中粮 COFCO
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2011
ANNUAL REPORT

CHINA AGRI-INDUSTRIES HOLDINGS LIMITED
中國糧油控股有限公司
Stock Code：606

Excellent food chain, quality products

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年報

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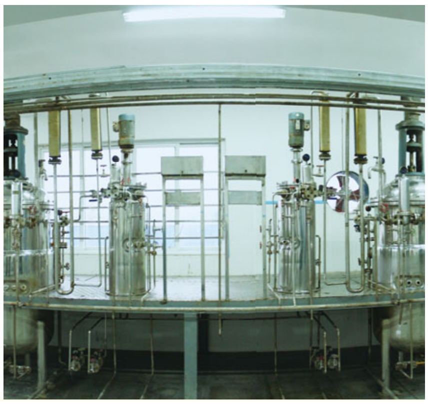
China Agri at a glance

Company information	Oilseeds processing business	Biochemical and biofuel business
Market position	One of the largest vegetable oil and oilseeds meal producers in China	One of the largest corn processors in China and a leading fuel ethanol producer
Major products	Soybean oil, palm oil, rapeseed oil and oilseeds meals	Biochemical: Corn starch, sweeteners, crude corn oil and feed ingredients Biofuel: Fuel ethanol, consumable ethanol, anhydrous ethanol, crude corn oil and corn DDGS
Major brands	Fuzhanggui (福掌柜), Sihai (四海), Xiyingying (喜盈盈) and Guhua (谷花)	



Rice processing and trading business	Wheat processing business	Brewing materials business
China's leading supplier of packaged rice and largest rice exporter and importer	One of the largest wheat processors 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)	







Contents

Corporate Information

Directors*

Chairman of the Board and Executive Director
YU Xubo

Executive Directors
LV Jun# *(Managing Director)*
YUE Guojun *(Vice President)*

Non-executive Directors
NING Gaoning
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
Patrick Vincent VIZZONE
MA Wangjun
WANG Zhiying

Remuneration Committee*

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

Nomination Committee*

YU Xubo *(Chairman)*
WANG Zhiying
LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Executive Committee*

LV Jun# *(Chairman)*
YU Xubo
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

Agricultural Bank of China Limited
Australia and New Zealand Banking Group Limited
Banco Santander, S.A.
Bank of China Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
(Hong Kong Branch)
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Rabobank International (Hong Kong Branch)
Standard Chartered Bank (Hong Kong) Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Registered Office

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

Share Registrar and Transfer Office

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

Investor Relations

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Facsimile: +852 2833 0319
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Company Website

www.chinaagri.com

Stock Code

606

\# *previously known as LU Jun, an executive director of the Company since its listing on the Stock Exchange of Hong Kong*

* *being effective immediately after the conclusion of the Directors' meeting held on 28 March 2012*

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 is set out below:

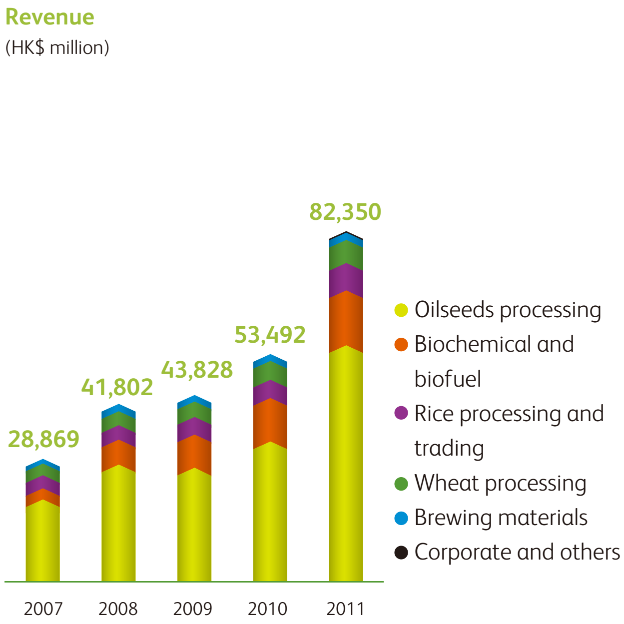
RESULTS	**2011 HK$'000**	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
REVENUE	**82,349,859**	53,491,700	43,827,891	41,802,056	28,869,244
PROFIT FROM CONTINUING OPERATING ACTIVITIES	**4,586,832**	1,499,192	2,219,513	4,604,226	1,325,771
Finance costs	**(888,658)**	(376,878)	(239,121)	(388,964)	(320,416)
Share of profits of associates	**169,848**	352,955	355,168	133,403	269,568
PROFIT BEFORE TAX	**3,868,022**	1,475,269	2,335,560	4,348,665	1,274,923
Income tax expense	**(563,231)**	(191,918)	(291,980)	(883,516)	(25,500)
PROFIT FOR THE YEAR	**3,304,791**	1,283,351	2,043,580	3,465,149	1,249,423
Attributable to :					
Owners of the Company	**2,367,954**	1,701,644	1,952,042	2,624,937	1,100,363
Non-controlling interests	**936,837**	(418,293)	91,538	840,212	149,060
	3,304,791	1,283,351	2,043,580	3,465,149	1,249,423
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**70,036,207**	56,719,663	36,091,614	28,266,528	21,600,468
TOTAL LIABILITIES	**(44,926,182)**	(35,543,972)	(17,696,077)	(12,321,097)	(9,848,087)
NON-CONTROLLING INTERESTS	**(3,146,272)**	(2,089,268)	(2,565,491)	(2,343,009)	(1,352,110)
	21,963,753	19,086,423	15,830,046	13,602,422	10,400,271

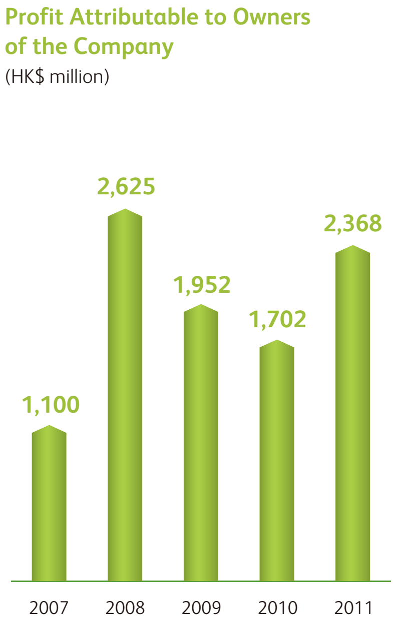
Financial Highlights

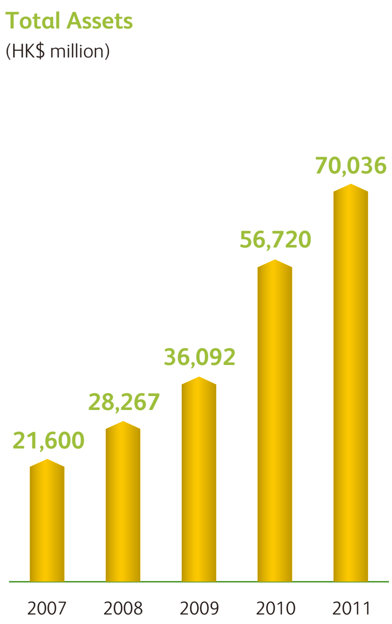
For the year ended 31 December 2011

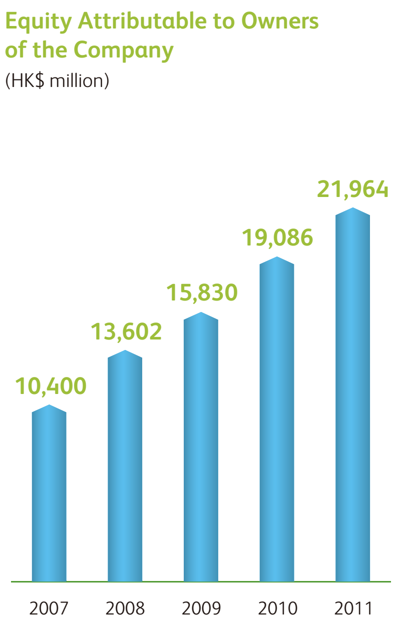
	Unit	2011	2010	Increase / (Decrease) %
Revenue:	HK$ million	**82,349.9**	53,491.7	54%
– Oilseeds processing	HK$ million	**55,521.8**	32,992.1	68%
– Biochemical and biofuel	HK$ million	**12,892.6**	10,131.4	27%
– Rice processing and trading	HK$ million	**6,483.7**	4,319.6	50%
– Wheat processing	HK$ million	**5,406.5**	4,394.2	23%
– Brewing materials	HK$ million	**1,709.4**	1,654.4	3%
– Corporate and others	HK$ million	**335.9**	–	N/A
Profit before tax	HK$ million	**3,868.0**	1,475.3	162%
Operating profit (segment results)	HK$ million	**4,491.2**	1,409.3	219%
Operating profit before depreciation and amortisation	HK$ million	**5,453.6**	2,169.3	151%
Operating margin	%	**5.5**	2.6	N/A
Profit attributable to owners of the Company	HK$ million	**2,368.0**	1,701.6	39%
Earnings per share:				
– Basic	HK$	**0.5864**	0.4321	36%
– Diluted	HK$	**0.5626**	0.4259	32%
Dividend per share for the year	HK$	**0.117**	0.105	11%
Total assets	HK$ million	**70,036.2**	56,719.7	23%
Equity attributable to owners of the Company	HK$ million	**21,963.8**	19,086.4	15%
Closing price per share at year-end	HK$	**5.91**	8.82	(33)%
Market capitalisation at year-end	HK$ million	**23,866.8**	35,618.4	(33)%

Financial Highlights









Capacity Distribution

2011 Capacity

Unit: metric ton'000

Oilseeds Processing Business	
Crushing Capacity	**10,380**
Jiangsu	3,600
Shandong	2,340
Tianjin	1,200
Guangxi	1,200
Hubei	840
Guangdong	600
Jiangxi	300
Anhui	300
Refining Capacity	**4,170**
Jiangsu	1,050
Shandong	660
Tianjin	720
Guangxi	420
Hubei	360
Guangdong	420
Jiangxi	180
Anhui	180
Chongqing	180
Biochemical and Biofuel Business	
Biochemical (Corn Processing Capacity)	**2,450**
Jilin	1,850
Heilongjiang	600
Sweetener Production Capacity	**550**
Jilin	300
Shanghai	150
Hubei	100
Monosodium Glutamate (MSG) Production Capacity	**100**
Heilongjiang	100
Biofuel	**1,800**
Heilongjiang (Corn Processing Capacity)	1,200
Guangxi (Tapioca Processing Capacity)	600
Fuel Ethanol, Consumable Ethanol and Anhydrous Ethanol Production Capacity	**600**
Heilongjiang	400
Guangxi	200
Rice Processing and Trading Business	
Rice Production Capacity	**1,935**
Heilongjiang	460
Liaoning	425
Jiangsu	255
Jilin	220
Jiangxi	220
Anhui	195
Ningxia	75
Sichuan	60
Hubei	25
Wheat Processing Business	
Wheat Processing Capacity	**2,011**
Henan	720
Hebei	340
Jiangsu	321
Liaoning	280
Fujian	180
Shandong	170
Dried Noodle Production Capacity	**100.5**
Liaoning	45
Henan	30
Jiangsu	18
Shandong	7.5
Bakery Production Capacity	**1.98**
Beijing	1.98
Brewing Materials Business	
Malt Production Capacity	**740**
Liaoning	360
Jiangsu	300
Inner Mongolia	80

Chairman's Statement

"China Agri will take steady steps towards its established long-term objectives and strategies. We will seek to raise the standard of internal operations and the quality of operation, develop long-sustaining core competences, making the Company a world-class integrated agri-industries enterprise spanning the entire value chain, and creating greater value for our shareholders."

NING Gaoning
Chairman

Dear Shareholders,

In 2011, the impact of global financial crisis continued to spread, putting developed economies on a longer road to recovery and slowing down the growth pace of emerging countries amidst persistently high inflation. In China, the effectiveness of austerity measures has contributed to a rather fast and steady development, with general price level brought under control. In tandem with the growth pace of Chinese economy, China Agri-Industries Holdings Limited ("China Agri" or the "Company") continued to grow during the year. While reasonably refining its strategic layout and enhancing economy of scale, the Company worked intensively on fostering the organic growth of its business, increasing its overall competitiveness and consolidating its leading position in the industry, laying a solid foundation for long-term and healthy development of the Company.

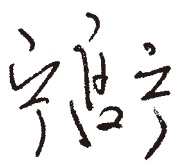
Year 2012 is the second year of China's Twelfth Five-Year Plan, during which China will expedite the adjustment of its economic structure and seek to expand domestic demand. The ninth No. 1 Central Document released at the beginning of the year further emphasised the development of modern agriculture and pointed out that technological innovation will be the key future growth driver for sustainable and steady development of the country's agricultural industry. Based on market and consumer demand, the Company will boost its in-house R&D capability and accelerate product innovation and the commercialisation of its R&D results. It will leverage upon the strengths in business scale, capital, management and brand recognition to lead and guide farmers in planting those varieties which are highly sought after by the market, to cater for the differentiated requirements of more consumer groups. With the continued expansion of China's domestic market, the Company actively seized market opportunities and made sound progress in the strategic geographical layout and the scale expansion by adding new production capacity in recent years. Moving forward, it will attach greater importance to the enhancement of core competence, strictly control operational costs, and strengthen the synergy among procurement, processing, logistics and sales teams, thereby maximising the overall effectiveness.

Good corporate governance forms a cornerstone for business development, bringing the best return to an enterprise and its shareholders. In this connection, the Company has put in place a management structure that is of high transparency and accountability and adheres to a set of stringent commercial ethics to ensure that business objectives are achieved with all aspects conducted in compliance with applicable laws and regulations. Amidst economic instability in the year ahead, both at home and abroad, and the volatile bulk commodity market, the Company has established a comprehensive risk management system to have key threats monitored by designated departments, thereby securing success of its strategic objectives by a scientific, reasonable and standardised approach. It will adjust its operational strategies in a flexible manner, grasp the pace of procurement, production and sales based on market conditions, and closely follow the hedging policies to safeguard itself from risks, thereby ensuring healthy development of the Company.

As one of China's largest state-owned agri-industries enterprise, we regard food safety as a paramount importance. That is because only through providing nutritious, healthy and trendy food products to the community and gaining recognition from more consumers can we become a leader in the industry. Guided by the formulated strategy of covering the entirety of the value chain, China Agri strictly controls all the various segments of the chain "from Origination to Consumption". That includes controlling the upstream quality with an enhanced management of plantation fields and suppliers; regulating risk control along the production processes with the introduction of sophisticated equipment and safety standards; implementing control and inspection in the sales end of the value chain; and fostering the formation of a tracking system, thereby ensuring food safety and human health.

Looking ahead, the food industry of China will have promising prospects, as driven by the growing domestic market. The unpredictable international financial market, however, will bring challenges to the Chinese economy and the business operations of enterprises. The Company will take steady steps towards its established long-term objectives and strategies. We will seek to raise the standard of internal operations and the quality of operation, develop long-sustaining core competences, making the Company a world-class integrated agri-industries enterprise spanning the entire value chain, and creating greater value for our shareholders.

Finally, I hereby announce China Agri's re-designation of directors with effect from 28 March 2012, of which I shall remain as a non-executive director of the Company. Mr. Yu Xubo has been re-designated as the Chairman of the Board and Mr. Lv Jun has been appointed as the Managing Director. The Chairmen of certain committees have been changed accordingly. After five years of steady growth since its listing, China Agri has laid a solid business foundation. We will strive to consolidate the Company's leading position in the industry and achieve sustainable and healthy development. Meanwhile, I would like to take this opportunity to extend my sincerest gratitude 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.



Chairman

Hong Kong, 28 March 2012

Managing Director's Report

"China Agri will steer its growth engine away from external scale expansion to internal organic growth by focusing on the development of core competences and enhancement of internal synergy. We will carry out stringent risk control and grasp the pace of development according to domestic and international economic changes, aiming to achieve a healthy and sustainable growth."

YU Xubo
Managing Director

In 2011's complicated and ever-changing international and domestic environment, China Agri managed to leverage upon its scale expansion to achieve organic growth. It further expanded its core competences by focusing on a healthy and sustainable development, strengthening of market position and enhancement of business operations. The Company responded well to the challenges and its earnings grew substantially during the year.

Driven by the general increase in the price of agricultural products and the release of new capacity, China Agri reported a 53.9% year-on-year growth in revenue to HK$82,349.9 million in 2011. Profit attributable to the owners of the Company increased 39.2% year-on-year to HK$2,368.0 million. The Board has recommended a final dividend of 3.8 HK cents per share for 2011. Together with the interim dividend of 7.9 HK cents per share, the total dividend for the year was 11.7 HK cents per share.

In 2011, the oilseeds crushing sector operated in a difficult environment. With weaker selling prices of products and rising prices of imported materials in China, the sector suffered losses in general. The Company had succeeded in surmounting these challenges by adopting flexible operation strategies where the pace of procurement, production and sales was adjusted in an appropriate manner. Its hedging policies, which had been consistently implemented as part of its business model to lock in profits, safeguarded the Company against price risks and helped deliver an outstanding result under such an adverse condition. In addition, commencement of production at the new plants during the year also contributed to the increase in sales volume.

The Company maintained a stable growth in its biochemical and biofuel business. During the year, the sales of biochemical products such as starch and sweeteners grew steadily on growing demands from paper making sector and food and beverage producers in China. Through the efforts in R&D, the Company introduced various high value-added products to attract more customers, which also enabled a prompt pass through of cost increments to customers.

For the rice processing business, the Company adhered to its established transformation strategy and dedicated efforts to grow its consumer-pack business and widen its distribution channels to reach more large scale beverages and food processors, aiming to boost sales in the domestic market. During the year, domestic sales grew rapidly and accounted for nearly 80% of the overall sales. According to the research report issued by AC Nielsen on consumer-pack rice sold in hypermarkets in China, China Agri's market share reached 14.6%, up 1.6 percentage points from 2010, maintaining its position as the nation's No.1 rice brand. However, domestic sales are still in an early stage of development, therefore, market development and increasing market share are the primary goals currently. Accordingly, profitability has not been fully reflected. In addition, product price and profitability were also adversely affected by the persistently high raw material costs.

As to the wheat processing business, in addition to the adoption of stringent cost control measures, China Agri remained its efforts in optimising both of its customer base and product mix, which yielded satisfactory results during the year. For the brewing materials business, the Company timely grasped the pace and opportunities in procurement and sales, and effectively controlled its production cost, thus delivering a gross profit margin that remained relatively high in the industry.

In 2011, China Agri further optimised its regional layout based on an established step-by-step development strategy. In this connection, the processing capacity has reached 20.65 million metric tons, up 37% from 15.05 million metric tons in 2010. On such basis, the Company will focus more on leveraging upon the geographical advantage offered by the locations of its plants to enhance the efficiency of procurement, expedite market development in the vicinity, increase utilisation rate and boost sales growth, thereby consolidating and progressively expanding the market share commanded by its products.

Looking ahead, the food processing industry is expected to grow rapidly on increasing demands fuelled by China's urbanisation, upgrade in consumption pattern and constant expansion of the catering and food processing industries. However, industry consolidation and increasingly stiff competition will pose challenges to the Company. In particular, price fluctuations in bulk commodities are expected to be more remarkable under the economic uncertainty in 2012. Going forward, China Agri will steer its growth engine away from external scale expansion to internal growth, focusing on organic growth and core competence development. It will pursue its strategic objective of building a world-class integrated agri-industries enterprise by upgrading its system capability, enhancing production chain and strengthening synergies. In light of the challenging international and domestic economic conditions and the volatile agricultural commodity market, the Company will strictly follow its risk control measures and grasp the pace of development to propel a healthy and sustainable growth.

Managing Director

Hong Kong, 28 March 2012

Management Discussion and Analysis

Business review

Oilseeds Processing Business

The Company is one of the largest vegetable oil and oilseeds meal producers in China. Its products include soybean oil, palm oil, rapeseed oil and oilseeds meals, which are sold primarily under the brand names of 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 67.4% of the total revenue of the Company in 2011. Thanks to release of new capacity and increase in product prices, the business recorded a 68.3% year-on-year growth in revenue to HK$55,521.8 million. Due to an overall increase in the price of raw materials, the average selling price of vegetable oil also increased by 30.8% during the year. The commencement of production at new plants also helped to increase the sales volume of vegetable oil and oilseeds meals by 35.0% and 38.8% reaching 3,082,000 metric tons and 5,399,000 metric tons respectively. In addition, the Company made strenuous efforts to control its production costs by making timely purchases of raw materials and strictly implementing its hedging strategies to manage the potential risks associated with price fluctuations of raw materials and related products. As a result, the business improved its gross profit margin by 4.4 percentage points to 6.1%, which is relatively high in the industry.

In 2011, the oilseeds processing industry encountered great challenges. In the first half of 2011, tight global supply of soybeans kept soybean prices at a high level, and feedstock prices of imported palm oil also remained high. Nevertheless, due to measures in combating the fast growth of consumer prices in China, vegetable oil prices were unable to keep pace with the uptrend in feedstock prices. In addition, the price of soybean meals was weak due to a lower than expected demand from end-users. All these resulted in losses industry wide. Stepping into the second half of 2011, the international bulk commodity prices generally fell and fluctuated drastically as a result of weaker macroeconomic environment. At the same time, there was an abundant supply of oilseeds in China while the demand for soybean meals from the breeding industry has yet to recover. All these exerted pressures on related product prices and deepened challenge for oilseeds processors.

To cope with such difficult operating environment, the Company carefully monitored and analysed market trends and made advanced purchases of raw materials at opportune time to cater for future demand, and to effectively control raw material costs. The hedging policies which the Company strictly and consistently

Rapeseed farm in Donghai, Jiangsu

Soybean silos in COFCO Qinzhou, Guangxi

adhered to as part of its business model, played a pivotal role in safeguarding the Company against risks and locking in profits. In addition, the Company also endeavoured to raise its management standards by implementing a variety of effective cost control measures and making timely adjustments to the pace of its production in response to market changes. All these contributed to an utilisation rate that remained relatively high in the industry.

With regard to customer service, the Company ensured stable supply of goods to its customers and quality after-sales services. The Company also took the initiative in coordinating the sales orders of its customers across different regions based on the disparity in demand and prices in different regions. Such initiative helped to ensure the supply of products was well digested by the market and contributed to satisfactory growth in sales of its vegetable oil products. Furthermore, in an effort to increase the added values of its products, the Company worked intensively on the R&D of a cooking oil enhancement project during the year. The goal was to enhance the use of its products in frying and deep-frying. To date, such products have been promoted nationwide and earned market recognition.

As at 31 December 2011, the Company operated a total of fourteen oilseeds processing plants in Jiangsu, Shandong, Tianjin, Guangxi, Hubei, Guangdong, Jiangxi, Anhui and Chongqing. The plants had a combined annual crushing capacity of 10.38 million metric tons and a combined refining capacity of 4.17 million metric tons. The four rapeseed processing plants and the two soybean processing plants in Guangxi and Tianjin commenced operation during the year and they all contributed to the increased sales for the year. The building of these six new plants has further optimised the Company's capacity layout and extended its presence to cover central, southwestern and northern part of China. More importantly, it marked the completion of the Company's capacity expansion at the present stage. With these new production plants, the product mix and strategic layout are further enhanced. In 2012, the Company will focus more on leveraging upon the geographical convenience offered by the coastal locations of the plants to improve the efficiency of procurement, enhance market development in the vicinity, increase utilisation rate and boost sales growth, thereby consolidating and expanding its market share one step after the other.

Looking ahead, China's urbanisation and continued expansion of the catering industry, food processing industry and livestock feeds industry will generate robust demand for vegetable oil and oilseeds meal consumptions. In view of the external economic uncertainty, the price fluctuation in bulk commodities and the increasingly stiff competition in the industry, the Company will closely monitor the market trends and strictly follow its hedging strategies. The Company will also remain its adherence to the effective control strategy implemented in procurement, processing, sales and risk control. It will further increase its brand recognition and solidify its leadership position in the industry through strenuous efforts in R&D and product innovation so as to provide its customers with safe, nutritious and healthy products.

Management Discussion and Analysis

Biochemical and Biofuel Business

In 2011, the Company's biochemical and biofuel businesses reported a 27.3% year-on-year growth in revenue to HK$12,892.6 million, primarily due to an increase in product prices. Cost increases were passed through timely to enable an improvement in gross profit margin from 13.2% to 14.6% during the year.

Biochemical Business

The Company's biochemical business is primarily engaged in corn processing. Its products include corn starch, sweeteners (maltodextrin, fructose syrup and maltose syrup), crude corn oil and feed ingredients.

In 2011, thanks to increases in both selling prices and sale volume of the biochemical products, revenue increased by 26.2% year-on-year to HK$7,069.6 million. The selling prices of starch and sweeteners increased by 9.7% and 27.2% year-on-year respectively due to corn price hikes. During the year, the Company made strenuous efforts to renovate, optimise its product structure and expand its market share. As a result, the sale volume of corn starch and sweeteners grew by 19.3% and 10.4% year-on-year reaching 1,438,000 metric tons and 347,000 metric tons respectively.

With the rapid growth in demand for starch from the paper making, brewery and food processing industries in China, the Company adopted a market-oriented approach to actively develop and launch new products with high added values through R&D, product innovation and technological upgrade, so as to cater to a larger consumer base. During the year, it succeeded in developing different kinds of specialty starch for producing corrugated paper, ham sausage and rice vermicelli. At the same time, the Company stepped up its efforts to market a specialty starch used in brewing beer as required by the breweries. Steady growth has been achieved in the sales of such starch product by signing strategic partnerships with high-end users like China Resources Snow Breweries and InBev.

Raw materials of corns in Zhaodong, Heilongjiang

Management Discussion and Analysis

During the year, the demand for fructose syrup from producers of candies, seasonings and beverages was robust, as driven by the persistent high level of cane sugar price. Leveraging upon its own scale advantage in starch processing, the Company took the initiative to raise the conversion rate of its starch and develop product lines with high added values. During the year, the Company produced customised syrup products to meet the various needs of the candy and pastry manufacturers. It also continued to supply fructose syrup to all the seven bottling plants of Coca-Cola and Pepsi Cola in northeastern China, some of which raised the proportion of fructose syrup in their products, contributing to a growth in product sales from last year. Following the completion of construction of a sweetener production facility in Hubei in late 2011, the coverage of the Company's sweetener products has extended to central China region.

During the year, the new production plants in Hubei and Heilongjiang had commenced operation as scheduled. Including the existing plants in Jilin and Shanghai, the Company had altogether six plants, offering a combined annual processing capacity of 2.45 million metric tons for corn and a production capacity of 550,000 metric tons for sweeteners while the production capacity of 100,000 metric tons for monosodium glutamate (MSG) was still at a trial stage as at 31 December 2011. In 2012, the Company will further enhance its production capacity in sweeteners by adding 200,000 metric tons of production capacity in Sichuan and Jilin.

Looking forward, with the growing market demand for biochemical products, the Company will seek to enhance the added values of its products and make its starch more convertible into downstream products, whereby it can advance itself to midstream processing. In addition, the Company will exercise greater control over raw materials and further develop channels to source high quality raw materials. Measures will be taken to strictly control costs, explore potential areas to reduce wastage, and to enhance customer service, thereby further consolidating and expanding its position in the market.

Biofuel Business

The Company is one of China's major fuel ethanol producers, and operates its biofuel business mainly through two subsidiaries, namely COFCO Bio-Energy (Zhaodong) Co., Ltd. and Guangxi COFCO Bio-Energy Co., Ltd. The latter one is the first and only non-grain-based fuel ethanol producer in China, using tapioca as raw material. Products of the Company's biofuel business include fuel ethanol, anhydrous ethanol, consumable alcohol, crude corn oil and corn distiller's dried grains with solubles (corn DDGS).

During the year under review, the revenue from biofuel business increased by 28.6% year-on-year to HK$5,823.0 million. Fuel ethanol prices went up during the year, following the action taken by the National Development and Reform Commission (NDRC) to change the pegging of fuel ethanol ex-factory price to No. 93 gasoline price from that of No. 90 gasoline in February 2011, and NDRC's triple adjustments of gasoline prices during the year. However, the sale volume of fuel ethanol decreased by 5.5% to 342,000 metric tons as compared with last year because Guangxi has not yet fully converted its entire vehicle fuel market to ethanol-blended gasoline, despite improvements in the second half of the year after some communications with the relevant regulatory department. On the other hand, the sale of anhydrous ethanol and consumable alcohol increased by 24.9% to a total of 222,000 metric tons.

Management Discussion and Analysis

In 2011, corn prices generally went up. The Company closely monitored the market trends and made opportune move by stocking up inventories during periods of low prices to alleviate pressure from price hikes of raw materials. Corn prices dropped from its peak at year-end due to the availability of new grains on the market and weaker macroeconomic environment. In view of this, the Company took an active role in controlling the pace of purchasing and managing price risk by making purchases according to production needs in addition to consuming the stock accumulated over a period of low costs. The Company also endeavoured to attain higher standards in product quality and technology by working intensively on its R&D and strengthening the reduction of emission and wastage.

As at 31 December 2011, the Company had two factories in Heilongjiang and Guangxi with a combined annual production capacity of 600,000 metric tons for fuel ethanol, anhydrous ethanol and consumable alcohol, of which fuel ethanol alone accounted for 380,000 metric tons.

Looking ahead, the Company will further strengthen cost control and meet customer requirements for high quality products through technological upgrade. Meanwhile, it will actively get involved in non-grain-based fuel ethanol production projects in conjunction with the Chinese government's efforts to promote the use of this new type of fuel, making contributions to the promotion of renewable and environmentally friendly energy.

Alcohol-carrier standby at Guangxi production plant

Rice Processing and Trading Business

The Company is a leading packaged rice supplier and the largest rice exporter and importer in China, engaging primarily in the processing and trading of white and parboiled rice. Its consumer packaged rice are sold primarily under the brand names of Fortune (福临门), Five Lakes (五湖) and Jinying (金盈). The Company exports to major traditional markets including Japan, South Korea, Hong Kong and Macau as well as the Middle East, Eastern Europe, Africa, Central Asia and the Americas.

In 2011, the business adhered to its established transformation strategy to grow its domestic business. As a result, domestic sales grew rapidly, up 76.9% year-on-year to 928,000 metric tons, accounting for nearly 80% of the overall sales. On that basis, the rice processing and trading business recorded a 50.1% year-on-year growth in revenue to HK$6,483.7 million in 2011. Nevertheless, domestic sales are still in an early stage of development, therefore, market development and increasing market share are the primary goals currently. Accordingly, profitability has not been fully reflected. In addition, product price and profitability were also adversely affected by the persistently high raw grain prices. On the other hand, export sales were also affected by weaker selling prices in the international market and rising raw grain prices in China, export sales fell by 33.3% to 281,000 metric tons. Yet, the Company was able to leverage its geographical advantage in sourcing and experience in international trading to maintain the overall profitability of its export business, which in turn supports the business transformation.

In view of rising prices in domestic raw grains in 2011, the Company closely followed the international market trends and grasped the market opportunity to import quality rice at a lower cost from major rice-exporting countries such as Vietnam, Thailand, Pakistan and Uruguay to satisfy the diversified demand in China. The move also helped alleviate the increasing raw material cost pressures. As for optimising product mix, the Company has conducted research on the rice varieties in Jiangsu, Ningxia and other southern rice-growing regions in order to expand its product range and meet consumer demand for wider selection of differentiated products.

Driven by China's urbanisation and increasing awareness of food safety, the market of consumer packaged rice has grown rapidly. The Company grasped the opportunities arising from China's enormous rice market and changing consumption patterns to grow its domestic business and dedicated efforts to build up its market share in the consumer-pack sector. Presently, the Company has 22 sales offices, and its products are sold in more than 50,000 outlets, including hypermarkets, supermarkets, grocery stores and restaurants. According to the market survey conducted by AC Nielsen in 2011 on consumer packaged rice sold in hypermarkets in China, the Company had a 14.6% market share, maintaining its position as the largest packaged rice supplier in the country.

Paddy farm in Donggang

Management Discussion and Analysis

Furthermore, in order to boost the domestic sales volume, the Company also pursued great efforts in broadening sales channels including catering and food processing industries. By working with key customers who are of large scale and with rapid growth, high reputation and influence in the sector, the Company has fully leveraged upon its strengths in the quality of raw grains, processing techniques, quality of products, food safety, supply chain management and customer services. During the year, it also formed strategic partnerships with major customers such as YUM!, Anheuser-Busch InBev, WantWant Group, and Yoshinoya.

As at 31 December 2011, the Company operated altogether eight rice processing plants, located in Heilongjiang, Liaoning, Jiangxi, Jiangsu, Ningxia, Hubei and Jilin with a total annual production capacity of 915,000 metric tons. The five newly constructed rice processing plants near grain growing areas in Heilongjiang, Jilin, Liaoning, Jiangsu and Anhui as well as one production plant near its target market in Sichuan are currently under trial runs. These six processing plants have a combined annual production capacity of 1.02 million metric tons. In 2012, the Company will focus on leveraging upon the geographical advantages offered by the locations of these new plants to increase the efficiency of procurement and sales, and reduce transportation cost. These new production plants will enable the Company to further strengthen its presence and customer base in northern China, and develop new markets in southern China.

Looking ahead, China's urbanisation and increasing consumer demands for safe, nutritious and quality packaged products will support the branded packaged rice to grow in scale and price. However, the rice processing industry is still rather fragmented and therefore will remain highly competitive. It is also estimated that the price of China's raw grains will increase moderately in the year to come, exerting pressure on the industry. Taking a market-oriented approach, the Company will continue to build an integrated business model spanning the entire value chain. It will also step up efforts to increase its competitiveness in China by optimising its upstream procurement, regional layout and product mix. In addition, the Company will strengthen its strategic partnership with customers and broaden its sales channels and network covering more users in the packaged rice market, catering and food processing industries. It will also enhance product R&D and brand recognition, to solidify its leading position in China's rice industry. In exports, the Company will seek new markets while maintaining its competitive advantages in the existing traditional core markets.

Overview of the production plant in Dalian, Liaoning

Management Discussion and Analysis

Wheat Processing Business

The Company is one of the largest wheat processors in China. Its products include general-purpose flour, special-purpose flour, noodles and breads. Its consumer packaged products are sold primarily under the brand names of Xiangxue (香雪) and Fortune (福临门).

In 2011, the wheat processing business posted steadily increasing results. Thanks to the increase in both selling prices and sales volume of the related products, revenue increased by 23.0% year-on-year to HK$5,406.5 million. Average price of flour increased by 17.2% year-on-year, while major products reported satisfactory growth in sales volume, with 7.1% growth in the sales of flour to 1,271,000 metric tons. With the Company's continued expansion of its distribution channels, sales volume of noodles registered a year-on-year growth of 24.7%, while consumer packaged flour sales also went up by more than 20%. Gross profit margin was 9.3%, up 0.3 percentage points from a year ago, following the increasing proportion of mid-range and high-end products with the Company's unwavering efforts in optimising its customer base and product mix via its integrated operation and professional management while stringently controlling material costs.

During the year, while the price fluctuation in the wheat market was weakening, the Company made full use of market intelligence and, with enhanced internal coordination, implemented centralised procurement offering a multitude of procurement methods by thorough analysis of the price trend of raw grains and tapping the ups and downs of quality wheat, it managed to keep the cost of raw grains under control. Furthermore, the Company strengthened its sourcing capability of quality raw grains by enlarging its scale and scope of contract farming. On that basis, it enhanced its management over the entire supply covering quality plantation, production, procurement and storage through an expanded collaboration with the farm cooperatives.

The Company developed special-purpose flour with high added value including products for use in food industry and catering services in order to meet customers' specific needs. In particular, the Company jointly developed new varieties of flour with customers such as high-growth foodstuff producers and catering chains to better meet their specific requirements, and provided them with after-sales technical support. The Company also provided one-stop service for key customers and formed strategic partnerships with leading foodstuff companies including Tingyi, Kraft, Dali and Yum! to leverage upon their huge sales channels and large market coverage. This helped the Company to expand market share and maintain a leading position in the industry.

Management Discussion and Analysis

As at 31 December 2011, the Company operated eleven plants in Henan, Hebei, Jiangsu, Liaoning, Fujian, Shandong and Beijing with an aggregate annual processing capacity of 2.01 million metric tons for wheat and around 2,000 metric tons for bakery products. The Company's production plants are strategically situated in the grain producing regions or the product markets, which enables timely purchase of raw materials and great efficiency in customer service. The Company also worked intensively on strengthening its regional sales team during the year to consolidate its existing core markets and explore new ones, in preparation for the addition of production capacity. The Company's total annual noodle production capacity rose to 100,000 metric tons from 67,000 metric tons a year ago after its noodle facilities in Liaoning and Jiangsu came on stream in May and June respectively. In 2012, production facilities for flour and noodles will be built in Zhejiang, Henan, Sichuan and Hebei in pursuit of the implementation of a scale-driven growth pattern by further streamlining the geographical layout, which will contribute to an additional 1.44 million metric tons of flour processing capacity and 72,000 metric tons of noodles production capacity per annum.

Looking ahead, in view of the rapid growth of the downstream food industries and the rising demand from consumers, there will be ample room for market development for flour, which is used as an important ingredient for the food industry and forms an essential part of people's daily consumption. In addition, the market for noodles, which offers convenience as a major food item for daily consumption, is undergoing steady growth year after year. In 2012, the Company will further streamline the geographical layout of its plants for expanding scale and production capacity, and will step up its efforts in further developing the consumer packaged flour and dried noodle business to increase its proportion. By adhering to an integrated operation and a professional management system, the Company will strengthen its capabilities for sourcing raw materials and controlling costs. Leverage upon its established relationships with sizeable customers, it will continue to optimise both its customer base and product mix by focusing on developing high value-added products to cater for the market's changing needs and demands.

Manufacturing process of Xiangxue noodles

Brewing Materials Business

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

During the year, the revenue from brewing materials business increased slightly by 3.3% year-on-year to HK$1,709.4 million. As a result of the hindered market demands by price hikes and the high inventory levels kept by breweries, the sales volume decreased 16.2% year-on-year to 419,000 metric tons. Yet, the Company was able to maintain a relatively high gross profit margin by adopting a range of effective cost control measures, stocking up inventories during periods of low prices and timely grasp the pace and opportunities of sales.

In the first half of 2011, barley output in Europe fell because of drought, pushing up the crop prices even further. The Company stepped up its effort to diversify its raw material sources by importing quality malting barley from South America. This move helped mitigate the adverse effects on the quality of malting barley caused by the extreme weather of the major barley growing areas. Stepping into the second half of the year, abundant harvests in major barley growing regions including Canada, Australia and Argentina had provided the market with an increased supply, resulting in a decline in price of malting barley from its peak. The Company took an active role in controlling the pace of purchasing and safeguarded itself against the price risk and arranged for malting barley procurement based on a judicious review of malt sales contracts, maintaining profitability by a prompt pass through of material cost to customers.

On the sales front, as the market share of the middle to high-end products in the brewing industries continued to expand, the Company stepped up its efforts in conducting market surveys, enhanced the maintenance and management with major brewing partners with an aim to become their strategic partner, delivering both product technology and services. At the same time, the Company also dedicated efforts in sourcing new customers and enhancing the service quality, thereby forging long-term partnerships.

As to the R&D of new products, the Company continued to undergo the development and innovations in both products and production technology in order to meet customers' specific requirements, and in particular, sales of specialty malts targeting middle to high-end clients recorded a satisfactory growth. As part of its efforts to broaden its product range, the Company introduced caramel malt during the year, which was well received by its customers.

Management Discussion and Analysis

As at 31 December 2011, the Company had three malt processing plants in Liaoning, Jiangsu and Inner Mongolia with a combined annual processing capacity of 740,000 metric tons. The geographical proximity of the plants in Liaoning and Jiangsu to ports and product sales markets not only lowers the cost of transportation in barley import but also helps to expand the main beer consumption markets nearby. In addition, the malt processing plant in Yakeshi, Inner Mongolia, which was completed at the end of last year, is located near malting barley growing areas, and its malt products were primarily for domestic markets, diversifying the Company's product mix and satisfying a range of market demands.

Looking ahead, the steady development of the brewing industries will contribute to the stable growth in demand for malt, and in particular, a greater demand for quality malt will be seen in the high-end beer breweries. The Company will continue to monitor and analyse market trends and will seize market opportunities to solidify and expand market share by enhancing its raw materials sourcing capabilities to ensure stable supply, improving production cost control, optimising the product mix via R&D efforts, and raising customer service standards.

Dedicated railway for brewing materials at COFCO (Dalian) in Liaoning

Management Discussion and Analysis

Financial review

Overview of 2011 Financial Results

	2011 HK$ million	2010 HK$ million	Change %
Revenue	**82,349.9**	53,491.7	54%
Cost of sales	**(75,566.0)**	(50,280.6)	50%
Gross profit	**6,783.9**	3,211.1	111%
Other income and gains	**1,965.0**	1,384.4	42%
Selling and distribution costs	**(2,511.8)**	(2,009.3)	25%
Administrative expenses	**(1,540.1)**	(1,064.1)	45%
Other expenses	**(110.1)**	(22.9)	380%
Finance costs	**(888.7)**	(376.9)	136%
Share of profits of associates	**169.8**	353.0	(52)%
Profit before tax	**3,868.0**	1,475.3	162%
Income tax expense	**(563.2)**	(191.9)	193%
Profit for the year	**3,304.8**	1,283.4	158%
Profit attributable to owners of the Company	**2,368.0**	1,701.6	39%

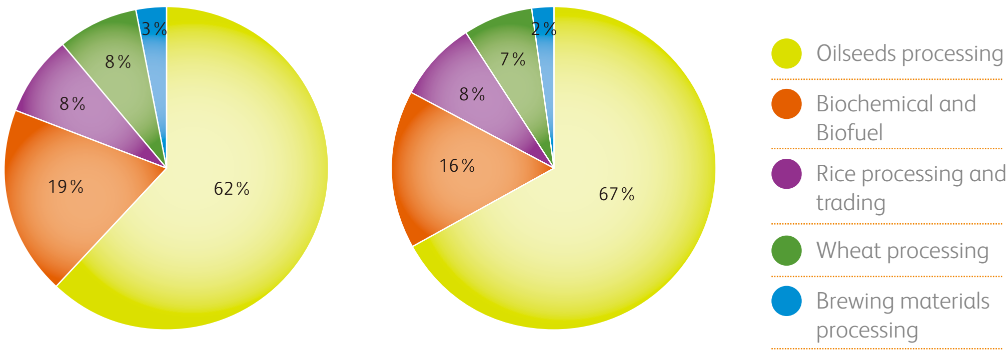
In 2011, both China and the global economy encountered a complicated and ever changing year. The Company actively responded to the severe challenges on its operating environment and achieved a substantial growth in its performance by undertaking business expansion and tackling all unfavourable factors in various aspects. For the year ended 31 December 2011, the Group's revenue recorded a growth of 54% to HK$82,349.9 million. The profit attributable to the owners of the Company for the year was HK$2,368.0 million, up 39% from HK$1,701.6 million in 2010.

Management Discussion and Analysis

Revenue

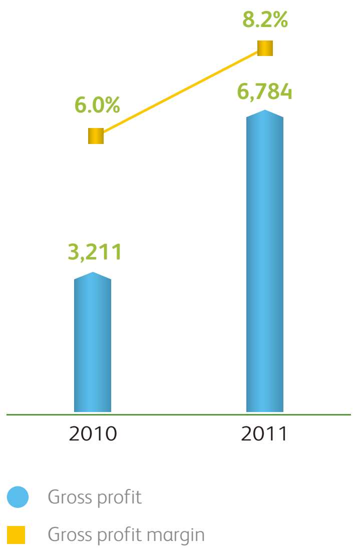
For the year ended 31 December 2011, the Group recorded a growth of 54% in revenue from HK$53,491.7 million a year earlier to HK$82,349.9 million, which is mainly attributable to the release of new production capacity as well as the increment in both sales volume and selling prices driven by the market demands. During the year, growth in sales was achieved across all five business segments. As the largest revenue contributor among the Group's five segments, oilseeds processing segment accounted for 67.4% of the Group's total revenue for the year as compared to 61.7% in the preceding year.

2010 Revenue　　2011 Revenue



Gross Profit and Gross Profit Margin

Gross Profit and Gross Profit Margin (HK$ million) (%)

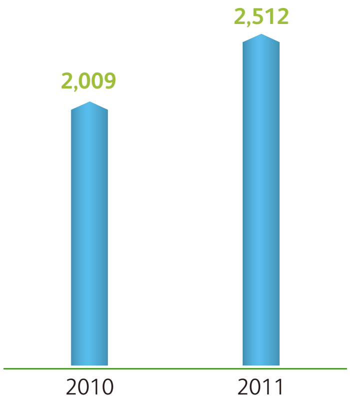


The gross profit of the Group surged by HK$3,572.8 million to HK$6,783.9 million in 2011 (2010: HK$3,211.1 million), which was mainly contributed by the expansion and development of the Company's business. Although the prices of the raw materials went up sharply during the year, the Group actively adopted various measures to offset the upward pressure on costs. As a result, the overall gross profit margin jumped from 6.0% in the preceding year to 8.2%. Despite the challenges confronted by the soybean crushing business during the year, our oilseeds processing business segment recorded a significant growth in the gross profit margin; biochemical and biofuel segment was stable with steady growth in profit; the gross profit margin of brewing materials segment was maintained at a relatively high level compared with the industry average; the gross profit margin of rice processing and trading segment dropped due to the expansion of domestic sales business.

Management Discussion and Analysis

Selling and Distribution Costs

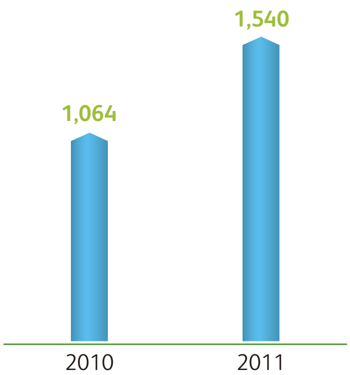
Selling and Distribution Costs (HK$ million)



Selling and distribution costs for 2011 increased by 25% from HK$2,009.3 million in 2010 to HK$2,511.8 million. Selling and distribution costs mainly comprise transportation and storage costs, salaries of salespersons, as well as marketing and promotion expenses etc. The increment was mainly attributable to the rise in transportation and loading costs arising from the expansion of the scale of business and the rising revenue during the year. In addition, significant increment in the staff costs was recorded due to a bigger sales team.

Administrative Expenses

Administrative Expenses (HK$ million)



Administrative expenses consist of employees' compensations and daily operation costs etc. The administrative expenses in 2011 rose by 45% from HK$1,064.1 million in 2010 to HK$1,540.1 million. Since the Group underwent a substantial expansion year in 2011, the administrative expenses increased significantly as a result of the construction of new projects and new operations across the business segments. In addition, the Company's salaries and wages also increased due to the general rising salaries level in China.

Management Discussion and Analysis

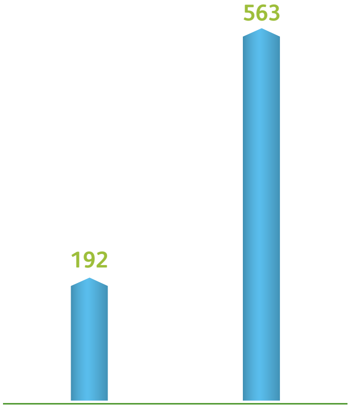
Finance Costs

For the year ended 31 December 2011, finance costs surged by HK$511.8 million from HK$376.9 million in 2010 to HK$888.7 million. The rise in finance costs compared to the preceding year was primarily attributed to the additional funds raised by the Group for the investment in new projects and the procurement of raw materials. Moreover, the overall finance costs jumped in 2011 due to the tight available funds in the market caused by the volatile domestic and global financial markets. An analysis of the finance costs by categories is as follows:

	2011 HK$ million	2010 HK$ million
Interest on:		
Bank loans wholly repayable within five years	**749.6**	321.9
Bank loans wholly repayable over five years	**1.6**	2.2
Loans from fellow subsidiaries	**26.0**	38.1
Loan from an intermediate holding company	**36.5**	–
Convertible bonds	**102.5**	42.5
Total interest expenses	**916.2**	404.7
Less: Interest capitalised	**(27.5)**	(27.8)
	888.7	376.9

Income Tax Expense

Income Tax Expense (HK$ million)



Income tax expense for the year rose by HK$371.3 million to HK$563.2 million (2010: HK$191.9 million). The rise in income tax expense was attributable to the increase in profit before tax for the current year.

Final Dividend

The Board of Directors recommended a final dividend for the year ended 31 December 2011 of 3.8 HK cents (2010: 3.9 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 28 June 2012 to the shareholders whose name appear on the register of members of the Company on 15 June 2012. The proposed final dividend together with the interim dividend of 7.9 HK cents per share paid on 6 October 2011 amounts to a total dividend of 11.7 HK cents per share for the year.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

Save for those disclosed in this annual report, the Group did not have any other significant investments held nor any material acquisitions and disposals of subsidiaries during the year.

Working Capital and Financial Policy

The Group adheres to a prudent financial management policy in the management of our financial affairs and centralises funding required for all business operations. The policy ensures that cash inflows generated from operating activities together with undrawn banking facilities are sufficient to meet the demands required for day-to-day operations, loan repayments, capital expenditure and potential business expansion opportunities, while effectively monitoring the Group's liquidity and financial resources. During the year, the Group's operations were mainly financed by our own funds and bank loans.

For the purpose of more efficient deployment and application of funds within the Group, 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 reduce the average borrowing costs of the Group and better facilitate intra-Group settlement services. During the year, the Group enhanced the liquidity of funds, reduced finance costs and effectively monitored the use of funds through this treasury platform.

Closely monitoring its exposures to fluctuations in exchange rates and commodity prices, the Group uses commodity futures contracts to timely hedge its risks associated with price fluctuations in raw material purchases or sales of the related products to lock-in profit, as well as foreign currency forward contracts to mitigate exchange rate exposure.

Cash Position

The Group maintained a strong financial position with available cash and bank deposits (including pledged deposits) amounting to HK$9,189.7 million (31 December 2010: HK$7,522.5 million) as at 31 December 2011. During the year, net cash inflow from operations of approximately HK$1,205.5 million (2010: net cash outflow of HK$8,211.5 million) was recorded. These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

Management Discussion and Analysis

Bank Loans and Other Borrowings

As at 31 December 2011, the total interest-bearing bank loans and other borrowings (including the liability component of convertible bonds) amounted to HK$32,915.0 million (31 December 2010: HK$25,843.0 million). The increment was mainly used for the business expansion of the Group. These loans are repayable within the following periods:

	31 December 2011 HK$ million	31 December 2010 HK$ million
Within one year or on demand	**24,071.2**	19,767.2
In the second year	**150.5**	217.4
In the third to fifth years, inclusive	**8,638.6**	5,810.9
Beyond five years	**54.7**	47.5
	32,915.0	25,843.0

Among the above total loans, HK$29,780.5 million or 90.5% (31 December 2010: HK$23,487.9 million or 90.9%) are at fixed interest rates. As at 31 December 2011, the Group has pledged assets with an aggregate carrying value of HK$650.4 million (31 December 2010: HK$1,006.5 million) to secure bank loans and banking facilities of the Group. The Group had no unutilised committed banking facilities as at 31 December 2011 and 31 December 2010. The Group will continue to obtain financing on an unsecured basis whenever possible and supplement such borrowings with secured financing.

Financial Ratios

The Group's financial ratios at 31 December 2011 and 31 December 2010 are set out below:

	31 December 2011	31 December 2010
Net gearing ratio (the ratio of net debt to shareholders' equity)	**108.0%**	96.0%
Liquidity ratio (the ratio of current assets to current liabilities)	**1.25**	1.32
Quick ratio (the ratio of current assets less inventories to current liabilities)	**0.71**	0.76

Net debt represents the Group's total interest-bearing bank loans and other borrowings (including the liability component of convertible bonds) less cash and cash equivalents and pledged deposits. Therefore, the net debt of the Group was HK$23,725.3 million at 31 December 2011 (31 December 2010: HK$18,320.5 million).

Capital Expenditures

The total capital expenditures of the Group for the year ended 31 December 2011 are tabulated below:

	2011 **HK$ million**	2010 HK$ million
Business units:		
Oilseeds processing	**2,934.4**	2,535.7
Biochemical and biofuel	**1,851.9**	1,026.8
Rice processing and trading	**1,769.9**	487.0
Wheat processing	**630.5**	114.9
Brewing materials	**99.4**	348.0
Corporate and others	**301.2**	9.8
	7,587.3	4,522.2

Capital Commitments

Please refer to note 35 to the audited financial statements of this annual report for the relevant details of capital commitments.

Human resources

The Group employed 25,459 (31 December 2010: 20,186) staff as at 31 December 2011:

	31 December **2011** **Number of staff**	31 December 2010 Number of staff
Oilseeds processing business	**8,378**	5,139
Biochemical and biofuel business	**10,659**	9,220
Rice processing and trading business	**2,463**	1,900
Wheat processing business	**3,149**	3,136
Brewing materials business	**684**	679
Corporate	**126**	112
	25,459	20,186

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 2011 amounted to approximately HK$1,586.1 million (2010: HK$1,010.3 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$123.4 million (2010: HK$91.8 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.

In addition, the Group encourages employees' participation in continuing training programmes, seminars and e-learning, through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

Corporate Governance Report

Introduction

The Company recognises the importance of corporate transparency and accountability. The directors of the Company (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 2011, 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 9 June 2011 due to another business commitment. The Company recognises the importance of maintaining effective communication with shareholders. The Chairman 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. He facilitates constructive communications with the controlling shareholder to enhance corporate strategy and governance whilst providing support and advice to the Managing Director to maintain regular dialogue with other shareholders and investors. Their views or concerns are communicated to the Board.

Corporate governance event calendar 2011

Jan	Review on corporate governance practices and submission to The Stock Exchange of Hong Kong Limited on "Review of the Code on Corporate Governance Practices and Associated Listing Rules".
Mar	The Company was awarded "Best Corporate Social Responsibility" in "1st Asian Excellence Recognition Awards 2011" by Corporate Governance Asia.
Jun	Review and revision of the Corporate Governance Manual for the Board of Directors of the Company to strengthen governance practices.
	The Company received the "Annual Recognition Awards" from Corporate Governance Asia. Mr. Yu Xubo, Executive Director of the Company, was honored "2nd Asian Corporate Director Recognition Awards" by Corporate Governance Asia.
Oct	Directors training on some recent developments in relation to the Listing Rules and related guidance. The Board has adopted the Director Induction Programme, which will be tailored to each newly appointed director.
Dec	The Company was recognised by China Enterprise Reputation and Credibility Association (Overseas) as "The Credible Enterprise of China" Accreditation for 2011, and was awarded "Gold Corporate Award for Investor Relations" by The Asset.

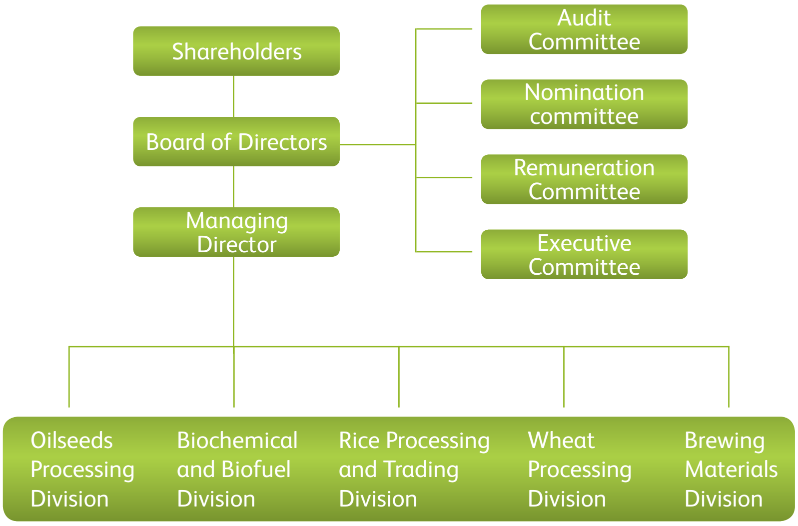
Securities transactions by directors and relevant employees

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 2011 in relation to their securities dealings, if any.

Corporate Governance Report

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"). Relevant employees who are likely to be in possession of unpublished price-sensitive information related to the Group and its activities must comply with guidelines set out in the Employees Model Code as exacting as those 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.

Corporate Governance Report

Other than resolutions passed by means of resolutions in writing of all Directors, the Board held fourteen meetings (including seven independent non-executive Directors' meetings, 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	4/4	N/A	2/3
LV Jun	4/4	N/A	1/3
YUE Guojun	3/4	N/A	3/3
Non-executive Directors			
CHI Jingtao (resigned on 30 March 2011)	1/2	N/A	N/A
MA Wangjun	4/4	N/A	1/3
WANG Zhiying (appointed on 30 March 2011)	1/2	N/A	2/3
Independent Non-executive Directors			
LAM Wai Hon, Ambrose	4/4	7/7	3/3
Victor YANG	4/4	7/7	3/3
Patrick Vincent VIZZONE	4/4	7/7	3/3

The above table shows the positions held during the year.

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.

During the year, the Board convened two general meetings. The Company's directors (Messrs. Yu Xubo, Yue Guojun, Wang Zhiying, Lam Wai Hon, Ambrose, Victor Yang and Patrick Vincent Vizzone) together with the management and independent auditors' representatives attended the annual general meeting held on 9 June 2011. The Company's directors (Messrs. Yue Guojun, Lam Wai Hon, Ambrose, Victor Yang and Patrick Vincent Vizzone) together with the management and independent financial adviser's representatives attended the extraordinary general meeting held on 2 December 2011.

Chairman and managing director

During the year, the chairman of the Board was Mr. Ning Gaoning, and the chief executive officer (or managing director, in the case of the Company) was 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

During the year, the Board comprised nine Directors, namely, Mr. Ning Gaoning as the chairman and non-executive Director; Messrs. Yu Xubo (Managing Director), Lv 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. Ning Gaoning, Lv Jun and Victor Yang will retire at the forthcoming 2012 annual general meeting of the Company and, being eligible, each of them have offered himself for re-election pursuant to Article 106 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. During the year, the Nomination Committee comprised Mr. Ning Gaoning (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 *(Chairman)*	1	0	0%
CHI Jingtao (resigned on 30 March 2011)	1	1	100%
WANG Zhiying (appointed on 30 March 2011)	N/A	N/A	N/A
LAM Wai Hon, Ambrose	1	1	100%
Victor YANG	1	1	100%
Patrick Vincent VIZZONE	1	1	100%

The latest composition of the Nomination Committee is set out on page 2 of this annual report.

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 26 April 2012 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. During the year, the Remuneration Committee comprised 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)* (resigned on 30 March 2011)	1	1	100%
WANG Zhiying *(Chairman)* (appointed on 30 March 2011)	N/A	N/A	N/A
MA Wangjun	1	1	100%
LAM Wai Hon, Ambrose	1	1	100%
Victor YANG	1	1	100%
Patrick Vincent VIZZONE	1	1	100%

The latest composition of the Remuneration Committee is set out on page 2 of this annual report.

Audit committee

The Audit Committee was established on 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)*	3	3	100%
Victor YANG	3	3	100%
Patrick Vincent VIZZONE	3	3	100%
CHI Jingtao (resigned on 30 March 2011)	1#	0	0%
MA Wangjun	3	3	100%
WANG Zhiying (appointed on 30 March 2011)	2#	2	100%

by reference to the number of meetings held during his tenure

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. During the year, the Executive Committee comprised Mr. Yu Xubo (Managing Director) as the chairman of the Executive Committee, Messrs. Lv Jun and Yue Guojun. The latest composition is set out on page 2 of this annual report.

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.

Corporate Governance Report

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$5.6 million and HK$1.0 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 2011 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 2011 on 28 March 2012. An independent Auditors' Report is included in this annual report on pages 69 and 70.

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.

Shareholders' rights

The Company is committed in engaging constructive communication with its shareholders through a variety of channels, including through its corporate communications, website, general meetings and investor relations activities. Shareholders wishing to put enquiries to the Board may send communications to: The Board of Directors c/o Company Secretary, by post to the registered office of the Company. All communications will be forwarded to the Board or the individual directors on a periodic basis.

Every shareholder has a right to make their views known through voting at a general meeting. The annual general meeting (the "AGM") will be held on 8 June 2012. The AGM provides shareholders the opportunity to meet and question the Board on a wide range of issues relating to the affairs of the Company. Shareholders who wish to attend and vote may request to be entered into the register of members by its closure for the AGM. A corporate shareholder may participate by its authorised representative. Subject to applicable laws and regulations, qualified shareholders may exercise their rights to put forward a proposal at the AGM. Shareholders holding not less than one-fortieth of the total voting rights of all shareholders having the right to vote at the AGM, or not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, may submit a written request to move a resolution at the AGM. The requisition must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution, and must be signed by the requisitionists and deposited at the registered office of the Company for the attention of the company secretary. If the requisition is to propose nomination of a person other than a director of the Company for election as a director at the AGM, that person's consent to be elected and biographical details as required by Rule 13.51(2) of the Listing Rules should also be provided. Upon verification that the requisition is proper and in order, the company secretary will propose the Board to include the resolution on the agenda for the AGM.

Only persons with proper authority have the right to requisition for and convene a general meeting. According to applicable laws and regulations, shareholders holding not less than one-twentieth of the paid-up capital and carrying the right of voting at a general meeting of the Company may requisition for the convening of an extraordinary general meeting (the "EGM"). The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company for the attention of the company secretary. Upon verification that the requisition is proper and in order, the company secretary will propose the Board to convene the EGM within 21 days from the date of the deposit of the requisition call a meeting to be held within a further period of 28 days.

Shareholders desiring to make proposals at a general meeting should make a written request to the Company in due time before the meeting. If the matter to be considered requires a special resolution or special notice, the proposed resolution must be given to the Company not less than 28 days before the general meeting at which it is moved. The Company will, in accordance with its obligations under the applicable laws and regulations, provide necessary information either in a supplementary circular or by way of an announcement and, if necessary, adjourn the relevant general meeting for informing all shareholders.

Corporate Governance Report

Investor relations

The Company has always adhered to good investor relations and corporate governance, and is committed to further uplifting the standard of its information disclosure by effective communication with existing and potential investors through various channels. Our investor relations team reports the market updates as well as investors' feedback, concerns and opinions to the senior management on a regular basis, building two-way communication between the management and the investment community, and strengthening the market's confidence in our operations.

In the year of 2011, the Company dedicated efforts to promote investor relations and communications. In addition to organising regular one-on-one meetings, conference calls and luncheons to keep the market abreast of our operation updates, the Company also arranged a variety of investor relations activities, which includes communications with media and investors through post-results press conference and analyst presentations. An on-site visit to our production plants was also arranged for fund managers and analysts to increase their understanding of our business. In the second half of the year, the Company initiated a group teleconference for the investment community with our senior management amid the global financial volatility. Such teleconference assured the market that our business remained stable, therefore strengthened the investors' confidence. In addition, the Company conducted non-deal roadshows in Hong Kong, Singapore and New York, and participated in investor conference in China to increase our recognition in the overseas and domestic markets.

The Company's continuous efforts in corporate governance and investor relations have been well-received by the investment community. During the year, the Company was awarded "Best Corporate Social Responsibility" in "1st Asian Excellence Recognition Awards 2011" by Corporate Governance Asia and also once again received the "Annual Recognition Awards" from the magazine. Mr. Yu Xubo, Executive Director of the Company, was honored "2nd Asian Corporate Director Recognition Awards" by Corporate Governance Asia in June. It affirms the recognition from institutional investors for the commitment of China Agri on its corporate governance and investor relations. Besides, the Company was once again recognised by China Enterprise Reputation and Credibility Association (Overseas) as "The Credible Enterprise of China" Accreditation for 2011, and was awarded "Gold Corporate Award for Investor Relations" by The Asset, which has manifested the Company's achievement in the area of corporate reputation and investor relations.

The Company has been selected as a constituent of several key benchmark indices, 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 Asian Sector Food and Beverage Index. Meanwhile, the Company has been selected for the second consecutive year as a constituent member of the Hang Seng Corporate Sustainability Index Series by Hang Seng Indexes Company Limited during the year under review.

China Agri's business performance is covered 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.

Risk Management

Our philosophy

We believe that risk management is the key to the survival and sustainability of an organisation. This is especially 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 levels 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. Information collection for and assessment of significant risks is continually undergoing.
- Setting up of the Key Risk Indicators (KRI) monitoring system for continuing monitoring of our significant risks and for reporting to senior management.
- Developing the internal control self-assessment system to promote continuing enhancement of internal controls in the Company.
- Promotion of ongoing training on risk management and internal control to cultivate a corporate culture of risk management.

Risk Management

In 2011, the Company's risk management system was further enriched and enhanced basing on the work accomplished in previous periods. Major tasks in 2011 are set out below:

1. The development of our Key Risk Indicators monitoring system

In 2011, we identified 24 Key Risk Indicators (KRI) which we considered that closer monitoring is required. Audit and Supervision Department conducted regular reviews of the organisation's significant risks and compiled the KRI monitoring report.

Based on the Company's business practice and risk factors identified by the KRI monitoring system, the Company was able to address high-risk areas for in-depth analysis and assessment. We have identified 7 significant risk factors in 2011, namely raw materials prices volatility risks, safety risks, policies risks, competitors risks, logistics and storage risks, investment risks and human resources risks.

2. The development of internal control self-assessment system

Internal control self-assessment system is one of the most effective tools to promote the continuous enhancement of internal controls in the Company and is also for satisfying the requirements under "Basic Standards for Enterprises' Internal Control", jointly issued by the five ministries/commissions including the Ministry of Finance of China, the China Securities Regulatory Commission, and the related guidelines and relevant regulations. In 2011, the Company completed initial development of the basic framework of the internal control self-assessment system, and formulate it in our "Administrative measures for the internal control self-assessment of China Agri-Industries Holdings Limited (Provisional)". Also, the system was optimised and improved in light of the internal control findings during the course of system development.

To address the 7 significant risks, the Company formulated specific risk management and control measures in relevant areas (such as management structure, business policies and processes, and management reporting) according to the KRI monitoring system and the internal control self-assessment system.

Directors and Senior Management Profile

Chairman and Non-executive Director

Mr. NING Gaoning, aged 53, was appointed as a non-executive director and the chairman of the board of directors 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 the board of COFCO Corporation, a director of Wide Smart Holdings Limited and the chairman of the board of COFCO (Hong Kong) Limited, all of them are substantial shareholders of the Company. Mr. Ning is an executive director of China Foods Limited, a non-executive director of CPMC Holdings Limited and the chairman of the board of directors and a non-executive director 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.

Since the conclusion of the board meeting held on 28 March 2012, Mr. Ning has ceased to be the chairman of the board and remains as a non-executive director of the Company.

Executive Directors

Mr. YU Xubo, aged 46, 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., the vice-chairman of the board of directors and 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 Exchange). 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.

Since the conclusion of the board meeting held on 28 March 2012, Mr. Yu has been re-designated as the chairman of the board and remains as an executive director of the Company.

Mr. LV Jun, aged 44, was appointed as an executive director and vice-president of the Company in January 2007. Mr. Lv is also the general manager of the oilseeds processing division. Mr. Lv 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. Lv holds a Bachelor's degree and a Master's degree in Engineering from China Agricultural University in Beijing.

Since the conclusion of the board meeting held on 28 March 2012, Mr. Lv has been re-designated as the managing director and remains as an executive director of the Company.

Directors and Senior Management Profile

Mr. YUE Guojun, aged 48, professor level senior engineer, was appointed as an executive director and the vice-president of the Company in January 2007, acting as the general manager of biochemical and biofuel division. Mr. Yue joined COFCO Group in November 2005 and has been the assistant president of COFCO Corporation since February 2007. Since November 2007, he has been a board director of COFCO Biochemical (Anhui) Co., Ltd., a company listed on the Shenzhen Stock Exchange, and as the chairman during the period from November 2007 to July 2011. Mr. Yue is an expert in chemical engineering accredited by the State Council via a scholarship program in 2007. He was elected as one of the deputies of 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 an 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. He was elected as the chairman of China Starch Industry Association in November 2011.

Non-executive Directors

Mr. MA Wangjun, aged 47, 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 deputy 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 41, 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).

Directors and Senior Management Profile

Independent Non-executive Directors

Mr. LAM Wai Hon, Ambrose, aged 58, 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, since renamed as Investec Capital Asia Limited following its acquisition by Investec Bank PLC in April 2011. He has over 25 years 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 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. Mr. Lam was an independent non-executive director of Shenzhen Express Company Limited (a listed company) and he held this position until the expiry of his term of office on 31 December 2011.

Mr. Victor YANG, aged 66, 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 of Hong Kong 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 are 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 40, 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 Managing Director and Senior Relationship Banker at Rabobank International Hong Kong Branch. At Rabobank Mr. Vizzone has also served as Head of Food & Agribusiness, Asia and Head of Food and Agribusiness Research, Asia. Before joining Rabobank, Mr. Vizzone was Head of Strategic Marketing, Asia Pacific for GE Capital in Hong Kong. Mr. Vizzone has 15 years experience working in China's agribusiness sector. 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.

Directors and Senior Management Profile

Senior Management

Senior management of the Company consists of five persons (of whom three are executive directors namely Mr. Yu Xubo, Mr. Lv Jun and Mr. Yue Guojun), with responsibility for main decision on management and operations. Other than the persons named above, the senior management includes:

Ms. YANG Hong, aged 48, is the vice president of the Company and the general manager of the rice processing and trading 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 45, 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 for many positions including the assistant general manager of group finance, a director and the general manager of finance and planning of Shougang Hierro Peru SA. Mr. Shi is a member of The Chinese Institute of Certified Public Accountants. He holds a Bachelor's degree in Economics from Anhui University of Finance & Economics and an Executive Master of Business Administration (EMBA) from China Europe International Business School.

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 2011.

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, biochemical and biofuel, rice processing and trading, 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 2011 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 71 to 158.

The Board of Directors recommended a final dividend for the year ended 31 December 2011 of 3.8 HK cents (2010: 3.9 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 Thursday, 28 June 2012 to the shareholders whose names appear on the register of members of the Company on Friday, 15 June 2012.

The proposed final dividend together with the interim dividend of 7.9 HK cents per share paid on 6 October 2011 amounts to a total of about HK$472.5 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 277,206,935 shares, which represented approximately 6.9% 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:

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

(ii) 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

(iii) 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 2011 are as follows:

Share options granted on 7 August 2007

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 2011	Exercised	Lapsed	At 31 December 2011
(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
LV 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
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
(B) Employees	7–8–2007	4.666	7–8–2009	7–8–2009 to 6–8–2014	2,051,000	–	–	2,051,000
			7–8–2010	7–8–2010 to 6–8–2014	4,700,000	–	70,000	4,630,000
			7–8–2011	7–8–2011 to 6–8–2014	4,700,000	–	124,000	4,576,000
			7–8–2012	7–8–2012 to 6–8–2014	4,700,000	–	124,000	4,576,000
			7–8–2013	7–8–2013 to 6–8–2014	4,700,000	–	124,000	4,576,000
					20,851,000	–	442,000	20,409,000
Total					24,021,000	–	442,000	23,579,000

Report of the Directors

Notes:

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

2. *Employees refer to those working under employment contracts that were regarded as "Continuous Contract" for the purposes of the Employment Ordinance of Hong Kong.*

Share options granted on 31 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 31 March 2011	Exercised	Lapsed	At 31 December 2011
(A) Directors								
NING Gaoning	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	120,000	–	–	120,000
			31–3–2014	31–3–2014 to 30–3–2018	120,000	–	–	120,000
			31–3–2015	31–3–2015 to 30–3–2018	120,000	–	–	120,000
			31–3–2016	31–3–2016 to 30–3–2018	120,000	–	–	120,000
			31–3–2017	31–3–2017 to 30–3–2018	120,000	–	–	120,000
					600,000	–	–	600,000
YU Xubo	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	120,000	–	–	120,000
			31–3–2014	31–3–2014 to 30–3–2018	120,000	–	–	120,000
			31–3–2015	31–3–2015 to 30–3–2018	120,000	–	–	120,000
			31–3–2016	31–3–2016 to 30–3–2018	120,000	–	–	120,000
			31–3–2017	31–3–2017 to 30–3–2018	120,000	–	–	120,000
					600,000	–	–	600,000
LV Jun	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	110,000	–	–	110,000
			31–3–2014	31–3–2014 to 30–3–2018	110,000	–	–	110,000
			31–3–2015	31–3–2015 to 30–3–2018	110,000	–	–	110,000
			31–3–2016	31–3–2016 to 30–3–2018	110,000	–	–	110,000
			31–3–2017	31–3–2017 to 30–3–2018	110,000	–	–	110,000
					550,000	–	–	550,000
YUE Guojun	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	110,000	–	–	110,000
			31–3–2014	31–3–2014 to 30–3–2018	110,000	–	–	110,000
			31–3–2015	31–3–2015 to 30–3–2018	110,000	–	–	110,000
			31–3–2016	31–3–2016 to 30–3–2018	110,000	–	–	110,000
			31–3–2017	31–3–2017 to 30–3–2018	110,000	–	–	110,000
					550,000	–	–	550,000

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 31 March 2011	Exercised	Lapsed	At 31 December 2011
MA Wangjun	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	110,000	–	–	110,000
			31–3–2014	31–3–2014 to 30–3–2018	110,000	–	–	110,000
			31–3–2015	31–3–2015 to 30–3–2018	110,000	–	–	110,000
			31–3–2016	31–3–2016 to 30–3–2018	110,000	–	–	110,000
			31–3–2017	31–3–2017 to 30–3–2018	110,000	–	–	110,000
					550,000	–	–	550,000
WANG Zhiying	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	110,000	–	–	110,000
			31–3–2014	31–3–2014 to 30–3–2018	110,000	–	–	110,000
			31–3–2015	31–3–2015 to 30–3–2018	110,000	–	–	110,000
			31–3–2016	31–3–2016 to 30–3–2018	110,000	–	–	110,000
			31–3–2017	31–3–2017 to 30–3–2018	110,000	–	–	110,000
					550,000	–	–	550,000
(B) Employees	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	8,380,000	–	–	8,380,000
			31–3–2014	31–3–2014 to 30–3–2018	8,380,000	–	–	8,380,000
			31–3–2015	31–3–2015 to 30–3–2018	8,380,000	–	–	8,380,000
			31–3–2016	31–3–2016 to 30–3–2018	8,380,000	–	–	8,380,000
			31–3–2017	31–3–2017 to 30–3–2018	8,380,000	–	–	8,380,000
					41,900,000	–	–	41,900,000
Total					45,300,000			45,300,000

Notes:

1. *The closing price of the Company's shares immediately before the date on which the above share options were granted was HK$8.76 per share.*

2. *The fair value of above share options granted to the Company's directors and the employees as at the date of grant, using Binominal Option Pricing Model, was HK$3.83 per share.*

3. *Employees refer to those working under employment contracts that were regarded as "Continuous Contract" for the purposes of the Employment Ordinance of Hong Kong.*

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

Report of the Directors

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 75 of this annual report.

Distributable reserves

As at 31 December 2011, 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$3,553.1 million, of which HK$153.5 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:

NING Gaoning

YU Xubo

LV Jun

YUE Guojun

CHI Jingtao *(resigned on 30 March 2011)*

MA Wangjun

WANG Zhiying *(appointed on 30 March 2011)*

LAM Wai Hon, Ambrose

Victor YANG

Patrick Vincent VIZZONE

Report of the Directors

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. Ning Gaoning, Mr. Lv Jun and Mr. Victor Yang 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 44 to 47 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 ordinary shares of the Company at an initial conversion price of HK$11.375 per share. In accordance of the terms and conditions of the convertible bonds, as a result of the payment of dividends, the conversion price has been adjusted to HK$11.110 per share, with effect from 17 September 2011. 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 2011, 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 shares and underlying shares of the Company

Name	Capacity	Number of underlying shares held in long position *(Note 1)*	Number of shares held in long position	Percentage *(Note 2)*
NING Gaoning	Beneficial owner	1,300,000	–	0.03%
YU Xubo	Beneficial owner and interest of spouse *(Note 3)*	1,300,000	181,000	0.04%
LV Jun	Beneficial owner	1,070,000	230,000	0.03%
YUE Guojun	Beneficial owner	1,200,000	–	0.03%
MA Wangjun	Beneficial owner	1,150,000	–	0.03%
WANG Zhiying	Beneficial owner	550,000	–	0.01%

Notes:

1. *These underlying shares 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 percentage of interests is calculated based on the total number of shares of the Company in issue as at 31 December 2011, being 4,038,369,839 shares.*
3. *181,000 shares were held by the spouse of Mr. Yu Xubo.*

Interests in underlying shares of associated corporation

Name	Name of associated corporation	Capacity	Number of underlying shares held in long position *(Note 1)*	Percentage *(Note 2)*
NING Gaoning	China Foods Limited	Beneficial owner	1,620,000	0.06%

Notes:

1. *Mr. Ning Gaoning has been granted options entitling him to subscribe an aggregate of 1,620,000 shares of China Foods Limited, of which: (i) 880,000 share options were granted 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; and (ii) 740,000 share options were granted on 29 March 2011 at an exercise price of HK$4.910 per share and, subject to a vesting schedule, exercisable during the period from 29 March 2013 to 28 March 2018.*

2. *The percentage of interests is calculated based on the total number of shares of China Foods Limited in issue as at 31 December 2011, being 2,792,891,756 shares.*

Save as disclosed above, as at 31 December 2011, none of the Directors, chief executive or their respective associates had any other Discloseable Interests.

Substantial shareholders' interests in the shares of the Company

As at 31 December 2011, 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 2011, 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 2011, 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, China Foods Supply Agreement and Product Supply Agreement

1.1 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 (excluding China Foods Limited ("China Foods"), its subsidiaries and the Group) (collectively, "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 was 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 RMB1,040.67 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 RMB1,069.40 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.

1.2 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 ("China Foods Group"). The China Foods Supply Agreement was 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 Group was approximately RMB5,829.23 million.

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

1.3 Product Supply Agreement

The Company and COFCO Food Sales & Distribution Co., Ltd. ("COFCO Food Sales") entered into an agreement on 4 August 2011 (the "Product Supply Agreement"), pursuant to which COFCO Food Sales would supply sunflower oil, rapeseeds oil, corn oil and other related products to the Group. The Product Supply Agreement was for a term commencing from 4 August 2011 to 31 December 2011.

During the year, the aggregate value of the sunflower oil, rapeseeds oil, corn oil and other related products supplied by COFCO Food Sales to the Group was approximately RMB20.44 million.

According to the Listing Rules, COFCO Food Sales is a connected person of the Company by virtue of its being a subsidiary of China Foods.

1.4 New arrangement for years 2012–2014

Before the expiry of the New COFCO Mutual Supply Agreement, the China Foods Supply Agreement and the Product Supply Agreement, the Company entered into a new agreement on 21 October 2011 (the "2011 COFCO Mutual Supply Agreement"), pursuant to which the Group and COFCO Group (including China Foods Group) would mutually supply raw materials, products, finance, logistics, agency and other related services. The 2011 COFCO Mutual Supply Agreement is for a term commencing from 1 January 2012 to 31 December 2014. The annual caps for the 2011 COFCO Mutual Supply Agreement are set out in the Company's circular dated 16 November 2011, and such annual caps were approved by the independent shareholders at the Company's extraordinary general meeting held on 2 December 2011.

2. Wilmar Mutual Supply Agreement

2.1 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 was 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 RMB1,526.51 million, and the aggregate value of the products and services supplied by the Group to Wilmar International Group was approximately RMB2,672.39 million.

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

2.2 New arrangement for years 2012–2014

Before the expiry of the Wilmar Mutual Supply Agreement, on 21 October 2011, Wilmar International and the Company entered into a new agreement (the "2011 Wilmar Mutual Supply Agreement"), pursuant to which, Wilmar International Group and the Group will mutually supply raw materials, products, logistics and other related services. The 2011 Wilmar Mutual Supply Agreement is for a term commencing from 1 January 2012 to 31 December 2014. The annual caps for the 2011 Wilmar Mutual Supply Agreement are set out in the Company's circular dated 16 November 2011, and such annual caps have been approved by the independent shareholders at the Company's extraordinary general meeting held on 2 December 2011.

3. Financial Services Agreement

3.1 Financial Services Agreement

On 27 October 2009, 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, the Company, COFCO Finance Co., Ltd. ("COFCO Finance") and COFCO Agri-Industries Management Co., Ltd. (the "Management Company") entered into the Financial Services Agreement whereby 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. In turn, the Management Company would advance such fund to certain of the Company's subsidiaries which were in need of fund. During the year, the maximum daily transaction amount of deposits (including accrued interests) placed by the Group with COFCO Finance was approximately RMB2,111.18 million.

According to the Listing Rules, COFCO Finance is a connected person of the Company by virtue of its being an indirectly wholly-owned subsidiary of COFCO.

3.2 New arrangement for year 2012

As the term of the aforesaid Financial Services Agreement was from 27 October 2009 to 31 December 2011, in consideration of the treasury management of the Company taking into account the business development plans and financial needs of the Group, as well as the benefit of the Company and its shareholders as a whole, the Company entered into the New 2011 Financial Services Agreement with COFCO Finance and the Management Company on 15 December 2011 whereby COFCO Finance would further provide depository and entrustment loan services for a term of one year from 1 January 2012. The annual cap on the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance pursuant to the New 2011 Financial Services Agreement is set out in the Company's announcement made on 15 December 2011.

4. ADM Mutual Supply Agreement

The Company and Archer Daniels Midland Company ("ADM") entered into an agreement on 21 November 2008 (the "New ADM Mutual Supply Agreement"), pursuant to which certain products would be mutually supplied between the Group and ADM and its subsidiaries ("ADM Group"). The New ADM Mutual Supply Agreement was 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 RMB3,261.79 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 is a connected person of the Company. However, the subsidiaries in which ADM are substantial shareholders are regarded as "insignificant subsidiaries" under the Listing Rules, thus any continuing connected transactions between the Group and ADM Group, being our connected person due to its connection with our insignificant subsidiaries only, are and will be exempted from reporting, announcement and independent shareholders' approval requirements.

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

5. 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 was 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 RMB23.93 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. However, the subsidiary in which Dezhou Grains is substantial shareholder is regarded as an "insignificant subsidiary" under the Listing Rules, thus any continuing connected transactions between the Group and Dezhou Grains Group, being our connected person due to its connection with our 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 complying with all applicable connected transaction requirements for subsequent continuing transactions.

6. 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 was 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 RMB0.80 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. However, the subsidiary in which No.2 Storage is substantial shareholder is regarded as an "insignificant subsidiary" under the Listing Rules, thus any continuing connected transactions between the Group and No.2 Storage Group, being our connected person due to its connection with our 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 complying 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 and up to 30 June 2011, the aggregate value of the steel barrels and rectangular cans supplied by CPMC (Hong Kong) Limited was approximately RMB3.99 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. 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 was 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 RMB2.99 million, and the aggregate value of the products and services supplied by the Group to Toyota Tsusho and its associates was Nil.

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. However, the subsidiary in which Toyota Tsusho is substantial shareholder is regarded as an "insignificant subsidiary" under the Listing Rules, thus any continuing connected transactions between the Group and Toyota Tsusho (including its associates), being our connected person due to its connection with our 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 complying with all applicable connected transaction requirements for subsequent continuing transactions.

9. 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 was 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 Nil, 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. However, the subsidiary in which Hakubaku is substantial shareholder is regarded as an "insignificant subsidiary" under the Listing Rules, thus any continuing connected transactions between the Group and Hakubaku (including its associates), being our connected person due to its connection with our 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 complying with all applicable connected transaction requirements for subsequent continuing transactions.

10. 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 was 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 RMB9.19 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, and its associates are connected persons of the Company. However, the subsidiary in which Xiamen Seashine is substantial shareholder is regarded as an "insignificant subsidiary" under the Listing Rules, thus any continuing connected transactions between the Group and Xiamen Seashine (including its associates), being our connected person due to its connection with our 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 complying with all applicable connected transaction requirements for subsequent continuing transactions.

11. 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 was 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, and its associates are connected persons of the Company. However, the subsidiary in which Zhengzhou Flour is substantial shareholder is regarded as an "insignificant subsidiary" under the Listing Rules, thus any continuing connected transactions between the Group and Zhengzhou Flour (including its associates), being our connected person due to its connection with our 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 complying with all applicable connected transaction requirements for subsequent continuing transactions.

12. 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 was 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 RMB0.85 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. However, the subsidiary in which No.5 Storage is substantial shareholder is regarded as an "insignificant subsidiary" under the Listing Rules, thus any continuing connected transactions between the Group and No.5 Storage (including its associates), being our connected person due to its connection with our 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 complying with all applicable connected transaction requirements for subsequent continuing transactions.

13. 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. However, the subsidiary in which Sinopec Corp. is substantial shareholder is regarded as an "insignificant subsidiary" under the Listing Rules, thus any continuing connected transactions between the Group and Sinopec Corp. Group, being our connected person due to its connection with our 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 complying 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 2011 (collectively, the "CCTs") and confirmed that the CCTs were: (i) entered into in the ordinary and usual course of business of the Group; (ii) entered into on normal commercial terms; (iii) 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 (iv) 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 for the year ended 31 December 2011 disclosed above 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. Lv Jun is vice president, and Mr. Yue Guojun and Mr. Ma Wangjun are assistant presidents, and Mr. Wang Zhiying is the head of human resources. Mr. Yue Guojun is a director of the board of COFCO Biochemical (Anhui) Co., Ltd.. Mr. Lv 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. Lv Jun is a director of Grand Silver (Laiyang) Co. Limited and Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co., Ltd., both 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.

Report of the Directors

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

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 2011.

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 Business, then the Company has pre-emptive rights to purchase any Retained Business on terms no less favourable than those offered to such third party.

The options of the Company (the "Tayuan Option") to acquire from COFCO any interest or business in COFCO Tayuan Safflower (Xinjiang) Co., Ltd. ("Xinjiang Tayuan") became effective on 10 April 2007 and 27 October 2011. Having taken into account the principal factors and considerations set out in the announcement of the Company dated 16 March 2012, all Independent Non-executive Directors made a final and definitive decision that it is in the best interests of the Company and its shareholders as a whole to exercise the Tayuan Option and consequently, the Company has through its subsidiary, COFCO Oils & Fats Holdings Limited, entered into a share purchase agreement in relation to purchase of an aggregate of 77.04% COFCO's equity interests in Xinjiang Tayuan on the same date.

The option of the Company (the "COFCO Biochemical Option") to acquire from COFCO interest in COFCO Biochemical (Anhui) Co., Ltd. ("COFCO Biochemical", formerly known as Anhui BBCA Biochemical Co., Ltd.) became effective on 3 April 2007. Having taken into account the principal factors and considerations set out in the announcement of the Company dated 16 March 2012, all Independent Non-executive Directors decided that it is not in the best interests of the Company and its shareholders as a whole to make a final and definitive decision whether or not to exercise the option to acquire from COFCO interest in COFCO Biochemical, despite the fact that the fifth anniversary (being the last year of the option period) of the COFCO Biochemical Option having become effective is 3 April 2012. And they further decided to extend the COFCO Biochemical Option for further three years, starting from 3 April 2012. The Independent Non-executive Directors will continue to review the COFCO Biochemical Option on an annual basis and to disclose the reasons for their decision by way of announcement.

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 30 to 41 of this annual report.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$5.78 million.

Report of the Directors

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 2011 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, 28 March 2012

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 71 to 158, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 2011, 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

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

28 March 2012

Consolidated Income Statement

Year ended 31 December 2011

For the year ended 31 December

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	4, 5	82,349,859	53,491,700
Cost of sales	6	(75,565,979)	(50,280,599)
Gross profit		6,783,880	3,211,101
Other income and gains	5	1,965,032	1,384,450
Selling and distribution costs		(2,511,842)	(2,009,302)
Administrative expenses		(1,540,146)	(1,064,113)
Other expenses		(110,092)	(22,944)
Finance costs	7	(888,658)	(376,878)
Share of profits of associates		169,848	352,955
PROFIT BEFORE TAX	6	3,868,022	1,475,269
Income tax expense	10	(563,231)	(191,918)
PROFIT FOR THE YEAR		3,304,791	1,283,351
Attributable to:			
Owners of the Company		2,367,954	1,701,644
Non-controlling interests		936,837	(418,293)
		3,304,791	1,283,351
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		58.64 HK cents	43.21 HK cents
Diluted		56.26 HK cents	42.59 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 2011

For the year ended 31 December

	2011 HK$'000	2010 HK$'000
PROFIT FOR THE YEAR	3,304,791	1,283,351
Exchange difference on translation of financial statements of overseas entities	1,080,234	536,441
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	1,080,234	536,441
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,385,025	1,819,792
Attributable to:		
Owners of the Company	3,321,626	2,158,728
Non-controlling interests	1,063,399	(338,936)
	4,385,025	1,819,792

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	19,877,668	13,349,306
Prepaid land premiums	15	2,284,270	1,422,127
Deposits for purchases of items of property, plant and equipment		290,502	625,669
Goodwill	16	1,074,240	1,020,635
Interests in associates	18	2,184,777	1,942,472
Available-for-sale investments	19	370	2,739
Intangible assets	20	38,388	37,349
Deferred tax assets	28	539,290	471,435
Total non-current assets		26,289,505	18,871,732
CURRENT ASSETS			
Inventories	21	19,038,228	15,966,257
Accounts and bills receivables	22	5,760,131	2,398,510
Prepayments, deposits and other receivables		5,176,754	6,308,185
Derivative financial instruments	23	514,878	305,622
Due from fellow subsidiaries	37	2,296,321	3,818,865
Due from related companies	37	264,275	262,133
Due from the ultimate holding company	37	5,296	370
Due from non-controlling shareholders of subsidiaries	37	167,417	30,901
Due from associates	18	1,174,228	958,686
Tax recoverable		159,469	275,874
Pledged deposits	24	14,052	118,219
Cash and cash equivalents	24	9,175,653	7,404,309
Total current assets		43,746,702	37,847,931
CURRENT LIABILITIES			
Accounts and bills payables	25	3,585,895	3,426,523
Other payables and accruals		6,391,372	3,778,451
Deferred income		85,836	48,019
Derivative financial instruments	23	12,492	830,598
Interest-bearing bank and other borrowings	26	24,071,217	19,767,214
Due to fellow subsidiaries	37	453,401	334,816
Due to the ultimate holding company	37	43	12,977
Due to an intermediate holding company	37	36,570	–
Due to related companies	37	64	280,103
Due to non-controlling shareholders of subsidiaries	37	31,183	5,433
Due to associates	18	9,726	18,694
Tax payable		255,502	125,545
Total current liabilities		34,933,301	28,628,373
NET CURRENT ASSETS		8,813,401	9,219,558
TOTAL ASSETS LESS CURRENT LIABILITIES		35,102,906	28,091,290

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	5,011,598	2,310,466
Convertible bonds	27	3,832,231	3,765,329
Due to non-controlling shareholders of subsidiaries	37	207,709	203,523
Deferred income		666,406	423,115
Deferred tax liabilities	28	274,937	213,166
Total non-current liabilities		9,992,881	6,915,599
Net assets		25,110,025	21,175,691
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	403,837	403,837
Reserves	31(a)	21,406,458	18,525,090
Proposed final dividend	12	153,458	157,496
		21,963,753	19,086,423
Non-controlling interests		3,146,272	2,089,268
Total equity		25,110,025	21,175,691

Yu Xubo
Director

Lv Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Notes	Attributable to owners of the Company											
		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 dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'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		–	–	–	–	–	–	–	(100)	(227,657)	(227,757)	–	(227,757)
Interim 2010 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

	Notes	Attributable to owners of the Company											
		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 dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011		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
Total comprehensive income for the year		–	–	–	–	–	–	953,672	2,367,954	–	3,321,626	1,063,399	4,385,025
Transfer from retained profits		–	–	–	–	–	206,846	–	(206,846)	–	–	–	–
Contribution from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	55,306	55,306
Acquisition of subsidiaries	32	–	–	–	–	–	–	–	–	–	–	13,504	13,504
Acquisition of non-controlling interests		–	–	(7,692)	–	–	–	–	–	–	(7,692)	(18,987)	(26,679)
Equity-settled share option arrangements	30	–	–	–	–	39,923	–	–	–	–	39,923	–	39,923
Dividends paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	(56,218)	(56,218)
Final 2010 dividend declared	12	–	–	–	–	–	–	–	–	(157,496)	(157,496)	–	(157,496)
Interim 2011 dividend declared	12	–	–	–	–	–	–	–	(319,031)	–	(319,031)	–	(319,031)
Proposed final 2011 dividend	12	–	–	–	–	–	–	–	(153,458)	153,458	–	–	–
At 31 December 2011		403,837	5,275,156*	4,747,007*	51,739*	77,965*	874,174*	2,667,821*	7,712,596*	153,458	21,963,753	3,146,272	25,110,025

* These reserve accounts comprise the consolidated reserves of HK$21,406,458,000 (2010: HK$18,525,090,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
		For the year ended 31 December	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,868,022	1,475,269
Adjustments for:			
Finance costs	7	888,658	376,878
Write-down of inventories to net realisable value	6	1,025,727	9,874
Provision for loss on non-cancellable purchase commitments	6	619,294	–
Impairment/(reversal of impairment) of receivables	6	6,465	(3,252)
Depreciation and amortisation	6	916,557	728,811
Losses on disposal of items of property, plant and equipment	6	23,760	8,093
Gain on disposal of an available-for-sale investment	5	(891)	–
Impairment of items of property, plant and equipment	6	70,261	–
Recognition of prepaid land premiums	6	45,828	31,219
Share of profits of associates		(169,848)	(352,955)
Interest income	5	(90,000)	(80,233)
Unrealised losses/(gains) on derivative financial instruments		(481,708)	512,831
Unrealised gains on foreign currency forward contracts		(8,437)	(1,241)
Gain on bargain purchase	5	(5,626)	(9,672)
Government grants	5	(524,795)	(753,835)
Equity-settled share option expense	30	39,923	7,242
		6,223,190	1,949,029
Increase in inventories		(3,735,481)	(8,557,499)
Increase in accounts and bills receivables		(3,141,692)	(400,979)
Decrease/(increase) in prepayments, deposits and other receivables		1,331,414	(2,407,000)
Decrease/(increase) in amounts due from fellow subsidiaries		1,670,241	(596,938)
Increase in amounts due from associates		(176,822)	(268,312)
Decrease/(increase) in amounts due from related companies		10,594	(198,723)
Increase in derivative financial instruments		(543,866)	(859,641)
Increase in an amount due from the ultimate holding company		(4,789)	(146)
Increase in amounts due from non-controlling shareholders of subsidiaries		(131,845)	(1,454)
Increase in accounts and bills payables		21,512	2,092,254
Increase in other payables and accruals		435,355	762,848
Increase in amounts due to fellow subsidiaries		99,515	198,106
Increase/(decrease) in an amount due to the ultimate holding company		(13,249)	12,755
Increase/(decrease) in amounts due to related companies		(286,817)	259,177
Decrease in amounts due to associates		(9,656)	(123,483)
Government grants received		471,609	730,929
Cash generated from/(used in) operations		2,219,213	(7,409,077)
Interest received		90,000	80,233
Interest paid		(788,308)	(334,367)
Income tax paid		(315,387)	(548,324)
Net cash flows from/(used in) operating activities		1,205,518	(8,211,535)

Consolidated Statement of Cash Flows

Year ended 31 December 2011

For the year ended 31 December

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in pledged deposits		107,367	(92,007)
Acquisition of subsidiaries	32	(135,775)	(153,343)
Dividends from associates		51,430	48,826
Acquisition of non-controlling interests		(26,679)	–
Proceeds from disposal of an available-for-sale investment		3,287	–
Proceeds from disposal of items of property, plant and equipment and intangible assets		8,435	18,610
Purchases of items of property, plant and equipment		(5,281,075)	(3,611,160)
Additions to prepaid land premiums	15	(781,521)	(348,221)
Receipt of government grants		398,906	383,598
Additions to intangible assets	20	(565)	(1,017)
Decrease/(increase) in loans to associates		(19,056)	7,399
Net cash flows used in investing activities		(5,675,246)	(3,747,315)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in amounts due to non-controlling shareholders of subsidiaries		–	71,131
New bank loans		90,795,979	57,013,975
New other loans		4,279,546	1,995,922
Repayments of bank loans		(86,316,111)	(48,252,153)
Repayments of other loans		(2,238,806)	(1,855,201)
Proceeds from issue of convertible bonds		–	3,793,932
Capital contribution from non-controlling shareholders		55,306	3,269
Dividends paid		(429,069)	(445,066)
Dividends paid to non-controlling shareholders of subsidiaries		(31,354)	(171,999)
Proceeds from exercise of share options		–	8,329
Proceeds from issue of shares		–	1,557,500
Share issue expenses		–	(32,877)
Interest paid		(27,583)	(27,815)
Net cash flows from financing activities		6,087,908	13,658,947
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,618,180	1,700,097
Cash and cash equivalents at beginning of year		7,404,309	5,515,280
Effect of foreign exchange rate changes, net		153,164	188,932
CASH AND CASH EQUIVALENTS AT END OF YEAR		9,175,653	7,404,309
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	8,287,393	6,320,684
Non-pledged time deposits with original maturity of less than three months when acquired	24	888,260	1,083,625
		9,175,653	7,404,309

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	83	166
Investments in subsidiaries	17	17,082,631	14,051,175
Total non-current assets		17,082,714	14,051,341
CURRENT ASSETS			
Due from subsidiaries	17	4,091,367	2,914,867
Prepayments, deposits and other receivables		578	496
Cash and cash equivalents	24	2,019,048	2,736,957
Total current assets		6,110,993	5,652,320
CURRENT LIABILITIES			
Other payables and accruals		191,921	146,437
Due to an intermediate holding company	37	36,489	–
Due to subsidiaries	17	3,755,134	3,793,917
Total current liabilities		3,983,544	3,940,354
NET CURRENT ASSETS		2,127,449	1,711,966
TOTAL ASSETS LESS CURRENT LIABILITIES		19,210,163	15,763,307
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	4,210,306	1,945,000
Total non-current liabilities		4,210,306	1,945,000
Net assets		14,999,857	13,818,307
EQUITY			
Issued capital	29	403,837	403,837
Reserves	31(b)	14,442,562	13,256,974
Proposed final dividend	12	153,458	157,496
Total equity		14,999,857	13,818,307

Yu Xubo
Director

Lv Jun
Director

Notes to the Financial Statements

31 December 2011

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 biochemical and biofuel products;
- processing and trading of rice;
- wheat processing; and
- production and sale of brewing materials.

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, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even 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.

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 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*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government on the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 37 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs

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

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

2.2 Changes in Accounting Policy and Disclosures (Continued)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs (Continued)

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.
- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 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*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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 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 or 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) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, 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

(d) 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.

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

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to proportionate a share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 will be 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 identifiable net 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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets

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 in those expense categories consistent with the function of the impaired asset.

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.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 Summary of Significant Accounting Policies (Continued)

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 comprise its purchase price and any directly attributable costs of bringing the assets 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 depreciates them accordingly.

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%–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. 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 the 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 operating leases net of any incentives received from the lessor 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.

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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, accounts and bills receivables, deposits 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 and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments 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 net changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies 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 finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. 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 revaluation 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments 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 investments 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 investments are stated at cost less any impairment losses.

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether where 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 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.

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 and all collateral has been realised or has been transferred to the Group.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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 other expenses in 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.

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 derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

The subsequent 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 include 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 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.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

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.

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 a 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 (bid 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; and option pricing models.

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, to hedge its foreign currency risk. 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 when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKAS 39 is recognised in the income statement in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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.

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.

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. Provision on the onerous contracts is recognised in the consolidated income statement accordingly.

2.4 Summary of Significant Accounting Policies (Continued)

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:

- when the deferred tax liability arises from the initial recognition of goodwill or 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, associates and joint ventures, when 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.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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) income from the rendering of services, in the period in which the services are rendered;

(d) 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;

(e) compensation income, when the right to receive payment has been established;

(f) proceeds from the sale of investments, on the transaction dates when the relevant contract notes are exchanged; and

(g) tax refunds, when the acknowledgement of refunds from the tax bureau has been received.

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.

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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 Summary of Significant Accounting Policies (Continued)

Employee benefits (Continued)

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.

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.

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.

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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies (Continued)

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.

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 2011, the deferred tax liabilities arising thereon amounted to HK$138,380,000 (2010: HK$138,380,000) (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 the PRC governing tax authorities, and accordingly no additional withholding tax was made in 2010 and 2011. 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 described 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 2011 was HK$1,074,240,000 (2010: HK$1,020,635,000). Further details are given 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 2011 was HK$969,544,000 (2010: HK$1,630,428,000). Further details are contained in note 28 to the financial statements.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in note 2.4 to the financial statements. The recoverable amount of the property, plant and equipment is the greater of the fair value less costs to sell and value in use, the calculations of which involve the use of estimates. Impairment of property, plant and equipment of HK$70,261,000 was recognised in the consolidated income statement for the year (2010: Nil). The carrying amount of property, plant and equipment as at 31 December 2011 was HK$19,877,668,000 (2010: HK$13,349,306,000).

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of accounts and other receivables and the timing of their recovery. The identification of impairment of receivables requires management judgement and estimation. Where the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying values of accounts and other receivables and the amount of impairment/write-back of impairment in the periods in which such estimates have been changed. Impairment of receivables of HK$6,465,000 (2010: reversal of impairment of receivables of HK$3,252,000) 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 2011 was HK$10,936,885,000 (2010: HK$8,706,695,000).

Impairment of inventories

Impairment of inventories is made based on the assessment of net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period. Significant management estimates are required in the estimates. Where the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying values of inventories and the amount of impairment/write-back of impairment in the periods in which such estimates have been changed. Impairment of inventories of HK$1,025,727,000 (2010: HK$9,874,000) was recognised in the consolidated income statement for the year. The aggregate carrying amount of inventories as at 31 December 2011 was HK$19,038,228,000 (2010: HK$15,966,257,000).

Notes to the Financial Statements

31 December 2011

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

Provision for loss on non-cancellable purchase commitments

Provision for loss on non-cancellable purchase commitments is recognised based on the estimates of the unavoidable costs of meeting the obligation under the contracts and the economic benefits expected to be received under them. Significant management estimates are required in the estimates. Where the actual outcome or expectation in future is different from the original estimates, such differences will impact on the provision and the profit or loss in the periods in which such estimates have been changed. Provision for loss on non-cancellable purchase commitments of HK$619,294,000 (2010: Nil) was recognised in the consolidated income statement for the year.

4. Operating Segment Information

For management purpose, 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 biochemical and biofuel segment engages in the production and sale of biochemical and biofuel and related products;

(c) the rice processing and trading segment engages in the processing and trading of rice;

(d) the wheat processing segment engages in the production and sale of flour products and related products;

(e) the brewing materials segment engages in the processing and trading of malt; and

(f) the corporate and others segment comprises the Group's feed processing business and 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/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, gain on bargain purchase, finance costs 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 transactions with a single external customer amounted to 10% or more of the Group's total revenue (2010: Nil).

4. Operating Segment Information (Continued)

Year ended 31 December 2011

	Oilseeds processing HK$'000	Biochemical and biofuel HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:								
Sales to external customers	55,521,804	12,892,561	6,483,669	5,406,456	1,709,446	335,923	–	82,349,859
Intersegment sales	586,100	138,420	–	4,309	–	–	(728,829)	–
Other revenue	1,100,414	540,243	60,435	29,188	66,178	82,900	(9,952)	1,869,406
Segment results	3,324,186	979,365	(149,287)	191,636	230,350	(85,044)	–	4,491,206
Interest income								90,000
Gain on bargain purchase								5,626
Finance costs								(888,658)
Share of profits of associates								169,848
Profit before tax								3,868,022
Income tax expense								(563,231)
Profit for the year								3,304,791
Assets and liabilities								
Segment assets	31,140,878	12,762,231	7,792,032	3,161,646	2,722,020	14,281,728	(13,897,569)	57,962,966
Unallocated assets								12,073,241
Total assets								70,036,207
Segment liabilities	10,894,737	5,110,670	5,129,372	2,180,498	1,091,719	955,017	(13,897,569)	11,464,444
Unallocated liabilities								33,461,738
Total liabilities								44,926,182
Other segment information:								
Depreciation and amortisation#	329,698	404,779	63,935	61,139	98,714	4,120	–	962,385
Impairment losses recognised/(reversed) in the consolidated income statement	5,224	36,802	34,940	(339)	99	–	–	76,726
Capital expenditure*	2,934,399	1,851,911	1,769,857	630,573	99,419	301,189	–	7,587,348

4. Operating Segment Information (Continued)

Year ended 31 December 2010

	Oilseeds processing HK$'000	Biochemical and biofuel HK$'000	Rice processing and trading HK$'000	Wheat processing HK$'000	Brewing materials HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:								
Sales to external customers	32,992,054	10,131,397	4,319,574	4,394,195	1,654,480	–	–	53,491,700
Intersegment sales	75,698	45,943	533	1,232	–	–	(123,406)	–
Other revenue	438,000	711,226	89,786	21,826	48,288	–	(14,581)	1,294,545
Segment results	239,088	918,246	(18,506)	150,123	243,173	(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	9,799,704	5,901,967	2,859,422	2,675,718	10,940,130	(11,039,424)	46,507,354
Unallocated assets								10,212,309
Total assets								56,719,663
Segment liabilities	8,838,763	4,693,130	3,568,198	1,823,926	1,152,927	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	349,894	41,802	51,972	78,969	2,483	–	760,030
Impairment losses reversed in the consolidated income statement	(2,613)	(194)	–	(445)	–	–	–	(3,252)
Capital expenditure*	2,535,704	1,026,770	486,962	114,947	347,952	9,881	–	4,522,216

Depreciation and amortisation consists of depreciation of property, plant and equipment, recognition of prepaid land premiums 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 the Group's other income and gains is as follows:

	Notes	2011 HK$'000	2010 HK$'000
Other income			
Interest income		90,000	80,233
Government grants*		524,795	753,835
Compensation income		4,862	4,251
Tax refunds		63,990	92,902
Others		44,088	16,844
		727,735	948,065
Gains			
Gains on disposal of raw materials, by-products and scrap items		106,804	59,227
Logistics service and storage income		29,751	7,744
Realised and unrealised fair value gains on foreign currency forward contracts, net	23	11,785	5,432
Gains on foreign exchange, net		1,081,643	351,058
Gain on bargain purchase	32	5,626	9,672
Gain on disposal of an available-for-sale investment		891	–
Others		797	3,252
		1,237,297	436,385
		1,965,032	1,384,450

* 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$303,598,000 (2010: HK$544,025,000) 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):

	Notes	2011 HK$'000	2010 HK$'000
Cost of inventories sold or services provided		78,001,695	48,321,063
Write-down of inventories to net realisable value		1,025,727	9,874
Provision for loss on non-cancellable purchase commitments*		619,294	–
Realised and unrealised fair value losses/(gains) of derivative financial instruments, net	23	(4,080,737)	1,949,662
Cost of sales		75,565,979	50,280,599
Auditors' remuneration		5,632	5,665
Depreciation	14	914,769	727,307
Amortisation of intangible assets	20	1,788	1,504
Minimum lease payments under operating leases in respect of land and buildings		51,008	50,823
Recognition of prepaid land premiums	15	45,828	31,219
Employee benefit expenses (excluding directors' remuneration in note 8):			
Wages and salaries		1,425,914	912,176
Pension scheme contributions**		123,426	91,811
Equity-settled share option expense		36,784	6,274
		1,586,124	1,010,261
Losses on disposal of items of property, plant and equipment		23,760	8,093
Impairment of items of property, plant and equipment	14	70,261	–
Reversal of impairment of accounts receivable	22	(513)	(1,966)
Impairment/(reversal of impairment) of other receivables		6,978	(1,286)

* It is the Group's usual practice to enter into purchase commitments of raw materials with delivery of raw materials at a specified future date. As at 31 December 2011, the Group had certain purchase commitments of raw materials (the "Purchase Contracts") on which the Group expects that the unavoidable costs of meeting obligations under the Purchase Contracts will exceed the economic benefits expected to be received from the Purchase Contracts. The expected loss arising from the aforesaid Purchase Contracts of HK$619,294,000 (2010: Nil) is estimated by the directors with reference to the expected selling prices of the corresponding products, and a provision thereon has been made in the consolidated income statement for the year ended 31 December 2011. The directors of the Company consider that these losses are resulted from the Group's ordinary course of business.

** At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil).

7. Finance Costs

An analysis of finance costs is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Interest on:		
Bank loans wholly repayable within five years	749,609	321,879
Bank loans wholly repayable over five years	1,627	2,173
Loans from fellow subsidiaries	25,986	38,130
Loan from an intermediate holding company	36,489	–
Convertible bonds	102,530	42,511
Total interest expenses	916,241	404,693
Less: Interest capitalised	(27,583)	(27,815)
	888,658	376,878

8. Directors' Remuneration

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

	Group	
	2011 HK$'000	2010 HK$'000
Fees:		
Independent non-executive directors	1,140	1,080
Executive directors and non-executive directors	400	400
	1,540	1,480
Other emoluments:		
Salaries, allowances and benefits in kind	3,316	3,463
Discretionary bonuses	2,210	2,278
Equity-settled share option expense	3,139	968
Pension scheme contributions	109	99
	8,774	6,808
	10,314	8,288

During the year and in prior years, certain directors were granted share options, 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 year is included in the above directors' remuneration disclosures.

8. Directors' Remuneration (Continued)

(a) Independent non-executive directors

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

	2011 HK$'000	2010 HK$'000
Mr. Lam Wai Hon, Ambrose	380	360
Mr. Victor Yang	380	360
Mr. Patrick Vincent Vizzone	380	360
	1,140	1,080

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2011						
Executive directors:						
Mr. Yu Xubo	–	1,200	800	555	37	2,592
Mr. Lv Jun	–	960	640	509	36	2,145
Mr. Yue Guojun	–	1,156	770	509	36	2,471
	–	3,316	2,210	1,573	109	7,208
Non-executive directors:						
Mr. Ning Gaoning	200	–	–	555	–	755
Mr. Chi Jingtao*	25	–	–	50	–	75
Mr. Ma Wangjun	100	–	–	505	–	605
Mr. Wang Zhiying*	75	–	–	456	–	531
	400	–	–	1,566	–	1,966
	400	3,316	2,210	3,139	109	9,174

* Mr. Chi Jingtao resigned as a non-executive director on 30 March 2011 and Mr. Wang Zhiying was appointed as a non-executive director on 30 March 2011.

8. Directors' Remuneration (Continued)

(b) Executive directors and non-executive directors (Continued)

	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. Lv 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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2010: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2010: two) non-director, highest paid employees for the year are as follows:

	Group 2011 HK$'000	Group 2010 HK$'000
Salaries, allowances and benefits in kind	2,041	1,933
Discretionary bonuses	962	922
Equity-settled share option expense	863	260
Pension scheme contributions	73	42
	3,939	3,157

9. Five Highest Paid Employees (Continued)

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

	Number of employees	
	2011	2010
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	2	2
HK$2,000,001 to HK$2,500,000	–	–
	2	2

During the year and in prior years, share options were granted to two non-director, highest paid employees in respect of their services to the Group, further 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 year is 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% (2010: 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 countries (or jurisdictions) in which the Group operates.

	2011 HK$'000	2010 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	116,579	234,600
Underprovision in prior years	2,825	–
Current – Mainland China		
Charge for the year	500,337	225,234
Overprovision in prior years	(10,479)	(15,285)
Tax rebates and credits	(47,356)	(22,424)
Deferred tax (note 28)	1,325	(230,207)
Total tax charge for the year	563,231	191,918

10. Income Tax Expense (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or 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 – 2011

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	1,361,665		2,506,357		3,868,022	
Tax at the statutory tax rate	224,675	16.5	626,589	25.0	851,264	22.0
Lower tax rate for specific provinces or enacted by local authority *	–	–	(11,386)	(0.5)	(11,386)	(0.3)
Loss not subject to tax due to concessions **	–	–	25,901	1.0	25,901	0.7
Investment tax credit utilised and tax rebate received during the year***	–	–	(47,356)	(1.9)	(47,356)	(1.2)
Profits attributable to associates	(25,360)	(1.9)	(4,149)	(0.2)	(29,509)	(0.8)
Income not subject to tax	(27,269)	(2.0)	(162,894)	(6.5)	(190,163)	(4.9)
Effect of withholding tax at 5% or 10% on the distribution of profits of the Group's PRC subsidiaries	–	–	9,103	0.4	9,103	0.2
Expenses not deductible for tax	50,145	3.7	27,160	1.1	77,305	2.0
Effect on deferred tax of change in rates	–	–	(2,014)	(0.1)	(2,014)	(0.1)
Adjustment in respect of current tax of previous periods	2,825	0.2	(10,479)	(0.4)	(7,654)	(0.2)
Tax losses utilised during the year	–	–	(197,388)	(7.9)	(197,388)	(5.1)
Tax losses not recognised	–	–	85,128	3.4	85,128	2.2
Tax charge at the Group's effective rate	225,016	16.5	338,215	13.5	563,231	14.6

10. Income Tax Expense (Continued)

Group – 2010

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

* 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 24%.

** 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 or loss generated from the 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 tax rebate of the year was the refund of prior year's income tax of one subsidiary from a local tax authority in accordance with the most recent tax rule on tax exemption on the profit generated from the processing of certain agricultural products.

The share of tax attributable to associates amounting to HK$31,636,000 (2010: HK$37,288,000) 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 2011 includes a profit of HK$1,618,154,000 (2010: HK$1,990,913,000) which has been dealt with in the financial statements of the Company (note 31(b)).

12. Dividends

	2011 HK$'000	2010 HK$'000
Interim – 7.9 HK cents (2010: 6.6 HK cents) per ordinary share	319,031	266,527
Proposed final –3.8 HK cents (2010: 3.9 HK cents) per ordinary share	153,458	157,496
	472,489	424,023

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 the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of 4,038,369,839 ordinary shares (2010: 3,937,697,034 ordinary shares) in issue during the year.

The calculation of the 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.

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

	2011 HK$'000	2010 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	2,367,954	1,701,644
Interest on convertible bonds (note 7)	102,530	42,511
Profit attributable to ordinary equity holders of the Company before interest on convertible bonds	2,470,484	1,744,155

	2011	2010
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	4,038,369,839	3,937,697,034
Effect of dilution – weighted average number of ordinary shares:		
Share options	8,428,289	12,334,243
Convertible bonds	344,050,618	145,596,869
	4,390,848,746	4,095,628,146

14. Property, Plant and Equipment

Group

	Buildings HK$'000	Machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011				
At 31 December 2010 and at 1 January 2011:				
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
At 1 January 2011, net of accumulated depreciation and impairment	4,995,637	5,371,132	2,982,537	13,349,306
Additions	76,066	702,895	5,767,884	6,546,845
Acquisition of subsidiaries (note 32)	78,908	121,799	90	200,797
Disposals	(7,918)	(24,036)	–	(31,954)
Depreciation provided during the year (note 6)	(247,567)	(667,202)	–	(914,769)
Impairment (note 6)	(42,312)	(27,949)	–	(70,261)
Transfers	3,263,827	1,922,922	(5,186,749)	–
Exchange realignment	323,583	315,912	158,209	797,704
At 31 December 2011, net of accumulated depreciation and impairment	8,440,224	7,715,473	3,721,971	19,877,668
At 31 December 2011:				
Cost	9,874,587	11,851,264	3,721,971	25,447,822
Accumulated depreciation and impairment	(1,434,363)	(4,135,791)	–	(5,570,154)
Net carrying amount	8,440,224	7,715,473	3,721,971	19,877,668

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 2010				
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)

Company

	Office equipment HK$'000
31 December 2011	
At 31 December 2010 and 1 January 2011:	
Cost	2,898
Accumulated depreciation	(2,732)
Net carrying amount	166
At 1 January 2011, net of accumulated depreciation	166
Depreciation provided during the year	(83)
At 31 December 2011, net of accumulated depreciation	83
At 31 December 2011:	
Cost	2,898
Accumulated depreciation	(2,815)
Net carrying amount	83
31 December 2010	
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

As at 31 December 2011, certain of the Group's property, plant and equipment with a net carrying amount of approximately HK$298,323,000 (2010: HK$673,473,000) were pledged to secure banking facilities granted to the Group (note 26).

As at 31 December 2011, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net carrying amount of approximately HK$1,967,228,000 (2010: HK$772,109,000) 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	
	2011 HK$'000	2010 HK$'000
Carrying amount at 1 January	1,453,706	1,061,575
Additions	781,521	348,221
Acquisition of subsidiaries (note 32)	57,620	34,830
Recognised during the year (note 6)	(45,828)	(31,219)
Exchange realignment	87,387	40,299
Carrying amount at 31 December	2,334,406	1,453,706
Current portion included in prepayments, deposits and other receivables	(50,136)	(31,579)
Non-current portion	2,284,270	1,422,127

The leasehold land is situated in Mainland China and is held under medium term lease.

As at 31 December 2011, certain land use rights of the Group with a net carrying amount of HK$83,855,000 (2010: HK$100,450,000) were pledged to secure bank loans granted to the Group (note 26).

As at 31 December 2011, certificates of land use rights in respect of certain land of the Group in Mainland China with an aggregate net carrying amount of HK$39,476,000 (2010: HK$62,877,000) 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

	HK$'000
31 December 2011	
At 31 December 2010 and 1 January 2011:	
Cost	1,020,635
Accumulated impairment	–
Net carrying amount	1,020,635
Cost at 1 January 2011, net of accumulated impairment	1,020,635
Acquisition of subsidiaries (note 32)	52,248
Exchange realignment	1,357
At 31 December 2011, net of accumulated impairment	1,074,240
At 31 December 2011:	
Cost	1,074,240
Accumulated impairment	–
Net carrying amount	1,074,240
31 December 2010	
At 1 January 2010 and 31 December 2010:	
Cost	1,020,635
Accumulated impairment	–
Net carrying amount	1,020,635

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 processing and trading cash-generating unit; and
- Biochemical and biofuel cash-generating unit.

Oilseeds processing cash-generating unit

The recoverable amount of the oilseeds processing cash-generating unit has been determined based on a value in use calculation using 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% (2010: 13%). The growth rate used to extrapolate the cash flows beyond the five-year period is zero (2010: a negative growth rate of 2%).

16. Goodwill (Continued)

Impairment testing of goodwill (Continued)

Rice processing and trading cash-generating unit

The recoverable amount of the rice processing and trading cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 12% (2010: 14%). The growth rate used to extrapolate the cash flows beyond the five-year period is zero (2010: a negative growth rate of 2%).

Biochemical and biofuel cash-generating unit

The recoverable amount of the biochemical and biofuel cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection is 12% (2010: 13%). The growth rate used to extrapolate the cash flows beyond the five-year period is zero (2010: a negative growth rate of 2%).

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

	2011 HK$'000	2010 HK$'000
Oilseeds processing	529,408	476,817
Rice processing and trading	129,132	128,118
Biochemical and biofuel	412,517	412,517
Others	3,183	3,183
	1,074,240	1,020,635

Key assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2011 and 31 December 2010. 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 after 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 the key assumptions on discount rates and raw materials price inflation are consistent with external information sources.

17. Investments in Subsidiaries

	Company	
	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	6,138,967	6,138,967
Loans to subsidiaries	10,943,664	7,912,208
	17,082,631	14,051,175

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$3,856,872,000 (2010: HK$2,798,353,000), which are financing in nature and repayable within one year, the amounts due from subsidiaries of HK$234,495,000 (2010: HK$116,514,000) 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 2011 included in the Company's current liabilities are unsecured, interest-free and have no fixed term of repayment.

Particulars of the Company's principal subsidiaries as at 31 December 2011 are set out in note 38 to the financial statements.

18. Interests in Associates

	Group	
	2011 HK$'000	2010 HK$'000
Share of net assets	2,013,800	1,768,604
Goodwill on acquisition	28,356	28,356
	2,042,156	1,796,960
Loans to associates	142,621	145,512
	2,184,777	1,942,472

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 directors, these loans are considered as quasi-equity investments in the associates.

The balances with associates included in current assets and current liabilities are unsecured, interest-free and repayable within one year.

18. Interests in Associates (Continued)

Impairment testing of goodwill

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

- Oilseeds processing cash-generating unit; and
- biochemical and biofuel cash-generating unit.

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

	2011 HK$'000	2010 HK$'000
Oilseeds processing	16,642	16,642
Biochemical and biofuel	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.

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

	2011 HK$'000	2010 HK$'000
Assets	27,752,724	20,556,382
Liabilities	21,813,912	15,144,780
Revenue	26,360,695	20,368,429
Profit	484,899	950,520

Particulars of the Group's principal associates as at 31 December 2011 are set out in note 39 to the financial statements.

19. Available-for-sale Investments

	Group	
	2011 HK$'000	2010 HK$'000
Unlisted equity investments, at cost		
Elsewhere	370	2,739

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 2011			
Cost at 1 January 2011, net of accumulated amortisation	15,566	21,783	37,349
Additions	–	565	565
Disposal	(241)	–	(241)
Amortisation provided during the year (note 6)	–	(1,788)	(1,788)
Exchange realignment	700	1,803	2,503
At 31 December 2011	16,025	22,363	38,388
At 31 December 2011:			
Cost	16,025	29,748	45,773
Accumulated amortisation	–	(7,385)	(7,385)
Net carrying amount	16,025	22,363	38,388
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

21. Inventories

	Group	
	2011 HK$'000	2010 HK$'000
Raw materials	11,946,778	11,960,954
Work in progress	1,472,630	386,230
Finished goods	5,618,820	3,619,073
	19,038,228	15,966,257

As at 31 December 2011, certain of the Group's inventories with a net carrying amount of HK$268,198,000 (2010: HK$176,284,000) were pledged to secure bank loans granted to the Group (note 26).

22. Accounts and Bills Receivables

	Group	
	2011 HK$'000	2010 HK$'000
Accounts and bills receivables	5,767,913	2,406,425
Impairment	(7,782)	(7,915)
	5,760,131	2,398,510

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 180 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. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivable balances. Accounts and bills receivables are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively.

An aged analysis of the accounts and bills receivables as 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	
	2011 HK$'000	2010 HK$'000
Within 3 months	3,650,824	2,147,725
3 to 12 months	2,107,835	249,861
1 to 2 years	1,472	553
2 to 3 years	–	371
	5,760,131	2,398,510

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

	Group	
	2011 HK$'000	2010 HK$'000
At 1 January	7,915	14,361
Reversal of impairment losses (note 6)	(513)	(1,966)
Amount written off as uncollectible	–	(4,861)
Exchange realignment	380	381
At 31 December	7,782	7,915

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of HK$7,782,000 (2010: HK$7,915,000) with a carrying amount of HK$7,782,000 (2010: HK$7,915,000).

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.

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	
	2011 HK$'000	2010 HK$'000
Neither past due nor impaired	5,712,492	2,334,241
Less than 1 month past due	28,979	27,154
1 to 3 months past due	8,575	23,572
More than 3 months but less than 12 months past due	8,792	12,636
More than 1 year past due	1,293	907
	5,760,131	2,398,510

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.

23. Derivative Financial Instruments

	Group 2011		Group 2010	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
Commodity futures contracts	506,286	12,492	304,359	830,598
Foreign currency forward contracts	8,592	–	1,263	–
	514,878	12,492	305,622	830,598

The Group has entered into various commodity futures contracts to manage its price exposures in future purchases or sales of soybean, soybean meal, soybean oil and corn. The commodity futures are not designated for hedge purpose and are measured at fair value through profit or loss. Net fair value gain on derivative financial instruments of HK$4,080,737,000 (2010: loss of HK$1,949,662,000) was recognised to the income statement during the year (note 6).

In addition, the Group has entered into various foreign currency forward contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purpose and are measured at fair value through profit or loss. Net fair value gain of such currency derivatives amounting to HK$11,785,000 (2010: HK$5,432,000) was credited to the income statement during the year (note 5).

24. Cash and Cash Equivalents and Pledged Deposits

		Group		Company	
	Notes	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Cash and bank balances		8,287,393	6,320,684	1,155,597	1,675,975
Time deposits		902,312	1,201,844	863,451	1,060,982
		9,189,705	7,522,528	2,019,048	2,736,957
Less: Pledged time deposits					
– bank borrowings	26	–	(56,269)	–	–
– bills payable	25	(14,052)	(61,950)	–	–
		(14,052)	(118,219)	–	–
Cash and cash equivalents		9,175,653	7,404,309	2,019,048	2,736,957

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$6,887,234,000 (2010: HK$3,941,849,000). 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 as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Within 3 months	3,534,547	3,187,825
3 to 12 months	40,938	230,150
1 to 2 years	5,462	4,559
Over 2 years	4,948	3,989
	3,585,895	3,426,523

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

An amount of HK$61,162,000 included in bills payable is due to a fellow subsidiary (2010: Nil).

As at 31 December 2011, certain of the Group's bills payable are secured by time deposits of the Group with a carrying amount of HK$14,052,000 (2010: HK$61,950,000) (note 24).

26. Interest-Bearing Bank and Other Borrowings

Group

	2011			2010		
	Effective contractual interest rate (%)	Maturity	HK$'000	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	5.80–7.05	2012	230,044	2.57–5.96	2011	266,082
Bank loans – unsecured	0.82–7.22	2012	23,489,625	0.65–5.56	2011	19,007,537
Other loans – unsecured	6.10–6.31	2012	351,548	4.37	2011	493,595
			24,071,217			19,767,214
Non-current						
Bank loans – unsecured	6.35–6.65, LIBOR+1%	2013–2019	2,607,743	4.86–5.53, LIBOR+1%	2012–2016	2,202,905
Bank loans – secured	5.56–7.05	2013–2019	143,549	5.18–5.76	2012–2015	107,561
Other loans – unsecured	3.4	2014	2,260,306			–
			5,011,598			2,310,466
			29,082,815			22,077,680

Company

	2011			2010		
	Effective contractual interest rate (%)	Maturity	HK$'000	Effective contractual interest rate (%)	Maturity	HK$'000
Non-current						
Bank loans – unsecured	LIBOR+1%	2014–2015	1,950,000	LIBOR+1%	2014–2015	1,945,000
Other loans – unsecured	3.4	2014	2,260,306			–
			4,210,306			1,945,000

26. Interest-Bearing Bank and Other Borrowings (Continued)

Group

	2011 HK$'000	2010 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	23,719,669	19,273,619
In the second year	150,487	217,417
In the third to fifth years, inclusive	2,546,068	2,045,597
Beyond five years	54,737	47,452
	26,470,961	21,584,085
Other loans repayable:		
Within one year or on demand	351,548	493,595
In the third to fifth years, inclusive	2,260,306	–
	2,611,854	493,595
	29,082,815	22,077,680

Company

	2011 HK$'000	2010 HK$'000
Analysed into:		
Bank loans repayable in the third to fifth years, inclusive	1,950,000	1,945,000
Other loans repayable in the third to fifth years, inclusive	2,260,306	–
	4,210,306	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$298,323,000 (2010: HK$673,473,000) (note 14);

(ii) certain land use rights of the Group with a net carrying amount of HK$83,855,000 (2010: HK$100,450,000) (note 15);

(iii) certain inventories of the Group with a net carrying amount of approximately HK$268,198,000 (2010: HK$176,284,000) (note 21); and

(iv) time deposits of the Group with carrying amount of nil (2010: HK$56,269,000) (note 24).

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

(c) Except for bank and other borrowings of HK$19,298,358,000 (2010: HK$13,760,451,000) which are denominated in United States dollars, all other borrowings are denominated in RMB.

(d) The other loans represented loans from a fellow subsidiary and an intermediate holding company.

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. Pursuant to the terms and conditions of the convertible bonds, the conversion price has been adjusted from HK$11.375 per share to HK$11.248 per share with effect from 10 June 2011 upon the Company's shareholders approval on the final dividend in respect of the financial year ended 31 December 2010. And the conversion price has been further adjusted from HK$11.248 per share to HK$11.110 per share with effect from 17 September 2011 upon the declaration of interim dividend in respect of the six-month period ended 30 June 2011.

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 fulfilling certain predetermined conditions, the bonds are redeemable in whole 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 2010 have been split into the liability and equity components, as follows:

	Group HK$'000
Nominal value of convertible bonds issued during 2010	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

27. Convertible Bonds (Continued)

The movement of the liability component and the equity component of the convertible bonds issued in 2010 were as follows:

Group

	Liability component of the convertible bonds HK$'000	Equity component of the convertible bonds HK$'000
At 1 January 2010	–	–
Upon issuance on 2 August 2010	3,742,193	51,739
Interest expense	42,511	–
At 31 December 2010 and 1 January 2011	3,784,704	51,739
Interest expense	102,530	–
Interest paid	(38,750)	–
At 31 December 2011	3,848,484	51,739
Analysed into:		
Current liabilities included in other payables	16,253	
Non-current liabilities included in convertible bonds	3,832,231	

28. Deferred Tax

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

Deferred tax assets

Group

	Provision against inventories and non-cancellable purchase contracts 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 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
At 31 December 2010 and 1 January 2011	2,515	6,324	140,091	179,808	142,697	471,435
Deferred tax credited/ (charged) to the income statement during the year (note 10)	399,444	1,233	(141,786)	(167,939)	(45,594)	45,358
Exchange realignment	10,028	344	3,431	4,752	3,942	22,497
Gross deferred tax assets at 31 December 2011	411,987	7,901	1,736	16,621	101,045	539,290

28. Deferred Tax (Continued)

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation HK$'000	Government grants HK$'000	Unrealised gains on derivative financial instruments HK$'000	Withholding taxes HK$'000	Others HK$'000	Total HK$'000
At 1 January 2010	5,363	18,257	204	143,235	29,683	196,742
Acquisition of subsidiaries (note 32)	–	–	–	–	6,393	6,393
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
Exchange realignment	156	705	154	–	101	1,116
At 31 December 2010 and 1 January 2011	3,770	23,010	8,771	138,380	39,235	213,166
Acquisition of subsidiaries (note 32)	–	–	–	–	12,725	12,725
Deferred tax (credited)/ charged to the income statement during the year (note 10)	(1,666)	(23,567)	43,536	–	28,380	46,683
Exchange realignment	146	557	1,513	–	147	2,363
Gross deferred tax liabilities at 31 December 2011	2,250	–	53,820	138,380	80,487	274,937

The Group has tax losses arising in Mainland China of HK$969,544,000 (2010: HK$1,630,428,000) 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. 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

	Note	2011 HK$'000	2010 HK$'000
Authorised: 10,000,000,000 (2010: 10,000,000,000) ordinary shares of HK$0.1 each	(i)	1,000,000	1,000,000
Issued and fully paid: 4,038,369,839 (2010: 4,038,369,839) ordinary shares of HK$0.1 each		403,837	403,837

The following changes in the Company's issued share capital took place during the year ended 31 December 2010:

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
At 1 January 2010		3,858,584,839	385,858
New share subscription	(ii)	178,000,000	17,800
Share options exercised	(iii)	1,785,000	179
As at 31 December 2010 and 31 December 2011		4,038,369,839	403,837

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 ended 31 December 2010, 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 expense, of HK$1,557,500,000. The placing and the subscription were completed on 2 August 2010.

(iii) During the year ended 31 December 2010, the subscription rights attaching to 1,785,000 share options were exercised at the subscription price of HK$4.666 per share (note 30), resulting in the issue of 1,785,000 shares of HK$0.1 each for a total cash consideration, before issue expenses, of HK$8,328,810.

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.

On 7 August 2007, a total of 27,600,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year (the "2007 Options"). The 2007 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 2007 Options were outstanding under the Scheme during the year:

	2011		2010	
	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	24,021	4.666	25,844
Forfeited during the year	4.666	(442)	4.666	(38)
Exercised during the year	4.666	–	4.666	(1,785)
At 31 December	4.666	23,579	4.666	24,021

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 2007 Options had been modified.

30. Share Option Scheme (Continued)

The vesting periods, exercise price and exercise periods of the 2007 Options outstanding as at 31 December 2011 and 2010 are as follows:

2011 Number of options granted to Directors '000	Employees '000	Total '000	Vesting period (d-m-yyyy)	Exercise price per share HK$	Exercise period (d-m-yyyy)
530	2,051	2,581	7-8-2007 to 6-8-2009	4.666	7-8-2009 to 6-8-2014
660	4,630	5,290	7-8-2007 to 6-8-2010	4.666	7-8-2010 to 6-8-2014
660	4,576	5,236	7-8-2007 to 6-8-2011	4.666	7-8-2011 to 6-8-2014
660	4,576	5,236	7-8-2007 to 6-8-2012	4.666	7-8-2012 to 6-8-2014
660	4,576	5,236	7-8-2007 to 6-8-2013	4.666	7-8-2013 to 6-8-2014
3,170	20,409	23,579			

2010 Number of options granted to Directors '000	Employees '000	Total '000	Vesting period (d-m-yyyy)	Exercise price per share HK$	Exercise period (d-m-yyyy)
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			

On 31 March 2011, a total of 45,300,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year (the "2011 Options"). The 2011 Options had an exercise price of HK$8.720 per share and an exercise period from 31 March 2013 to 30 March 2018. The closing price of the Company's share at the date of grant was HK$8.720 per share. None of the 2011 Options were exercised or forfeited during the year.

30. Share Option Scheme (Continued)

The vesting periods, exercise price and exercise periods of the 2011 Options outstanding as at 31 December 2011 are as follows:

2011 Number of options granted to Directors '000	Employees '000	Total '000	Vesting period (d-m-yyyy)	Exercise price per share HK$	Exercise period (d-m-yyyy)
680	8,380	9,060	31-3-2011 to 30-3-2013	8.720	31-3-2013 to 30-3-2018
680	8,380	9,060	31-3-2011 to 30-3-2014	8.720	31-3-2014 to 30-3-2018
680	8,380	9,060	31-3-2011 to 30-3-2015	8.720	31-3-2015 to 30-3-2018
680	8,380	9,060	31-3-2011 to 30-3-2016	8.720	31-3-2016 to 30-3-2018
680	8,380	9,060	31-3-2011 to 30-3-2017	8.720	31-3-2017 to 30-3-2018
3,400	41,900	45,300			

The fair values of the 2007 Options and 2011 Options were approximately HK$48,459,000 (including an additional fair value of approximately HK$2,759,000 on the Modification Date) and HK$173,616,000, respectively, and the Group recognised share option expenses of HK$39,923,000 during the year (2010: HK$7,242,000).

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

	2011 Options	2007 Options
Date of grant/Modification Date	31 March 2011	25 May 2010
Dividend yield (%)	1.43	1.5
Expected volatility (%)	47.49	55.20
Historical volatility (%)	47.49	55.20
Risk-free interest rate (%)	2.369	1.320
Expected life of options (year)	7.0	4.2
Closing share price (HK$ per share)	8.72	8.47

The expected life of the options is determined with reference to the vesting term and original contractual term of the Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 68,879,000 (2010: 24,021,000) 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 68,879,000 (2010: 24,021,000) additional ordinary shares of the Company and additional share capital of HK$6,887,900 (2010: HK$2,402,100) and share premium of HK$498,147,714 (2010: HK$109,679,886) (before issue expenses).

At the date of the approval of these financial statements, the shares issuable from the above outstanding share options represented approximately 1.7% (2010: 0.59%) 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 contributed surplus mainly represents the excess of the nominal value of the shares 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 which are established in the PRC has been transferred to reserve funds which are restricted as to use.

(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 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 final 2009 dividend		–	–	–	(100)	(100)
Interim 2010 dividend	12	–	–	–	(266,527)	(266,527)
Proposed final 2010 dividend	12	–	–	–	(157,496)	(157,496)
At 31 December 2010 and at 1 January 2011		5,275,156	5,689,788	38,042	2,253,988	13,256,974
Total comprehensive income for the year		–	–	–	1,618,154	1,618,154
Equity-settled share option arrangements	30	–	–	39,923	–	39,923
Interim 2011 dividend	12	–	–	–	(319,031)	(319,031)
Proposed final 2011 dividend	12	–	–	–	(153,458)	(153,458)
At 31 December 2011		5,275,156	5,689,788	77,965	3,399,653	14,442,562

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 combinations for the year ended 31 December 2011

(a) During current year, the Group acquired the 100% equity interest in Qinzhou Huagang Oils Co., Ltd.* ("Qinzhou Huagang") from a third party at a cash consideration of approximately HK$134,806,000. Qinzhou Huagang is engaged in the production and sale of edible oil.

The fair values of the identifiable assets and liabilities of Qinzhou Huagang as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	176,524
Prepaid land premiums	55,613
Prepayments, deposits and other receivables	7,627
Other payables and accruals	(143,975)
Deferred tax liabilities	(12,217)
Total identifiable net assets at fair value	83,572
Goodwill on acquisition	51,234
	134,806
Satisfied by cash	134,806

An analysis of the cash flows in respect of the acquisition of Qinzhou Huagang is as follows:

	HK$'000
Cash consideration	(134,806)
Cash and cash equivalents acquired	–
Net outflow of cash and cash equivalents in respect of the acquisition of Qinzhou Huagang	(134,806)

During the year, Qinzhou Huagang generated revenue and a net loss of approximately HK$12,167,000 and HK$3,706,000, respectively. Since the acquisition date, Qinzhou Huagang is under construction. It contributed no revenue to the Group and contributed a net loss of approximately HK$12,745,000 to the Group's consolidated profit for the year.

* The English name of this company referred in these financial statements represent management's best effort to translate the Chinese name of this company and is for identification purpose only, as no English name has been registered.

32. Business Combinations (Continued)

Business combinations for the year ended 31 December 2011 (Continued)

(b) During current year, the Group acquired the 51% equity interest in COFCO Bafang Rice (Jingshan) Co., Ltd.* ("Jingshan") from a fellow subsidiary at a cash consideration of approximately HK$6,449,000. Jingshan is engaged in rice processing and trading.

The Group has elected to measure the non-controlling interest in Jingshan at the non-controlling interest's proportionate share of Jingshan's identifiable net assets.

The fair values of the identifiable assets and liabilities of Jingshan as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	13,323
Prepaid land premiums	2,007
Inventories	124,397
Accounts and bills receivables	13,034
Prepayments, deposits and other receivables	12,468
Cash and cash equivalents	9,346
Accounts payable	(12,014)
Other payable and accruals	(138,451)
Deferred tax liabilities	(433)
Total identifiable net assets at fair value	23,677
Non-controlling interest	(11,602)
Gain on bargain purchase recognised in other income and gains in the consolidated income statement (note 5)	(5,626)
	6,449
Satisfied by cash	6,449

An analysis of the cash flows in respect of the acquisition of Jingshan is as follows:

	HK$'000
Cash consideration	(6,449)
Cash and cash equivalents acquired	9,346
Net inflow of cash and cash equivalents in respect of the acquisition of Jingshan	2,897

During the year, Jingshan generated revenue and net profit of approximately HK$371,648,000 and HK$5,942,000, respectively. Since the acquisition date, Jingshan contributed revenue of HK$109,220,000 to the Group and contributed a net loss of approximately HK$1,356,000 to the Group's consolidated profit for the year.

* The English name of this company referred in these financial statements represent management's best effort to translate the Chinese name of this company and is for identification purpose only, as no English name has been registered.

32. Business Combinations (Continued)

Business combinations for the year ended 31 December 2011 (Continued)

(c) During current year, the Group acquired the 82.21% equity interest in COFCO Rice (Panshi) Co., Ltd.* ("Panshi") from a fellow subsidiary at a cash consideration of approximately HK$9,804,000. Panshi is engaged in rice processing and trading.

The Group has elected to measure the non-controlling interest in Panshi at the non-controlling interest's proportionate share of Panshi's identifiable net assets.

The fair values of the identifiable assets and liabilities of Panshi as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	10,950
Inventories	10,231
Accounts and bills receivables	18,485
Prepayments, deposits and other receivables	5,056
Cash and cash equivalents	5,938
Accounts payable	(8,693)
Other payable and accruals	(31,200)
Deferred tax liabilities	(75)
Total identifiable net assets at fair value	10,692
Non-controlling interest	(1,902)
Goodwill on acquisition	1,014
	9,804
Satisfied by cash	9,804

An analysis of the cash flows in respect of the acquisition of Panshi is as follows:

	HK$'000
Cash consideration	(9,804)
Cash and cash equivalents acquired	5,938
Net outflow of cash and cash equivalents in respect of the acquisition of Panshi	(3,866)

During the year, Panshi generated revenue and net profit of approximately HK$111,059,000 and HK$2,769,000 respectively. Since the acquisition date, Panshi contributed revenue of HK$52,494,000 to the Group and contributed a net profit of approximately HK$2,665,000 to the Group's consolidated profit for the year.

* The English name of this company referred in these financial statements represent management's best effort to translate the Chinese name of this company and is for identification purpose only, as no English name has been registered.

32. Business Combinations (Continued)

Business combinations for the year ended 31 December 2010

On 26 January 2010, 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 logistics 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	184,692
Prepaid land premiums	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	(6,393)
Interest-bearing bank and other borrowings	(22,756)
Total identifiable net assets at fair value	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

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

	HK$'000
Cash consideration	(154,809)
Cash and cash equivalents acquired	1,466
Net outflow of cash and cash equivalents in respect of the acquisition of COFCO (Jiangyin) Warehouse	(153,343)

During the year ended 31 December 2010, 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 year ended 31 December 2010.

* The English name of this company referred in these financial statements represent management's best effort to translate the Chinese name of this company and is for identification purpose only, as no English name has been registered.

33. Operating Lease Arrangements

As lessee

The Group leases certain of its office properties and land use right under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to eleven years, and that for land use right for terms of 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:

	2011 HK$'000	2010 HK$'000
Within one year	7,217	8,670
In the second to fifth years, inclusive	6,262	12,572
After five years	46,403	45,221
	59,882	66,463

34. Contingent Liabilities

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

	Company	
	2011 HK$'000	2010 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	5,374,200	4,672,200

As at 31 December 2011, the banking facilities granted to certain subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK$4,302,418,000 (2010: HK$4,391,400,000).

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:

	2011 HK$'000	2010 HK$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	2,944,824	5,677,388
Contracted, but not provided for	1,802,571	2,734,282
	4,747,395	8,411,670

36. Other Commitments

Commitments under commodity futures contracts:

	Group	
	2011 HK$'000	2010 HK$'000
Sales of soybean meal	–	1,693,941
Sales of soybean	9,387,394	7,084,909
Sales of soybean oil	5,795,378	7,273,081
Sales of rapeseed oil	–	133,113
Sales of palm oil	2,244,177	2,365,928
Sales of corn	413,316	10,260
	17,840,265	18,561,232
Purchases of soybean	348,249	3,380,273
Purchases of soybean oil	–	239,377
Purchases of corn	19,067	–
	367,316	3,619,650

Commitments under foreign currency forward contracts:

	Group	
	2011 HK$'000	2010 HK$'000
Sales of United States dollars	787,431	86,517

37. Connected and Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Group	
	Notes	2011 HK$'000	2010 HK$'000
Transactions with fellow subsidiaries:			
Sales of goods**	(i)	10,985,283	5,946,203
Purchases of goods**	(i)	2,415,721	2,187,594
Operating lease rental paid*	(i)	2,058	7,132
Interest expense	(ii)	25,986	38,130
Brokerage fee paid*	(i)	30,518	37,275
Processing service fee paid**	(i)	6,814	4,505
Logistics service and storage income	(i)	7,828	2,966
Transactions with the ultimate holding company:			
Sales of goods*	(i)	1,262	1,164
Operating lease rental paid*	(i)	18,955	20,793
Transaction with an intermediate holding company:			
Interest expense	(ii)	36,489	–
Transactions with associates:			
Sales of goods**	(i)	2,822,452	2,177,443
Purchases of goods**	(i)	210,489	162,826
Interest income	(iii)	4,135	3,706
Logistics service and storage fee paid	(i)	1,617	–
Transactions with related companies:#			
Sales of goods**	(i)	363,404	196,496
Purchases of goods**	(i)	5,658,540	7,060,808
Brokerage fee paid	(i)	7,303	2,193
Transactions with non-controlling shareholders of subsidiaries:			
Sales of goods**	(i)	1,019,221	991,523
Purchases of goods**	(i)	59,305	77,178

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

** A certain portion of these related party transactions constituted connected transactions or continuing connected transactions discloseable 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)

(a) (Continued)

Notes:

(i) Except for the transactions with a fellow subsidiary for sales of goods of HK$416,112,000 (2010: HK$184,088,000) and with an associate for sales of goods of HK$1,672,342,000 (2010: HK$1,919,440,000), 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 to fellow subsidiaries arose from the loans from fellow subsidiaries, which were unsecured and bore interest at rates from 5.6% to 6.31% (2010: 4.374%) per annum, respectively. The interest expense to an intermediate holding company arose from a loan from COFCO HK which was unsecured and bore interest at a rate of 3.4% per annum (2010: Nil).

(iii) The interest income arose from loans to an associate, which were unsecured and bore interest rates of 2.0% and 2.5% per annum (2010: 2.0% and 2.5% per annum).

(b) Outstanding balances with related parties

Except for the following, the balances with the related parties 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$351,548,000 (2010: HK$493,595,000), which bear interest at rates of 6.1% and 6.31% per annum, respectively, and will be repaid within one year. A loan from an intermediate holding company of HK$2,260,306,000 (2010: Nil) which bears interest at a rate of 3.4% per annum, is not repayable within one year.

(2) Amounts due to non-controlling shareholders of subsidiaries of HK$207,709,000 (2010: HK$203,523,000), which are financing in nature and not repayable within one year from the end of the reporting period.

(3) Details of the Group's loans to its associates as at the end of the reporting period are included in note 18 to the financial statements.

(c) Commitments with related parties

During the year ended 31 December 2011, the Group entered into an agreement with COFCO Northsea Oils & Grains Industries (Tianjin) Co., Ltd., ("COFCO Northsea"), an associate of the Group, pursuant to which the Group agrees to sell palm oil and soybean oil to COFCO Northsea. The Group expects that these transactions will be taken place in 2012 and the total sales to COFCO Northsea pursuant to such agreement to be approximately HK$596,076,000.

Save as disclosed above, there were no other significant commitments with related parties as at 31 December 2011.

The amount of total transactions with related parties for the year is included in note 37(a) to the consolidated financial statements. The 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.

37. Connected and Related Party Transactions (Continued)

(d) Compensation of key management personnel of the Group

	2011 HK$'000	2010 HK$'000
Short term employee benefits	18,801	24,118
Post-employment benefits	534	630
Equity-settled share option expense	8,005	2,620
Total compensation paid to key management personnel	27,340	27,368

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

(e) Transactions and balances 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 enters into extensive transactions covering, but not limited to, purchases of agricultural raw materials, sales of goods, purchases of property, plant and equipment and other assets, receiving of services, and making deposits and borrowings with State-owned Enterprises, other than the COFCO group, at terms comparable to those with other non state-owned enterprises. 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 State-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 constitutes a related party transaction that requires separate disclosure.

38. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2011 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
China Agri-Industries Limited	Bermuda/ Hong Kong	Ordinary HK$269,238,336	100	Investment holding
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
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 East Ocean Oils & Grains (Dongtai) Co., Ltd. **	The PRC/ Mainland China	RMB62,500,000	85.28	Production and sale of feed
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
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

38. Particulars of Principal Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
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	RMB38,430,000	73.34	Production and sale of rapeseed
COFCO Oils (Qinzhou) Co., Ltd.***	The PRC/ Mainland China	RMB903,704,900	100	Production and sale of edible oil
COFCO Xinsha Oils & Grains Industries (Dongguan) Co., Ltd.***	The PRC/ Mainland China	US$34,850,000	100	Production and sale of edible oil
Fei County COFCO Oils & Fats Industrial Co., Ltd.***	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$42,750,000	100	Production and sale of rapeseed
COFCO Oils & Grains Industries (Huanggang) Co., Ltd. ***	The PRC/ Mainland China	US$42,150,000	100	Production and sale of rapeseed
COFCO Oils & Grains Industries (Chaohu) Co., Ltd. ***	The PRC/ Mainland China	US$43,900,000	100	Production and sale of rapeseed
COFCO Oils & Grains Industries (Chongqing) Co., Ltd. ***	The PRC/ Mainland China	US$15,000,000	100	Production and sale of rapeseed
Tianjin COFCO Excel Joy Lingang Storage Co., Ltd.**	The PRC/ Mainland China	RMB241,890,000	76.61	Provision of logistics service
COFCO Excel Joy (Tianjin) Co., Ltd. ***	The PRC/ Mainland China	US$102,820,032	100	Production and sale of edible oil
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

38. Particulars of Principal Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Malt (Hulunbeier) Co., Ltd. ***	The PRC/ Mainland China	US$17,300,000	100	Production and sale of brewing materials
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	Processing and trading of rice
COFCO Dalian Rice Processing Limited ***	The PRC/ Mainland China	RMB196,600,000	100	Processing and trading of rice
COFCO Suihua Rice Processing Limited ***	The PRC/ Mainland China	RMB149,050,000	100	Processing and trading of rice
COFCO Wuchang Rice Processing Limited ***	The PRC/ Mainland China	RMB83,800,000	100	Processing and trading of rice
COFCO Ningxia Rice Processing Limited ***	The PRC/ Mainland China	RMB80,180,000	100	Processing and trading of rice
COFCO Jilin Rice Processing Limited ***	The PRC/ Mainland China	US$23,150,000	100	Processing and trading of rice
COFCO Shenyang Rice Processing Limited ***	The PRC/ Mainland China	RMB160,640,000	100	Processing and trading of rice
COFCO Rice (Yancheng) Co., Ltd. ***	The PRC/ Mainland China	RMB162,050,000	100	Processing and trading of rice
COFCO Rice (Hulin) Co., Ltd. ***	The PRC/ Mainland China	RMB158,160,000	100	Processing and trading of rice
COFCO Rice (Chaohu) Co., Ltd. ***	The PRC/ Mainland China	RMB81,200,000	100	Processing and trading of rice
COFCO Rice (Panshi) Co., Ltd. ****	The PRC/ Mainland China	RMB8,770,000	82.21	Processing and trading of rice

38. Particulars of Principal Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Bafang Rice (Jingshan) Co., Ltd. ****	The PRC/ Mainland China	RMB8,520,000	51	Processing and trading of rice
COFCO Rice (Yueyang) Co., Ltd. ***	The PRC/ Mainland China	RMB139,040,000	100	Under construction
COFCO Rice (Xiantao) Co., Ltd. ***	The PRC/ Mainland China	RMB156,800,000	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$114,150,000	100	Production and sale of biochemicals
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.***	The PRC/ Mainland China	RMB80,000,000	100	Production and sale of biochemicals
中糧(上海)糧油食品發展有限公司****	The PRC/ Mainland China	RMB20,000,000	100	Under construction

38. Particulars of Principal Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Cheerlink International Limited	BVI/Hong Kong	Ordinary US$2	100	Investment holding
Jilin COFCO Biochemistry Packaging Co., Ltd.***	The PRC/ Mainland China	RMB42,500,000	100	Production and sale of biochemistry packaging
Yellow Dragon Food Industry Co. Ltd.**	The PRC/ Mainland China	US$54,053,300	59.44	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
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	RMB68,269,842	95	Production and sale of wheat products
Shenyang Xiangxue Flour Limited Liability Company **	The PRC/ Mainland China	RMB80,350,000	69.29	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$55,387,600	100	Production and sale of wheat products
COFCO TTC (Beijing) Foods Co., Ltd. ***	The PRC/ Mainland China	US$6,990,000	51	Production and sale of wheat products
COFCO Flour Industry (Luohe) Co., Ltd. ***	The PRC/ Mainland China	RMB100,000,000	100	Production and sale of wheat products
COFCO Flour Marketing Management (Beijing) Co., Ltd.****	The PRC/ Mainland China	RMB2,800,000	100	Sale of wheat products

38. Particulars of Principal Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
COFCO Flour Industry (Haining) Co., Ltd. ***	The PRC/ Mainland China	HK$230,446,515	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
COFCO Feed (Peixian) Co., Ltd. ***	The PRC/ Mainland China	HK$42,000,000	100	Production and sale of feed
COFCO Feed (Xinyi) Co., Ltd. ***	The PRC/ Mainland China	HK$46,000,000	100	Production and sale of feed
COFCO Feed (Huangshi) Co., Ltd. ***	The PRC/ Mainland China	US$6,000,000	100	Production and sale of feed
中糧(鄭州)糧油工業有限公司***	The PRC/ Mainland China	RMB179,981,280	100	Under construction
中糧(成都)糧油工業有限公司***	The PRC/ Mainland China	US$72,000,000	100	Under construction

* Audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

** Sino-foreign equity joint ventures

*** Wholly-foreign-owned enterprises

**** Domestic-funded enterprises

Zhangjiagang COFCO East Ocean Storage Co., Ltd. is a subsidiary of 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.

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 principal associates of the Group as at 31 December 2011 are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co., Ltd.	US$69,500,000	The PRC	40	Soybean oil extraction, and refinings 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 Southeast Grains Industries Ltd., a Sino-foreign equity joint venture registered in the PRC, the principal activity of which is the production and sale of wheat products in Mainland China.

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

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

All of the above associates are indirectly held by the Company.

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			
2011	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	–	–	370	370
Accounts and bills receivables	–	5,760,131	–	5,760,131
Deposits and other receivables*	–	1,120,513	–	1,120,513
Derivative financial instruments	514,878	–	–	514,878
Due from related parties	–	3,492,113	–	3,492,113
Pledged deposits	–	14,052	–	14,052
Cash and cash equivalents	–	9,175,653	–	9,175,653
Total	514,878	19,562,462	370	20,077,710

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

* Included in "Prepayments, deposits and other receivables" of HK$5,176,754,000 (2010: HK$6,308,185,000) in the consolidated statement of financial position are prepayments to suppliers of HK$2,651,734,000 (2010: HK$3,376,258,000), and margin deposits and other miscellaneous prepayments, deposits and other receivables of HK$2,525,020,000 (2010: HK$2,931,927,000), of which HK$1,120,513,000 (2010: HK$2,010,226,000) are financial assets as disclosed above.

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 liabilities

	Group		
2011	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	–	3,585,895	3,585,895
Other payables*	–	4,038,062	4,038,062
Derivative financial instruments	12,492	–	12,492
Interest-bearing bank and other borrowings	–	29,082,815	29,082,815
Convertible bonds	–	3,832,231	3,832,231
Due to related parties	–	440,878	440,878
Total	12,492	40,979,881	40,992,373

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

* Included in "Other payables and accruals" of HK$6,391,372,000 (2010: HK$3,778,451,000) in the consolidated statement of financial position are advances from customers of HK$1,716,258,000 (2010: HK$1,352,102,000), accrued staff payroll and benefits of HK$382,907,000 (2010: HK$189,957,000), and other miscellaneous payables and accruals of HK$4,292,207,000 (2010: HK$2,236,392,000), of which HK$4,038,062,000 (2010: HK$2,423,472,000) are financial liabilities as disclosed above.

40. Financial Instruments by Category (Continued)

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

Financial assets

	Company	
	2011 Loans and Receivables HK$'000	2010 Loans and receivables HK$'000
Due from subsidiaries	4,091,367	2,914,867
Deposits and other receivables	578	496
Cash and cash equivalents	2,019,048	2,736,957
	6,110,993	5,652,320

Financial liabilities

	Company	
	2011 Financial liabilities at amortised cost HK$'000	2010 Financial liabilities at amortised cost HK$'000
Due to subsidiaries	3,755,134	3,793,917
Due to an intermediate holding company	36,489	–
Other payables	191,921	146,437
Interest-bearing bank and other borrowings	4,210,306	1,945,000
	8,193,850	5,885,354

41. Fair Value and Fair Value Hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Financial assets				
Available-for-sale investments	370	2,739	370	2,739
Accounts and bills receivables	5,760,131	2,398,510	5,760,131	2,398,510
Deposits and other receivables	1,120,513	2,010,226	1,120,513	2,010,226
Derivative financial instruments	514,878	305,622	514,878	305,622
Due from related parties	3,492,113	4,707,045	3,492,113	4,707,045
Pledged deposits	14,052	118,219	14,052	118,219
Cash and cash equivalents	9,175,653	7,404,309	9,175,653	7,404,309
	20,077,710	16,946,670	20,077,710	16,946,670
Financial liabilities				
Accounts and bills payables	3,585,895	3,426,523	3,585,895	3,426,523
Other payables	4,038,062	2,423,472	4,038,062	2,423,472
Derivative financial instruments	12,492	830,598	12,492	830,598
Interest-bearing bank and other borrowings	29,082,815	22,077,680	29,082,815	22,077,680
Convertible bonds	3,832,231	3,765,329	3,832,231	3,765,329
Due to related parties	440,878	640,438	440,878	640,438
	40,992,373	33,164,040	40,992,373	33,164,040

41. Fair Value and Fair Value Hierarchy (Continued)

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows: (Continued)

Company

	Carrying amounts		Fair values	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Financial assets				
Due from subsidiaries	4,091,367	2,914,867	4,091,367	2,914,867
Deposits and other receivables	578	496	578	496
Cash and cash equivalents	2,019,048	2,736,957	2,019,048	2,736,957
	6,110,993	5,652,320	6,110,993	5,652,320
Financial liabilities				
Due to subsidiaries	3,755,134	3,793,917	3,755,134	3,793,917
Due to an intermediate holding company	36,489	–	36,489	–
Other payables	191,921	146,437	191,921	146,437
Interest-bearing bank and other borrowings	4,210,306	1,945,000	4,210,306	1,945,000
	8,193,850	5,885,354	8,193,850	5,885,354

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:

The fair value of 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.

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.

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31 December 2011

41. Fair Value and Fair Value Hierarchy (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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 2011

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	514,878	–	–	514,878

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

Liabilities measured at fair value

Group

As at 31 December 2011

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	12,492	–	–	12,492

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

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 also 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.

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
2011			
	100	(31,345)	(25,213)
	(100)	31,345	25,213
2010			
	100	(23,551)	(19,708)
	(100)	23,551	19,708

42. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk

The Group mainly operates in Mainland China with most of the Group's monetary assets, liabilities and transactions principally denominated in Hong Kong dollars, Renminbi and United States dollars. Approximately 8% (2010: 16%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 46% (2010: 56%) of costs are denominated in currencies other than the functional currency of the operating units incurring the purchases. The Group partially hedges purchases and sales that are denominated in United States dollars, at the discretion of management.

The following table indicates the approximate change in the Group's profit before tax and equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the 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
2011			
If Renminbi weakens against Hong Kong dollar	5	–	(1,135,116)
If Renminbi strengthens against Hong Kong dollar	(5)	–	1,135,116
If Renminbi weakens against United States dollar	5	(1,385,503)	(1,114,436)
If Renminbi strengthens against United States dollar	(5)	1,385,503	1,114,436
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

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.

42. Financial Risk Management Objectives and Policies (Continued)

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.

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

	2011			
	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	3,585,895	–	–	3,585,895
Other payables	4,038,062	–	–	4,038,062
Derivative financial instruments	12,492	–	–	12,492
Interest-bearing bank and other borrowings	24,618,507	308,114	5,025,796	29,952,417
Convertible bonds	38,750	38,750	4,155,201	4,232,701
Due to related parties	440,878	–	–	440,878
	32,734,584	346,864	9,180,997	42,262,445

	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

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

	2011			
	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	Over 2 years HK$'000	Total HK$'000
Due to subsidiaries	3,755,134	–	–	3,755,134
Other payables	191,921	–	–	191,921
Interest-bearing bank and other borrowings	25,258	25,258	4,251,135	4,301,651
Due to an intermediate holding company	76,850	76,850	30,740	184,440
Guarantees given to banks in connection with facilities granted to subsidiaries#	4,302,418	–	–	4,302,418
	8,351,581	102,108	4,281,875	12,735,564

	2010			
	Within 1 year or 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).

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
2011			
Soybean	5	2,288,094	1,837,643
Corn	5	457,507	366,119
Rice	5	275,428	210,641
Barley	5	42,299	37,338
Wheat	5	221,389	211,538
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

42. Financial Risk Management Objectives and Policies (Continued)

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 2010 and 31 December 2011.

The Group monitors capital using a net gearing ratio, which is net debt divided by 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 net gearing ratios as at the end of the reporting period were as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Interest-bearing bank and other borrowings	29,082,815	22,077,680
Convertible bonds	3,832,231	3,765,329
Less: Cash and cash equivalents	(9,175,653)	(7,404,309)
Pledged deposits	(14,052)	(118,219)
Net debt	23,725,341	18,320,481
Equity attributable to owners of the Company	21,963,753	19,086,423
Net gearing ratio	108.0%	96.0%

43. Events after the Reporting Period

On 16 March 2012 and 19 March 2012, the Group entered into two share purchase agreements with COFCO HK to acquire the entire issued share capital of Poly Idea Investments Limited together with the shareholder's loan, and the entire issued share capital of Sharp Global Limited together with the shareholder's loan at cash considerations of RMB28,900,000 (equivalent to approximately HK$36,000,000) and RMB95,500,000 (equivalent to approximately HK$118,000,000), respectively. The transactions will be completed subject to the fulfillment of certain conditions precedent. Further details of the transactions were set out in the announcements of the Company dated 16 March 2012 and 19 March 2012, respectively.

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 28 March 2012.

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