.56	2011	19,007,537	0.48–5.31	2010	10,997,911
Other loans – unsecured	4.37	2011	493,595	4.37	2010	340,715
			19,767,214			11,712,861
Non-current						
Bank loans – unsecured	4.86–5.53, LIBOR+1%	2012-2016	2,202,905	BLR –10%	2011-2012	1,116,411
Bank loans – secured	5.18–5.76	2012-2015	107,561			–
			2,310,466			1,116,411
			22,077,680			12,829,272

Company

	2010			2009		
	Effective contractual interest rate (%)	Maturity	HK$'000	Effective contractual interest rate (%)	Maturity	HK$'000
Non-current						
Bank loans – unsecured	LIBOR+1%	2015	1,945,000			–
			1,945,000			–

26. Interest-bearing Bank and Other Borrowings (continued)

Group

	2010 HK$'000	2009 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	19,273,619	11,372,146
In the second year	217,417	855,196
In the third to fifth years, inclusive	2,045,597	261,215
Beyond five years	47,452	–
	21,584,085	12,488,557
Other loans repayable:		
Within one year or on demand	493,595	340,715
	22,077,680	12,829,272

Company

	2010 HK$'000	2009 HK$'000
Analysed into:		
Bank loans repayable in the third to fifth years, inclusive	1,945,000	–

Notes:

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

(i) certain property, plant and equipment of the Group with a net carrying amount of approximately HK$673,473,000 (2009: HK$260,145,000) (note 14);

(ii) certain land use rights of the Group with a net carrying amount of approximately HK$100,450,000 (2009: Nil) (note 15);

(iii) certain inventories of the Group with a net carrying amount of approximately HK$176,284,000 (2009: HK$131,562,000) (note 21);

(iv) certain time deposits of the Group with a carrying amount of approximately HK$56,269,000 (2009: Nil) (note 24).

(b) Certain of the Group's bank loans are guaranteed by a non-controlling shareholder of a non-wholly-owned subsidiary and a fellow subsidiary of the Company.

(c) Except for bank and other borrowings of HK$13,760,451,000 (2009: HK$8,558,194,000) which are denominated in United States dollars, all other borrowings are dominated in RMB.

(d) The other loans represented loans from a fellow subsidiary.

27. Convertible Bonds

On 29 July 2010, Glory River Holdings Limited (the "Issuer"), a wholly-owned subsidiary of the Company, issued 1% fixed rate convertible bonds due on 29 July 2015 (the "Maturity Date"), with an aggregate principal amount of HK$3,875,000,000. The Company has unconditionally and irrevocably guaranteed the due payments of all sums to be payable by the Issuer. The bonds have been listed and quoted on the Singapore Exchange Securities Trading Limited on 2 August 2010.

The bonds are convertible at the option of the bondholders into ordinary shares of the Company on or after 8 September 2010 up to 19 July 2015. The initial conversion price is HK$11.375 per share and the conversion price is subject to adjustment upon occurrence of certain adjustment events subsequently.

The Issuer will, at the option of the holder of any bond, redeem all or part of such holder's bonds on 29 July 2013 at certain predetermined early redemption amount (the "Early Redemption Amount") as at the relevant date fixed for redemption, together with interest accrued but unpaid to such date. Upon fulfiling certain predetermined conditions, the bonds are redeemable in whole, but not in part, at the option of the Issuer at any time after 29 July 2013 at the Early Redemption Amount as at the relevant date fixed for redemption, together with interest accrued but unpaid to such date. The Early Redemption Amount to be repaid to the holder thereof on the relevant date is based on a gross yield to maturity identical to that applicable in the case of the redemption on the Maturity Date, being 2% per annum (calculated on a semi-annual basis).

The bonds carry interest at a rate of 1% per annum, which is payable half-yearly in arrears on 29 January and 29 July. Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the terms and conditions of the bonds, the Issuer will redeem each bond at its principal amount multiplied by 105.231% together with accrued and unpaid interest thereon on the Maturity Date.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the year have been split as to the liability and equity components, as follows:

	2010 HK$'000
Nominal value of convertible bonds issued during the year	3,875,000
Equity component after allocated transaction costs	(51,739)
Direct transaction costs attributable to the equity component	(1,056)
Direct transaction costs attributable to the liability component	(80,012)
Liability component at the issuance date	3,742,193
Interest expense	42,511
Liability component at 31 December	3,784,704
Analysed into:	
Current liabilities included in other payables	19,375
Non-current liabilities included in convertible bonds	3,765,329

Further details of the convertible bonds are included in the Company's announcement dated 22 July 2010.

28. Deferred Tax

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

Deferred tax assets

Group

	Provision against inventories HK$'000	Impairment of receivables HK$'000	Unrealised losses on derivative financial instruments HK$'000	Losses available for offsetting against future taxable profits HK$'000	Others HK$'000	Total HK$'000
At 1 January 2009	49,881	4,593	15,791	–	55,279	125,544
Deferred tax credited/(charged) to the income statement during the year (note 10)	(49,763)	(477)	115,448	4,477	357	70,042
Acquisition of subsidiaries (note 32)	655	1,988	8,060	10,515	5,464	26,682
Exchange realignment	40	7	118	4	(265)	(96)
At 31 December 2009 and at 1 January 2010	813	6,111	139,417	14,996	60,835	222,172
Deferred tax credited/(charged) to the income statement during the year (note 10)	1,646	–	(4,104)	161,482	80,098	239,122
Exchange realignment	56	213	4,778	3,330	1,764	10,141
Gross deferred tax assets at 31 December 2010	2,515	6,324	140,091	179,808	142,697	471,435

28. Deferred Tax (continued)

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation HK$'000	Government grants HK$'000	Unrealised gain on derivative financial instruments HK$'000	Withholding taxes HK$'000	Others HK$'000	Total HK$'000
At 1 January 2009	8,874	13,733	238	119,786	38	142,669
Deferred tax (credited)/charged to the income statement during the year (note 10)	(3,522)	4,498	(34)	23,449	(10,242)	14,149
Acquisition of subsidiaries (note 32)	–	–	–	–	39,887	39,887
Exchange realignment	11	26	–	–	–	37
At 31 December 2009 and at 1 January 2010	5,363	18,257	204	143,235	29,683	196,742
Deferred tax (credited)/charged to the income statement during the year (note 10)	(1,749)	4,048	8,413	(4,855)	3,058	8,915
Acquisition of subsidiaries (note 32)	–	–	–	–	6,393	6,393
Exchange realignment	156	705	154	–	101	1,116
Gross deferred tax liabilities at 31 December 2010	3,770	23,010	8,771	138,380	39,235	213,166

The Group has tax losses arising in Mainland China of HK$1,630,428,000 (2009: HK$531,849,000) 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 Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

29. Share Capital

Shares

	Notes	2010 HK$'000	2009 HK$'000
Authorised:			
10,000,000,000 (2009: 4,000,000,000) ordinary shares of HK$0.1 each	(i)	1,000,000	400,000
Issued and fully paid:			
4,038,369,839 (2009: 3,858,584,839) ordinary shares of HK$0.1 each		403,837	385,858

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

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
Issued:			
At 1 January 2010		3,858,584,839	385,858
New share subscription	(ii)	178,000,000	17,800
Share options exercised	(iv)	1,785,000	179
At 31 December 2010		4,038,369,839	403,837

29. Share Capital (continued)

Shares (continued)

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
Issued:			
At 1 January 2009		3,593,906,356	359,391
Issue of shares for acquisition of subsidiaries	(iii)	263,626,483	26,362
Share options exercised	(iv)	1,052,000	105
At 31 December 2009		3,858,584,839	385,858

Notes:

(i) Pursuant to an ordinary resolution passed on 25 May 2010 in the annual general meeting of the shareholders, the authorised share capital of the Company increased from HK$400,000,000 to HK$1,000,000,000 by creation of 6,000,000,000 additional shares of HK$0.1 each, ranking pari passu in all respects with the existing shares of the Company.

(ii) During the year, Wide Smart Holdings Limited, a shareholder of the Company, placed 178,000,000 existing shares of the Company at HK$8.75 per share to independent third parties and subscribed for the same amount of new issue of the Company's shares at HK$8.75 per share for a total cash consideration, before issue expenses, of HK$1,557,500,000. The placing and the subscription were completed on 2 August 2010.

(iii) Details of the shares issued for acquisition of certain subsidiaries in 2009 are included in note 32 to the financial statements.

(iv) The subscription rights attaching to 1,785,000 (2009: 1,052,000) share options were exercised at the subscription price of HK$4.666 (2009: HK$4.666) per share (note 30), resulting in the issue of 1,785,000 (2009: 1,052,000) shares of HK$0.1 (2009: HK$0.1) each for a total cash consideration, before issue expenses, of HK$8,328,810 (2009: HK$4,908,632).

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 attracting, retaining and motivating 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 are not limited to, any directors, (excluding independent non-executive directors), officers and employees of the Group, or any other person the board of directors may propose. The Scheme became unconditional and effective upon listing of the shares of the Company on 21 March 2007 and, unless otherwise cancelled, amended or terminated in accordance with the Scheme, will remain in force for 10 years from 21 March 2007.

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

The exercise price of share options is determinable by the board of directors, 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; and (iii) the nominal value of a share.

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

30. Share Option Scheme (continued)

On 7 August 2007 (the "Grant Date"), 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 had an exercise price of HK$4.666 per share and an exercise period from 7 August 2009 to 6 August 2014. The closing price of the Company's shares at the date of grant was HK$4.50 per share.

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

	2010		2009	
	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	25,844	4.666	27,370
Forfeited during the year	4.666	(38)	4.666	(474)
Exercised during the year	4.666	(1,785)	4.666	(1,052)
At 31 December	4.666	24,021	4.666	25,844

Pursuant to an ordinary resolution passed on 25 May 2010 (the "Modification Date") in the annual general meeting of the shareholders, the vesting and exercise periods for the share options granted under the Scheme had been modified (the "Modification"). The vesting periods, exercise price and exercise periods of the share options outstanding as at 31 December 2010 and 2009 are as follows:

2010 Number of options granted to					
Directors '000	Employees '000	Total '000	Vesting period	Exercise price per share HK$	Exercise period
530	2,051	2,581	7-8-2007 to 6-8-2009	4.666	7-8-2009 to 6-8-2014
780	4,580	5,360	7-8-2007 to 6-8-2010	4.666	7-8-2010 to 6-8-2014
780	4,580	5,360	7-8-2007 to 6-8-2011	4.666	7-8-2011 to 6-8-2014
780	4,580	5,360	7-8-2007 to 6-8-2012	4.666	7-8-2012 to 6-8-2014
780	4,580	5,360	7-8-2007 to 6-8-2013	4.666	7-8-2013 to 6-8-2014
3,650	20,371	24,021			

30. Share Option Scheme (continued)

2009 Number of options granted to Directors '000	Employees '000	Total '000	Vesting period	Exercise price per share HK$	Exercise period
1,157	6,731	7,888	7-8-2007 to 6-8-2009	4.666	7-8-2009 to 6-8-2014
1,326	7,788	9,114	7-8-2007 to 6-8-2010	4.666	7-8-2010 to 6-8-2014
1,287	7,555	8,842	7-8-2007 to 6-8-2011	4.666	7-8-2011 to 6-8-2014
3,770	22,074	25,844			

The fair value of the share options granted during the year ended 31 December 2007 was approximately HK$45,700,000. The fair value of the then outstanding share options was remeasured on the Modification Date with an additional fair value of approximately HK$2,759,000. The Company recognised a share option expense of HK$7,242,000 (2009: HK$12,539,000) during the year ended 31 December 2010.

The fair values of the equity-settled share options were estimated as at the Grant Date and the Modification Date, using option pricing models, taking account the according terms and conditions. The following table lists the inputs to the models used:

	Modification Date	Grant Date
Dividend yield (%)	1.5	1.0
Expected volatility (%)	55.20	42.95
Historical volatility (%)	55.20	42.95
Risk-free interest rate (%)	1.320	4.369
Expected life of options (year)	4.2	5.0
Weighted average share price (HK$ per share)	8.47	4.35

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.

30. Share Option Scheme (continued)

At the end of the reporting period, the Company had 24,021,000 (2009: 25,844,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 24,021,000 (2009: 25,844,000) additional ordinary shares of the Company and additional share capital of HK$2,402,100 (2009: HK$2,584,400) and share premium of HK$109,679,886 (2009: HK$118,003,704) (before issue expenses).

At the date of the approval of these financial statements, the shares issuable from the above outstanding share options represented approximately 0.59% (2009: 0.67%) 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 excess of 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.

31. Reserves (continued)

(b) Company

	Notes	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2008 and at 1 January 2009		2,746,299	5,689,788	22,959	920,757	9,379,803
Total comprehensive income for the year		–	–	–	252,553	252,553
Issue of shares for acquisition of subsidiaries	29, 32	1,004,417	–	–	–	1,004,417
Share issue expenses		(34)	–	–	–	(34)
Exercise of share options	29	6,545	–	(1,742)	–	4,803
Equity-settled share option arrangements	30	–	–	12,539	–	12,539
2009 interim dividend	12	–	–	–	(258,455)	(258,455)
Proposed final 2009 dividend	12	–	–	–	(227,657)	(227,657)
At 31 December 2009 and at 1 January 2010		3,757,227	5,689,788	33,756	687,198	10,167,969
Total comprehensive income for the year		–	–	–	1,990,913	1,990,913
Issue of shares	29	1,539,700	–	–	–	1,539,700
Share issue expenses		(32,877)	–	–	–	(32,877)
Exercise of share options	29	11,106	–	(2,956)	–	8,150
Equity-settled share option arrangements	30	–	–	7,242	–	7,242
Adjustment on 2009 final dividend		–	–	–	(100)	(100)
2010 interim dividend	12	–	–	–	(266,527)	(266,527)
Proposed final 2010 dividend	12	–	–	–	(157,496)	(157,496)
At 31 December 2010		5,275,156	5,689,788	38,042	2,253,988	13,256,974

31. Reserves (continued)

(b) Company (continued)

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.

32. Business Combinations

Business combination for the year ended 31 December 2010

On 26 January 2010 (date of acquisition), the Group acquired the 100% equity interest in COFCO (Jiangyin) Cereals, Oil & Warehouse Corporation Limited ("COFCO (Jiangyin) Warehouse") from COFCO HK at a cash consideration of HK$154,809,000. COFCO (Jiangyin) Warehouse is engaged in the provision of warehouse and logistic services.

The fair values of the identifiable assets and liabilities of COFCO (Jiangyin) Warehouse as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment (note 14)	184,692
Prepaid land premiums (note 15)	34,830
Inventories	52
Accounts and bills receivables	238
Prepayments, deposits and other receivables	449
Cash and cash equivalents	1,466
Other payables and accruals	(28,051)
Tax payable	(46)
Deferred tax liabilities (note 28)	(6,393)
Interest-bearing bank and other borrowings	(22,756)
	164,481
Gain on bargain purchase recognised in other income and gains in the consolidated income statement (note 5)	(9,672)
	154,809
Satisfied by cash	154,809

32. Business Combinations (continued)

Business combination for the year ended 31 December 2010 (continued)

An analysis of the net cash flows in respect of the acquisition of COFCO (Jiangyin) Warehouse is as follows:

	31 December 2010 HK$'000
Cash consideration	(154,809)
Cash and cash equivalents acquired	1,466
Net outflow of cash and cash equivalents included in cash flows from investing activities	(153,343)

During the current year, COFCO (Jiangyin) Warehouse generated revenue and net profit of HK$20,017,000 and HK$1,395,000, respectively. Since the acquisition date, COFCO (Jiangyin) Warehouse contributed HK$19,156,000 to the Group's revenue and HK$595,000 to the Group's consolidated profit for the year.

Business combinations for the year ended 31 December 2009

(a) On 17 April 2009, the Group acquired the 100% equity interest in Guangxi China Resources Hongshui River Pier Storage Co., Limited, which subsequently changed its name to COFCO Qinzhou (as defined in note 38 to the financial statements), from independent third parties at a purchase consideration of HK$90,783,000. COFCO Qinzhou is currently under construction stage and will be engaged in production and sale of edible oil.

(b) On 17 February 2009, the Company entered into four share purchase agreements with COFCO HK ("Share Purchase Agreements"), pursuant to which the Company agreed to purchase all issued share capital of Kindgain Limited ("Kindgain"), Uptech Investments Limited ("Uptech"), Cheerlink International Limited ("Cheerlink") and Parkwing Limited ("Parkwing") (the "Acquisition").

Kindgain, Uptech and Parkwing held 100% equity interests in COFCO Dongguan, COFCO Feixian and Jilin Packaging (as defined in note 38 to the financial statements), respectively, while Cheerlink held a 57.136% equity interest in Yellow Dragon (as defined in note 38 to the financial statements).

The Acquisition was completed on 28 April 2009, in consideration for the issue of 263,626,483 ordinary shares of the Company of HK$0.10 each, at a price of HK$3.69 per share to COFCO HK pursuant to Share Purchase Agreements. The fair value of the shares at the issue date was HK$3.91 per share.

COFCO Dongguan and COFCO Feixian are principally engaged in the oilseeds processing business, mainly the production and sale of soybean oil and related products, and the production and sale of peanut oil and related products, respectively. Jilin Packaging is principally engaged in the production and sale of packaging materials, and mainly supplies to Yellow Dragon and the Group. Yellow Dragon is principally engaged in the corn processing business, mainly the production and sale of starch and related biochemical products.

32. Business Combinations (continued)

Business combinations for the year ended 31 December 2009 (continued)

(c) On 30 September 2009, the Group acquired the 100% equity interest in COFCO Rongs (as defined in note 38 to the financial statements) from an independent third party at a purchase consideration of HK$94,223,000.

The fair values of the identifiable assets and liabilities of COFCO Dongguan, COFCO Qinzhou and COFCO Rongs as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment (note 14)	420,681
Prepaid land premiums (note 15)	57,281
Intangible assets (note 20)	6,580
Deferred tax assets (note 28)	23,958
Inventories	184,991
Accounts and bills receivables	62,120
Prepayments, deposits and other receivables	140,926
Due from fellow subsidiaries	199,217
Due from associates	24,523
Pledged deposits	21,073
Cash and cash equivalents	127,501
Accounts and bills payables	(336,443)
Other payables and accruals	(145,891)
Derivative financial instruments	(32,240)
Interest-bearing bank and other borrowings	(208,945)
Due to fellow subsidiaries	(82,218)
Tax payable	(19,170)
Deferred tax liabilities (note 28)	(6,802)
	437,142
Goodwill on acquisition (note 16)	376,004
	813,146
Satisfied by:	
Cash	185,006
Issue of shares	628,140
	813,146

32. Business Combinations (continued)

Business combinations for the year ended 31 December 2009 (continued)

The fair values of the identifiable assets and liabilities of COFCO Feixian, Jilin Packaging and Yellow Dragon as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment (note 14)	424,468
Prepaid land premiums (note 15)	80,059
Deferred tax assets (note 28)	2,724
Inventories	521,847
Accounts and bills receivables	109,757
Prepayments, deposits and other receivables	60,864
Due from fellow subsidiaries	14,241
Due from associates	9,211
Tax recoverable	5,611
Cash and cash equivalents	108,167
Accounts and bills payables	(20,097)
Other payables and accruals	(141,540)
Deferred income	(1,149)
Interest-bearing bank and other borrowings	(57,916)
Due to fellow subsidiaries	(386,692)
Due to non-controlling shareholders of subsidiaries	(40,178)
Tax payable	(53)
Deferred tax liabilities (note 28)	(33,085)
	656,239
Non-controlling interests	(208,855)
Gain on bargain purchase included in other income and gains in the consolidated income statement (note 5)	(37,847)
	409,537
Satisfied by:	
Issue of shares	402,639
Available-for-sale investments	6,898
	409,537

32. Business Combinations (continued)

Business combinations for the year ended 31 December 2009 (continued)

An analysis of the net cash flows in respect of the acquisition of these subsidiaries is as follows:

	31 December 2009 HK$'000
Cash consideration	(185,006)
Cash and cash equivalents acquired	235,668
Net inflow of cash and cash equivalents included in cash flows from investing activities	50,662

During the year ended 31 December 2009, these subsidiaries generated revenue and net profit of HK$5,757,799,000 and HK$92,519,000, respectively. Since the acquisition date to 31 December 2009, these subsidiaries contributed HK$3,798,894,000 to the Group's revenue and HK$57,032,000 to the Group's consolidated profit.

33. Operating Lease Arrangements

As lessee

The Group leases certain of its office properties and land use rights under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to eleven years and those for land use rights for terms ranging from seven to fifty years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	8,670	17,846
In the second to fifth years, inclusive	12,572	15,749
After five years	45,221	44,883
	66,463	78,478

34. Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2010 HK$'000	2009 HK$'000
Guarantees given to banks in connection with facilities granted to a subsidiary	4,672,200	4,672,200

As at 31 December 2010, 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$4,391,400,000 (2009: HK$3,957,329,000).

In addition, the Company has unconditionally and irrevocably guaranteed the due payments of all sums to be payable of the convertible bonds issued by a subsidiary of the Company (note 27).

35. Capital Commitments

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	5,677,388	5,442,919
Contracted, but not provided for	2,734,282	1,001,424
	8,411,670	6,444,343

36. Other Commitments

Commitments under commodity futures contracts:

	Group	
	2010 HK$'000	2009 HK$'000
Sales of soybean meal	1,693,941	4,869,589
Sales of soybean	7,084,909	4,429,677
Sales of soybean oil	7,273,081	6,957,316
Sales of rapeseed oil	133,113	49,705
Sales of palm oil	2,365,928	4,598,427
Sales of corn	10,260	246,240
	18,561,232	21,150,954
Purchases of soybean	3,380,273	1,664,761
Purchases of soybean oil	239,377	–
	3,619,650	1,664,761

Commitments under foreign currency forward contracts:

	Group	
	2010 HK$'000	2009 HK$'000
Sales of United States dollars	86,517	326,098

Other than disclosed above, the Group did not have any significant commitments as at the end of the reporting period (2009: Nil).

37. 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	2010 HK$'000	2009 HK$'000
Transactions with fellow subsidiaries:			
Sales of goods**	(i)	5,946,203	4,612,287
Purchases of goods**	(i)	2,187,594	698,093
Operating lease rental paid*	(i)	7,132	10,295
Interest expense	(ii)	38,130	12,844
Building management fee paid	(i)	–	377
Brokerage fee paid**	(i)	37,275	30,939
Processing service fee paid*	(i)	4,505	3,404
Logistic service and storage income	(i)	2,966	1,989
Purchase of assets	(i)	–	127,995
Transactions with the ultimate holding company:			
Sales of goods*	(i)	1,164	12
Operating lease rental paid*	(i)	20,793	9,054
Logistic service and storage income*	(i)	–	3,079
Transactions with associates:			
Sales of goods**	(i)	2,177,443	2,270,891
Purchases of goods**	(i)	162,826	179,426
Interest income	(i)	3,706	1,732
Transactions with related companies: #			
Sales of goods**	(i)	196,496	226,347
Purchases of goods**	(i)	7,060,808	4,288,134
Brokerage fee paid	(i)	2,193	–
Transactions with non-controlling shareholders of subsidiaries:			
Sales of goods**	(i)	991,523	927,642
Purchases of goods*	(i)	77,178	53,096

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

** A certain portion of these related party transactions constituted connected transactions or continuing connected transactions disclosable in accordance with the Listing Rules.

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

37. Connected and Related Party Transactions (continued)

Notes:

(i) Except for the transactions with a fellow subsidiary for sales of goods of HK$184,088,000 (2009: Nil) and with an associate for sales of goods of HK$1,919,440,000 (2009: HK$2,065,864,000), 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 and bore interest at rates of 4.374% per annum (2009: LIBOR+1.08 per annum and 4.374% per annum).

(b) Outstanding balances with related parties

Except for the following, the balances with the ultimate holding company, fellow subsidiaries, related companies, and non-controlling shareholders of the Group's subsidiaries as at the end of the reporting period are unsecured, interest-free and have no fixed terms of repayment:

(1) Loans from a fellow subsidiary of HK$493,595,000 (2009: HK$340,715,000), which bear interest at rate of 4.374% per annum and will be repaid within one year.

(2) Amounts due to non-controlling shareholders of subsidiaries of HK$203,523,000 (2009: HK$129,606,000), which are financing in nature and not repayable within one year from the end of the reporting period.

(c) Compensation of key management personnel of the Group

	2010 HK$'000	2009 HK$'000
Short term employee benefits	24,118	18,306
Post-employment benefits	630	314
Equity-settled share option expense	2,620	4,443
Total compensation paid to key management personnel	27,368	23,063

Further details of directors' emoluments are included in note 8 to the financial statements.

37. Connected and Related Party Transactions (continued)

(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.

38. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-in 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
COFCO Agri-Industries Management Co., Ltd.**	The PRC/ Mainland China	US$10,000,000	100	Provision of management services
Full Extent Group Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US$3	100	Investment holding
Charm Power Limited	Hong Kong/ Hong Kong	Ordinary HK$1	100	Investment holding

38. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-in share capital	Percentage of equity attributable to the Company	Principal activities
Glory River Holdings Limited	BVI/ Hong Kong	Ordinary US$1	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.**	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.**	The PRC/ Mainland China	US$81,462,057	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$29,320,000	100	Production and sale of edible oil

38. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-in share capital	Percentage of equity attributable to the Company	Principal activities
張家港保稅區中糧四海豐貿易有限公司***	The PRC/ Mainland China	RMB10,000,000	57.43	Trading of soybean
COFCO East Ocean Oils & Grains (Dongtai) Co., Ltd.***	The PRC/ Mainland China	RMB20,000,000	54	Production and sale of feed
Zhangjiagang COFCO East Ocean Storage Co., Ltd.***	The PRC/ Mainland China	RMB336,000,000	38.74#	Provision of storage service
Hubei COFCO Xiangrui Oils & Grains Storage Co., Ltd.***	The PRC/ Mainland China	RMB35,600,000	73.34	Production and sale of rapeseed
COFCO Oils (Qinzhou) Co., Ltd.** ("COFCO Qinzhou")	The PRC/ Mainland China	RMB614,660,000	100	Under construction
COFCO Xinsha Oils & Grains Industries (Dongguan) Co., Ltd.** ("COFCO Dongguan")	The PRC/ Mainland China	US$34,850,000	100	Production and sale of edible oil
COFCO Oils & Grains Industries (Feixian) Co., Ltd.** ("COFCO Feixian")	The PRC/ Mainland China	RMB30,000,000	100	Production and sale of edible oil
COFCO Oils & Grains Industries (Jiujiang) Co., Ltd.**	The PRC/ Mainland China	US$30,000,000	100	Production and sale of rapeseed
COFCO Oils & Grains Industries (Jingzhou) Co., Ltd.**	The PRC/ Mainland China	US$36,900,000	100	Under construction

38. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-in share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Oils & Grains Industries (Huanggang) Co., Ltd.**	The PRC/ Mainland China	US$36,700,000	100	Under construction
COFCO Oils & Grains Industries (Chaohu) Co., Ltd.**	The PRC/ Mainland China	US$38,200,000	100	Under construction
COFCO Oils & Grains Industries (Chongqing) Co., Ltd.**	The PRC/ Mainland China	US$15,000,000	100	Under construction
Tianjin COFCO Excel Joy Lingang Storage Co., Ltd.*	The PRC/ Mainland China	RMB241,890,000	76.61	Under construction
COFCO Excel Joy (Tianjin) Co., Ltd.**	The PRC/ Mainland China	US$102,820,032	100	Under construction
COFCO Malt Holdings Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
COFCO Malt (Dalian) 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$17,300,000	100	Under construction

38. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-in share capital	Percentage of equity attributable to the Company	Principal activities
COFCO (Jiangyin) Cereals, Oil & Warehouse Co., Ltd.**	The PRC/ Mainland China	US$15,000,000	100	Provision of storage service
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	RMB110,200,000	83.47	Trading and processing of rice
COFCO Dalian Rice Processing Limited**	The PRC/ Mainland China	RMB196,600,000	100	Trading and processing of rice
COFCO Suihua Rice Processing Limited**	The PRC/ Mainland China	RMB149,050,000	100	Under construction
COFCO Wuchang Rice Processing Limited**	The PRC/ Mainland China	RMB83,800,000	100	Under construction
COFCO Ningxia Rice Processing Limited**	The PRC/ Mainland China	RMB80,180,000	100	Under construction
COFCO Jilin Rice Processing Limited**	The PRC/ Mainland China	US$23,150,000	100	Under construction
COFCO Shenyang Rice Processing Limited**	The PRC/ Mainland China	RMB64,393,850	100	Under construction

38. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-in share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Rice (Yancheng) Co., Ltd.**	The PRC/ Mainland China	RMB35,032,532	100	Under construction
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 biochemicals
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 biochemicals
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 biochemicals
COFCO Bio-Chemical Energy (Longjiang) Co., Ltd.**	The PRC/ Mainland China	US$75,546,450	100	Under construction

38. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-in share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Bio-Chemical Energy (Gongzhuling) Co., Ltd.**	The PRC/ Mainland China	US$71,880,000	100	Production and sale of biochemicals
Jilin COFCO Bio-Chemical Energy Sales and Distributions Co., Ltd.***	The PRC/ Mainland China	RMB10,000,000	100	Sale of biochemicals
COFCO Rongs Biotech Co., Ltd.** ("COFCO Rongs")	The PRC/ Mainland China	RMB80,000,000	100	Production and sale of biochemicals
Cheerlink International Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
Jilin COFCO Biochemistry Packaging Co., Ltd.** ("Jilin Packaging")	The PRC/ Mainland China	RMB42,500,000	100	Production and sale of biochemistry packaging
Yellow Dragon Food Industry Co., Ltd.* ("Yellow Dragon")	The PRC/ Mainland China	US$54,053,300	59.43	Production and sale of biochemicals
COFCO Food Science & Technology (Wuhan) Co., Ltd.**	The PRC/ Mainland China	RMB104,469,900	100	Under construction
COFCO Flour Holdings Limited	BVI/Hong Kong	Ordinary US$3	100	Investment holding

38. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-in share capital	Percentage of equity attributable to the Company	Principal activities
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 (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 Flour Industry (Taixing) Co., Ltd.**	The PRC/ Mainland China	HK$45,246,600	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

38. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-in share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Flour Marketing Management (Beijing) Co., Ltd.***	The PRC/ Mainland China	RMB2,800,000	100	Sale of wheat products
COFCO Flour Industry (Haining) Co., Ltd.**	The PRC/ Mainland China	HK$36,229,500	100	Under construction
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	RMB89,955,000	60	Production and sale of wheat products

* Sino-foreign equity joint ventures

** Wholly-foreign-owned enterprises

*** Domestic-funded enterprises

Zhangjiagang COFCO East Ocean Storage Co., Ltd. is a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

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

Except for China Agri-Industries Limited, COFCO Agri-Industries Management Co., Ltd. and Glory River Holdings Limited, all of the above subsidiaries are indirectly held by the Company.

38. Particulars of Principal Subsidiaries (continued)

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.

39. Particulars of Principal Associates

Particulars of the Group's principal associates as at 31 December 2010 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, refinings and packaging and production of soybean meal
Laiyang Luhua Fragrant Peanut Oil Co., Ltd.#	US$19,219,300	The PRC	24	Production and sale of peanut oil
COFCO 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	Oilseeds processing
Jilin Fuel Ethanol Co., Ltd.#	RMB1,200,000,000	The PRC	20	Production and sale of biofuel and biochemicals

* Lassiter Limited has a 61.74% equity interest in Shenzhen Southseas Grains Industries Ltd., a Sino-foreign equity joint venture registered in the PRC, the principal activity of which is the production and sale of wheat products in Mainland China.

\# Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

39. Particulars of Principal Associates (continued)

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.

40. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets (Group)

2010

	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale investments HK$'000	Total HK$'000
Available-for-sale investments	–	–	2,739	2,739
Accounts and bills receivables	–	2,398,510	–	2,398,510
Deposits and other receivables*	–	2,010,226	–	2,010,226
Derivative financial instruments	305,622	–	–	305,622
Due from related parties	–	4,707,045	–	4,707,045
Pledged deposits	–	118,219	–	118,219
Cash and cash equivalents	–	7,404,309	–	7,404,309
Total	305,622	16,638,309	2,739	16,946,670

40. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial assets (Group) (continued)

2009

	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale investments HK$'000	Total HK$'000
Available-for-sale investments	–	–	2,728	2,728
Accounts and bills receivables	–	1,921,473	–	1,921,473
Deposits and other receivables*	–	1,936,309	–	1,936,309
Derivative financial instruments	10,211	–	–	10,211
Due from related parties	–	3,750,338	–	3,750,338
Pledged deposits	–	23,784	–	23,784
Cash and cash equivalents	–	5,515,280	–	5,515,280
Total	10,211	13,147,184	2,728	13,160,123

* Included in "Prepayments, deposits and other receivables" of HK$6,308,185,000 (2009: HK$3,759,310,000) in the consolidated statement of financial position are prepayments to suppliers of HK$3,376,258,000 (2009: HK$1,397,761,000), and margin deposits and other miscellaneous prepayments, deposits and other receivables of HK$2,931,927,000 (2009: HK$2,361,549,000), of which HK$2,010,226,000 (2009: HK$1,936,309,000) are financial assets as disclosed above.

40. Financial Instruments by Category (continued)

Financial liabilities (Group)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2010

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts and bills payables	–	3,426,523	3,426,523
Other payables*	–	2,423,472	2,423,472
Derivative financial instruments	830,598	–	830,598
Interest-bearing bank and other borrowings	–	22,077,680	22,077,680
Convertible bonds	–	3,765,329	3,765,329
Due to related parties	–	640,438	640,438
Total	830,598	32,333,442	33,164,040

2009

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts and bills payables	–	1,270,984	1,270,984
Other payables*	–	1,154,907	1,154,907
Derivative financial instruments	855,246	–	855,246
Interest-bearing bank and other borrowings	–	12,829,272	12,829,272
Due to related parties	–	419,532	419,532
Total	855,246	15,674,695	16,529,941

* Included in "Other payables and accruals" of HK$3,778,451,000 (2009: HK$1,865,747,000) in the consolidated statement of financial position are advances from customers of HK$1,352,102,000 (2009: HK$708,626,000), accrued staff payroll and benefits of HK$189,957,000 (2009: HK$188,319,000), and other miscellaneous payables and accruals of HK$2,236,392,000 (2009: HK$968,802,000), of which HK$2,423,472,000 (2009: HK$1,154,907,000) are financial liabilities as disclosed above.

40. Financial Instruments by Category (continued)

Financial assets (Company)

	2010 Loans and receivables HK$'000	2009 Loans and receivables HK$'000
Due from subsidiaries	2,914,867	830,615
Deposits and other receivables	496	473
Cash and cash equivalents	2,736,957	1,047,988
	5,652,320	1,879,076

Financial liabilities (Company)

	2010 Financial liabilities at amortised cost HK$'000	2009 Financial liabilities at amortised cost HK$'000
Due to subsidiaries	3,793,917	–
Other payables	146,437	89,228
Interest-bearing bank and other borrowings	1,945,000	–
	5,885,354	89,228

41. Fair Value and Fair Value Hierarchy

The carrying amounts and fair values of each of categories of financial instruments as at the end of the reporting period are as follows:

Group

	Carrying amounts		Fair values	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Financial assets				
Available-for-sale investments	2,739	2,728	2,739	2,728
Accounts and bills receivables	2,398,510	1,921,473	2,398,510	1,921,473
Deposits and other receivables	2,010,226	1,936,309	2,010,226	1,936,309
Derivative financial instruments	305,622	10,211	305,622	10,211
Due from related parties	4,707,045	3,750,338	4,707,045	3,750,338
Pledged deposits	118,219	23,784	118,219	23,784
Cash and cash equivalents	7,404,309	5,515,280	7,404,309	5,515,280
	16,946,670	13,160,123	16,946,670	13,160,123
Financial liabilities				
Accounts and bills payables	3,426,523	1,270,984	3,426,523	1,270,984
Other payables	2,423,472	1,154,907	2,423,472	1,154,907
Derivative financial instruments	830,598	855,246	830,598	855,246
Interest-bearing bank and other borrowings	22,077,680	12,829,272	22,077,680	12,829,272
Convertible bonds	3,765,329	–	3,765,329	–
Due to related parties	640,438	419,532	640,438	419,532
	33,164,040	16,529,941	33,164,040	16,529,941

41. Fair Value and Fair Value Hierarchy (continued)

The carrying amounts and fair values of each of categories of financial instruments as at the end of the reporting period are as follows: (continued)

Company

	Carrying amounts		Fair values	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Financial assets				
Due from subsidiaries	2,914,867	830,615	2,914,867	830,615
Deposits and other receivables	496	473	496	473
Cash and cash equivalents	2,736,957	1,047,988	2,736,957	1,047,988
	5,652,320	1,879,076	5,652,320	1,879,076

	Carrying amounts		Fair values	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Financial liabilities				
Due to subsidiaries	3,793,917	–	3,793,917	–
Other payables	146,437	89,228	146,437	89,228
Interest-bearing bank and other borrowings	1,945,000	–	1,945,000	–
	5,885,354	89,228	5,885,354	89,228

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged deposits, accounts and bills receivables, accounts and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, balances with related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar convertible bond.

41. Fair Value and Fair Value Hierarchy (continued)

The Group enters into derivative financial instruments with various counterparties, principally established commodity trading exchanges or financial institutions with good credit ratings. Derivative financial instruments, including commodity futures contracts and foreign currency forward contracts, are measured using market quoted prices or quoted prices from financial institutions with which the forward currency contracts are entered into. The carrying amounts of commodity futures contracts and foreign currency forward contracts are the same as their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

Assets measured at fair value

Group

As at 31 December 2010

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	305,622	–	–	305,622

As at 31 December 2009

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	10,211	–	–	10,211

41. Fair Value and Fair Value Hierarchy (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value

Group

As at 31 December 2010

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	830,598	–	–	830,598

As at 31 December 2009

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	855,246	–	–	855,246

42. Financial Risk Management Objectives and Policies

The Group's principal financial instruments other than derivatives, comprise interest-bearing bank loans and other loans, convertible bonds, 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 and bills receivables, accounts and bills payables 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 futures contracts for the purpose of hedging 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.

42. Financial Risk Management Objectives and Policies (continued)

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 26. It is the Group's policy to negotiate the terms of the interest-bearing bank and other borrowings in order to minimise the respective finance cost. It is also the Group's policy not to use any derivatives 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
2010			
	100	(23,551)	(19,708)
	(100)	23,551	19,708
2009			
	100	(17,112)	(14,169)
	(100)	17,112	14,169

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% (2009: 13%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 56% (2009: 54%) of costs are denominated in the units' functional currency. The Group partially hedges purchases and sales that are denominated in United States dollars, at the discretion of management.

42. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk (continued)

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 end of the reporting period.

	Group		
	Increase/ (decrease) in HK$/US$ rate %	(Decrease)/ increase in profit before tax HK$'000	(Decrease)/ increase in equity HK$'000
2010			
If Renminbi weakens against Hong Kong dollar	5	–	(1,276,444)
If Renminbi strengthens against Hong Kong dollar	(5)	–	1,276,444
If Renminbi weakens against United States dollar	5	(1,141,155)	(954,916)
If Renminbi strengthens against United States dollar	(5)	1,141,155	954,916
2009			
If Renminbi weakens against Hong Kong dollar	5	–	(16,474)
If Renminbi strengthens against Hong Kong dollar	(5)	–	16,474
If Renminbi weakens against United States dollar	5	(308,439)	(255,399)
If Renminbi strengthens against United States dollar	(5)	308,439	255,399

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

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 and 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.

42. Financial Risk Management Objectives and Policies (continued)

Liquidity risk

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2010			
	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
Accounts and bills payables	3,426,523	–	–	3,426,523
Other payables	2,423,472	–	–	2,423,472
Derivative financial instruments	830,598	–	–	830,598
Interest-bearing bank and other borrowings	19,963,635	261,417	2,202,217	22,427,269
Convertible bonds	38,750	38,750	4,193,951	4,271,451
Due to related parties	640,438	–	–	640,438
	27,323,416	300,167	6,396,168	34,019,751

	2009			
	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
Accounts and bills payables	1,270,984	–	–	1,270,984
Other payables	1,154,907	–	–	1,154,907
Derivative financial instruments	855,246	–	–	855,246
Interest-bearing bank and other borrowings	11,823,644	917,408	276,443	13,017,495
Due to related parties	419,532	–	–	419,532
	15,524,313	917,408	276,443	16,718,164

42. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2010			
	Within 1 year on demand HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
Due to subsidiaries	3,793,917	–	–	3,793,917
Other payables	146,437	–	–	146,437
Interest-bearing bank and other borrowings	25,869	25,869	2,012,682	2,064,420
Guarantees given to banks in connection with facilities granted to a subsidiary#	4,391,400	–	–	4,391,400
	8,357,623	25,869	2,012,682	10,396,174

In addition, the Company has unconditionally and irrevocably guaranteed the due payments of all sums to be payable of the convertible bonds issued by a subsidiary of the Company (note 27).

	2009			
	Within 1 year on demand HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
Other payables	89,228	–	–	89,228
Guarantees given to banks in connection with facilities granted to a subsidiary	3,957,329	–	–	3,957,329
	4,046,557	–	–	4,046,557

42. Financial Risk Management Objectives and Policies (continued)

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 futures contracts of soybean, soybean meal, edible oil 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 HK$'000	Change in equity HK$'000
2010			
Soybean	5	1,160,808	1,013,541
Corn	5	353,824	282,595
Rice	5	175,445	143,529
Barley	5	54,638	48,629
Wheat	5	181,123	145,918
2009			
Soybean	5	625,327	514,138
Corn	5	269,004	222,569
Rice	5	159,444	133,527
Barley	5	58,594	51,711
Wheat	5	150,066	148,149

Capital management

The primary objectives of the Group's capital management are 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 2009 and 31 December 2010.

42. Financial Risk Management Objectives and Policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the Company. Net debt includes interest-bearing bank and other borrowings and convertible bonds, less cash and cash equivalents and pledged deposits. The gearing ratios as at the end of the reporting period were as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Interest-bearing bank and other borrowings	22,077,680	12,829,272
Convertible bonds	3,765,329	–
Less: Cash and cash equivalents	(7,404,309)	(5,515,280)
Pledged deposits	(118,219)	(23,784)
Net debt	18,320,481	7,290,208
Equity attributable to owners of the Company	19,086,423	15,830,046
Gearing ratio	96.0%	46.1%

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2011.

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