管理提昇　內涵成長
Management excellence driving organic growth

2012
ANNUAL REPORT

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

中粮
COFCO

Chinese Olympic Committee Official Partner
中国奥委会合作伙伴

China Agri at a glance

Oilseeds processing business

Market position	One of the largest vegetable oil and oilseeds meal producers in China
Major products	Soybean oil, palm oil, rapeseed oil and oilseeds meals
Major brands	Fuzhanggui (福掌柜), Sihai (四海), Xiyingying (喜盈盈) and Guhua (谷花)

Biochemical and biofuel business

Market position	One of the largest corn processors in China and a leading fuel ethanol producer
Major products	Biochemical: Corn starch, sweeteners, crude corn oil and feed ingredients
	Biofuel: Fuel ethanol, consumable alcohol, anhydrous ethanol, crude corn oil and DDGS

Rice processing and trading business

Market position	China's leading supplier of packaged rice and largest rice exporter and importer
Major products	White rice and parboiled rice
Major brands	Fortune (福临门), Jinying (金盈), Five Lakes (五湖), Golden Terra (金地), Xin (薪) and Donghai Mingzhu (东海明珠)

Brewing materials business

Market position	A leading brewing material supplier in China
Major products	Malt

Wheat processing business

Market position	One of the largest wheat processors in China
Major products	Flour, noodles and bread
Major brands	Fortune (福临门) and Xiangxue (香雪)

Management excellence driving organic growth

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Corporate Information

Directors

Chairman of the Board and Executive Director
YU Xubo

Executive Director
LV Jun *(Managing Director)*

Non-executive Directors
NING Gaoning
MA Wangjun
YUE Guojun
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

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
Agricultural Development Bank of China
Australia and New Zealand Banking Group Limited
Banco Santander, S.A.
Bank of China Limited
Bank of China (Hong Kong) Limited
China Construction Bank Corporation
DBS Bank Limited
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
E-mail: ir@cofco.com

Company Website

www.chinaagri.com

Stock Code

606

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	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
REVENUE	**91,319,186**	82,349,859	53,491,700	43,827,891	41,802,056
PROFIT FROM CONTINUING OPERATING ACTIVITIES	**2,470,073**	4,586,832	1,499,192	2,219,513	4,604,226
Finance costs	**(883,683)**	(888,658)	(376,878)	(239,121)	(388,964)
Share of profits of associates	**23,725**	169,848	352,955	355,168	133,403
PROFIT BEFORE TAX	**1,610,115**	3,868,022	1,475,269	2,335,560	4,348,665
Income tax expense	**(198,420)**	(563,231)	(191,918)	(291,980)	(883,516)
PROFIT FOR THE YEAR	**1,411,695**	3,304,791	1,283,351	2,043,580	3,465,149
Attributable to:					
Owners of the Company	**1,227,523**	2,367,954	1,701,644	1,952,042	2,624,937
Non-controlling interests	**184,172**	936,837	(418,293)	91,538	840,212
	1,411,695	3,304,791	1,283,351	2,043,580	3,465,149
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**74,604,434**	70,036,207	56,719,663	36,091,614	28,266,528
TOTAL LIABILITIES	**(44,120,425)**	(44,926,182)	(35,543,972)	(17,696,077)	(12,321,097)
NON-CONTROLLING INTERESTS	**(3,429,030)**	(3,146,272)	(2,089,268)	(2,565,491)	(2,343,009)
	27,054,979	21,963,753	19,086,423	15,830,046	13,602,422

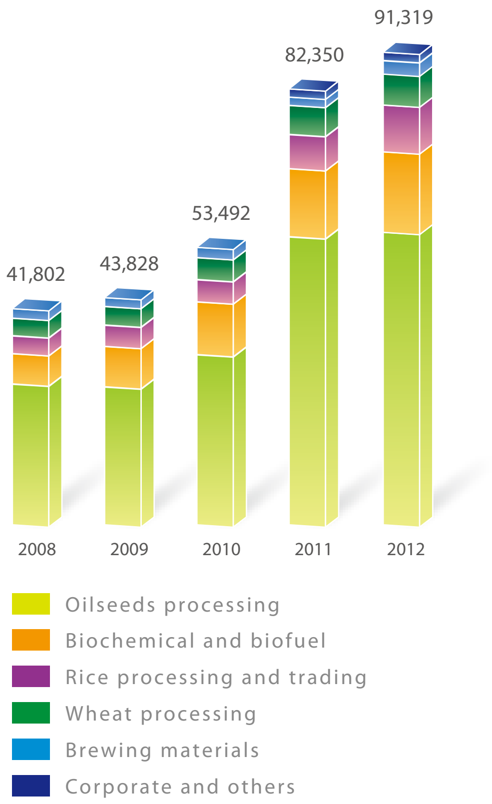
Financial Highlights

For the year ended 31 December 2012

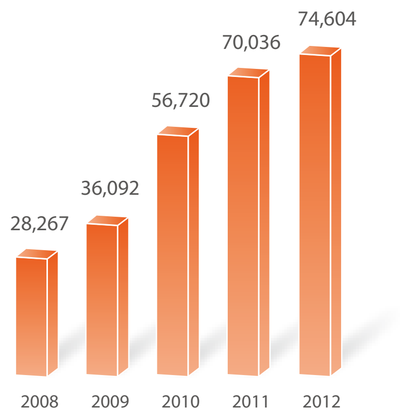
	Unit	2012	2011	Increase/ (Decrease)
Revenue:	HK$ million	**91,319.2**	82,349.9	11%
– Oilseeds processing	HK$ million	**56,585.8**	55,521.8	2%
– Biochemical and biofuel	HK$ million	**15,117.0**	12,892.6	17%
– Rice processing and trading	HK$ million	**8,875.6**	6,483.7	37%
– Wheat processing	HK$ million	**5,876.0**	5,406.5	9%
– Brewing materials	HK$ million	**2,551.5**	1,709.4	49%
– Corporate and others	HK$ million	**2,313.3**	335.9	589%
Profit before tax	HK$ million	**1,610.1**	3,868.0	(58)%
Operating profit (segment results)	HK$ million	**2,225.8**	4,491.2	(50)%
Operating profit before depreciation and amortisation	HK$ million	**3,485.9**	5,453.6	(36)%
Operating margin	%	**2.4**	5.5	N/A
Profit attributable to owners of the Company	HK$ million	**1,227.5**	2,368.0	(48)%
Earnings per share:				
– Basic	HK$	**0.2848**	0.5528*	(48)%
– Diluted	HK$	**0.2846**	0.5329*	(47)%
Dividends per share for the year:				
– Interim	HK$	**0.031**	0.079	(61)%
– Proposed final	HK$	**0.035**	0.038	(8)%
Total assets	HK$ million	**74,604.4**	70,036.2	7%
Equity attributable to owners of the Company	HK$ million	**27,055.0**	21,963.8	23%
Closing price per share at year-end	HK$	**4.34**	5.91	(27)%
Market capitalisation at year-end	HK$ million	**22,784.5**	23,866.8	(5)%
Net asset value per share at year-end	HK$	**5.15**	5.44	(5)%
Net gearing ratio at year-end	%	**84.2**	108.0	N/A

* restated

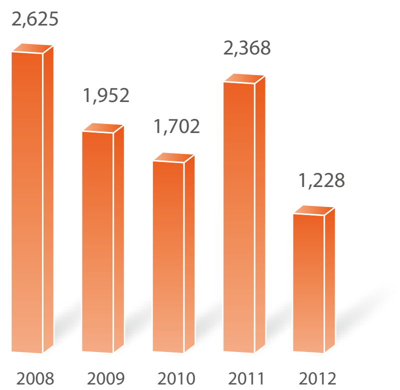
Revenue (HK$ million)



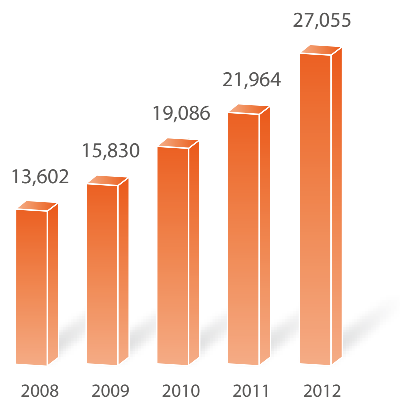
Total Assets (HK$ million)



Profit Attributable to Owners of the Company (HK$ million)



Equity Attributable to Owners of the Company (HK$ million)



Capacity Layout

2012 Capacity

Unit: metric ton'000

Oilseeds Processing Business

Crushing Capacity	**10,920**
Jiangsu	3,600
Shandong	2,340
Tianjin	1,200
Guangxi	1,740
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	**950**
Jilin	400
Shanghai	250
Hubei	100
Hebei	100
Sichuan	100
Monosodium Glutamate (MSG) Production Capacity	**100**
Heilongjiang	100
Biofuel	**1,800**
Heilongjiang (Corn Processing Capacity)	1,200
Guangxi (Tapioca Processing Capacity)	600

2012 Capacity

Unit: metric ton'000

Fuel Ethanol, Consumable Alcohol 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	**3,451**
Henan	1,320
Zhejiang	600
Hebei	340
Jiangsu	321
Liaoning	280
Sichuan	240
Fujian	180
Shandong	170
Noodle Production Capacity	**141.3**
Liaoning	48
Henan	30
Hebei	19.8
Jiangsu	18
Sichuan	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

Dear Shareholders,

In March 2012, I took over as the Chairman of the Board of China Agri-Industries Holdings Limited ("China Agri" or the "Company") from Mr. Ning Gaoning while Mr. Lv Jun was promoted to Managing Director. We both accepted these new positions with great honour as well as a deep sense of responsibility. I hereby express my sincere gratitude to Mr. Ning Gaoning for his valuable contributions to China Agri and I believe he will continue to contribute his wisdom and experience guiding our Company and our strategy in the future as a non-executive director. During the past year, our industry operated in a particularly difficult environment amid the complex and challenging international political and economic conditions, and the downturn in the domestic economy. Under these conditions, we strived to consolidate our position in the market by shifting our focus to organic growth. Despite the challenging environment, each of our business segments was able to maintain an industry leading position in their respective markets and our financial performance in the second half of the year improved significantly from the interim period.

Looking out to 2013, the Chinese economy appears to be on a gradual road to recovery. As laid out in the Twelfth Five-Year Plan, the Chinese government will continue to focus on improving the quality and efficiency of economic growth by stepping up its efforts to rebalance the economy with higher domestic consumption and by prudently promoting further urbanisation. Amid such an economic climate, rising consumption across China should drive enormous growth for agriculture-related industries in the future. Food and raw material suppliers will be subject to continually higher expectations for not just high quality products, but also for wider range of product mix and ingredient solutions, and successful enterprises will have to be able to promptly cater to such trends.

We have built up a solid operational foundation with remarkable advantages due to our strategic geographic footprint across various regions, and we are primed for further growth based on the capacity expansion projects that we successfully completed over the past few years. We now find ourselves at an important inflexion point. With the facilities and business model that we currently have in place, we believe we can focus on other enhancements to our business, such as by benchmarking to competitive products and using assessment systems that can help increase our management effectiveness. We will also further enhance our research and development (R&D), production and sales systems in order to cater to the needs of the consumer market. Through intensive R&D innovation, we believe we can develop new, distinctive and highly competitive value-added downstream products using the latest technology. On the sales side, we intend to leverage the full scale of our business and extensive customer network, and to further coordinate our sales efforts by providing one-stop service and other solutions in order to more effectively serve our customers and achieve healthy growth and profitability over time.

In light of steadily increasing domestic consumption and the growing demand for safe, nutritious and healthy products, we continued to optimise our product offerings by introducing featured products to meet diversified needs of our customers using the latest R&D technology. In addition to these efforts, we also made a dedicated effort to grow our consumer-pack business to increase the penetration of our rice, flour and noodle products. Food safety is one of the biggest concerns among consumers. While this issue has always been a priority for us, we have substantially accelerated our efforts to strengthen our food safety management system over the past few years. We take a top-to-bottom approach and examine our entire value chain when it

China Agri intends to take advantage of the market opportunities by enhancing R&D innovation and increasing the competitiveness of our products. With the introduction of new products, pragmatic promotion of our brand and an even more mature sales network and operating team, we believe we will be able to build a world-class enterprise and facilitate the long-term and sustainable healthy development of our company.

comes to the safety of our products. As a part of this, we stringently monitor the source of production, processing procedures and end-product sales and are making every attempt to incorporate systems and procedures from best practice operators overseas.

As a leading enterprise in the agri-industries in China, we are committed to maintaining high standards of corporate governance and sound business ethics. We have a variety of mechanisms in place to try to maintain accountability, and our highly transparent operating structure helps us to do our utmost to safeguard the long-term interests of shareholders, customers, employees and business partners. We also strived to achieve our strategic business goals by closely monitoring the potential risks in our operations and making adjustments based on new market developments.

Looking forward, there are still a number of uncertainties in the global economic recovery. However, the revival of the Chinese economy, further growth in domestic consumption, and increasing purchasing power among Chinese consumers are expected to drive demand for both higher quality and a greater variety of food products and create additional opportunities for development in the food industry. Fueled by R&D innovation and the increasing competitiveness of our products, we intend to work aggressively to take advantage of the opportunities that lie ahead. With the introduction of new products, pragmatic promotion of our brand and an even more mature sales network and operating team, we believe we will be able to build a world-class enterprise and facilitate the long-term and sustainable healthy development of our company.

Finally, I would like to take this opportunity to extend my sincerest gratitude to China Agri's shareholders, customers and business partners for their support. I would also like to thank members of the Board, the management and the staff for their diligence. Despite the turmoil in the international economy in 2012, the China Agri team has worked hard to confront the challenges head on and achieve its goals. I am confident that we will be able to achieve long-term sustainable returns for our shareholders by working together as a more mature and united team in the year ahead.

YU Xubo
Chairman
Hong Kong, 26 March 2013

Managing Director's Report

The financial crisis in Europe, the slow recovery in the United States, and the economic slowdown in China in 2012 made the operating environment for global enterprises complicated and volatile. In such an unfavourable environment, China Agri's earnings for the year were adversely affected. After having expanded the Company's geographic footprint in prior years during a period of strategic expansion, China Agri made a dedicated effort to formulate strategies to drive organic growth, focused in particular on consolidating market share across all businesses and strengthening the Company's market position. In order to be prepared to capture opportunities in the market once it starts to revive, the Company further extended its business across the value chain and strengthened its R&D efforts in order to expand product innovation. The Company also focused on enhancing its customer service to boost further sales of branded products.

The sales volume of China Agri's major products continued to grow in 2012, with an overall year-on-year increase in revenues of 10.9% to HK$91,319.2 million. However, the Company found it difficult to pass through rising raw material prices to customers amid a challenging economic environment and keen competition in the industry. This, along with a significant decrease in gain on foreign exchange arising from the change in value of the Renminbi, caused profit attributable to owners of the Company to decrease by 48.2% year-on-year to HK$1,227.5 million. The Board recommended a final dividend of 3.5 HK cents per share for 2012.

Global soybean prices maintained an overall upward trend in 2012. The oilseeds crushing sector faced earnings pressure due to weaker selling prices of products in China and rising prices of imported raw materials. The Company conducted thorough market research and implemented hedging policies to manage risk, making advanced purchases of raw materials at opportune times to cater to future demand. In situations where the soybean prices fell, the Company's strengthened hedge management helped protect the business against price declines. Meanwhile, the Company provided major customers with important market information, helped them manage risks, and supported the expansion of their downstream channels. China Agri also established an R&D and processing center for special-purpose fats and developed various types of special-purpose oils that cater to the varying demands of consumers. This helped to increase sales volumes while maintaining selling prices at reasonable levels, allowing business operations to maintain industry-leading financial results during such unfavourable market conditions.

For the biochemical and biofuel business, it proved to be difficult to fully pass on the increases in raw material prices to customers during the year given the sluggish demand for some products in the market. The Company leveraged the geographical location of its plants near crop growing areas and adopted a strategy of purchasing corns in bulk in order to secure lower pricing. This, along with increasing use of frozen storage, allowed the Company to satisfy its production requirements while ensuring relatively stable operation. As the largest starch processor in China, China Agri strived to make its starch into more downstream products, enhance its product mix, and create a greater number of value-added products through scientific R&D, product innovation and technological upgrades. During the year, the Company also improved the quality of starch that is specifically formulated for paper manufacturing. This new and improved product was well received by major paper manufacturers in Fuyang, Zhejiang.

With the increase in consumption per capita in China, there has been a pronounced increase in demand for branded packaged rice products. The Company actively expanded its rice processing business by making a dedicated effort to grow its consumer-pack business. During the year, the Company forged a partnership with China's Space Program to supply packaged rice under the brand name "Fortune" (福临门). The Company was also appointed as the official rice supplier to the General Administration of Sport in China. These two schemes together helped to increase brand awareness among consumers for the Company's products. In 2012, China Agri's market share for packaged rice sold in hypermarkets in China was 15.5%, which represents a year-on-year growth of 0.9 percentage point. Despite the growth, domestic sales are still at an early stage of development. Over the course of the year, the Company brought many newly-added production capacities on-stream and also devoted greater resources to the marketing of a variety of branded products. The Company believes that its market leading position and strong brand will allow it to gradually charge a bigger premium for its products over time. Meanwhile, product prices rose at a lower rate than raw material prices due to stiff competition in the industry, which has in turn exerted pressure on the profitability of the Company's rice processing and trading business.

Leveraging its nationwide geographic footprint strategically expanded in prior years, China Agri formulated strategies to drive organic growth, focused in particular on consolidating market share across all businesses and strengthening the Company's market position. We are well prepared to capture opportunities in the market once it starts to recover.

The wheat processing business posted solid results during the year under review. The flour industry in China expanded steadily due to growth in demand from the catering and food processing industries. In particular, as the mid and high-end segments of the market start to account for a more substantial share, the demand for noodles has been growing rapidly. In response to this, the Company swiftly expanded its production capacity for flour and noodles, thereby creating opportunities for downstream penetration. For the brewing materials business, breweries across China tended to hold lower inventory levels at the start of 2012. Seeing this, the Company seized the opportunity by leveraging its advantages related to raw material procurement and the processing of imported barley. Furthermore, as a result of ongoing product and process innovations, and the launch of high quality and differentiated malt products, overall malt sales and earnings during the year under review hit a record high.

China Agri maintains its belief in trying to maximise value for shareholders over time. The Company decided to raise funds via a rights issue at the end of 2012. The funds raised were to be used to pay for the possible redemption of convertible bonds, and the deal was structured in a way that would provide existing shareholders with a chance to share in the future success of the Company on equal terms. At the same time, the rights issue allows the Company to further strengthen its capital base and optimise its capital structure, which is beneficial to the long term development of the business. Thanks to the keen interest and support of the Company's shareholders, the rights issue was a great success and the Company saw over six times excess applications.

Looking ahead, although business environment and market competition are still posing challenges to enterprises due to the external economic uncertainties, many people in the market believe that China's economy is gradually recovering, while the acceleration in urbanisation is expected to support the continued development of the catering and food processing industries. These trends should benefit sector leaders such as China Agri. In addition, increasing per capita income and consumption, which are driving many consumers up the value chain to mid and higher-end products, will provide tremendous business opportunities for China Agri. The Company is committed to building a world-class integrated agri-industries enterprise. Leveraging its strong foundation in operations, strategic geographic footprint, market-oriented approach, focus on organic growth, and development of core competencies, the Company will further strengthen its R&D and innovation to enhance the competitiveness of its products and services. China Agri will continue to grow its branded business and develop its leadership and influence in the market. Meanwhile, the Company will strictly adhere to its risk control policies and procedures while maintaining a healthy pace of development as it seeks to achieve healthy and sustainable growth over the long term.

LV Jun
Managing Director
Hong Kong, 26 March 2013

Management Discussion and Analysis

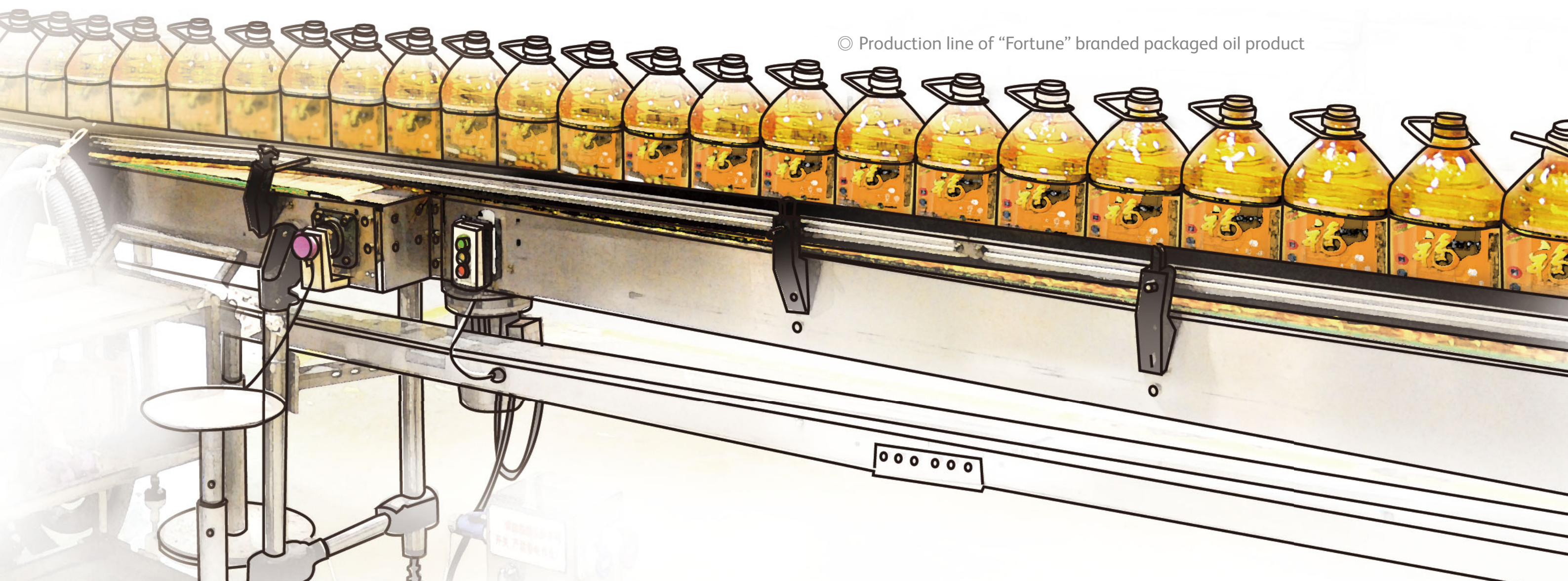
Business Review

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 meal, and are primarily sold under the brand names "Fuzhanggui" (福掌柜), "Sihai" (四海), "Xiyingying" (喜盈盈) and "Guhua" (谷花).

The oilseeds processing business is the Company's largest revenue contributor, accounting for 62.0% of total revenue in 2012. Oilseeds processing revenue totaled HK$56,585.8 million, which was fairly similar to last year. During the year, raw material prices in the international market continued to soar while product prices in the domestic market were relatively weak, leading to a decline in the gross profit margin for the segment of 1.9 percentage points year-on-year to 4.2%. However, this still left the Company with industry-leading gross margins in China. Additionally, the change in the U.S. Dollar-Renminbi exchange rate resulted in a year-on-year decrease in foreign exchange gains, which also impacted the segment's earnings to a certain extent. The sales volume for oilseeds in regions with new production capacity, such as Northern and Southwestern China, grew significantly, benefiting from production capacity that was strategically expanded in prior years. The Company was able to maintain capacity utilisation at industry-leading levels by leveraging the management team's capabilities and extensive experience in the industry. Driven by growing demands from continued development of large-scale commercial livestock farming, the Company's oilseeds meal sales increased by 16.5% year-on-year to 6,293,000 metric tons, while product prices also rose. However, the increase in international feedstock prices continually outweighed domestic vegetable oil prices, which caused the sales volume of vegetable oil to decline by 4.0% year-on-year to 2,959,000 metric tons.

Soybean prices in the international market showed a general upward trend in 2012, mainly due to severe droughts in South America and the United States. However, occasional price fluctuations were also caused by European debt issues and an unexpected increase in the estimated output of soybeans from the U.S. towards year-end. During the year, raw material prices rose, on average, faster than the price of finished products in the domestic market, and as a result the oilseeds processing industry experienced pressure on its earnings. In response to such a difficult and complicated operating environment, the Company thoroughly analysed market trends and used timely hedging to manage risks and ensure long-term raw material supply. In situations where the soybean prices fell, the Company's strengthened hedge management helped protect the business against price declines. Meanwhile, the Company adjusted its production planning and sales strategies in accordance with changes in market conditions and also strengthened services provided to core customers, including the provision of industry information that can be used to help manage risks and assistance in expanding downstream channels. As a result, the Company solidified and enhanced its customer base, increased the sales volume of products, and maintained selling prices at reasonable levels, thereby minimising the effect of market fluctuations.



◎ Production line of "Fortune" branded packaged oil product

The Company closely monitored market opportunities. Due to increasing demand for edible oil from the catering industry and strengthened supervision over food safety by the government, the market for packaged cooking oil showed solid growth. Based on Company statistics, the compound annual growth rate (CAGR) in sales of mid-sized packaged oil products in China over the past four years exceeded 40%, while the ratio of mid-sized packaged oil product sales to total packaged oil product sales increased from approximately 10% in 2009 to approximately 30% in 2012. "Fuzhanggui", the Company's mid-sized product that is sold nationwide, was positioned specifically for the catering industry by the Company over the past few years. The Company is expanding into the catering industry with products such as this with the help of brand promotions, packaging enhancements, and quality research and development. During the year, the Company successfully approached nearly one hundred new customers, driving a significant increase in the sales volume of mid-sized packaged oil products of over 80.0% year-on-year. Furthermore, in order to satisfy the specific requirements of food industry customers, the Company established a research and development and processing center that is specifically focused on special-purpose oil and fat. It is working on developing a variety of cooking oil products for different end users and is also providing other technical solutions for key customers. The Company believes that innovations in products and other value-added services will help increase the overall competitiveness of the business.

As of 31 December 2012, the expansion in the Company's Guangxi plant added an additional 540,000 metric tons of new crushing capacity. Together with the fifteen existing oilseeds processing plants currently in operation in Jiangsu, Shandong, Tianjin, Hubei, Guangdong, Jiangxi, Anhui, Chongqing and Xinjiang, the Company now has a combined annual crushing capacity of 10,920,000 metric tons and a combined annual refining capacity of 4,170,000 metric tons. With the completion of this capacity expansion, the Company will start to increase packaging capacity and supporting facilities of existing plants in a timely manner, depending on market demand, and increase processing capacity in accordance with development requirements to solidify and enhance its position in the industry.

Looking forward, with the gradual recovery of China's economy and the acceleration of urbanisation, demand for edible oil from the catering industry, food processing industry and individual families will continue to increase, benefiting the development of the industry as a whole. China continues to step up efforts on food safety supervision, which should help to further promote high quality packaged oil products. Meanwhile, mid-sized packaged oil products are expected to be the key growth driver of the industry since these products are particularly favoured by the fast-growing catering industry. In addition, growing consumer demand for meat, eggs and milk products will drive the development of the oilseeds meal market. The continued expansion of large-scale commercial livestock farming and breedstock development will create more market opportunities for large-scale suppliers that can provide high quality products, efficient logistics and after-sales services. The Company will attempt to capture market opportunities and leverage the strategic locations of its plants around the coastal areas to improve its procurement efficiency, as well as apply hedging policies to safeguard itself from risks. Meanwhile, the Company will also optimise its product mix, continue to develop innovative products through its research and development efforts, enhance after-sales services and solutions, and enhance its overall pricing power and competitiveness to solidify and strengthen its leadership in the market.

Biochemical and Biofuel Business

In 2012, China Agri's biochemical and biofuel businesses reported a 17.3% year-on-year increase in total revenue to HK$15,117.0 million. During the year, corn starch sales increased 11.7% year-on-year to 1,605,000 metric tons and fuel ethanol sales rose by 7.8% year-on-year to 368,000 metric tons. However, it proved to be difficult to fully pass on the increases in raw material prices to customers in 2012 given the sluggish market demand for some products. This resulted in a decline in the gross profit margin from 14.6% in 2011 to 12.3%.

During the year under review, corn prices declined at the start of the year and then rebounded towards year-end. Throughout the year, the Company captured a number of opportunities related to procurement by purchasing raw materials in bulk from areas with lower prices. Benefiting from the strategic layout of the Company's facilities, which are located in and around key growing regions, the Company was able to source corn directly from local farms. These efforts, together with increasing use of frozen storage, have helped to maintain a stable supply of raw materials for production. The Company is also committed to the research and development of various technologies that could unlock opportunities to maximise efficiency and control costs.

Biochemical Business

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

During 2012, revenue from the biochemical business grew by 23.5% year-on-year to HK$8,731.1 million. The rise was mainly attributable to an increase in sales of the Company's major products and was made possible by the successful strategic capacity expansion that was completed in prior years. In addition to weak demand for starch from downstream customers, the decline in cane sugar prices over the year removed some of the price advantage of sweeteners and made them a less favourable substitute. Although the result was a decline in profitability, the financial health of the Company's biochemical business remained relatively stable compared with other industry players.

The Company focused on expanding sales to regions and customers where higher selling prices can be achieved, and improved inventory turnover and cash flow levels. At the same time, the Company actively strengthened and maintained its existing strategic cooperation with two renowned groups, namely China

◎ Distillation towers of COFCO Bio-Energy (Zhaodong) Co., Ltd.

Resources Snow Breweries and Anheuser-Busch InBev to ensure the sales of starch products and strengthen the coverage of the Company's sales network. In light of the steady growth of the food and beverage industry in China, as the largest starch processor in China, the Company will actively seek to capture the market potential by further developing starch products for its downstream business. The Company also adopted a market-oriented and customised approach to develop and launch higher value-added and diversified products based on extensive research and development, product innovation and technological upgrades. During the year, the Company also improved the quality of starch that is specifically formulated for paper manufacturing. This new and improved product was well received by major paper manufacturers in Fuyang, Zhejiang.

As of 31 December 2012, the Company had a total of eight factories in Jilin, Heilongjiang, Shanghai, Hubei, Hebei and Sichuan with an annual corn processing capacity of 2,450,000 metric tons and sweetener production capacity of 950,000 metric tons, making the Company a leading producer in the industry in China. The Company also brought 100,000 metric tons of monosodium glutamate (MSG) production capacity onstream at its Heilongjiang facility, as scheduled, during the year. The Company will continue to further expand downstream.

Looking forward, with the continued recovery of China's economy, the accelerated pace of urbanisation is expected to drive a rebound in demand for starch from the paper manufacturing, brewery and food processing industries in China. The steady growth in consumption per capita will also boost demand for candies, seasonings and beverages, which will in turn drive the overall sales of sweeteners. The Company will make every attempt to run new projects smoothly, promote sales of high value-added downstream products – such as sweeteners and MSG, strengthen its sales and marketing capabilities with technical support and other customer solutions, and take an active role in developing new products in order to solidify and expand its penetration in the market while creating sustainable value over the long-term.

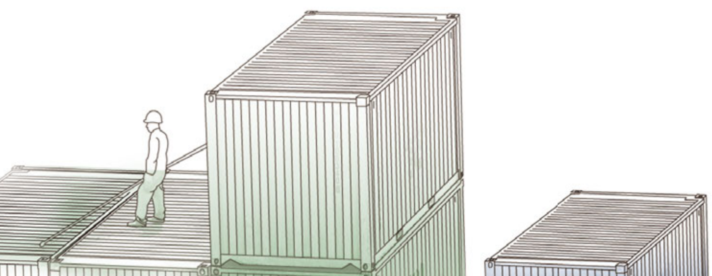
Biofuel Business

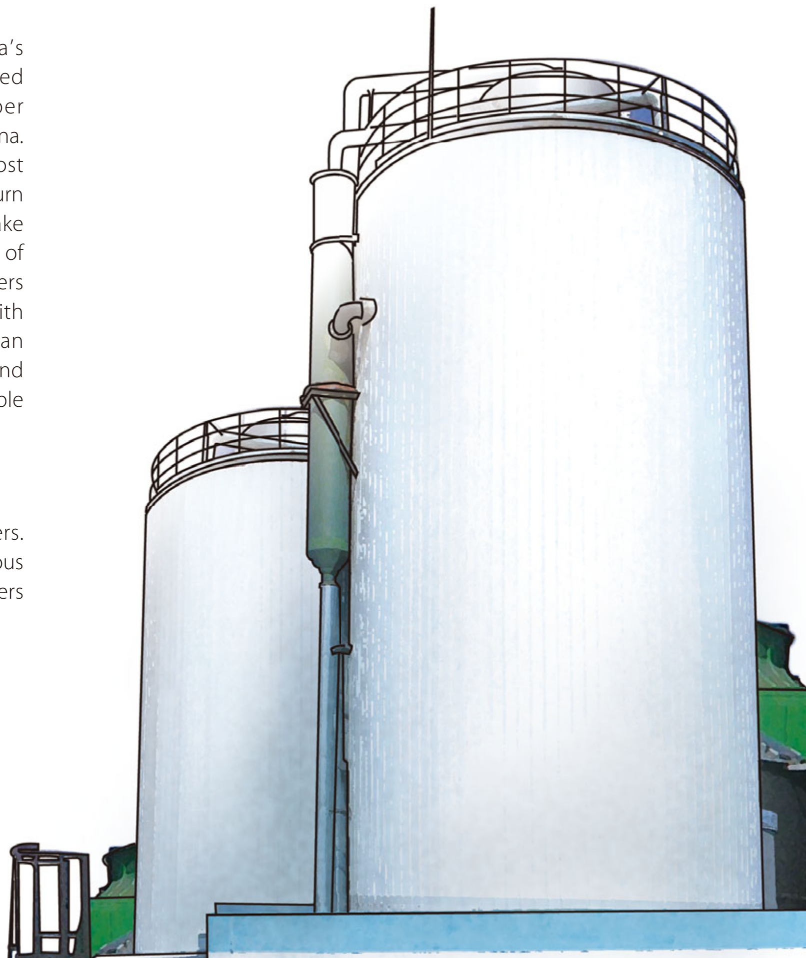
The Company is one of China's major fuel ethanol producers. The Company's biofuel products include fuel ethanol, anhydrous ethanol, consumable alcohol, crude corn oil and dried distillers grains with solubles (DDGS).

In 2012, revenue from the biofuel business grew by 9.7% year-on-year to HK$6,385.9 million. The Company took an active role in strengthening its communication with gasoline customers and relevant regulatory authorities, and increased its efforts in marketing, helping the Company's sales volume of fuel ethanol products increase by 7.8%. During the year under review, the National Development and Reform Commission (NDRC) amended its subsidies and tax policies on corn and tapioca fuel ethanol and adjusted gasoline prices eight times. This caused the average fuel ethanol price to rise year-on-year, and helped keep profitability in the biofuel business at a steady level.

As of 31 December 2012, the Company had a total of two factories in Heilongjiang and Guangxi provinces with a combined production capacity of 600,000 metric tons for fuel ethanol, anhydrous ethanol and consumable alcohol.

Looking ahead, the Company will continue to develop higher quality products through technological upgrades, and will actively participate in non-grain-based fuel ethanol production projects according to the Chinese government's guidelines. The Company aims to contribute to the promotion of renewable and environmentally-friendly energy.





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 branded packaged rice products are primarily sold under the brand names "Fortune" (福临门), "Five Lakes" (五湖) and "Jinying" (金盈). The major traditional markets for exports include Japan, South Korea, Hong Kong and Macau.

In 2012, the Company continued to expand its domestic sales, with sales volume rising significantly by 64.9% year-on-year to 1,529,000 metric tons and accounting for 91.7% of the segment's total sales. Export sales declined by 51.1% year-on-year to 138,000 metric tons. Driven by the surge in domestic sales, the rice processing and trading business recorded a 36.9% year-on-year rise in total revenue to HK$8,875.6 million. Despite the growth, domestic sales are still at an early stage of development. Over the course of the year, the Company brought many newly-added production capacities on-stream and also devoted greater resources to the marketing of a variety of branded products. The Company believes that its market leading position and strong brand will allow it to gradually charge a bigger premium for its products over time. Meanwhile, product prices rose at a lower rate than raw material prices due to stiff competition in the industry, which has in turn exerted pressure on the profitability of the Company's domestic sales.

During the year under review, the domestic rice industry encountered a situation where paddy prices remained high while product prices stayed low. As a result, the whole industry faced margin pressure and imported rice became increasingly attractive. As one of the biggest rice importers in China, the Company leveraged its experience in international trading to expand its rice imports, especially for high-quality rice from Vietnam and Pakistan, at relatively lower prices. Rice imports not only help guarantee supply during the off season, but can also bring in new high-quality varieties from Taiwan and Cambodia that help fulfill the diverse needs of the domestic market. The Company also launched several new high-end products, such as Taiwanese Rice (台灣鄉情米) and Cambodian Angkor Rice (柬埔寨吳哥香米), to meet growing consumer demand for greater product differentiation in China. In addition, the Company continued to focus its resources on attracting more customers from the catering, food processing and Chinese rice wine industries, which are developing quickly and have large industrial capacities. By actively developing new products and offering a wide variety of differentiated products – including an assortment of imported rice varieties that appeal to consumers in China, the Company was able to expand its sales during the year.

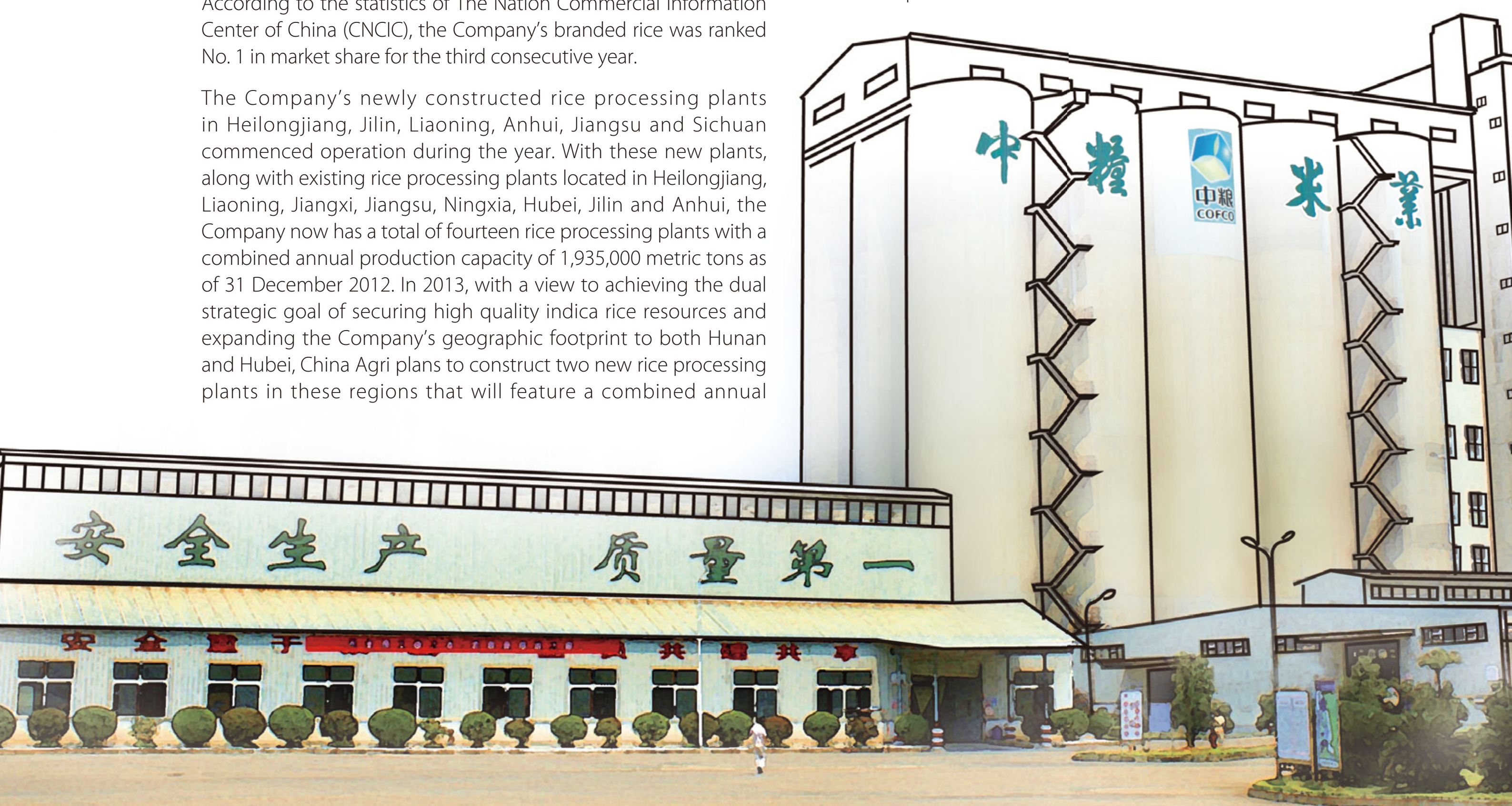
◎ Branded packaged rice products

Management Discussion and Analysis

With growing per capita consumption in China, demand for branded packaged rice has been accelerating. According to CVSC-TNS Research, the consumption of packaged rice in China increased by over 10% year-on-year to 7,500,000 metric tons during the year, accounting for over 30% of total rice consumption among urban households. During this time, product prices continued to rise. The Company took advantage of the ongoing development in the industry to maintain and expand its leading position in China. Products are currently being sold in more than 65,000 outlets, with a total of 22 sales offices and sales departments in plants established nationwide. China Agri is also seeking to optimise its product mix by actively promoting branded rice products, which the Company is able to price at a premium. The Company successfully launched a new branded packaged rice product by the name of "Jin Feng Nian" (金豐年) in July and started distributing it to high-end supermarket chains in Hong Kong. In addition to being designated as the official partner of China's Space Program to supply packaged rice under the brand name "Fortune", the Company was also appointed by China's General Administration of Sports to be the official supplier of packaged rice to Chinese athletes at the London Olympics Games. The Company's "Fortune" rice was also well received by athletes and won wide recognition among consumers. The market share and penetration of "Fortune" and "Five Lakes" branded products continued to grow. According to a market survey conducted by AC Nielsen in 2012 that studied packaged rice sold in hypermarkets in China, the Company had a 15.5% market share. According to the statistics of The Nation Commercial Information Center of China (CNCIC), the Company's branded rice was ranked No. 1 in market share for the third consecutive year.

The Company's newly constructed rice processing plants in Heilongjiang, Jilin, Liaoning, Anhui, Jiangsu and Sichuan commenced operation during the year. With these new plants, along with existing rice processing plants located in Heilongjiang, Liaoning, Jiangxi, Jiangsu, Ningxia, Hubei, Jilin and Anhui, the Company now has a total of fourteen rice processing plants with a combined annual production capacity of 1,935,000 metric tons as of 31 December 2012. In 2013, with a view to achieving the dual strategic goal of securing high quality indica rice resources and expanding the Company's geographic footprint to both Hunan and Hubei, China Agri plans to construct two new rice processing plants in these regions that will feature a combined annual production capacity of 330,000 metric tons. The Company's rice processing plants are near grain growing areas and sales markets, which help to enhance the efficiency of both production and distribution. By implementing various improvements related to the procurement process, such as increasing contract farming in quality growing areas and attracting large-scale and high-quality suppliers, the Company believes it can exert greater control over its sourcing of raw grains.

Looking ahead, the accelerated pace of urbanisation in China will drive further growth of the industry as well as consumption per capita. The increase in household consumption and growing demand from the catering industry, together with the rising desire among consumers for a higher quality of life, have boosted demand for mid to high-end packaged rice products in the market, thereby providing opportunities for China Agri to further develop its domestic sales of rice products. With the newly constructed plants coming on-stream and gradual improvements to capacity utilisation, the Company believes that its nationwide geographic footprint will provide it with distinct advantages related to procurement, reduce impact from rising raw material prices, and help develop the domestic sales market. The Company will also focus on brand building and the development of its distribution network, which should thereby help increase its market share and the penetration of high-end products like "Fortune". By expanding its catering and food processing channels, the Company believes it will enhance its profitability and market position.



Wheat Processing Business

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

In 2012, China Agri's wheat processing business remained a leader in the industry in terms of operating results. The increase in both sales volume and selling prices of products led to a 8.7% year-on-year increase in segment revenue to HK$5,876.0 million. During the year, the sales volume of flour increased by 1.9% year-on-year to 1,295,000 metric tons. Following the Company's efforts to develop downstream products and benefiting from the Company's newly added production capacity, the sales volume of noodles soared by 40.1% year-on-year, while sales volume of bread products grew by 38.1% year-on-year.

During the year under review, the price of wheat was relatively stable in the first half of the year, but it started to increase rapidly in August as a result of a growing imbalance between demand and supply. By closely monitoring the price trends of raw grains and capitalising on procurement opportunities on a timely basis, the Company was able to acquire high-quality grain resources, efficiently manage raw material inventory levels and secure raw material supply with price certainty. Meanwhile, the Company expanded its use of contract farming in terms of both scale and scope, especially for high-quality wheat, thereby forming a national network covering the country's major wheat growing areas and gaining better control over key raw materials in the Company's core regions. To ensure that production capacity that was newly added during the year would be effectively utilised, the Company monitored and analysed changes in market conditions, proactively adjusted its sales strategy, and continued to integrate its operations while improving the professional management of the organisation. As a part of this, through the implementation of centralised management of key customers, in addition to improved product research, development and innovation that is directly focused on catering to market demand, the Company was able to enhance the positioning and awareness of its products in the market.

In recent years, the size of the flour market expanded steadily based on growth in demand from the food and catering industries. Equipped with an extensive sales network and significant market coverage, the Company committed to serving the fast-growing large-scale food processing enterprises and catering chains, and

◎ "Xiangxue" branded flour and noodle products

managed to expand its market share and solidify its industry leading position. Meanwhile, with the continued growth of China's economy and rising income levels, the mid-end and high-end consumer segments are accounting for a more substantial portion of overall consumption. A major beneficiary of this changing dynamic is noodles, which is a staple food in China that has been seeing rapidly growing demand year after year. Recognising this trend, the Company swiftly expanded the scale of its noodles business and proactively penetrated into the high value-added downstream business. Targeting mid and high-end consumers, the Company focused on developing modern marketing strategies and stepped up its promotional activities in order to enhance the visibility and competitiveness of its brands.

The production capacity of the Company's wheat processing business grew rapidly in 2012. New flour and noodle processing plants and production facilities came on-stream in Zhejiang, Henan, Hebai and Sichuan, reinforcing in the Company's ability to supply major sales markets such as Eastern and Southwestern China. With the Company's fourteen existing plants in Henan, Hebei, Jiangsu, Liaoning, Fujian, Shandong and Beijing, the Company's aggregate annual processing capacity reached 3,451,000 metric tons of wheat, 141,000 metric tons of noodles and around 2,000 metric tons of baked goods. In 2013, China Agri will continue to diversify downstream with its plans to set up production facilities for noodles in Henan with an annual capacity of 36,000 metric tons. Based on market demand, production projects will be implemented in a timely manner in regions with well-developed food and catering industries and strong consumer buying power, so as to pave the way for future business growth.

Looking ahead, the accelerating economic recovery and urbanisation of China will drive continued growth in the food and catering industries, which in turn will promote the rapid development of the flour and noodle markets. With the further optimisation of the geographic footprint of the Company's production capacity, China Agri will be in a better position to keep itself abreast of market developments, enhance its sales efficiency and deliver greater economies of scale in its operations. The Company will continue to leverage the advantages it has in terms of sharing resources between its upstream and downstream businesses, step up investments in noodle and baked good products, enhance production capacity as well as competitiveness of its products, and customise new products in accordance with specific customer demand, with a view to solidifying and expanding its leading position in the market.

Brewing Materials Business

The Company is a leading producer of malt and supplier of brewing materials in China. Sales are focused on the domestic market and other countries and regions in Southeast Asia.

In 2012, China Agri took advantage of low inventory levels at a variety of breweries in China by leveraging its strength in the processing of imported barley to boost its sales volumes. During the year, the sales volume of malt increased by 45.6% year-on-year and reached a record high of 611,000 metric tons. Product prices and the Company's market share both increased, driving year-on-year brewing material revenue growth of 49.3% to HK$2,551.5 million. The Company strived to stringently control its variable expenses and effectively reduced production costs through the implementation of various measures, including technological improvements, the conservation of energy and efficiency enhancements. The gross profit margin of the business was maintained at an industry-leading level.

At the beginning of 2012, harvests in major barley planting regions in the international market caused feedstock prices to drop significantly, and demand for imported barley from breweries increased. However, moving into the second half of 2012, barley prices moved higher along with other commodity crops as supply shortages arose in Argentina due to rain problems during their harvest period. The Company leveraged its experience and advantages in international trading to procure raw materials from regions with relatively consistent quality, though at lower prices, which helped lay a solid foundation for growth in the business. In addition, in order to further deepen its relationships with major brewing partners, the Company centralised sales activities for all major customers and actively promoted the Company's solution to substitute domestic barley with imported barley. As a result, sales to major customers increased substantially and the overall sales volume also rose.

◎ Different varieties of malts

China maintained its position as the largest producer of beer in the world for the tenth straight year. Consumption per capita stayed at a comparable level to the more developed beer markets in Asia, including Japan and Korea, and mid to higher-end products continued to gain a larger share of the market as living standards continue to rise. The Company continued to develop innovative new products and production technology in order to meet the diversified requirements of customers. The primary focus was on high quality and differentiated malt products that cater to the high-end market, though the Company also continues to offer other more economical products that appeal to budget-conscious buyers. During the year, the Company saw significant year-on-year growth in the sales volume of special and refined malts that cater to customers in the high-end markets. The contribution of high-end products to total sales volume also rose over time.

As of 31 December 2012, 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 geographic proximity of the plants in Liaoning and Jiangsu to ports and the Company's end markets lowered the cost of transportation and helped to effectively expand the Company's penetration in nearby mid to high-end consumer markets. The Company's malt processing plant in Yakeshi, Inner Mongolia, is located near domestic growing areas of malting barley, and mainly produces malt products that satisfy the varied demand in the domestic market.

Looking forward, the accelerated growth of income and consumption per capita is expected to contribute to a rise in sales of mid and high-end beer products, which should thus stimulate demand for high quality malt. The growing trend of consolidation among beer companies will provide opportunities for strong raw material suppliers. The Company will closely monitor market trends, selectively procure raw materials both directly from farms and through traders, and ensure both a flexible and steady supply of raw materials whenever needed. It will also seek to strategically cooperate with a selection of leading suppliers in order to tighten its control over raw materials. In addition, the Company will actively capitalise on its technical advantages to create new innovative products, provide differentiated high quality brewing materials according to customer requirements, and raise customer service standards in order to solidify and expand the Company's market share.

Financial Review

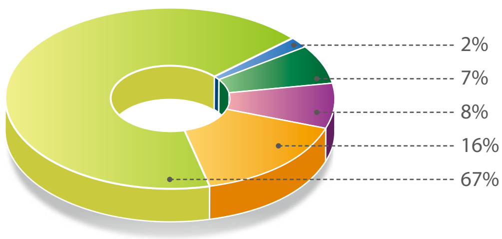
Overview of 2012 Financial Results

	2012 HK$ million	2011 HK$ million	Change
Revenue	**91,319.2**	82,349.9	11%
Cost of sales	**(85,454.7)**	(75,566.0)	13%
Gross profit	**5,864.5**	6,783.9	(14)%
Other income and gains	**1,246.7**	1,965.0	(37)%
Selling and distribution expenses	**(2,881.0)**	(2,511.8)	15%
Administrative expenses	**(1,749.9)**	(1,540.1)	14%
Other expenses	**(10.2)**	(110.1)	(91)%
Finance costs	**(883.7)**	(888.7)	(1)%
Share of profits of associates	**23.7**	169.8	(86)%
Profit before tax	**1,610.1**	3,868.0	(58)%
Income tax expense	**(198.4)**	(563.2)	(65)%
Profit for the year	**1,411.7**	3,304.8	(57)%
Profit attributable to owners of the Company	**1,227.5**	2,368.0	(48)%

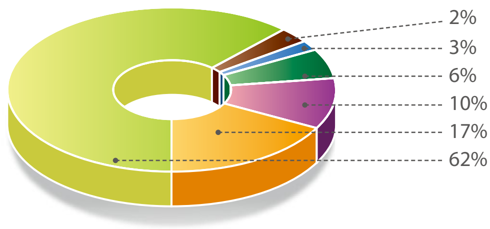
Revenue

During the year under review, all business segments reported growth in revenue. Benefiting from newly-added production capacity that was brought on-stream, the total revenue increased by 11% to HK$91,319.2 million compared with the previous year. Among the Group's five business segments, the largest contribution to revenue came from the oilseeds processing business, accounting for 62.0% of the total revenue, which compares with 67.4% last year.

2011 Revenue



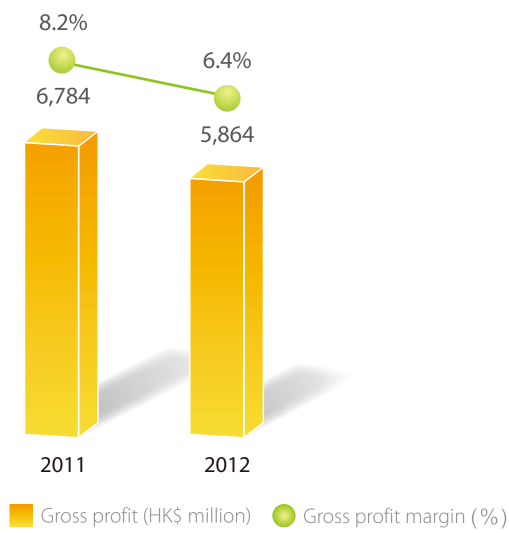
2012 Revenue



Oilseeds processing | Biochemical and biofuel | Rice processing and trading | Wheat processing | Brewing materials processing | Corporate and others

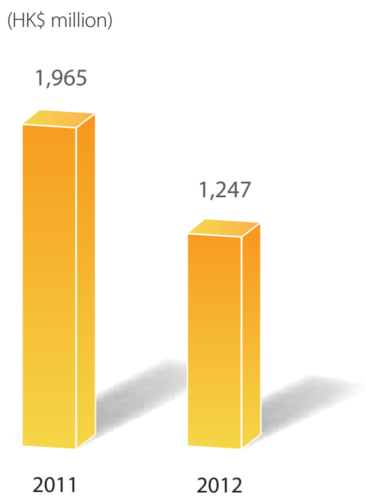
Gross Profit and Gross Profit Margin

In 2012, the Group's gross profit declined by HK$919.4 million to HK$5,864.5 million (2011: HK$6,783.9 million) and the overall gross profit margin decreased from 8.2% a year earlier to 6.4%. During the year, the Group found it difficult to pass through rising raw material costs to customers amid a challenging macroeconomic and operating environment. In particular, the Group's oilseeds, starch and rice products faced margin pressure. Comparatively, the gross profit margins of the Group's biofuel business, wheat processing business and brewing materials business remained at a relatively high level.



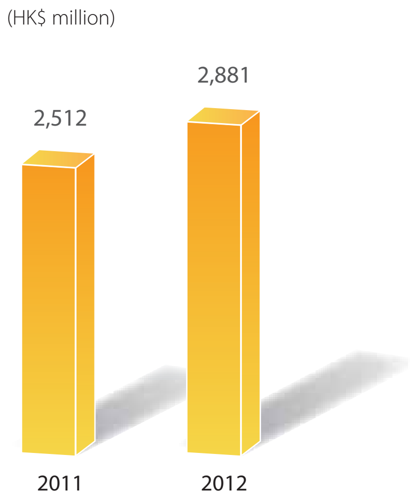
Other Income and Gains

Other income and gains for 2012 were HK$1,246.7 million, down 37% from HK$1,965.0 million in 2011. It was mainly attributable to the drastic decrease in exchange gains as a result of slower Renminbi appreciation against the United States dollar for foreign currency liabilities compared with the previous year.



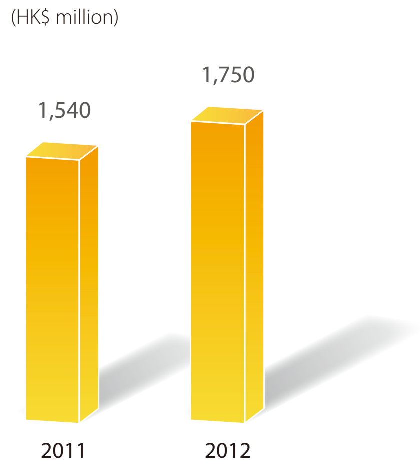
Selling and Distribution Expenses

For the year ended 31 December 2012, selling and distribution expenses rose 15% year-on-year to HK$2,881.0 million. Selling and distribution expenses mainly consist of transportation and storage costs, salaries of salespeople, as well as marketing and promotion expenses, and various other costs. The increase was due to higher logistic costs, such as transportation costs, arising from expanded scale of business and higher sales volume.



Administrative Expenses

Administrative expenses mainly consist of employee compensation and daily operation costs. During the year, administrative expenses increased by HK$209.8 million to HK$1,749.9 million (2011: HK$1,540.1 million). The rise was mainly due to a variety of new projects that went into operation in the second half of 2011 and during 2012.



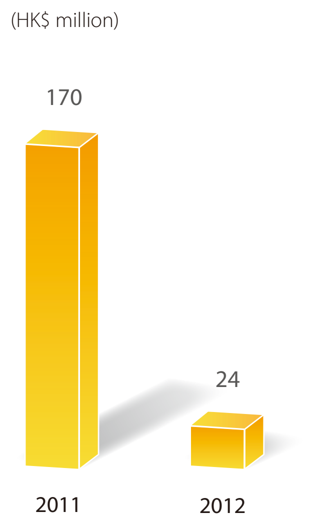
Finance Costs

Finance costs were HK$883.7 million for the year ended 31 December 2012, which were largely unchanged from HK$888.7 million for 2011. An analysis of the finance costs by category is as follows:

	2012 HK$ million	2011 HK$ million
Interest on:		
Bank loans wholly repayable within five years	**703.6**	749.6
Bank loans wholly repayable over five years	**23.1**	1.6
Loans from fellow subsidiaries wholly repayable within five years	**19.7**	26.0
Loan from the ultimate holding company wholly repayable within five years	**13.2**	–
Loan from an intermediate holding company wholly repayable within five years	**91.7**	36.5
Convertible bonds	**104.3**	102.5
Total interest expenses on financial liabilities not at fair value through profit or loss	**955.6**	916.2
Less: Interest capitalised	**(71.9)**	(27.5)
	883.7	888.7

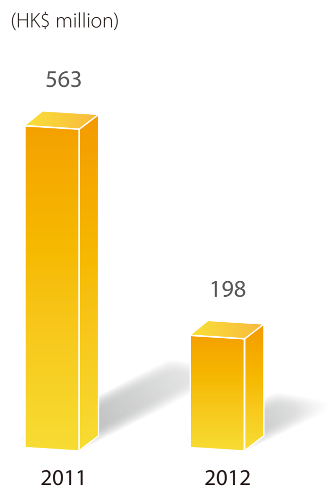
Share of Profits of Associates

Share of profits of associates declined by HK$146.1 million to HK$23.7 million (2011: HK$169.8 million). It was mainly due to the losses incurred by some associates in the oilseeds segment amid the challenging oilseeds operating environment during the year.



Income Tax Expense

The provision for Hong Kong profits tax was calculated at a rate of 16.5% on the estimated assessable profits arising in Hong Kong. PRC subsidiaries are subject to the PRC corporate income tax at a rate of 25%. Certain subsidiaries have been granted a preferential tax rate of 15% by the relevant authorities in Mainland China. During the year, income tax expense decreased by HK$364.8 million to HK$198.4 million (2011: HK$563.2 million) as a result of the decline in pre-tax profit.



Net Profit and Final Dividend

The profit attributable to owners of the Company for the year was HK$1,227.5 million (2011: HK$2,368.0 million), down 48% from a year earlier. The decline was mainly attributable to margin pressure on oilseeds, starch and rice products due to the challenging macroeconomic and industry conditions, coupled with the significant drop in foreign exchange gains arising from the slowdown in Renminbi appreciation.

The Board of Directors recommended a final dividend of 3.5 HK cents (2011: 3.8 HK cents) per share for the year ended 31 December 2012. Subject to the shareholders approving this recommendation at the forthcoming annual general meeting, the final dividend will be paid on or around 28 June 2013 to the shareholders whose name appear on the register of members of the Company on 14 June 2013. The proposed final dividend together with the interim dividend of 3.1 HK cents per share paid on 9 October 2012 amounts to a total dividend of HK$308.9 million for the year.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

On 27 April 2012, the Group completed the acquisition of the entire issued share capital of Poly Idea Investments Limited together with the shareholder's loan at a cash consideration of RMB28.9 million (equivalent to approximately HK$35.7 million) from COFCO (Hong Kong) Limited, the intermediate holding company of the Company. The subsidiary of Poly Idea Investments Limited is engaged in the production and sales of safflower oil, rapeseed oil, oil meal and saffron wine; grain and wine package products; grain and oil machinery import and export business. Please refer to the Company's announcements dated 16 March 2012 and 20 March 2012 for details.

On 27 April 2012, the Group completed the acquisition of the entire issued share capital of Sharp Global Limited together with the shareholder's loan at a cash consideration of RMB95.5 million (equivalent to approximately HK$117.9 million) from Full Great Investments Limited, a fellow subsidiary of the Company. The wholly-owned subsidiary of Sharp Global Limited is engaged in research & development, production, processing and sales of food additives, microencapsulation natural active substances and products with plant natural active ingredients. Please refer to the Company's announcements dated 19 March 2012 and 20 March 2012 for details.

On 7 December 2012, COFCO Rice (HK) No. 8 Limited ("COFCO No. 8"), a wholly-owned subsidiary of the Company, COFCO Corporation ("COFCO") and COFCO Chaohu Rice Processing Limited ("COFCO Chaohu") entered into the capital increase agreement to the effect that COFCO will become a new shareholder of COFCO Chaohu from the date when COFCO Chaohu is issued its revised business licence upon the capital increase. Immediately after the completion of the capital increase agreement, COFCO Chaohu will be owned as to approximately 88.76% by COFCO No. 8, and approximately 11.24% by COFCO. The total investment by COFCO in COFCO Chaohu is RMB22.0 million. COFCO No. 8 and COFCO also entered into the relevant joint venture agreement and passed the articles of association of COFCO Chaohu on the same date. The above transaction was completed on 15 January 2013. Please refer to the Company's announcement dated 7 December 2012 for details.

On 7 December 2012, COFCO Rice (HK) No. 2 Limited ("COFCO No. 2"), a wholly-owned subsidiary of the Company, COFCO and COFCO Rice (Yancheng) Co., Ltd. ("COFCO Yancheng") entered into the capital increase agreement to the effect that COFCO will become a new shareholder of COFCO Yancheng from the date when COFCO Yancheng is issued its revised business licence upon the capital increase. Immediately after the completion of the capital increase agreement, COFCO Yancheng will be owned as to approximately 89.23% by COFCO No. 2, and approximately 10.77% by COFCO. The total investment by COFCO in COFCO Yancheng is RMB22.5 million. COFCO No. 2 and COFCO also entered into the relevant joint venture agreement and passed the articles of association of COFCO Yancheng on the same date. The above transaction was completed on 6 March 2013. Please refer to the Company's announcement dated 7 December 2012 for details.

On 7 December 2012, COFCO Rice (HK) No. 6 Limited ("COFCO No. 6"), a wholly-owned subsidiary of the Company, COFCO and COFCO Shenyang Rice Processing Limited ("COFCO Shenyang") entered into the capital increase agreement to the effect that COFCO will become a new shareholder of COFCO Shenyang from the date when COFCO Shenyang is issued its revised business licence upon the capital increase. Immediately after the completion of the capital increase agreement, COFCO Shenyang will be owned as to approximately 87.73% by COFCO No. 6, and approximately 12.27% by COFCO. The total investment by COFCO in COFCO Shenyang is RMB22.5 million. COFCO No. 6 and COFCO also entered into the relevant joint venture agreement and passed the articles of association of COFCO Shenyang on the same date. Currently, the competent authority has approved the relevant capital increase agreement, the joint venture agreement and the articles of association. The completion of the above transaction shall take place on the date of issuance of the revised business licence of COFCO Shenyang. Please refer to the Company's announcement dated 7 December 2012 for details.

On 7 December 2012, COFCO Flour (HK) No. 1 Limited ("COFCO No. 1"), a wholly-owned subsidiary of the Company, COFCO and COFCO Flour Industry (Haining) Co., Ltd. ("COFCO Haining") entered into the capital increase agreement to the effect that COFCO will become a new shareholder of COFCO Haining from the date when COFCO Haining is issued its revised business licence upon the capital increase and COFCO No. 1 shall inject further investment into COFCO Haining. Immediately after the completion of the capital increase agreement, COFCO Haining will be owned as to approximately 94.33% by COFCO No. 1, and approximately 5.67% by COFCO. The new investments by COFCO No. 1 and COFCO in COFCO Haining are in Hong Kong dollars equivalent to RMB53.0 million and RMB23.0 million respectively. COFCO No. 1 and COFCO also entered into the relevant joint venture agreement and passed the articles of association of COFCO Haining on the same date. The above transaction was completed on 11 January 2013. Please refer to the Company's announcement dated 7 December 2012 for details.

Save as disclosed above, 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 its own funds and bank loans.

The Group entered into the financial services agreement with COFCO Finance Co., Ltd. through COFCO Agri-Industries Management Co., Ltd. (a subsidiary of the Company) with an aim of achieving more efficient deployment and application of funds within the Group so as to reduce the average borrowing costs 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.

On 24 December 2012, the Company completed its rights issue, for which 1,211,510,949 new ordinary shares were issued at HK$3.39 per share on the basis of three rights shares for every ten shares held. The net proceeds of HK$4,092.7 million were raised and the funds would be used to pay for the possible redemption of convertible bonds and the general working capital of the Company. The rights issue allows the Company to strengthen its capital base and optimise its capital structure.

By 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, as well as foreign currency forward contracts to mitigate exchange rate exposure.

Cash and Bank Deposits

As at 31 December 2012, the Group had sufficient liquid funds with cash and bank deposits (including pledged deposits) amounting to HK$9,408.9 million (31 December 2011: HK$9,189.7 million). During the year, the Group recorded net cash inflow from operations of approximately HK$2,130.1 million (2011: HK$1,205.5 million). These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

Bank Loans and Other Borrowings

The total interest-bearing bank loans and other borrowings (including the liability component of convertible bonds) amounted to HK$32,188.9 million (31 December 2011: HK$32,915.0 million) as at 31 December 2012. The borrowings were mainly used for the daily operation and business expansion of the Group. These loans are repayable within the following periods:

	31 December 2012 HK$ million	31 December 2011 HK$ million
Within one year or on demand	**26,433.9**	24,071.2
In the second year	**4,081.6**	150.5
In the third to fifth years, inclusive	**1,344.3**	8,638.6
Beyond five years	**329.1**	54.7
	32,188.9	32,915.0

The interest-bearing bank loans carried annual interest rates ranging between 0.61% and 7.76% (31 December 2011: between 0.82% and 7.22%). Other borrowings (including the liability component of convertible bonds) carried annual interest rates ranging between 2.71% and 6.56% (31 December 2011: between 2.71% and 6.31%). At the end of the year, the Group has pledged assets with an aggregate carrying value of HK$434.3 million (31 December 2011: HK$650.4 million) to secure bank loans and banking facilities of the Group. These interest-bearing bank loans and other borrowings were denominated in Hong Kong dollars, Renminbi and United States dollars. The Group had no unutilised committed banking facilities as at 31 December 2012 and 31 December 2011. 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 2012 and 31 December 2011 are set out below:

	31 December 2012	31 December 2011
Net gearing ratio (the ratio of net debt to shareholders' equity)	**84.2%**	108.0%
Liquidity ratio (the ratio of current assets to current liabilities)	**1.19**	1.25
Quick ratio (the ratio of current assets less inventories to current liabilities)	**0.66**	0.71

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$22,780.0 million at 31 December 2012 (31 December 2011: HK$23,725.3 million).

Capital Expenditures

The total capital expenditures of the Group for the year ended 31 December 2012 are tabulated below:

	2012 HK$ million	2011 HK$ million
Business units:		
Oilseeds processing	**1,128.1**	2,934.4
Biochemical and biofuel	**1,747.4**	1,851.9
Rice processing and trading	**985.4**	1,769.9
Wheat processing	**790.5**	630.5
Brewing materials	**11.8**	99.4
Corporate and others	**355.9**	301.2
	5,019.1	7,587.3

Capital Commitments

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

Human Resources

The Group employed a total of 27,829 (31 December 2011: 25,459) staff as at 31 December 2012. The Group's employees are remunerated according to job nature, individual performance and market trends with built-in merit components. Total remuneration (excluding directors' and chief executive's remuneration) for the year ended 31 December 2012 amounted to approximately HK$1,766.6 million (2011: HK$1,586.1 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 Mainland China. Of the total remuneration, pension scheme contribution amounted to HK$168.7 million (2011: HK$123.4 million) for the year.

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

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 2012, the Company has complied with all the applicable code provisions and, where appropriate, the applicable recommended best practices set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (newly effective from 1 April 2012) (the "Code") contained 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 8 June 2012 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 2012

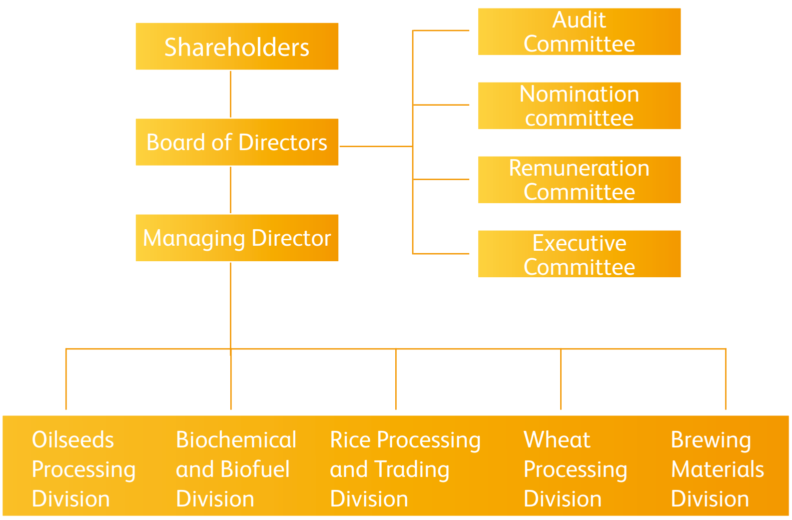
Jan	Directors' training on the Corporate Governance Code and amendments to associated Listing Rules which became effective by phases from 1 January 2012.
Feb	The Company was named in the "Annual Awards 2012" of "The Credible Enterprise of China Accreditation" by the China Enterprise Reputation and Credibility Association (Overseas).
Mar	Thorough review and revision on the Corporate Governance Manual of the Board of Directors of the Company and adoption of the Shareholder Communication Policy and the Procedures for Shareholders to Propose a Person for Election as a Director to enhance governance practices.
	The Company was awarded for "Best Corporate Social Responsibility" and "Best Investor Relations" by Corporate Governance Asia magazine.
Jun	The Company was awarded for the "Annual Recognition Award" by Corporate Governance Asia magazine.
	Mr. Ning Gaoning, Non-executive Director of the Company, was honoured with an "Asian Corporate Director Recognition Award 2012" by Corporate Governance Asia magazine.
Oct	Directors' training on the statutory backing of price-sensitive information disclosure obligations.
Dec	The Company was awarded the "Gold Prize for Corporate Governance and Investor Relations – Food and Beverage Industry" by The Asset magazine.

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 2012 in relation to their securities dealings, if any.

The Company has also adopted a code for securities transactions by relevant employees based on the Model Code concerning dealings by the relevant employees in the securities of the Company (the "Employees Model Code"). 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. It is also responsible for performing corporate governance duties set out in its own Code of Practice for the Board with terms of reference no less than those required under D.3.1 of the Code. The management is delegated with the authority and responsibility by the Board for the management of the Group. In addition, the Board has established various Board committees and delegated various responsibilities to the Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") (together, the "Board Committees") and the executive committee (the "Executive Committee"). All the Board Committees perform their distinct roles in accordance with their respective terms of reference. Further details of these committees are set out hereunder.

Other than resolutions passed by means of resolutions in writing of all Directors, the Board held ten meetings (including five independent non-executive Directors' meetings, four regular Board meetings and one other meeting) 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 Executive Director			
YU Xubo*	3/4	N/A	1/1
Executive Directors			
LV Jun	4/4	N/A	1/1
YUE Guojun#	3/4	N/A	0/1
Non-executive Directors			
NING Gaoning*	1/4	N/A	0/1
MA Wangjun	4/4	N/A	1/1
WANG Zhiying	3/4	N/A	1/1
Independent Non-executive Directors			
LAM Wai Hon, Ambrose	4/4	5/5	1/1
Victor YANG	4/4	5/5	1/1
Patrick Vincent VIZZONE	4/4	5/5	1/1

The above table shows the positions held as at 31 December 2012.

* *The Chairman of the Board has been changed from Mr. Ning Gaoning to Mr. Yu Xubo with effect from 28 March 2012.*

\# *Mr. Yue Guojun has been re-designated as non-executive Director with effect from 22 January 2013.*

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.

The Board, having reviewed the work implemented and executed during the year and collected opinions of the senior management during the course of review, considers that it has effectively discharged its responsibilities and maintained the interests of the shareholders and the Company.

During the year, the Board convened one general meeting. The Directors (Messrs. Lv Jun, Lam Wai Hon, Ambrose, Victor Yang and Patrick Vincent Vizzone) together with the management and independent auditors' representatives attended the annual general meeting of the Company held on 8 June 2012.

Chairman and Managing Director

During the first quarter of 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, which has been changed to Mr. Yu Xubo and Mr. Lv Jun respectively after the re-designation of Directors and the change of the managing director being effective from 28 March 2012. 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, Messrs. Yu Xubo, Lv Jun and Yue Guojun as executive Directors; Messrs. Ning Gaoning, 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. Yue Guojun has been re-designated as non-executive Director since 22 January 2013.

The Board members have no financial, business, family or other material or relevant relationships with each other. The composition of the Board has satisfied the requirement under Rule 3.10A of the Listing Rules 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. 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 stringent than those set out in the Code.

Messrs. Yu Xubo, Ma Wangjun and Lam Wai Hon Ambrose will retire at the forthcoming 2013 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 and Training

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. A summary of training received by the Directors during the year according to the records provided by the Directors is set out below.

Name of Director	Attending briefings, seminars or conferences	Reading materials relevant to the director's duties and responsibilities
Chairman and Executive Director		
YU Xubo*	✓	✓
Executive Directors		
LV Jun	✓	✓
YUE Guojun#	✓	✓
Non-executive Directors		
NING Gaoning*	✓	✓
MA Wangjun	✓	✓
WANG Zhiying	✓	✓
Independent Non-executive Directors		
LAM Wai Hon, Ambrose	✓	✓
Victor YANG	✓	✓
Patrick Vincent VIZZONE	✓	✓

The above table shows the positions held as at 31 December 2012.

* *The Chairman of the Board has been changed from Mr. Ning Gaoning to Mr. Yu Xubo with effect from 28 March 2012.*

Mr. Yue Guojun has been re-designated as non-executive Director with effect from 22 January 2013.

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. It is chaired by the chairman of the Board and comprises a majority of independent non-executive Directors. 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 and a member of the Nomination Committee up to 28 March 2012, Mr. Yu Xubo (executive Director) as its chairman since his appointment to the Nomination Committee on 28 March 2012, 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 and the Board Committees and to consider the rotation of retirement of Directors at the annual general meeting of the Company. Further, it laid down the process and criteria to select and nominate suitable candidates for the appointment to the Board. The policy proposed by the Nomination Committee was adopted by the Board in March 2012 and uploaded on the Company's website. Details of attendance of each Nomination Committee member 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
YU Xubo *(Chairman)* (appointed on 28 March 2012)	N/A	N/A	N/A
NING Gaoning *(former Chairman)* (ceased membership on 28 March 2012)	1	1	100%
WANG Zhiying	1	1	100%
LAM Wai Hon, Ambrose	1	1	100%
Victor YANG	1	1	100%
Patrick Vincent VIZZONE	1	1	100%

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 2013 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. It comprises a majority of independent non-executive Directors and, since 28 March 2012, has been chaired by an independent non-executive Director. 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 up to 28 March 2012 but remains as a member, Mr. Ma Wangjun (non-executive Director), Messrs. Lam Wai Hon, Ambrose, Victor Yang and Patrick Vincent Vizzone (independent non-executive Directors). Mr. Victor Yang was appointed as the chairman on 28 March 2012.

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

The Remuneration Committee is delegated with authority and responsibility to determine the remuneration packages of individual executive Directors and senior management. It 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 Remuneration Committee or recommended to the Board for review. Where necessary, the Remuneration Committee may seek professional advice of an external expert 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 two meetings to review the Company's performance assessment system, and the existing remuneration packages of the executive Directors and senior management. Details of attendance of each Remuneration Committee member 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
Victor YANG *(Chairman)**	2	2	100%
MA Wangjun	2	2	100%
WANG Zhiying *(former Chairman)**	2	2	100%
LAM Wai Hon, Ambrose	2	2	100%
Patrick Vincent VIZZONE	2	2	100%

* *The chairman of the Remuneration committee has been changed from Mr. Wang Zhiying to Mr. Victor Yang since 28 March 2012.*

Remuneration payable to senior management (excluding Directors) for the year ended 31 December 2012 is within the band of HK$1,500,000 to HK$2,500,000. Details of the remuneration of the Directors for the year ended 31 December 2012 are set out in note 8 to the financial statements.

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/or 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 member 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%
MA Wangjun	3	3	100%
WANG Zhiying	3	3	100%

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 maintains an adequate amount of qualified and experienced staff (the information on the number of Certified/Chartered Accountants of the Company are listed below) for its accounting and financial reporting function. 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	14
Association of Certified Chartered Accountants	2*
Hong Kong Institute of Certified Public Accountants	3
American Institute of Certified Public Accountants	2**
CPA Australia	1

* *One of these two individuals is also a member 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 period from 1 January 2012 to 28 March 2012, the Executive Committee comprised Mr. Yu Xubo as the chairman of the Executive Committee, Messrs. Lv Jun and Yue Guojun. Since the re-designation of Mr. Yu Xubo as the Chairman of the Board and ceased to act as the managing director of the Company with effect from 28 March 2012, the chairman of the Executive Committee has been changed to Mr. Lv Jun (Managing Director). The latest composition is set out on page 1 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.

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$5.0 million and HK$1.8 million, respectively. The non-audit services mainly included tax consultancy and business advisory services.

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. After appropriate enquires, the Directors 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 2012 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 2012 on 26 March 2013. An independent Auditors' Report is included in this annual report on pages 68 and 69.

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 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 who wish 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 regular 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 6 June 2013. 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 Social Responsibility

The Company values stakeholders' expectations and concerns, and actively communicates with stakeholders. In the Company's 2012 Corporate Social Responsibility Report, we have prepared a summary on our works and performance in promoting corporate governance, ensuring grain supply, deepening food safety management, facilitating rural development, increasing farmers' income and protecting ecological environment in accordance with the ten principles of the United Nations Global Compact, and with reference to the Global Reporting Initiative's G3 framework and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Lising Rules. Electronic copy of the 2012 Corporate Social Responsibility Report can be accessed and downloaded from the Company's website.

Investor Relations

China Agri has always regarded investor relations as an important aspect of corporate governance. The Company has established a professional investor relations team to provide two-way communication between management and the investment community. The investor relations team attempts to continually update investors about the Company's latest business developments in a timely manner and regularly reports market opinions to management so that the Company's executives can gain insight about concerns in the market and help improve the governance and operation of the Company.

In 2012, the Company strived to enhance its corporate transparency and the quality of information disclosure by organising a variety of investor relations activities, which included regular one-on-one meetings, conference calls and luncheons with both current and potential shareholders and analysts, so that investor concerns could be promptly addressed. Following the release of the interim and annual results, the Company also organised press conferences and analyst presentations, during which the management team explained and discussed with investors the Company's business conditions and development strategies. During the year, the Company conducted non-deal roadshows in Hong Kong and participated in large-scale investor meetings organised by international investment banks. These were all conducted in an effort to actively maintain communication with investors and strengthen the market's confidence in the Company. In addition, the Company also organised financial media interviews with senior management from time to time and revamped the content and functionality of the corporate website in order to expand the scope of information dissemination.

The Company reviewed its shareholder structure regularly to monitor changes in the shareholder base in order to help the Company establish relationships with both existing and new shareholders and maintain a healthy and diversified shareholder base. China Agri's shareholder base includes institutional investors from all over the world which accounted for 21.1% of the total issued capital of the Company. Among those, Institutional investors from North America accounted for 42.3%, while Asian-based institutional investors accounted for 33.0%, European-based institutional investors accounted for 24.1% and the rest of the world made up 0.6%.

China Agri's commitment to corporate governance and investor relations has received broad recognition from the market. During the year under review, the Company was awarded the "Gold Prize for Corporate Governance and Investor Relations – Food and Beverage Industry" by The Asset magazine and was also awarded for "Best Corporate Social Responsibility", "Best Investor Relations" and "Annual Recognition Award" by Corporate Governance Asia magazine in its 2012 poll. Mr. Ning Gaoning, Non-executive Director, was honoured with an "Asian Corporate Director Recognition Award 2012". In addition, the Company was named in the "Annual Awards 2012" of "The Credible Enterprise of China Accreditation" by the China Enterprise Reputation and Credibility Association (Overseas). The Company believes these accolades represent recognition of the Company's longstanding corporate culture of integrity as well as its continuous efforts to enhance both consumer services and investor relations.

The Company is included as a constituent of several key benchmark indices, including the Hang Seng Composite Index, the Hang Seng Composite Industry Index – Consumer Goods, the Hang Seng Composite MidCap Index, the Hang Seng China-Affiliated Corporations Index, the Hang Seng Mainland 100, the Hang Seng Corporate Sustainability Index, the Hang Seng (Mainland and HK) Corporate Sustainability Index, and the FTSE Asian Sector Food and Beverage Index.

The Company's business is covered and analysed by numerous investment banks and financial institutions. For a complete list of analysts, please visit the Company's 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 economic condition like what we are facing now. We also believe that risk management is the responsibility of management personnel at all levels of the organisation. It 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 management 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; to enhance our operational efficiency; and to minimise the uncertainty in achieving our strategic goals.

Risk Management System

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

- Identifying risk exposures of the Company, and establishing a risk database consisting of 34 items of risks. Information collection for and assessment of significant risks is continually undergoing.
- Continually enhancing the Key Risk Indicators (KRI) monitoring system for continuing monitoring of our significant risks and completing the KRI monitoring report.
- Developing the internal control self-assessment system to foster internal controls in the Company.
- Promotion of ongoing training on risk management and internal control to cultivate a corporate culture of risk management.

In 2012, the Company's risk management system was further enriched and enhanced basing on the work accomplished in previous periods. Major tasks in 2012 are set out below:

1. Key Risk Indicators Monitoring System

We identified 24 Key Risk Indicators (KRI) which we considered that closer monitoring is required. The 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 data on 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 2012, namely raw materials prices volatility risks, safety risks, policies risks, competitors risks, logistics and storage risks, investment risks and human resources risks.

2. Internal Control Self-assessment System

The development and continual enhancement of an 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 and the China Securities Regulatory Commission, and the related guidelines and relevant regulations. The Company has progressively completed 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) on the basis of development of the KRI monitoring system and the internal control self-assessment system.

Directors and Senior Management Profile

Chairman and Executive Director

Mr. YU Xubo, aged 47, was appointed as Chairman of the Board in March 2012 and has been an executive director of the Company since January 2007. Mr. Yu joined COFCO Corporation and/or its subsidiaries (together but excluding the Company and its subsidiaries, collectively referred to as "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. (中糧期貨有限公司) and a vice president of COFCO Corporation. Mr. Yu is the chairman of the board of directors and a non-executive director of China Foods Limited (a company listed in Hong Kong). He is also the chairman both of COFCO Meat Investment Company Limited and COFCO Coca-Cola Beverages Limited, 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 on Singapore Exchange Securities Trading Limited). 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.

Executive Director

Mr. LV Jun, aged 45, was appointed as Managing Director in March 2012 and has been an executive director of the Company since January 2007. Mr. Lv joined COFCO Group in 1993. He has been a vice president of COFCO Corporation since May 2010 and was previously the general manager of COFCO Futures Co., Ltd. (中糧期貨有限公司), an assistant president of COFCO Corporation and the general manager of the Company's oilseeds processing division. Mr. Lv holds a Bachelor's degree and a Master's degree in Engineering from China Agricultural University in Beijing.

Non-executive Directors

Mr. NING Gaoning, aged 54, has been a non-executive director of the Company since January 2007. Mr. Ning holds directorships in COFCO Group 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, all of them are Hong Kong-listed companies. Mr. Ning is also a director of BOC International Holdings Limited, an independent non-executive director of BOC Hong Kong (Holdings) Limited (a Hong Kong-listed company) 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.

Mr. MA Wangjun, aged 48, 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 chief financial officer of COFCO Corporation since November 2012. 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 is a non-executive director of The Hong Kong Parkview Group Limited and was a non-executive director of China Mengniu Dairy Company Limited (both are Hong Kong-listed companies). 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. YUE Guojun, aged 49, was an executive director and a vice president of the Company since January 2007 and the general manager of the biochemical and biofuel division until his re-designation as a non-executive director of the Company in January 2013. Mr. Yue joined COFCO Group in November 2005 and has been the chief engineering officer of COFCO Corporation since February 2013. He is the chairman of COFCO Biochemical (Anhui) Co., Ltd., a company listed on the Shenzhen Stock Exchange. Mr. Yue is a professor level senior engineer. He 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 12th National People's Congress of the PRC in February 2013. Mr. Yue has become the chairman of China Starch Industry Association since November 2011. He has over 20 years of experience in the production and sales of bio-chemical products. Mr. Yue holds a Bachelor's degree from Chemical Engineering Department of Jilin Institute of Chemical Technology, a Master's degree in Environmental Engineering from Harbin Institute of Technology and an Engineering PhD's degree in Chemical Engineering and Technology from Beijing University of Chemical Technology.

Mr. WANG Zhiying, aged 42, was appointed as a non-executive director of the Company in March 2011. Mr. Wang previously worked in China Agricultural University and a government department in the areas of training and education, human resources development, project management and general management and 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 holds a Bachelor of Arts degree in Sociology from Peking University and an Executive Master of Business Administration (EMBA) from China Europe International Business School.

Independent Non-executive Directors

Mr. LAM Wai Hon, Ambrose, aged 59, 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. Mr. Lam currently serves as the Country Head of Investec Group for Hong Kong and China. 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 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 67, 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 41, 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/NPI, Asia Pacific for GE Capital in Hong Kong. Mr. Vizzone has 17 years experience working in and with China's agribusiness sector. Commencing with Shanghai Asia-Pacific International Vegetable Co., where he was a Founding Director and Deputy General Manager and as a cofounder of China Green Concepts.

Senior Management

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

Ms. YANG Hong, aged 49, is a vice president of the Company and the general manager of the rice processing and trading division. Ms. Yang joined COFCO Group in 1989. She is senior industry executive of COFCO Group and 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 in the group. 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 46, is a vice president of the Company, taking charge of the overall strategic management, financial management and investor relations. 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 various 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 2012.

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 which 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 2012 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 70 to 165.

The Board of Directors recommended a final dividend for the year ended 31 December 2012 of 3.5 HK cents (2011: 3.8 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 Friday, 28 June 2013 to the shareholders whose names appear on the register of members of the Company on Friday, 14 June 2013.

The proposed final dividend together with the interim dividend of 3.1 HK cents per share paid on 9 October 2012 amounts to a total of about HK$308.9 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 2 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 278,464,935 shares, which represented approximately 5.3% 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 2012 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 2012	Exercised	Lapsed	At 31 December 2012
(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
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
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
(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	4,630,000	–	100,000	4,530,000
			7-8-2011	7-8-2011 to 6-8-2014	4,576,000	–	100,000	4,476,000
			7-8-2012	7-8-2012 to 6-8-2014	4,576,000	–	100,000	4,476,000
			7-8-2013	7-8-2013 to 6-8-2014	4,576,000	–	100,000	4,476,000
					20,409,000	–	400,000	20,009,000
Total					23,579,000	–	400,000	23,179,000

Note:

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.

Share Options Granted on 31 March 2011

					Number of share options			
Category of participants	Date of grant (d-m-yyyy)	Exercise price per share (HK$)	Vesting date (d-m-yyyy)	Exercise period (d-m-yyyy)	At 1 January 2012	Exercised	Lapsed	At 31 December 2012
(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
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

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 2012	Exercised	Lapsed	At 31 December 2012
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
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	–	150,000	8,230,000
			31-3-2014	31-3-2014 to 30-3-2018	8,380,000	–	150,000	8,230,000
			31-3-2015	31-3-2015 to 30-3-2018	8,380,000	–	150,000	8,230,000
			31-3-2016	31-3-2016 to 30-3-2018	8,380,000	–	150,000	8,230,000
			31-3-2017	31-3-2017 to 30-3-2018	8,380,000	–	150,000	8,230,000
					41,900,000	–	750,000	41,150,000
Total					45,300,000	–	750,000	44,550,000

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.

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity on page 74 of this annual report.

Distributable Reserves

As at 31 December 2012, 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$3,216.7 million, of which HK$183.7 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$9,246.7 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 "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

MA Wangjun

YUE Guojun

WANG Zhiying

LAM Wai Hon, Ambrose

Victor YANG

Patrick Vincent VIZZONE

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. Yu Xubo, Mr. Ma Wangjun and Mr. Lam Wai Hon, Ambrose will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 46 to 49 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. During the year, in accordance of the terms and conditions of the convertible bonds, the conversion price was adjusted from HK$11.110 to HK$10.939 per share with effect from 19 September 2012 as a result of the payment of dividends and was further adjusted to HK$10.175 per share on 26 November 2012 due to the rights issue. The particulars of convertible bonds and the rights issue are set out in note 27 to the financial statements and page 27 of this annual report respectively.

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 2012, 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	–	0.02%
YU Xubo	Beneficial owner and interest of spouse (Note 3)	1,300,000	235,364	0.03%
LV Jun	Beneficial owner	1,070,000	400,000	0.03%
MA Wangjun	Beneficial owner	1,150,000	–	0.02%
YUE Guojun	Beneficial owner	1,200,000	260,000	0.03%
WANG Zhiying	Beneficial owner	550,000	39,000	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 2012, being 5,249,880,788 shares.
3. 235,364 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 2012, being 2,797,191,396 shares.

Save as disclosed above, as at 31 December 2012, 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 2012, 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	2,499,315,430	47.61%
COFCO (BVI) No. 108 Limited	Beneficial owner	182,000,000	3.47%
COFCO (Hong Kong) Limited	Beneficial owner	355,893,827	6.78%
	Interest of controlled corporations (Note 3)	2,681,315,430	51.07%
COFCO Corporation	Interest of controlled corporations (Note 4)	3,037,209,257	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 2012, being 5,249,880,788 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 2012, 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.

Connected Transactions

During the year, the Group conducted the following transactions with certain connected persons of the Company. These transactions constituted connected transactions or 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. 2011 COFCO Mutual Supply Agreement

The Company and COFCO Corporation ("COFCO") entered into an agreement on 21 October 2011 (the "2011 COFCO Mutual Supply Agreement") to regulate the relationship between COFCO and its associates (including China Foods Limited, but excluding 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 2011 COFCO Mutual Supply Agreement is for a term of 3 years from 1 January 2012 to 31 December 2014.

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 RMB1,196.55 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 RMB7,413.56 million.

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

2. 2011 Wilmar Mutual Supply Agreement

The Company and Wilmar International Limited ("Wilmar International") entered into an agreement on 21 October 2011 (the "2011 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 2011 Wilmar Mutual Supply Agreement is 3 years from 1 January 2012 to 31 December 2014.

During the year, the aggregate value of the products and services supplied by Wilmar International Group to the Group was approximately RMB965.68 million, and the aggregate value of the products and services supplied by the Group to Wilmar International Group was approximately RMB2,275.95 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.

3. Financial Services Agreements

3.1 New 2011 Financial Services Agreement

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 New 2011 Financial Services Agreement on 15 December 2011 for a term of one year from 1 January 2012, whereby relevant members of the Group (including the Management Company) maintained RMB depository accounts with COFCO Finance which, acting as a financial agent on a free-of-charge basis, advanced entrustment loans to the Management Company. In turn, the Management Company advanced 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 RMB861.47 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 2012 Financial Services Agreement

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 2012 Financial Services Agreement with COFCO Finance and Management Company on 27 December 2012 whereby COFCO Finance would further provide depository and entrustment loan services for a term of one year from 1 January 2013. The annual cap on the maximum daily balance of deposits (including accrued interests) placed by the Group with COFCO Finance pursuant to the 2012 Financial Services Agreement is set out in the Company's announcement made on 27 December 2012.

4. Retained Interest Purchased

As disclosed in the directors' report of previous years, the Company had options to acquire from COFCO any interest or business in COFCO Tayuan Safflower (Xinjiang) Co., Ltd. ("Xinjiang Tayuan"). On 16 March 2012, the Independent Non-executive Directors of the Company made a final and definitive decision to exercise such options. As a result, COFCO Oils & Fats Holdings Limited, a wholly-owned subsidiary of the Company, entered into a share purchase agreement with COFCO (Hong Kong) Limited on the same date to purchase the entire issued share capital of Poly Idea Investments Limited together with the related shareholder's loan at an aggregate consideration of RMB28,900,000, which was satisfied by payment in cash from internal funds on completion.

The purchase was completed on 27 April 2012. Thereafter, both Poly Idea Investments Limited and its subsidiary, Xinjiang Tayuan (in which Poly Idea holds 77.04% equity interests), have become subsidiaries of the Company.

COFCO (Hong Kong) Limited is a controlling shareholder of the Company and, therefore, is a connected person of the Company and the transactions under the aforesaid agreement constituted connected transactions of the Company.

5. Share Purchase Agreement

On 19 March 2012, COFCO Biofuel Holdings Limited, a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Full Great Investments Limited. Pursuant to which, COFCO Biofuel Holdings Limited purchased the entire issued share capital of Sharp Global Limited together with the related shareholder's loan at an aggregate consideration of RMB95,500,000, which was satisfied by payment in cash from internal funds on completion.

The purchase was completed on 27 April 2012. Thereafter, both Sharp Global Limited and its wholly-owned subsidiary, COFCO TECH Bioengineering (Tianjin) CO., Ltd., have become wholly-owned subsidiaries of the Company.

COFCO (Hong Kong) Limited is a controlling shareholder of the Company. Thus, Full Great Investments Limited, as a wholly-owned subsidiary of COFCO (Hong Kong) Limited, is a connected person of the Company. The transactions under the aforesaid agreement therefore constituted connected transactions of the Company.

6. Chaohu Capital Increase Agreement

On 7 December 2012, COFCO Rice (HK) No. 8 Limited ("COFCO No. 8"), a wholly-owned subsidiary of the Company, COFCO and COFCO Chaohu Rice Processing Limited ("COFCO Chaohu") entered into the Chaohu Capital Increase Agreement to the effect that COFCO would become a new shareholder of COFCO Chaohu from the date of issuance of COFCO Chaohu's revised business licence upon the capital increase. Immediately after the completion of the Chaohu Capital Increase Agreement took place on 15 January 2013, COFCO Chaohu has been owned as to approximately 88.76% by COFCO No. 8, and approximately 11.24% by COFCO. The total investment by COFCO in COFCO Chaohu pursuant to the Chaohu Capital Increase Agreement is RMB22,000,000, which was paid in cash. COFCO No. 8 and COFCO also entered into the Joint Venture Agreement and passed the Articles of Association in relation to COFCO Chaohu on the same date.

COFCO is a controlling shareholder of the Company thus a connected person of the Company under the Listing Rules. In turn, the transactions under the Chaohu Capital Increase Agreement constituted connected transactions under Chapter 14A of the Listing Rules.

7. Yancheng Capital Increase Agreement

On 7 December 2012, COFCO Rice (HK) No. 2 Limited ("COFCO No. 2"), a wholly-owned subsidiary of the Company, COFCO and COFCO Rice (Yancheng) Co., Ltd. ("COFCO Yancheng") entered into the Yancheng Capital Increase Agreement to the effect that COFCO would become a new shareholder of COFCO Yancheng from the date of issuance of COFCO Yancheng's revised business licence upon the capital increase. Immediately after the completion of the Yancheng Capital Increase Agreement took place on 6 March 2013, COFCO Yancheng has been owned as to approximately 89.23% by COFCO No. 2, and approximately 10.77% by COFCO. The total investment by COFCO in COFCO Yancheng pursuant to the Yancheng Capital Increase Agreement is RMB22,500,000, which was paid in cash. COFCO No. 2 and COFCO also entered into the Joint Venture Agreement and passed the Articles of Association in relation to COFCO Yancheng on the same date.

COFCO is a controlling shareholder of the Company thus a connected person of the Company under the Listing Rules. In turn, the transactions under the Yancheng Capital Increase Agreement constituted connected transactions under Chapter 14A of the Listing Rules.

8. Shenyang Capital Increase Agreement

On 7 December 2012, COFCO Rice (HK) No. 6 Limited ("COFCO No. 6"), a wholly-owned subsidiary of the Company, COFCO and COFCO Shenyang Rice Processing Limited ("COFCO Shenyang") entered into the Shenyang Capital Increase Agreement to the effect that COFCO will become a new shareholder of COFCO Shenyang from the date of issuance of COFCO Shenyang's revised business licence upon the capital increase. Immediately after the completion of the Shenyang Capital Increase Agreement, COFCO Shenyang will be owned as to approximately 87.73% by COFCO No. 6, and approximately 12.27% by COFCO. The total investment by COFCO in COFCO Shenyang pursuant to the Shenyang Capital Increase Agreement is RMB22,500,000, which was paid in cash. COFCO No. 6 and COFCO also entered into the Joint Venture Agreement and passed the Articles of Association in relation to COFCO Shenyang on the same date. The completion of the above transaction shall take place on the date of issuance of the revised business licence of COFCO Shenyang.

COFCO is a controlling shareholder of the Company thus a connected person of the Company under the Listing Rules. In turn, the transactions under the Shenyang Capital Increase Agreement constituted connected transactions under Chapter 14A of the Listing Rules.

9. Haining Capital Increase Agreement

On 7 December 2012, COFCO Flour (HK) No. 1 Limited ("COFCO No. 1"), a wholly-owned subsidiary of the Company, COFCO and COFCO Flour Industry (Haining) Co., Ltd. ("COFCO Haining") entered into the Haining Capital Increase Agreement to the effect that COFCO would become a new shareholder of COFCO Haining from the date of issuance of COFCO Haining's revised business licence upon the capital increase and COFCO No. 1 would inject further investment into COFCO Haining. Immediately after the completion of the Haining Capital Increase Agreement took place on 11 January 2013, COFCO Haining has been owned as to approximately 94.33% by COFCO No. 1, and approximately 5.67% by COFCO. The new investments by COFCO No. 1 and COFCO in COFCO Haining pursuant to the Haining Capital Increase Agreement are Hong Kong dollars amount equivalent to RMB53,000,000 and RMB23,000,000 respectively, where were paid in cash. COFCO No. 1 and COFCO also entered into the Joint Venture Agreement and passed the Articles of Association in relation to COFCO Haining on the same date.

COFCO is a controlling shareholder of the Company thus a connected person of the Company under the Listing Rules. In turn, the transactions under the Haining Capital Increase Agreement constituted connected transactions under Chapter 14A of the Listing Rules.

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 set out in items 1, 2 and 3.1 of the preceding section for the year ended 31 December 2012 (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. The annual caps for the CCTS have not been exceeded.

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 2012 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; Mr. Ma Wangjun is the chief financial officer; Mr. Yue Guojun is the chief engineering officer; and Mr. Wang Zhiying is the head of human resources. Mr. Yue is also the chairman of COFCO Biochemical (Anhui) 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.

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 2012.

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.

On 16 March 2012, the Company exercised the options to acquire from COFCO its interest in COFCO Tayuan Safflower (Xinjiang) Co., Ltd.. Details are set out in item 4 of the section "Connected Transactions" above.

The option of the Company (the "COFCO Biochemical Option") to acquire from COFCO interest in COFCO Biochemical (Anhui) Co., Ltd. ("COFCO Biochemical") became effective on 3 April 2007. As disclosed in the section "Non-competition Deed" of the Company's annual report of last year, 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 was 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 was 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 at least annually 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 43 of this annual report.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$2.26 million.

Review by the Audit Committee

The Audit Committee has reviewed with the auditors of the Company the audited financial statements for the year ended 31 December 2012 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

YU Xubo
Chairman

Hong Kong, 26 March 2013

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 70 to 165, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

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 2012, 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

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

26 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	4, 5	**91,319,186**	82,349,859
Cost of sales	6	**(85,454,737)**	(75,565,979)
Gross profit		**5,864,449**	6,783,880
Other income and gains	5	**1,246,752**	1,965,032
Selling and distribution expenses		**(2,881,017)**	(2,511,842)
Administrative expenses		**(1,749,917)**	(1,540,146)
Other expenses		**(10,194)**	(110,092)
Finance costs	7	**(883,683)**	(888,658)
Share of profits of associates		**23,725**	169,848
PROFIT BEFORE TAX	6	**1,610,115**	3,868,022
Income tax expense	10	**(198,420)**	(563,231)
PROFIT FOR THE YEAR		**1,411,695**	3,304,791
Attributable to:			
Owners of the Company		**1,227,523**	2,367,954
Non-controlling interests		**184,172**	936,837
		1,411,695	3,304,791
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		(Restated)
Basic		**28.48 HK cents**	55.28 HK cents
Diluted		**28.46 HK cents**	53.29 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 2012

	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR	**1,411,695**	3,304,791
Exchange difference on translation of foreign operations	**613**	1,080,234
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**613**	1,080,234
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,412,308**	4,385,025
Attributable to:		
Owners of the Company	**1,228,748**	3,321,626
Non-controlling interests	**183,560**	1,063,399
	1,412,308	4,385,025

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**23,205,892**	19,877,668
Prepaid land premiums	15	**2,645,385**	2,284,270
Deposits for purchases of items of property, plant and equipment		**337,371**	290,502
Goodwill	16	**1,076,038**	1,074,240
Interests in associates	18	**2,176,386**	2,184,777
Available-for-sale investments	19	**160,696**	370
Intangible assets	20	**53,785**	38,388
Due from associates	18	**77,092**	–
Deferred tax assets	28	**713,869**	539,290
Total non-current assets		**30,446,514**	26,289,505
CURRENT ASSETS			
Inventories	21	**19,517,095**	19,038,228
Accounts and bills receivables	22	**4,163,086**	5,760,131
Prepayments, deposits and other receivables		**4,888,234**	5,176,754
Derivative financial instruments	23	**333,318**	514,878
Due from fellow subsidiaries	37	**2,893,822**	2,296,321
Due from related companies	37	**126,542**	264,275
Due from the ultimate holding company	37	**336**	5,296
Due from non-controlling shareholders of subsidiaries	37	**75,652**	167,417
Due from associates	18	**1,452,997**	1,174,228
Tax recoverable		**181,825**	159,469
Available-for-sale investments	19	**1,116,083**	–
Pledged deposits	24	**21,708**	14,052
Cash and cash equivalents	24	**9,387,222**	9,175,653
Total current assets		**44,157,920**	43,746,702
CURRENT LIABILITIES			
Accounts and bills payables	25	**3,434,745**	3,585,895
Other payables and accruals		**6,262,168**	6,391,372
Deferred income		**76,407**	85,836
Derivative financial instruments	23	**123,734**	12,492
Interest-bearing bank and other borrowings	26	**22,536,135**	24,071,217
Convertible bonds	27	**3,897,751**	–
Due to fellow subsidiaries	37	**304,489**	453,401
Due to the ultimate holding company	37	**3,596**	43
Due to an intermediate holding company	37	**45,819**	36,570
Due to related companies	37	**257,445**	64
Due to non-controlling shareholders of subsidiaries	37	**27,552**	31,183
Due to associates	18	**8,188**	9,726
Tax payable		**250,750**	255,502
Total current liabilities		**37,228,779**	34,933,301
NET CURRENT ASSETS		**6,929,141**	8,813,401
TOTAL ASSETS LESS CURRENT LIABILITIES		**37,375,655**	35,102,906

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**5,755,039**	5,011,598
Convertible bonds	27	**–**	3,832,231
Due to non-controlling shareholders of subsidiaries	37	**207,693**	207,709
Deferred income		**723,666**	666,406
Deferred tax liabilities	28	**205,248**	274,937
Total non-current liabilities		**6,891,646**	9,992,881
Net assets		**30,484,009**	25,110,025
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	**524,988**	403,837
Reserves	31(a)	**26,346,245**	21,406,458
Proposed final dividend	12	**183,746**	153,458
		27,054,979	21,963,753
Non-controlling interests		**3,429,030**	3,146,272
Total equity		**30,484,009**	25,110,025

YU Xubo
Director

LV Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Notes	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
		Attributable to owners of the Company											
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		-	-	-	-	-	-	-	-	(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

	Notes	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
		Attributable to owners of the Company											
At 1 January 2012		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
Total comprehensive income for the year		-	-	-	-	-	-	1,225	1,227,523	-	1,228,748	183,560	1,412,308
Transfer from retained profits		-	-	-	-	-	180,081	-	(180,081)	-	-	-	-
Contribution from non-controlling shareholders		-	-	2,127	-	-	-	-	-	-	2,127	110,639	112,766
Acquisition of a subsidiary	32	-	-	-	-	-	-	-	-	-	-	10,153	10,153
Acquisition of non-controlling interests		-	-	(1,853)	-	-	-	-	-	-	(1,853)	(13,477)	(15,330)
Issue of shares	29	121,151	3,985,871	-	-	-	-	-	-	-	4,107,022	-	4,107,022
Share issue expenses	29	-	(14,351)	-	-	-	-	-	-	-	(14,351)	-	(14,351)
Equity-settled share option arrangements	30	-	-	-	-	48,180	-	-	-	-	48,180	-	48,180
Dividends paid to non-controlling shareholders of subsidiaries		-	-	-	-	-	-	-	-	-	-	(8,117)	(8,117)
Final 2011 dividend declared	12	-	-	-	-	-	-	-	-	(153,458)	(153,458)	-	(153,458)
Interim 2012 dividend declared	12	-	-	-	-	-	-	-	(125,189)	-	(125,189)	-	(125,189)
Proposed final 2012 dividend	12	-	-	-	-	-	-	-	(183,746)	183,746	-	-	-
At 31 December 2012		524,988	9,246,676*	4,747,281*	51,739*	126,145*	1,054,255*	2,669,046*	8,451,103*	183,746	27,054,979	3,429,030	30,484,009

* These reserve accounts comprise the consolidated reserves of HK$26,346,245,000 (2011: HK$21,406,458,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,610,115**	3,868,022
Adjustments for:			
Finance costs	7	**883,683**	888,658
Write-down of inventories to net realisable value	6	**752,280**	1,025,727
Provision for loss on non-cancellable purchase commitments	6	**1,019,698**	619,294
Impairment of receivables	6	**491**	6,465
Depreciation and amortisation	6	**1,200,483**	916,557
Losses/(gains) on disposal of items of property, plant and equipment	6	**(4,084)**	23,760
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	**59,584**	45,828
Share of profits of associates		**(23,725)**	(169,848)
Interest income	5	**(241,038)**	(90,000)
Unrealised gains on derivative financial instruments		**(208,106)**	(481,708)
Unrealised gains on foreign currency forward contracts		**(1,467)**	(8,437)
Gain on bargain purchase	5	**(3,186)**	(5,626)
Government grants	5	**(615,566)**	(524,795)
Equity-settled share option expense	30	**48,180**	39,923
		4,477,342	6,223,190
Increase in inventories		**(1,107,677)**	(3,735,481)
Decrease/(increase) in accounts and bills receivables		**1,610,951**	(3,141,692)
Decrease in prepayments, deposits and other receivables		**346,130**	1,331,414
Decrease/(increase) in amounts due from fellow subsidiaries		**(597,980)**	1,670,241
Increase in amounts due from associates		**(355,746)**	(176,822)
Decrease in amounts due from related companies		**137,697**	10,594
Increase in derivative financial instruments and other financial products		**(613,847)**	(543,866)
Decrease/(increase) in an amount due from the ultimate holding company		**4,959**	(4,789)
Decrease/(increase) in amounts due from non-controlling shareholders of subsidiaries		**91,743**	(131,845)
Increase/(decrease) in accounts and bills payables		**(201,951)**	21,512
Increase/(decrease) in other payables and accruals		**(1,154,294)**	435,355
Increase/(decrease) in amounts due to fellow subsidiaries		**(148,842)**	99,515
Increase/(decrease) in an amount due to the ultimate holding company		**3,553**	(13,249)
Increase/(decrease) in amounts due to related companies		**257,405**	(286,817)
Decrease in amounts due to associates		**(1,536)**	(9,656)
Government grants received		**424,828**	471,609
Cash generated from operations		**3,172,735**	2,219,213
Interest received		**241,038**	90,000
Interest paid		**(808,914)**	(788,308)
Income tax paid		**(474,726)**	(315,387)
Net cash flows from operating activities		**2,130,133**	1,205,518

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in pledged deposits		**(7,659)**	107,367
Acquisition of subsidiaries	32	**(119,026)**	(135,775)
Dividends from associates		**31,994**	51,430
Acquisition of non-controlling interests		**(15,330)**	(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		**47,547**	8,435
Purchases of items of property, plant and equipment		**(4,514,972)**	(5,281,075)
Additions to prepaid land premiums	15	**(396,768)**	(781,521)
Receipt of government grants		**213,570**	398,906
Additions to intangible assets	20	**(6,702)**	(565)
Increase in loans to associates		**–**	(19,056)
Investment in bank wealth management products		**(160,341)**	–
Net cash flows used in investing activities		**(4,927,687)**	(5,675,246)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**86,564,557**	90,795,979
New other loans		**2,880,888**	4,279,546
Repayments of bank loans		**(89,320,855)**	(86,316,111)
Repayments of other loans		**(990,404)**	(2,238,806)
Capital contribution from non-controlling shareholders		**112,766**	55,306
Dividends paid		**(250,898)**	(429,069)
Dividends paid to non-controlling shareholders of subsidiaries		**(11,743)**	(31,354)
Share issue expenses		**(14,351)**	–
Proceeds from issue of shares		**4,107,022**	–
Interest paid		**(71,858)**	(27,583)
Net cash flows from financing activities		**3,005,124**	6,087,908
NET INCREASE IN CASH AND CASH EQUIVALENTS		**207,570**	1,618,180
Cash and cash equivalents at beginning of year		**9,175,653**	7,404,309
Effect of foreign exchange rate changes, net		**3,999**	153,164
CASH AND CASH EQUIVALENTS AT END OF YEAR		**9,387,222**	9,175,653
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**5,855,998**	8,287,393
Non-pledged time deposits with original maturity of less than three months when acquired	24	**1,866,305**	888,260
Bank wealth management products	24	**1,664,919**	–
		9,387,222	9,175,653

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	–	83
Investments in subsidiaries	17	**18,346,112**	17,082,631
Total non-current assets		**18,346,112**	17,082,714
CURRENT ASSETS			
Due from subsidiaries	17	**5,914,957**	4,091,367
Prepayments, deposits and other receivables		**9,490**	578
Cash and cash equivalents	24	**3,109,803**	2,019,048
Total current assets		**9,034,250**	6,110,993
CURRENT LIABILITIES			
Other payables and accruals		**234,007**	191,921
Due to an intermediate holding company	37	**45,729**	36,489
Due to subsidiaries	17	**3,716,279**	3,755,134
Total current liabilities		**3,996,015**	3,983,544
NET CURRENT ASSETS		**5,038,235**	2,127,449
TOTAL ASSETS LESS CURRENT LIABILITIES		**23,384,347**	19,210,163
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**4,580,032**	4,210,306
Total non-current liabilities		**4,580,032**	4,210,306
Net assets		**18,804,315**	14,999,857
EQUITY			
Issued capital	29	**524,988**	403,837
Reserves	31(b)	**18,095,581**	14,442,562
Proposed final dividend	12	**183,746**	153,458
Total equity		**18,804,315**	14,999,857

YU Xubo
Director

LV Jun
Director

Notes to the Financial Statements

31 December 2012

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. 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 it 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 revised HKFRSs for the first time for the current year's 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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of these revised HKFRSs has had no significant impact on the accounting policies of the Group and the methods of computation in the Group's consolidated financial statements.

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 – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKFRS 27 (2011) Amendments	Amendments to HKFRS10, HKFRS 12 and HKFRS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

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2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

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2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. 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 are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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/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 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/Company 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/Company 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.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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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 to measure 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-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to the other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation 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 an 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 (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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).

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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 (or valuation) 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 including 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 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.

2.4 Summary of Significant Accounting Policies (Continued)

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 lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

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.

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 positive net changes in fair value presented as other income and gains and negative net change in fair value presented as 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.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

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2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

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

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment 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.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

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 yet 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.

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2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and 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.

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 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 and, in the case of loans and borrowings, net of directly attributable transaction costs.

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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

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.

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 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.

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2.4 Summary of Significant Accounting Policies (Continued)

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. These 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.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as foreign currency contracts, to hedge its foreign currency risk. These 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.

2.4 Summary of Significant Accounting Policies (Continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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.

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 (and tax laws) 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.

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2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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.

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) 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 exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, 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.

2.4 Summary of Significant Accounting Policies (Continued)

Employee benefits

Share-based payments

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 payments, 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 payments, 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.

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 in Hong Kong 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 these costs are charged to the income statement as incurred.

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2.4 Summary of Significant Accounting Policies (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 prevailing 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. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value 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 the 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).

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 prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies (Continued)

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, 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 tax governing authorities in the future. As at 31 December 2012, the deferred tax liabilities arising thereon amounted to HK$138,380,000 (2011: 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 companies 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 tax governing authorities, and accordingly no additional withholding tax was made in respect of the undistributed retained earnings of the PRC subsidiaries during the years ended 31 December 2010, 2011 and 2012. If the Chinese resident enterprise identity of the aforesaid companies cannot be obtained from the relevant PRC tax governing authorities, the Group's PRC subsidiaries are required to pay the relevant withholding taxes once their retained profits are distributed to their holding companies.

Classification of bank wealth management products as cash and cash equivalents

The Group determines whether a bank wealth management product qualifies as cash and cash equivalents, and has developed criteria in making that judgement. Cash and cash equivalents comprise 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, and form an integral part of the Group's cash management. Therefore, the Group considers whether a bank wealth management product qualifies as a cash equivalent, it must have a short maturity of generally within three months when acquired, be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Judgement is made on an individual bank wealth management product basis. As at 31 December 2012, bank wealth management products of HK$1,664,919,000 (2011: Nil) were classified as cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows. These bank wealth management products had original maturity dates within three months, are readily convertible to known amounts, and are subject to insignificant risks of changes in value. Further details are given in note 24 to the financial statements.

Notes to the Financial Statements

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3. Significant Accounting Judgements and Estimates (Continued)

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.

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 2012 was HK$1,076,038,000 (2011: HK$1,074,240,000). 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 carrying value of deferred tax assets relating to recognised tax losses at 31 December 2012 was HK$215,010,000 (2011: HK$16,621,000). The amount of unrecognised tax losses at 31 December 2012 was HK$827,753,000 (2011: HK$969,544,000). Further details are given 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. No impairment of property, plant and equipment was recognised in the consolidated income statement for the year (2011: HK$70,261,000). The carrying amount of property, plant and equipment as at 31 December 2012 was HK$23,205,892,000 (2011: HK$19,877,668,000).

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. Net impairment of receivables of HK$491,000 (2011: HK$6,465,000) 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 2012 was HK$9,051,320,000 (2011: HK$10,936,885,000).

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

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, the differences will impact on the carrying values of inventories and the amount of impairment/write-back of impairment in the periods in which the estimates have been changed. Impairment of inventories of HK$752,280,000 (2011: HK$1,025,727,000) was recognised in the consolidated income statement for the year. The aggregate carrying amount of inventories as at 31 December 2012 was HK$19,517,095,000 (2011: HK$19,038,228,000).

Provision on onerous contracts

Provision on onerous contracts 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, these differences will impact on the provision and the profit or loss in the periods in which these estimates have been changed. Provision on onerous contracts of HK$1,019,698,000 (2011: HK$619,294,000) was recognised in the consolidated income statement for the year.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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4. Operating Segment Information

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

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

(b) the 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 and the related interest payables, 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 (2011: Nil).

Geographical information

As the Group's major operations and customers are located in Mainland China, no further geographical segment information is provided.

4. Operating Segment Information (Continued)

Year ended 31 December 2012

	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	56,585,760	15,117,031	8,875,629	5,875,952	2,551,491	2,313,323	–	91,319,186
Intersegment sales	102,093	67,477	287	7,159	–	–	(177,016)	–
Other revenue	306,994	546,725	81,659	81,079	19,884	41,010	(74,823)	1,002,528
Segment results	1,453,417	710,813	(245,497)	180,280	279,101	(133,282)	(18,983)	2,225,849
Interest income								241,038
Gain on bargain purchase								3,186
Finance costs								(883,683)
Share of profits of associates								23,725
Profit before tax								1,610,115
Income tax expense								(198,420)
Profit for the year								1,411,695
Assets and liabilities								
Segment assets	31,221,198	14,281,385	7,925,163	4,135,601	2,993,844	17,151,628	(15,585,395)	62,123,424
Corporate and other unallocated assets								12,481,010
Total assets								74,604,434
Segment liabilities	11,658,900	5,326,299	5,095,171	2,468,792	1,134,276	1,361,206	(15,585,395)	11,459,249
Corporate and other unallocated liabilities								32,661,176
Total liabilities								44,120,425
Other segment information:								
Depreciation and amortisation#	505,326	460,565	101,346	64,877	107,678	20,275	–	1,260,067
Impairment losses recognised/(reversed) in the consolidated income statement	(4,342)	4,660	218	(45)	–	–	–	491
Capital expenditure*	1,128,126	1,747,405	985,407	790,532	11,806	355,907	–	5,019,183

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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
Corporate and other 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
Corporate and other 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

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	2012 HK$'000	2011 HK$'000
Other income			
Interest income		**241,038**	90,000
Government grants*		**615,566**	524,795
Compensation income		**783**	4,862
Tax refunds		**82,234**	63,990
Others		**39,056**	44,088
		978,677	727,735
Gains			
Gains on disposal of raw materials, by-products and scrap items		**95,891**	106,804
Gains on disposal of items of property, plant and equipment		**4,084**	–
Logistics service and storage income		**55,102**	29,751
Realised and unrealised fair value gains on foreign currency forward contracts, net	23	**3,570**	11,785
Gains on foreign exchange, net		**106,147**	1,081,643
Gain on bargain purchase	32	**3,186**	5,626
Gain on disposal of an available-for-sale investment		**–**	891
Others		**95**	797
		268,075	1,237,297
		1,246,752	1,965,032

* 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$229,046,000 (2011: HK$303,598,000) has been included in the government grants for the year. The remaining government grants mainly related to discretionary awards granted by local governments to certain subsidiaries of the Group to award their contributions to the local development. There are no unfulfilled conditions or contingencies relating to these grants.

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6. Profit Before Tax

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

	Notes	2012 HK$'000	2011 HK$'000
Cost of inventories sold or services provided		**84,724,321**	78,001,695
Write-down of inventories to net realisable value		**752,280**	1,025,727
Provision for loss on non-cancellable purchase commitments*		**1,019,698**	619,294
Realised and unrealised fair value gains of commodity futures contracts, net	23	**(1,041,562)**	(4,080,737)
Cost of sales		**85,454,737**	75,565,979
Auditors' remuneration		**5,035**	5,632
Depreciation	14	**1,198,212**	914,769
Amortisation of intangible assets	20	**2,271**	1,788
Minimum lease payments under operating leases in respect of land and buildings		**82,409**	51,008
Recognition of prepaid land premiums	15	**59,584**	45,828
Employee benefit expenses (excluding directors' and chief executive's remuneration in note 8):			
Wages and salaries		**1,553,497**	1,425,914
Pension scheme contributions**		**168,732**	123,426
Equity-settled share option expenses		**44,348**	36,784
		1,766,577	1,586,124
Losses/(gains) on disposal of items of property, plant and equipment		**(4,084)**	23,760
Impairment/(reversal of impairment) of accounts receivable	22	**553**	(513)
Impairment of items of property, plant and equipment	14	**–**	70,261
Impairment/(reversal of impairment) of other receivables		**(62)**	6,978

* 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 2012, 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$1,019,698,000 (2011: HK$619,294,000) 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 2012. The directors of the Company consider that these losses are resulted from the Group's ordinary course of business.

** At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

7. Finance Costs

An analysis of finance costs is as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Interest on:		
Bank loans wholly repayable within five years	**703,570**	749,609
Bank loans wholly repayable over five years	**23,109**	1,627
Loans from fellow subsidiaries wholly repayable within five years	**19,751**	25,986
Loan from the ultimate holding company wholly repayable within five years	**13,184**	–
Loan from an intermediate holding company wholly repayable within five years	**91,657**	36,489
Convertible bonds	**104,270**	102,530
Total interest expenses on financial liabilities not at fair value through profit or loss	**955,541**	916,241
Less: Interest capitalised	**(71,858)**	(27,583)
	883,683	888,658

8. Directors' and Chief Executive's 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	
	2012 HK$'000	2011 HK$'000
Fees:		
Independent non-executive directors	**1,155**	1,140
Executive directors and non-executive directors	**400**	400
	1,555	1,540
Other emoluments:		
Salaries, allowances and benefits in kind	**3,455**	3,316
Discretionary bonuses	**2,303**	2,210
Equity-settled share option expenses	**3,832**	3,139
Pension scheme contributions	**249**	109
	9,839	8,774
	11,394	10,314

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8. Directors' and Chief Executive's Remuneration (Continued)

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 amounts included in the financial statements for the current and prior years are included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	2012 HK$'000	2011 HK$'000
Mr. Lam Wai Hon, Ambrose	**385**	380
Mr. Victor Yang	**385**	380
Mr. Patrick Vincent Vizzone	**385**	380
	1,155	1,140

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Executive directors, non-executive directors and chief executive

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2012						
Executive directors:						
Mr. Yu Xubo#	–	1,200	800	679	42	2,721
Mr. Lv Jun#	–	960	640	622	42	2,264
Mr. Yue Guojun^	–	1,295	863	622	42	2,822
	–	3,455	2,303	1,923	126	7,807
Non-executive directors:						
Mr. Ning Gaoning	200	–	–	679	41	920
Mr. Ma Wangjun	100	–	–	622	41	763
Mr. Wang Zhiying*	100	–	–	608	41	749
	400	–	–	1,909	123	2,432
	400	3,455	2,303	3,832	249	10,239

8. Directors' and Chief Executive's Remuneration (Continued)

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expenses HK$'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

There was no arrangement under which a director or a chief executive waived or agreed to waive any remuneration during the year (2011: Nil).

\# Mr. Lv Jun is considered by the board of directors as the chief executive of the Company with effect from 28 March 2012. Prior to that, the chief executive of the Company was Mr. Yu Xubo.

^ Mr. Yue Guojun has been re-designated from executive director to non-executive director with effect from 22 January 2013.

* 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.

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9. Five Highest Paid Employees

The five highest paid employees during the year included three (2011: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2011: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	**1,924**	2,041
Discretionary bonuses	**1,283**	962
Equity-settled share option expenses	**1,102**	863
Pension scheme contributions	**83**	73
	4,392	3,939

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

	Number of employees	
	2012	2011
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$2,500,000	**2**	–
	2	2

In prior years, share options were granted to two highest paid non-director and non-chief executive 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 amounts included in the financial statements for the current and prior years are included in the above highest paid non-director and non-chief executive employees' remuneration disclosures.

10. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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.

	2012 HK$'000	2011 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**333,727**	116,579
Underprovision in prior years	**–**	2,825
Current – Mainland China		
Charge for the year	**226,306**	500,337
Overprovision in prior years	**(94,038)**	(10,479)
Tax rebates and credits	**(18,372)**	(47,356)
Deferred tax (note 28)	**(249,203)**	1,325
Total tax charge for the year	**198,420**	563,231

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 – 2012

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	**407,628**		**1,202,487**		**1,610,115**	
Tax at the statutory tax rate	**67,259**	**16.5**	**300,622**	**25.0**	**367,881**	**22.8**
Profit not subject to tax due to concession*	**–**	**–**	**(103,617)**	**(8.6)**	**(103,617)**	**(6.4)**
Investment tax credit utilised and tax rebate received during the year**	**–**	**–**	**(18,372)**	**(1.5)**	**(18,372)**	**(1.1)**
Profits attributable to associates	**(1,397)**	**(0.3)**	**(3,815)**	**(0.3)**	**(5,212)**	**(0.3)**
Income not subject to tax	**(27,956)**	**(6.9)**	**(2,398)**	**(0.2)**	**(30,354)**	**(1.9)**
Expenses not deductible for tax	**65,379**	**16.0**	**118,568**	**9.9**	**183,947**	**11.4**
Adjustment in respect of current tax of previous periods	**–**	**–**	**(94,038)**	**(7.8)**	**(94,038)**	**(5.8)**
Tax losses of previous periods recognised during the year	**–**	**–**	**(20,971)**	**(1.7)**	**(20,971)**	**(1.3)**
Tax losses utilised during the year	**–**	**–**	**(161,454)**	**(13.4)**	**(161,454)**	**(10.0)**
Tax losses not recognised	**–**	**–**	**80,610**	**6.7**	**80,610**	**5.0**
Tax charge at the Group's effective rate	**103,285**	**25.3**	**95,135**	**7.9**	**198,420**	**12.3**

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10. Income Tax Expense (Continued)

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 concession*	–	–	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

* 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, one of the Group's subsidiaries is qualified as a high technology enterprise hence is granted a preferential CIT rate of 15 %. 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$3,280,000 (2011: HK$31,636,000) 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 2012 includes a loss of HK$57,746,000 (2011: a profit of HK$1,618,154,000) which has been dealt with in the financial statements of the Company (note 31(b)).

12. Dividends

	2012 HK$'000	2011 HK$'000
Interim – 3.1 HK cents (2011: 7.9 HK cents) per ordinary share	**125,189**	319,031
Proposed final – 3.5 HK cents (2011: 3.8 HK cents) per ordinary share	**183,746**	153,458
	308,935	472,489

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 4,310,353,443 ordinary shares (2011: 4,283,872,329 ordinary shares) in issue during the year as adjusted to reflect the rights 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.

For the year ended 31 December 2012, no adjustments in respect of convertible bonds have been made to the earnings and number of shares used in the basic earnings per share calculation due to that the outstanding convertible bonds has an anti-dilutive effect on the basic earnings per share amount presented.

The weighted average number of ordinary shares to be used in calculating basic and diluted earnings per share for all periods before the rights issue has been adjusted retrospectively to reflect the bonus element to the shares arising from the rights issue in current year.

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

	2012 HK$'000	2011 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**1,227,523**	2,367,954
Interest on convertible bonds (note 7)	**–**	102,530
Profit attributable to ordinary equity holders of the Company before interest on convertible bonds	**1,227,523**	2,470,484

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

	2012	2011 (Restated)
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**4,310,353,443**	4,283,872,329
Effect of dilution – weighted average number of ordinary shares:		
Share options	**2,931,553**	8,428,289
Convertible bonds	**–**	344,050,618
	4,313,284,996	4,636,351,236

14. Property, Plant and Equipment

Group

	Buildings HK$'000	Machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2012				
At 31 December 2011 and at 1 January 2012:				
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
At 1 January 2012, net of accumulated depreciation and impairment	8,440,224	7,715,473	3,721,971	19,877,668
Additions	106,434	334,200	4,037,163	4,477,797
Acquisition of subsidiaries (note 32)	38,031	38,920	19,327	96,278
Disposals	(3,077)	(22,283)	(18,103)	(43,463)
Depreciation provided during the year (note 6)	(323,234)	(874,978)	-	(1,198,212)
Transfers	1,530,026	1,647,675	(3,177,701)	-
Exchange realignment	(1,758)	(1,616)	(802)	(4,176)
At 31 December 2012, net of accumulated depreciation and impairment	9,786,646	8,837,391	4,581,855	23,205,892
At 31 December 2012:				
Cost	11,503,951	13,766,926	4,581,855	29,852,732
Accumulated depreciation and impairment	(1,717,305)	(4,929,535)	-	(6,646,840)
Net carrying amount	9,786,646	8,837,391	4,581,855	23,205,892

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 2011				
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

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14. Property, Plant and Equipment (Continued)

Company

	Office equipment HK$'000
31 December 2012	
At 31 December 2011 and 1 January 2012:	
Cost	**2,898**
Accumulated depreciation	**(2,815)**
Net carrying amount	**83**
At 1 January 2012, net of accumulated depreciation	**83**
Depreciation provided during the year	**(83)**
At 31 December 2012, net of accumulated depreciation	**-**
At 31 December 2012:	
Cost	**2,898**
Accumulated depreciation	**(2,898)**
Net carrying amount	**-**
31 December 2011	
At 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

As at 31 December 2012, certain of the Group's property, plant and equipment with a net carrying amount of approximately HK$287,817,000 (2011: HK$298,323,000) were pledged to secure banking facilities granted to the Group (note 26).

As at 31 December 2012, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net carrying amount of approximately HK$2,756,238,000 (2011: HK$1,967,228,000) 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	
	2012 HK$'000	2011 HK$'000
Carrying amount at 1 January	**2,334,406**	1,453,706
Additions	**396,768**	781,521
Acquisition of subsidiaries (note 32)	**30,639**	57,620
Recognised during the year (note 6)	**(59,584)**	(45,828)
Exchange realignment	**(212)**	87,387
Carrying amount at 31 December	**2,702,017**	2,334,406
Current portion included in prepayments, deposits and other receivables	**(56,632)**	(50,136)
Non-current portion	**2,645,385**	2,284,270

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

As at 31 December 2012, certain land use rights of the Group with a net carrying amount of HK$146,499,000 (2011: HK$83,855,000) were pledged to secure bank loans granted to the Group (note 26).

As at 31 December 2012, certificates of land use rights in respect of certain land of the Group in Mainland China with an aggregate net carrying amount of HK$60,217,000 (2011: HK$39,476,000) had not been issued by the relevant PRC authorities. The directors anticipate that these certificates will be issued in the near future.

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16. Goodwill

Group

	HK$'000
31 December 2012	
At 31 December 2011 and 1 January 2012:	
Cost	**1,074,240**
Accumulated impairment	**-**
Net carrying amount	**1,074,240**
Cost at 1 January 2012, net of accumulated impairment	**1,074,240**
Acquisition of subsidiaries (note 32)	**1,798**
At 31 December 2012, net of accumulated impairment	**1,076,038**
At 31 December 2012:	
Cost	**1,076,038**
Accumulated impairment	**-**
Net carrying amount	**1,076,038**
31 December 2011	
At 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

16. Goodwill (Continued)

Impairment testing of goodwill

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

- Oilseeds processing cash-generating unit;
- Rice 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% (2011: 13%). The growth rate used to extrapolate the cash flows of the oilseeds processing unit beyond the five-year period is zero (2011: zero).

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 13% (2011: 12%). The growth rate used to extrapolate the cash flows beyond the five-year period is zero (2011: zero).

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% (2011: 12%). The growth rate used to extrapolate the cash flows beyond the five-year period is zero (2011: zero).

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

	2012 HK$'000	2011 HK$'000
Oilseeds processing	**531,206**	529,408
Rice processing and trading	**129,132**	129,132
Biochemical and biofuel	**412,517**	412,517
Others	**3,183**	3,183
	1,076,038	1,074,240

Assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2012 and 31 December 2011. 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.

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17. Investments in Subsidiaries

Company

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**6,046,927**	6,138,967
Loans to subsidiaries	**12,299,185**	10,943,664
	18,346,112	17,082,631

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$5,726,504,000 (2011: HK$3,856,872,000), which are financing in nature and repayable within one year, the amounts due from subsidiaries of HK$188,453,000 (2011: HK$234,495,000) 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 2012 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 2012 are set out in note 38 to the financial statements.

18. Interests in Associates

	Group	
	2012 HK$'000	2011 HK$'000
Share of net assets	**2,005,409**	2,013,800
Goodwill on acquisition	**28,356**	28,356
	2,033,765	2,042,156
Loans to associates	**142,621**	142,621
	2,176,386	2,184,777

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 except for loans to an associate of HK$128,754,000 (2011: HK$205,881,000) included in current assets, which are unsecured and bore interest at a rate of 2.5% (2011: from 2.0% to 2.5%) per annum. The balance as at 31 December 2012 with an associate included in non-current assets is unsecured and bore interest at a rate of 2.5% per annum.

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:

	2012 HK$'000	2011 HK$'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:

	2012 HK$'000	2011 HK$'000
Assets	**21,580,162**	27,752,724
Liabilities	**15,570,260**	21,813,912
Revenue	**26,473,386**	26,360,695
Profit	**208,085**	484,899

Particulars of the Group's principal associates as at 31 December 2012 are set out in note 39 to the financial statements.

19. Available-for-Sale Investments

	Notes	Group 2012 HK$'000	Group 2011 HK$'000
Current			
Available-for-sale investments:			
Bank wealth management products, at cost	(b)	**1,116,083**	-
Non-current			
Available-for-sale investments:			
Bank wealth management products, at cost	(c)	**160,326**	-
Unlisted equity investments, at cost		**370**	370
		160,696	370

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19. Available-for-Sale Investments (Continued)

Notes:

(a) 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.

(b) Bank wealth management products of HK$1,116,083,000 were issued by reputable banks in Mainland China and had original maturity of less than three months when acquired. All of these bank wealth management products matured in January 2013.

(c) Bank wealth management products of HK$160,326,000 were issued by reputable banks in Mainland China and had original maturity of two years. These bank wealth management products will mature in September 2014.

20. Intangible Assets

	Group		
	Golf club membership HK$'000	Others HK$'000	Total HK$'000
31 December 2012			
Cost at 1 January 2012, net of accumulated amortisation	**16,025**	**22,363**	**38,388**
Additions	**6,561**	**141**	**6,702**
Acquisition of subsidiaries (note 32)	**-**	**10,999**	**10,999**
Amortisation provided during the year (note 6)	**-**	**(2,271)**	**(2,271)**
Exchange realignment	**(3)**	**(30)**	**(33)**
At 31 December 2012	**22,583**	**31,202**	**53,785**
At 31 December 2012:			
Cost	**22,583**	**40,847**	**63,430**
Accumulated amortisation	**-**	**(9,645)**	**(9,645)**
Net carrying amount	**22,583**	**31,202**	**53,785**
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

21. Inventories

	Group 2012 HK$'000	Group 2011 HK$'000
Raw materials	**11,144,918**	11,946,778
Work in progress	**1,839,654**	1,472,630
Finished goods	**6,532,523**	5,618,820
	19,517,095	19,038,228

As at 31 December 2012, certain of the Group's inventories with a net carrying amount of nil (2011: HK$268,198,000) were pledged as security for the Group's bank loans (note 26).

22. Accounts and Bills Receivables

	Group 2012 HK$'000	Group 2011 HK$'000
Accounts and bills receivables	**4,178,833**	5,767,913
Impairment	**(15,747)**	(7,782)
	4,163,086	5,760,131

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 receivables 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 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 2012 HK$'000	Group 2011 HK$'000
Within 3 months	**3,510,970**	3,650,824
3 to 12 months	**650,757**	2,107,835
1 to 2 years	**1,348**	1,472
2 to 3 years	**11**	-
	4,163,086	5,760,131

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22. Accounts and Bills Receivables (Continued)

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

	Group	
	2012 HK$'000	2011 HK$'000
At 1 January	**7,782**	7,915
Impairment losses recognised/(reversed) (note 6)	**553**	(513)
Impairment write-off	**(506)**	
Acquisition of subsidiaries	**7,920**	-
Exchange realignment	**(2)**	380
At 31 December	**15,747**	7,782

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of HK$15,747,000 (2011: HK$7,782,000) with a carrying amount of HK$15,747,000 (2011: HK$7,782,000).

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.

An aged analysis of the accounts and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Neither past due nor impaired	**4,105,999**	5,712,492
Less than 1 month past due	**34,949**	28,979
1 to 3 months past due	**11,503**	8,575
More than 3 months but less than 12 months past due	**9,378**	8,792
More than 1 year past due	**1,257**	1,293
	4,163,086	5,760,131

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 2012 Assets HK$'000	Group 2012 Liabilities HK$'000	Group 2011 Assets HK$'000	Group 2011 Liabilities HK$'000
Commodity futures contracts	**331,851**	**123,734**	506,286	12,492
Foreign currency forward contracts	**1,467**	**-**	8,592	-
	333,318	**123,734**	514,878	12,492

The Group has entered into various commodity futures contracts to manage its price exposures in future purchases or sales of soybeans, soybean meal, soybean oil and corn. The commodity futures are not designated for hedging purpose and are measured at fair value through profit or loss. Net fair value gain on commodity futures contracts of HK$1,041,562,000 (2011: HK$4,080,737,000) 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 hedging purposes and are measured at fair value through profit or loss. Net fair value gain on foreign currency forward contracts of HK$3,570,000 (2011: HK$11,785,000) was recognised to the income statement during the year (note 5).

24. Cash and Cash Equivalents and Pledged Deposits

	Note	Group 2012 HK$'000	Group 2011 HK$'000	Company 2012 HK$'000	Company 2011 HK$'000
Cash and bank balances		**5,855,998**	8,287,393	**1,221,790**	1,155,597
Time deposits		**1,888,013**	902,312	**1,888,013**	863,451
Bank wealth management products		**1,664,919**	-	**-**	-
		9,408,930	9,189,705	**3,109,803**	2,019,048
Less: Pledged time deposits – Pledged for bills payable	25	**(21,708)**	(14,052)	**-**	-
		(21,708)	(14,052)	**-**	-
Cash and cash equivalents		**9,387,222**	9,175,653	**3,109,803**	2,019,048

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$6,709,673,000 (2011: HK$6,887,234,000). 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.

All the above bank wealth management products have a short maturity of less than three months and a determinable return when acquired and the principal of these bank wealth management products is guaranteed by banks which have no recent history of default. In the opinion of the directors, these bank wealth management products are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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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	
	2012 HK$'000	2011 HK$'000
Within 3 months	**3,358,174**	3,534,547
3 to 12 months	**55,016**	40,938
1 to 2 years	**16,506**	5,462
Over 2 years	**5,049**	4,948
	3,434,745	3,585,895

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

Included in the accounts and bills payables are bills payables of nil (2011: HK$61,162,000) due to a fellow subsidiary which are repayable within one to three months, which represents similar credit terms to those offered by the fellow subsidiary to its major customers.

As at 31 December 2012, certain of the Group's bills payable are secured by time deposits of the Group with a carrying amount of HK$21,708,000 (2011: HK$14,052,000) (note 24).

26. Interest-Bearing Bank and Other Borrowings

Group

	2012			2011		
	Effective contractual interest rate (%)	Maturity	HK$'000	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans - unsecured	**0.61-7.05**	**2013**	**20,606,062**	0.82-7.22	2012	23,489,625
Bank loans - secured	**6.55-6.65**	**2013**	**18,499**	5.80-7.05	2012	230,044
Other loans - unsecured	**5.04-6.56**	**2013**	**1,911,574**	6.10-6.31	2012	351,548
			22,536,135			24,071,217
Non-current						
Bank loans - unsecured	**5.76-7.76, LIBOR+1%**	**2014-2021**	**2,948,926**	6.35-6.65, LIBOR+1%	2013-2019	2,607,743
Bank loans - secured	**6.40-6.65**	**2014-2019**	**176,081**	5.56-7.05	2013-2019	143,549
Other loans - unsecured	**3.4 and 4.2**	**2014**	**2,630,032**	3.4	2014	2,260,306
			5,755,039			5,011,598
			28,291,174			29,082,815

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

Company

	2012			2011		
	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	1,950,000
Other loans - unsecured	**3.4 and 4.2**	**2014**	**2,630,032**	3.4	2014	2,260,306
			4,580,032			4,210,306

Group

	2012 HK$'000	2011 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**20,624,561**	23,719,669
In the second year	**1,451,574**	150,487
In the third to fifth years, inclusive	**1,344,317**	2,546,068
Beyond five years	**329,116**	54,737
	23,749,568	26,470,961
Other loans repayable:		
Within one year or on demand	**1,911,574**	351,548
In the second year	**2,630,032**	-
In the third to fifth years, inclusive	**-**	2,260,306
	4,541,606	2,611,854
	28,291,174	29,082,815

Company

	2012 HK$'000	2011 HK$'000
Analysed into:		
Bank loans repayable in the second year	**994,500**	-
Bank loans repayable in the third to fifth years, inclusive	**955,500**	1,950,000
Other loans repayable in the second year	**2,630,032**	-
Other loans repayable in the third to fifth years, inclusive	**-**	2,260,306
	4,580,032	4,210,306

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

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$287,817,000 (2011: HK$298,323,000) (note 14);

(ii) certain land use rights of the Group with a net carrying amount of HK$146,499,000 (2011: HK$83,855,000) (note 15);

(iii) certain inventories of the Group with a net carrying amount of nil (2011: HK$268,198,000) (note 21).

(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$18,841,103,000 (2011: HK$19,298,358,000) which are denominated in United States dollars, all other borrowings are denominated in RMB.

(d) The other loans represented loans from a fellow subsidiary, an intermediate holding company and the ultimate 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, conversion price adjustments had been made correspondingly as a result of the declaration of dividends by the Company for the years ended 31 December 2010, 2011 and 2012 and, most recently, the conversion price of the convertible bonds had been adjusted to HK$10.175 per share with effect from 26 November 2012 as a result of the rights issue of the Company.

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 a 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.

27. Convertible Bonds (Continued)

The convertible bonds have been split into the liability and equity components at the issuance date, as follows:

	Group HK$'000
Nominal value of convertible bonds issued at the issuance date	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

The movements of the liability and equity components of the convertible bonds 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 and 1 January 2012	3,848,484	51,739
Interest expense	104,270	-
Interest paid	(38,750)	-
At 31 December 2012	3,914,004	51,739

The Group's liability component at the end of the reporting period is analysed as follows:

	2012 HK$'000	2011 HK$'000
Current liabilities included in other payables	**16,253**	16,253
Current liabilities included in convertible bonds	**3,897,751**	-
Non-current liabilities included in convertible bonds	**-**	3,832,231

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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 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
At 31 December 2011 and at 1 January 2012	**411,987**	**7,901**	**1,736**	**16,621**	**101,045**	**539,290**
Deferred tax credited/(charged) to the income statement during the year (note 10)	**(57,861)**	**(101)**	**15,261**	**198,406**	**19,647**	**175,352**
Exchange realignment	**(56)**	**(1)**	**(1)**	**(17)**	**(698)**	**(773)**
Gross deferred tax assets at 31 December 2012	**354,070**	**7,799**	**16,996**	**215,010**	**119,994**	**713,869**

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 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
At 31 December 2011 and 1 January 2012	**2,250**	**-**	**53,820**	**138,380**	**80,487**	**274,937**
Acquisition of subsidiaries (note 32)	**-**	**-**	**-**	**-**	**4,168**	**4,168**
Deferred tax credited to the income statement during the year (note 10)	**(1,567)**	**-**	**(52,470)**	**-**	**(19,814)**	**(73,851)**
Exchange realignment	**-**	**-**	**(6)**	**-**	**-**	**(6)**
Gross deferred tax liabilities at 31 December 2012	**683**	**-**	**1,344**	**138,380**	**64,841**	**205,248**

The Group has tax losses arising in Mainland China of HK$827,753,000 (2011: HK$969,544,000) 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.

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

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29. Share Capital

Shares

	2012 HK$'000	2011 HK$'000
Authorised:		
10,000,000,000 (2011:10,000,000,000) ordinary shares of HK$0.1 each	**1,000,000**	1,000,000
Issued and fully paid:		
5,249,880,788 (2011: 4,038,369,839) ordinary shares of HK$0.1 each	**524,988**	403,837

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Note	Number of ordinary shares	Nominal value of ordinary shares HK$'000
At 1 January 2011, 31 December 2011 and 1 January 2012		4,038,369,839	403,837
Rights issue	(i)	1,211,510,949	121,151
At 31 December 2012		5,249,880,788	524,988

Note:

(i) During the year ended 31 December 2012, the Company issued an aggregate of 1,211,510,949 new ordinary shares by a rights issue on the basis of three rights shares for every ten existing shares held by members as recorded on the register of members on 30 November 2012 at a subscription price of HK$3.39 per rights share. The proceeds, before expenses, were approximately HK$4,107,022,000.

Share options

Details of the Company's share option scheme and share options issued under the 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 of the 2007 Options was HK$4.50 per share.

The following 2007 Options were outstanding under the Scheme during the year:

	2012		2011	
	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**	**23,579**	4.666	24,021
Forfeited during the year	**4.666**	**(400)**	4.666	(442)
At 31 December	**4.666**	**23,179**	4.666	23,579

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.

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30. Share Option Scheme (Continued)

The vesting periods, exercise price and exercise periods of the 2007 Options outstanding as at 31 December 2012 and 2011 are as follows:

2012 Number of options granted to Directors '000	Employees '000	Total '000	Vesting period (d-m-yyyy)	Exercise price* HK$ per share	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	**4,530**	**5,190**	**7-8-2007 to 6-8-2010**	**4.666**	**7-8-2010 to 6-8-2014**
660	**4,476**	**5,136**	**7-8-2007 to 6-8-2011**	**4.666**	**7-8-2011 to 6-8-2014**
660	**4,476**	**5,136**	**7-8-2007 to 6-8-2012**	**4.666**	**7-8-2012 to 6-8-2014**
660	**4,476**	**5,136**	**7-8-2007 to 6-8-2013**	**4.666**	**7-8-2013 to 6-8-2014**
3,170	**20,009**	**23,179**			

2011 Number of options granted to Directors '000	Employees '000	Total '000	Vesting period (d-m-yyyy)	Exercise price* HK$ per share	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			

* The exercise price and the number of share options are subject to adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.

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 of the 2011 options was HK$8.720 per share.

The following 2011 Options were outstanding under the Scheme during the year:

	2012 Weighted average exercise price HK$ per share	2012 Number of options '000	2011 Weighted average exercise price HK$ per share	2011 Number of options '000
At 1 January	**8.720**	**45,300**	–	–
Granted during the year	**–**	**–**	8.720	45,300
Forfeited during the year	**8.720**	**(750)**	–	–
At 31 December	**8.720**	**44,550**	8.720	45,300

30. Share Option Scheme (Continued)

The vesting periods, exercise price and exercise periods of the 2011 Options outstanding as at 31 December 2012 and 2011 are as follows:

2012 Number of options granted to Directors '000	Employees '000	Total '000	Vesting period (d-m-yyyy)	Exercise price* HK$ per share	Exercise period (d-m-yyyy)
680	**8,230**	**8,910**	**31-3-2011 to 30-3-2013**	**8.720**	**31-3-2013 to 30-3-2018**
680	**8,230**	**8,910**	**31-3-2011 to 30-3-2014**	**8.720**	**31-3-2014 to 30-3-2018**
680	**8,230**	**8,910**	**31-3-2011 to 30-3-2015**	**8.720**	**31-3-2015 to 30-3-2018**
680	**8,230**	**8,910**	**31-3-2011 to 30-3-2016**	**8.720**	**31-3-2016 to 30-3-2018**
680	**8,230**	**8,910**	**31-3-2011 to 30-3-2017**	**8.720**	**31-3-2017 to 30-3-2018**
3,400	**41,150**	**44,550**			

2011 Number of options granted to Directors '000	Employees '000	Total '000	Vesting period (d-m-yyyy)	Exercise price* HK$ per share	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 exercise price and the number of share options are subject to adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair values of the 2007 Options and 2011 Options were approximately HK$48,459,000 (2011: HK$48,459,000) (including an additional fair value of approximately HK$2,759,000 on the Modification Date) and HK$173,616,000 (2011: HK$173,616,000), respectively, of which the Group recognised share option expenses of HK$48,180,000 (2011: HK$39,923,000) during the year.

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

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30. Share Option Scheme (Continued)

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 67,729,000 (2011: 68,879,000) 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 67,729,000 (2011: 68,879,000) additional ordinary shares of the Company and additional share capital of HK$6,772,900 (2011: HK$6,887,900) and share premium of HK$489,856,314 (2011: HK$498,147,714) (before issue expenses).

At the date of the approval of these financial statements, the Company had share options outstanding under the Scheme, which represented approximately 1.3% (2011: 1.7%) 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 of the financial statements.

The Group's capital reserve mainly represents contributed surplus which is 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 jointly-controlled entities which are established in the PRC has been transferred to reserve funds which are restricted as to use.

31. Reserves (Continued)

(b) Company

	Notes	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 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 and at 1 January 2012		**5,275,156**	**5,689,788**	**77,965**	**3,399,653**	**14,442,562**
Total comprehensive income for the year		**–**	**–**	**–**	**(57,746)**	**(57,746)**
Issue of new shares	29	**3,985,871**	**–**	**–**	**–**	**3,985,871**
Share issue expenses	29	**(14,351)**	**–**	**–**	**–**	**(14,351)**
Equity-settled share option arrangements	30	**–**	**–**	**48,180**	**–**	**48,180**
Interim 2012 dividend	12	**–**	**–**	**–**	**(125,189)**	**(125,189)**
Proposed final 2012 dividend	12	**–**	**–**	**–**	**(183,746)**	**(183,746)**
At 31 December 2012		**9,246,676**	**5,689,788**	**126,145**	**3,032,972**	**18,095,581**

The Company's capital reserve mainly represents contributed surplus which is the excess of carrying amount of China Agri-Industries Limited acquired pursuant to the Group reorganisation prior to the listing of the Company's shares on 21 March 2007 over the nominal value of the Company's shares issued in exchange therefor.

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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32. Business Combinations

Business combinations for the year ended 31 December 2012

(a) During the year ended 31 December 2012, the Group acquired a 100% equity interest in Poly Idea Investments Limited ("Poly Idea") together with the shareholder's loan from COFCO HK, an intermediate holding company of the Company, at a cash consideration of approximately HK$35,694,000. Poly Idea is an investment holding company, which holds a 77.04% equity interest in COFCO Tayuan Safflower (Xinjiang) Co., Limited ("Tayuan"). Tayuan is engaged in the processing and sales of safflower oil and rapeseed oil.

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

The fair values of the identifiable assets and liabilities of Poly Idea and its subsidiary and the shareholder's loan at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	18,294
Prepaid land premiums	10,239
Intangible assets	4,593
Inventories	18,963
Accounts and bills receivables	12,151
Prepayments, deposits and other receivables	1,106
Cash and cash equivalents	12,948
Accounts and bills payables	(28,393)
Other payables and accruals	(5,737)
Deferred tax liabilities	(115)
Total identifiable net assets at fair value	44,049
Non-controlling interest	(10,153)
Goodwill on acquisition (note 16)	1,798
	35,694
Satisfied by cash	35,694

An analysis of the cash flows in respect of the acquisition of Poly Idea and the shareholder's loan is as follows:

	HK$'000
Cash consideration	(35,694)
Cash and cash equivalents acquired	12,948
Net outflow of cash and cash equivalents in respect of the acquisition of Poly Idea and the shareholder's loan	(22,746)

During current year, Poly Idea and Tayuan generated revenue and a net loss of approximately HK$45,474,000 and HK$8,621,000, respectively. Since the acquisition date, Poly Idea and Tayuan contributed revenue of HK$32,374,000 to the Group and contributed a net loss of approximately HK$4,939,000 to the Group's consolidated profit for the year ended 31 December 2012.

32. Business Combinations (Continued)

Business combinations for the year ended 31 December 2012 (Continued)

(b) During the year ended 31 December 2012, the Group acquired a 100% equity interest in Sharp Global Limited ("Sharp Global") together with the shareholder's loan from Full Great Investments Limited, a fellow subsidiary of the Group, at a cash consideration of approximately HK$117,951,000. Sharp Global is an investment holding company, which holds a 100% equity interest in COFCO TECH Bioengineering (Tianjin) CO., Ltd. ("COFCO TECH"). COFCO TECH is engaged in producing, processing and trading of food additives, and microencapsulating natural active substances.

The fair values of the identifiable assets and liabilities of Sharp Global and its subsidiary and the shareholder's loan as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	**77,984**
Prepaid land premiums	**20,400**
Intangible assets	**6,406**
Inventories	**108,074**
Accounts and bills receivables	**3,164**
Prepayments, deposits and other receivables	**25,440**
Cash and cash equivalents	**21,671**
Interest-bearing bank borrowings	**(76,617)**
Accounts and bills payables	**(22,876)**
Other payable and accruals	**(38,456)**
Deferred tax liabilities	**(4,053)**
Total identifiable net assets at fair value	**121,137**
Gain on bargain purchase recognised in other income and gains in the consolidated income statement (note 5)	**(3,186)**
	117,951
Satisfied by cash	**117,951**

An analysis of the cash flows in respect of the acquisition of Sharp Global and the shareholder's loan is as follows:

	HK$'000
Cash consideration	**(117,951)**
Cash and cash equivalents acquired	**21,671**
Net outflow of cash and cash equivalents in respect of the acquisition of Sharp Global and the shareholder's loan	**(96,280)**

During the year, Sharp Global and COFCO TECH generated revenue and a net profit of approximately HK$397,722,000 and HK$22,979,000, respectively. Since the acquisition date, Sharp Global and COFCO TECH contributed revenue of HK$296,515,000 to the Group and contributed a net profit of approximately HK$11,243,000 to the Group's consolidated profit for the year ended 31 December 2012.

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32. Business Combinations (Continued)

Business combination for the year ended 31 December 2011

(a) During the year ended 31 December 2011, the Group acquired a 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)
	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 ended 31 December 2011, 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 ended 31 December 2011.

32. Business Combinations (Continued)

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

(b) During the year ended 31 December 2011, the Group acquired a 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)
	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 ended 31 December 2011, Jingshan generated revenue and a 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 ended 31 December 2011.

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32. Business Combinations (Continued)

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

(c) During the year ended 31 December 2011, the Group acquired a 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)
	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 ended 31 December 2011, Panshi generated revenue and a 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 ended 31 December 2011.

* The English name of this company referred in these financial statements represents 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 rights under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to ten years, and that for land use rights for terms of fifty years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**11,390**	7,217
In the second to fifth years, inclusive	**14,648**	6,262
After five years	**45,334**	46,403
	71,372	59,882

34. Contingent Liabilities

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

	Company	
	2012 HK$'000	2011 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**8,572,200**	5,374,200

As at 31 December 2012, the banking facilities granted to certain subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK$4,377,759,000 (2011: HK$4,302,418,000).

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:

	2012 HK$'000	2011 HK$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**1,374,358**	2,944,824
Contracted, but not provided for	**1,047,456**	1,802,571
	2,421,814	4,747,395

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36. Other Commitments

Commitments under commodity futures contracts:

	Group	
	2012 HK$'000	2011 HK$'000
Sales of soybean meal	405,509	–
Sales of soybeans	10,674,723	9,387,394
Sales of rapeseed meal	84,772	–
Sales of vegetable oil	36,047	–
Sales of soybean oil	5,845,474	5,795,378
Sales of palm oil	2,077,326	2,244,177
Sales of early grains	1,993	–
Sales of corn	–	413,316
	19,125,844	17,840,265
Purchases of soybeans	1,638,049	348,249
Purchases of soybean meal	614,579	–
Purchases of palm oil	249,170	–
Purchases of corn	29,288	19,067
	2,531,086	367,316

Commitments under foreign currency forward contracts:

	Group	
	2012 HK$'000	2011 HK$'000
Sales of United States dollars	17,108	787,431
Sales of Euros	2,033	–
	19,141	787,431

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:

	Notes	Group 2012 HK$'000	Group 2011 HK$'000
Transactions with fellow subsidiaries:			
Sales of goods**	(i)	**9,294,893**	10,985,283
Purchases of goods**	(i)	**2,658,363**	2,415,721
Operating lease rental paid*	(i)	**4,250**	2,058
Interest expense	(ii)	**19,751**	25,986
Brokerage fees paid*	(i)	**32,004**	30,518
Other service fee paid**	(i)	**10,074**	6,814
Processing service and other income**	(i)	**23,061**	7,828
Transactions with the ultimate holding company:			
Sales of goods*	(i)	**–**	1,262
Operating lease rental paid*	(i)	**19,404**	18,955
Interest expense	(ii)	**13,184**	–
Transaction with an intermediate holding company:			
Interest expense	(ii)	**91,657**	36,489
Transactions with associates:			
Sales of goods**	(i)	**2,706,887**	2,822,452
Purchases of goods**	(i)	**170,588**	210,489
Interest income*	(iii)	**4,900**	4,135
Logistics service and storage fee paid*	(i)	**891**	1,617
Transactions with related companies:#			
Sales of goods**	(i)	**215,706**	363,404
Purchases of goods**	(i)	**4,315,369**	5,658,540
Brokerage fees paid	(i)	**8,659**	7,303
Transactions with non-controlling shareholders of subsidiaries:			
Sales of goods	(i)	**897,948**	1,019,221
Purchases of goods	(i)	**116,437**	59,305

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

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

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

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37. Connected and Related Party Transactions (Continued)

(a) (Continued)

Notes:

(i) Except for the transactions with a fellow subsidiary for sales of goods of nil (2011: HK$416,112,000) and with an associate for sales of goods of HK$864,930,000 (2011: HK$1,672,342,000), 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 ranged from 5.04% to 6.56% (2011: from 5.6% to 6.31%) per annum. The interest expense to an intermediate holding company arose from loans from COFCO HK which were unsecured and bore interest at rates of 3.4% and 4.2% (2011: 3.4%) per annum. The interest expenses to the ultimate holding company arose from the loans from COFCO which were unsecured and bore interest at a rate of 5.32% (2011: Nil) per annum.

(iii) The interest income arose from loans to an associate, which were unsecured and bore interest at the rate of 2.5% (2011: ranged from 2.0% to 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$1,541,592,000 (2011: HK$351,548,000) which bear interest at rates ranged from 5.04% to 6.56% per annum and are repayable within one year. Loans from an intermediate holding company of HK$2,630,032,000 (2011: HK$2,260,306,000) which bear interest at rates of 3.4% and 4.2% per annum and are not repayable within one year. Loans from the ultimate holding company of HK$369,982,000 (2011: Nil) which bear interest at a rate of 5.32% per annum and are repayable within one year.

(2) Amounts due to non-controlling shareholders of subsidiaries of HK$207,693,000 (2011: HK$207,709,000) which are financing in nature and not repayable within one year.

(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, and details of the Company's loans to its subsidiaries are included in note 17 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.

There were no such significant commitments with related parties as at 31 December 2012.

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

	2012 HK$'000	2011 HK$'000
Short term employee benefits	**10,274**	18,801
Post-employment benefits	**332**	534
Equity-settled share option expense	**4,961**	8,005
Total compensation paid to key management personnel	**15,567**	27,340

Further details of directors' and chief executive's 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 diversified products, 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, in the normal course of business 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.

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38. Particulars of Principal Subsidiaries

Particulars of the principal subsidiaries as at 31 December 2012 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
China Agri Trading (HK) Limited*	Hong Kong/ Hong Kong	Ordinary HK$10,000	100	Trading of rice and barley
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$145,000,000	54	Production and sale of edible oil, and trading of soybeans and rapeseeds
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 soybeans and oils
COFCO Xiangrui Oils & Grains Industries (Jingmen) Co., Ltd. ***	The PRC/ Mainland China	US$29,320,000	100	Production and sale of edible oil

38. Particulars of Principal Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
張家港保税區中糧四海豐貿易有限公司****	The PRC/ Mainland China	RMB10,000,000	57.43	Trading of soybeans and oils
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	Provision of storage service
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 oil
COFCO Oils & Grains Industries (Jingzhou) Co., Ltd. ***	The PRC/ Mainland China	US$42,750,000	100	Production and sale of rapeseed oil
COFCO Oils & Grains Industries (Huanggang) Co., Ltd. ***	The PRC/ Mainland China	US$42,150,000	100	Production and sale of rapeseed oil
COFCO Oils & Grains Industries (Chaohu) Co., Ltd. ***	The PRC/ Mainland China	US$43,900,000	100	Production and sale of rapeseed oil
COFCO Oils & Grains Industries (Chongqing) Co., Ltd. ***	The PRC/ Mainland China	US$15,000,000	100	Production and sale of rapeseed oil
Tianjin COFCO Excel Joy Lingang Storage Co., Ltd.**	The PRC/ Mainland China	RMB241,890,000	76.61	Provision of storage service
COFCO Excel Joy (Tianjin) Co., Ltd. ***	The PRC/ Mainland China	US$156,864,930.35	100	Production and sale of edible oil

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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 Tayuan Safflower (Xinjiang) Co., Limited**	The PRC/ Mainland China	RMB37,000,000	77.04	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
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	RMB120,000,000	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	RMB183,107,260.91	87.73	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 Rice (Yancheng) Co., Ltd. **	The PRC/ Mainland China	RMB181,609,324.22	89.23	Processing and trading of rice
COFCO Rice (Hulin) Co., Ltd. ***	The PRC/ Mainland China	RMB158,160,000	100	Processing and trading of rice
COFCO Chaohu Rice Processing Limited **	The PRC/ Mainland China	RMB168,138,801.26	88.76	Processing and trading of rice
COFCO Rice (Jiansanjiang) Co., Ltd.**	The PRC/ Mainland China	RMB200,000,000	80	Processing and trading of rice
COFCO Rice (Panshi) Co., Ltd. ****	The PRC/ Mainland China	RMB8,770,000	82.21	Processing and trading of rice
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

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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 Bio-Chemical Energy (Hengshui) Co., Ltd.***	The PRC/ Mainland China	RMB186,197,000	100	Under construction
COFCO TECH Bioengineering (Tianjin) CO., Ltd.***	The PRC/ Mainland China	RMB57,000,000	100	Production and sale of biochemicals
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	RMB120,000,000	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
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	Production and sale of biochemicals
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

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 (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$7,550,000	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
COFCO Flour Industry (Haining) Co., Ltd. **	The PRC/ Mainland China	HK$453,704,159.49	94.33	Production and sale of wheat products
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

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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 Feed (Dongtai) Co., Ltd. (formerly known as COFCO East Ocean Oils & Grains (Dongtai) Co., Ltd.) **	The PRC/ Mainland China	RMB62,500,000	85.28	Production and sale of feed
COFCO Feed (Peixian) Co., Ltd. ***	The PRC/ Mainland China	HK$42,000,000	100	Under Construction
COFCO Feed (Xinyi) Co., Ltd. ***	The PRC/ Mainland China	HK$46,000,000	100	Under Construction
COFCO Feed (Huangshi) Co., Ltd. ***	The PRC/ Mainland China	US$6,000,000	100	Under Construction
中糧(鄭州)糧油工業有限公司***	The PRC/ Mainland China	RMB313,000,000	100	Under Construction
中糧(成都)糧油工業有限公司***	The PRC/ Mainland China	US$80,800,000	100	Production and sale of rice, wheat, feed and biochemicals
中糧(昌吉)糧油工業有限公司***	The PRC/ Mainland China	US$22,775,000	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, China Agri Trading (HK) 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 as at 31 December 2012 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 Grains Industries (Fang Cheng Gang) Co., Ltd.	US$69,500,000	The PRC	40	Soybean oil extraction, and refining packaging and production of soybean meal
Laiyang Luhua Fragrant Peanut Oil Co., Ltd. #	US$19,219,300	The PRC	24	Production and sale of peanut oil
COFCO Northsea Oils & Grains Industries (Tianjin) Co., Ltd. #	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.

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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			
2012	**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	**–**	**–**	**1,276,779**	**1,276,779**
Accounts and bills receivables	**–**	**4,163,086**	**–**	**4,163,086**
Financial assets included in prepayments, deposits and other receivables*	**–**	**2,339,559**	**–**	**2,339,559**
Derivative financial instruments	**333,318**	**–**	**–**	**333,318**
Due from related parties	**–**	**4,435,867**	**–**	**4,435,867**
Pledged deposits	**–**	**21,708**	**–**	**21,708**
Cash and cash equivalents	**–**	**9,387,222**	**–**	**9,387,222**
Total	**333,318**	**20,347,442**	**1,276,779**	**21,957,539**

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
Financial assets included in prepayments, 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

* Included in "Prepayments, deposits and other receivables" of HK$4,888,234,000 (2011: HK$5,176,754,000) in the consolidated statement of financial position are prepayments to suppliers of HK$1,307,032,000 (2011: HK$2,651,734,000), and margin deposits and other miscellaneous prepayments, deposits and other receivables of HK$3,581,202,000 (2011: HK$2,525,020,000), of which HK$2,339,559,000 (2011: HK$1,120,513,000) 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		
2012	**Financial liabilities at fair value through profit or loss HK$'000**	**Financial liabilities at amotised cost HK$'000**	**Total HK$'000**
Accounts and bills payables	–	**3,434,745**	**3,434,745**
Other payables*	–	**3,497,540**	**3,497,540**
Derivative financial instruments	**123,734**	–	**123,734**
Interest-bearing bank and other borrowings	–	**28,291,174**	**28,291,174**
Convertible bonds	–	**3,897,751**	**3,897,751**
Due to related parties	–	**789,793**	**789,793**
Total	**123,734**	**39,911,003**	**40,034,737**

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

* Included in "Other payables and accruals" of HK$6,262,168,000 (2011: HK$6,391,372,000) in the consolidated statement of financial position are advances from customers of HK$1,742,527,000 (2011: HK$1,716,258,000), accrued staff payroll and benefits of HK$371,938,000 (2011: HK$382,907,000), and other miscellaneous payables and accruals of HK$4,147,703,000 (2011: HK$4,292,207,000), of which HK$3,497,540,000 (2011: HK$4,038,062,000) are financial liabilities as disclosed above.

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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 2012 Loans and receivables HK$'000	Company 2011 Loans and receivables HK$'000
Due from subsidiaries	**5,914,957**	4,091,367
Financial assets included in prepayments, deposits and other receivables	**9,005**	578
Cash and cash equivalents	**3,109,803**	2,019,048
	9,033,765	6,110,993

Financial liabilities

	Company 2012 Financial liabilities at amortised cost HK$'000	Company 2011 Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals	**234,007**	191,921
Due to subsidiaries	**3,716,279**	3,755,134
Due to an intermediate holding company	**45,729**	36,489
Interest-bearing bank and other borrowings	**4,580,032**	4,210,306
	8,576,047	8,193,850

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	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Financial assets				
Available-for-sale investments	**1,276,779**	370	**1,276,779**	370
Accounts and bills receivables	**4,163,086**	5,760,131	**4,163,086**	5,760,131
Financial assets included in prepayments, deposits and other receivables	**2,339,559**	1,120,513	**2,339,559**	1,120,513
Derivative financial instruments	**333,318**	514,878	**333,318**	514,878
Due from related parties	**4,435,867**	3,492,113	**4,435,867**	3,492,113
Pledged deposits, current portion	**21,708**	14,052	**21,708**	14,052
Cash and cash equivalents	**9,387,222**	9,175,653	**9,387,222**	9,175,653
	21,957,539	20,077,710	**21,957,539**	20,077,710
Financial liabilities				
Accounts and bills payables	**3,434,745**	3,585,895	**3,434,745**	3,585,895
Financial liabilities included in other payables and accruals	**3,497,540**	4,038,062	**3,497,540**	4,038,062
Derivative financial instruments	**123,734**	12,492	**123,734**	12,492
Interest-bearing bank and other borrowings	**28,291,174**	29,082,815	**28,291,174**	29,082,815
Convertible bonds	**3,897,751**	3,832,231	**3,897,751**	3,832,231
Due to related parties	**789,793**	440,878	**789,793**	440,878
	40,034,737	40,992,373	**40,034,737**	40,992,373

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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	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Financial assets				
Due from subsidiaries	**5,914,957**	4,091,367	**5,914,957**	4,091,367
Financial assets included in prepayments, deposits and other receivables	**9,005**	578	**9,005**	578
Cash and cash equivalents	**3,109,803**	2,019,048	**3,109,803**	2,019,048
	9,033,765	6,110,993	**9,033,765**	6,110,993
Financial liabilities				
Due to subsidiaries	**3,716,279**	3,755,134	**3,716,279**	3,755,134
Due to an intermediate holding company	**45,729**	36,489	**45,729**	36,489
Financial liabilities included in other payables and accruals	**234,007**	191,921	**234,007**	191,921
Interest-bearing bank borrowings and other borrowings	**4,580,032**	4,210,306	**4,580,032**	4,210,306
	8,576,047	8,193,850	**8,576,047**	8,193,850

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, the current portion of 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, current portion of bank wealth management products included in available-for-sale investments, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the balances with related parties, non-current portion of bank wealth management products included in available-for-sale investments, 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.

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 2012

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	**333,318**	**–**	**–**	**333,318**

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

Liabilities measured at fair value

Group

As at 31 December 2012

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	**123,734**	**–**	**–**	**123,734**

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

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42. Financial Risk Management Objectives and Policies

The Group's principal financial instruments other than derivatives, comprise bank loans, convertible bonds, other interest-bearing loans, and cash and short term 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. The purpose is to manage the currency risks and market price risk arising from the Group's operations and its sources of finance.

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. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

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
2012			
	100	**(32,636)**	**(27,070)**
	(100)	**32,636**	**27,070**
2011			
	100	(31,345)	(25,213)
	(100)	31,345	25,213

42. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 6% (2011: 8%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 41% (2011: 46%) 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 demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Group		
	Increase/ (decrease) in HK$ rate/ US$ rate %	(Decrease)/ increase in profit before tax HK$'000	(Decrease)/ increase in equity HK$'000
2012			
If Renminbi weakens against Hong Kong dollar	**5**	**–**	**(2,484)**
If Renminbi strengthens against Hong Kong dollar	**(5)**	**–**	**2,484**
If Renminbi weakens against United States dollar	**5**	**(964,256)**	**(799,808)**
If Renminbi strengthens against United States dollar	**(5)**	**964,256**	**799,808**
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

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

Credit risk

The Group has no significant concentration of credit risk. The carrying amount of the accounts receivable represents the Group's maximum exposure to credit risk in relation to its financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

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42. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk

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

Group

	2012			
	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	**3,434,745**	–	–	**3,434,745**
Other payables	**3,497,540**	–	–	**3,497,540**
Derivative financial instruments	**123,734**	–	–	**123,734**
Interest-bearing bank and other borrowings	**22,758,771**	**4,245,834**	**1,801,143**	**28,805,748**
Convertible bonds	**4,032,945**	–	–	**4,032,945**
Due to related parties	**789,793**	–	–	**789,793**
	34,637,528	**4,245,834**	**1,801,143**	**40,684,505**

	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	24,618,805	308,413	4,998,492	29,925,710
Convertible bonds	38,750	38,750	4,155,201	4,232,701
Due to related parties	440,878	–	–	440,878
	32,734,882	347,163	9,153,693	42,235,738

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

	2012			
	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	**3,716,279**	**–**	**–**	**3,716,279**
Due to an intermediate holding company	**45,729**	**–**	**–**	**45,729**
Other payables	**234,007**	**–**	**–**	**234,007**
Interest-bearing bank and other borrowings	**116,286**	**3,680,714**	**959,816**	**4,756,816**
Guarantees given to banks in connection with facilities granted to subsidiaries#	**4,377,759**	**–**	**–**	**4,377,759**
	8,490,060	**3,680,714**	**959,816**	**13,130,590**

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).

	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
Due to an intermediate holding company	36,489	–	–	36,489
Other payables	191,921	–	–	191,921
Interest-bearing bank and other borrowings	102,108	102,108	4,253,547	4,457,763
Guarantees given to banks in connection with facilities granted to subsidiaries#	4,302,418	–	–	4,302,418
	8,388,070	102,108	4,253,547	12,743,725

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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 soybeans, 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
2012			
Soybeans	**5**	**1,713,539**	**1,402,130**
Corn	**5**	**561,101**	**444,861**
Rice	**5**	**371,882**	**257,477**
Barley	**5**	**89,533**	**88,730**
Wheat	**5**	**241,484**	**219,949**
2011			
Soybeans	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

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 and the risk characteristics of the underlying assets. 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 2012 and 31 December 2011.

The Group monitors capital using a 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 gearing ratios as at the end of the reporting period were as follows:

	Group	
	2012 HK$'000	**2011 HK$'000**
Interest-bearing bank and other borrowings	**28,291,174**	29,082,815
Convertible bonds	**3,897,751**	3,832,231
Less: Cash and cash equivalents	**(9,387,222)**	(9,175,653)
Pledged deposits	**(21,708)**	(14,052)
Net debt	**22,779,995**	23,725,341
Equity attributable to owners of the Company	**27,054,979**	21,963,753
Gearing ratio	**84.2%**	108.0%

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2013.

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Chinese Olympic Committee Official Partner
中国奥委会合作伙伴

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