



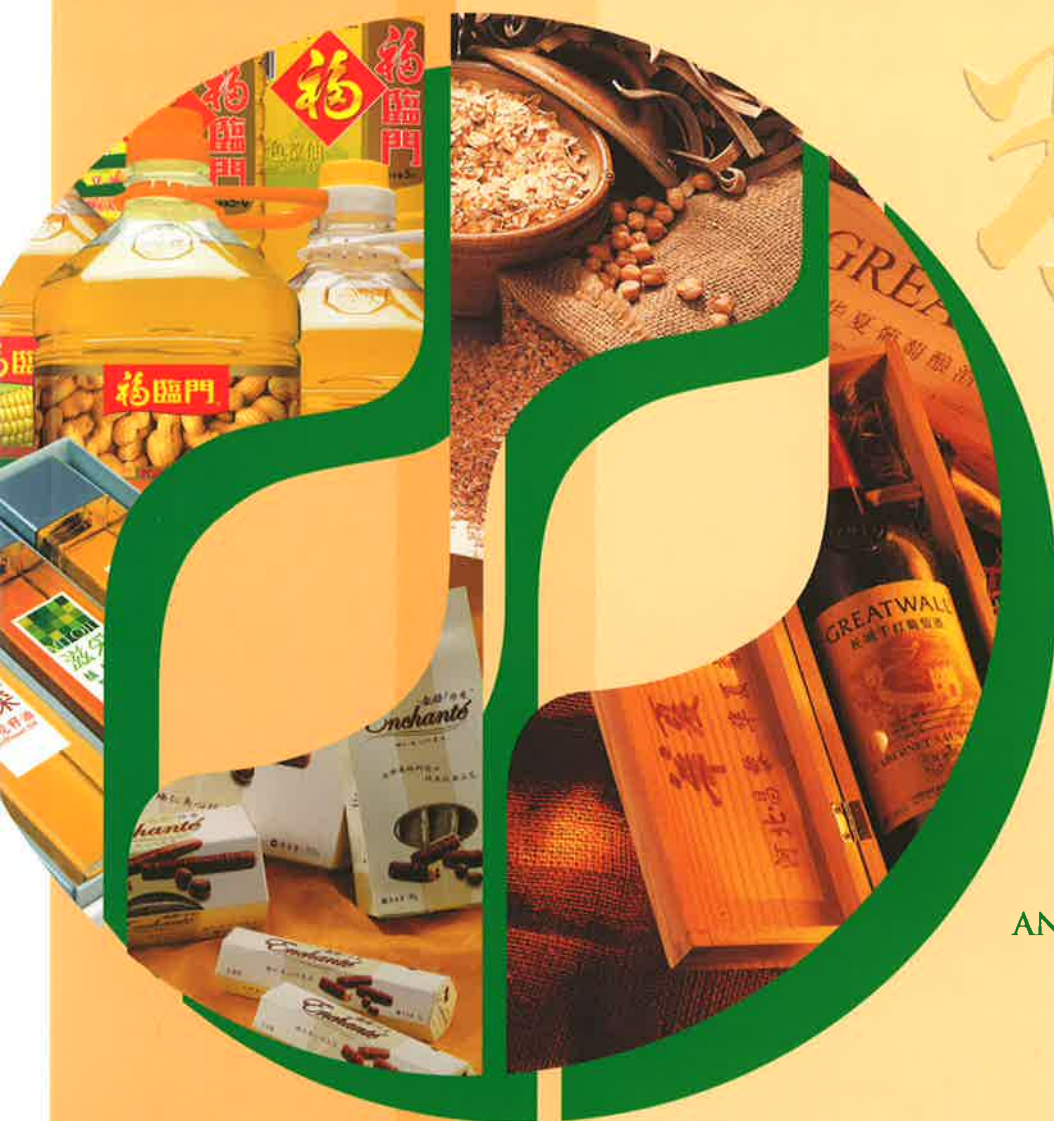
中國糧油國際有限公司

COFCO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0506)

中國糧油



ANNUAL REPORT
2005

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Corporate Information

DIRECTORS

Executive Directors

Mr. Ning Gaoning (*Chairman*)
Mr. Liu Fuchun (*Vice-Chairman*)
Mr. Qu Zhe (*Managing Director*)
Mr. Xue Guoping
Mr. Liu Yongfu
Mr. Yu Xubo

Independent Non-Executive Directors

Mr. Stephen Edward Clark
Mr. Tan Man Kou
Mr. Yuen Tin Fan, Francis

AUDIT COMMITTEE

Mr. Tan Man Kou (*Committee Chairman*)
Mr. Stephen Edward Clark
Mr. Yuen Tin Fan, Francis

REMUNERATION COMMITTEE

Mr. Yuen Tin Fan, Francis (*Committee Chairman*)
Mr. Stephen Edward Clark
Mr. Qu Zhe

COMPANY SECRETARY

Ms. Liu Kit Yee, Linda

SOLICITORS

Deacons
Michael Cheuk, Wong & Kee
Conyers, Dill & Pearman

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

Bank of Communications Company Limited
Deutsche Bank
Hang Seng Bank Limited
ING Bank N.V.
Rabobank
UBS AG

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE

33rd Floor
Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Progressive Registration Limited
26/F Tesbury Tower
28 Queen's Road East
Hong Kong

Financial Calendar

ANNOUNCEMENT OF ANNUAL RESULTS

7 April 2006

CLOSURE OF REGISTER OF MEMBERS

19-25 May 2006

ANNUAL GENERAL MEETING

25 May 2006

DIVIDENDS

Interim Dividend: 4.35 HK cents per share

Paid: 5 October 2005

Proposed Final Dividend: 4.35 HK cents per share

Payable: 30 June 2006

Business Structure



Chairman's Statement



The Group supplemented its traditional range of “**Fortune**” brand of consumer-pack oil products by introducing the new high-end “**Vitoil**” brand of edible oil products.



Chairman's Statement



Mr. Ning Gaoning
Chairman

I am pleased to present the annual results of COFCO International Limited (the "Company" or "COFCO International") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005.

Results

For the year ended 31 December 2005, the Group's consolidated turnover was HK\$17,588 million representing an increase of 4.7% over 2004. Profit attributable to shareholders amounted to HK\$429 million, a 50.1% increase over 2004 (restated). Basic earnings per share during the review period were 24.4 HK cents, compared with 16.3 HK cents (restated) in the previous year.

Dividend

The directors recommend a final dividend of 4.35 HK cents per share for the year ended 31 December 2005. Together with the interim dividend of 4.35 HK cents per share already paid during the year, the aggregate dividend for 2005 will be 8.7 HK cents per share. The aggregate dividend for 2004 was 6.5 HK cents per share. Subject to shareholders' approval at the annual general meeting to be held on 25 May 2006, the proposed final dividend will be paid on 30 June 2006 to shareholders whose names appear on the register of members of the Company on 25 May 2006.

Business Review and Prospects

In 2005, the winery and trading businesses achieved outstanding and encouraging performances. The edible oils business also gradually emerged from its cloudy state while the flour business remained stable. Although the earnings of the confectionery business were constrained by the price of raw materials and heavy promotional expenses, the Group believes that these effects are temporary, and various measures have been adopted to ensure the long-term growth.

The Group is the only listed flagship of China National Cereals, Oils & Foodstuffs Corporation ("COFCO Group") in

Hong Kong. During the year, the management conducted a number of strategy and positioning surveys, seeking to set long-term development directions for each of the Company's businesses. We also studied ways to create synergies and enhance effectiveness between our different businesses. COFCO Group, our parent company, has also completed a great deal of work in this direction. Both COFCO Group and COFCO International will be adjusting their strategies and repositioning themselves. Based on regular communications with staff on the subject, we have placed transformation and reorganization of the Group as our first priority. Although work is still in its preliminary stage at the present moment, we believe that the blueprint for the entire transformation and reorganization process should be established gradually. As a listed company, every step we take will be made only after careful and detailed planning, supported by meticulous research, as shareholder benefits will always be our first consideration.

As the PRC economy continues to grow and a growing number of people in China are becoming more affluent, Chinese consumers are increasingly looking for branded food items. COFCO Group and COFCO International, as leading players in the cereals, oils and foodstuffs industry in China, are committed to grasping these new business opportunities to ensure continuous growth of the Group. Built on our practical yet ambitious strategies, our ultimate goal is to become a leader in the food industry with a prominent market position in China.

On behalf of all the directors, I would like to take this opportunity to express our gratitude to our former managing director Mr Yu Guangquan, and former independent non-executive director Mr Liang Shangli, for their valuable contribution to the Group in the past. I would also like to pay tribute to former executive director Mr. Ng Eng Leong, who sadly passed away on 31 October 2005. The directors join me in expressing our profound sorrow on Mr. Ng's passing. At the same time, we would like to take this opportunity to express our gratitude for Mr. Ng Eng Leong's valuable contribution to the Group over the years.

We also warmly welcome a new member to the board, executive director Mr. Yu Xubo. We believe that Mr. Yu Xubo will make a valuable contribution to the business growth of the Company with his extensive experience in the industry.

Last but not least, we would like to thank each of our shareholders for their continuous support and we also offer our heartfelt gratitude to every member of staff for their hard work over the past year.

Ning Gaoning
Chairman

Hong Kong, 7 April 2006

Management Discussion and Analysis



“Greatwall” is one of the three major brands of dry wine in China.



Management Discussion and Analysis



Mr. Qu Zhe
Managing Director

During the year,

- the Group's consolidated turnover rose to HK\$17,588 million, representing an increase of 4.7% over the previous year;
- profit attributable to shareholders reached HK\$429 million, 50.1% more than that in the previous year (restated);
- basic earnings per share were 24.4 HK cents, an increase of 8.1 HK cents compared with 16.3 HK cents per share (restated) in the previous year;
- the proposed dividend of 8.7 HK cents represented a payout ratio of 35.7%, an increase of 2.2 HK cents compared with the 6.5 HK cents per share paid out in the previous year.

The Group has five food-related core businesses, namely, edible oils, soybean meal and related products; wineries; confectionery; flour milling; and trading.

The performances of these businesses during the year are set out below, together with further information on the Group.

Edible oils, soybean meal and related products

The Group is currently the largest producer of edible oils and soybean meal in the PRC. We are mainly involved in the oil extraction and refined oil businesses, as well as in

the sale of related products, such as the “四海” brand soybean meal (an important ingredient used in animal and poultry feed), the retailing of bulk edible oils, “Fortune” brand consumer-pack oils, as well as other specialty oils in the PRC.

During the year, this business began its recovery, rising from the depths of 2004. Unfortunately, as international soybean prices went in an opposite direction to domestic soybean meal prices during the second quarter, results for the first half of the year were adversely affected. Although international soybean prices gradually stabilized in the second half of the year, the occurrence of avian flu in China adversely affected the sale of soybean meal, directly affecting results during this period.

However, as we adopted aggressive measures based on our past experiences, improved risk control mechanisms and rationalized our management system, hand-in-hand with the fact that the Chinese government has been able to prevent the spread of the avian flu, overall we were able to maintain slow but stable recovery growth during the year. In 2005, the business recorded a turnover of HK\$11,871 million, with an increase of 1.8% over the previous year, accounting for 67.5% of the total Group turnover. During the year, the Group sold 2,470,000 tonnes of soybean meal, with a 13.6% increase over the previous year. Sales of bulk edible oils totaled 791,000 tonnes, representing an increase of 8.7% over the previous year, while sales of consumer-pack oils amounted to 297,000 tonnes, growing 15.9% over the previous year.

China's edible oils industry faces a number of challenges including surplus extraction capacities as well as the fact that the domestic soybean meal and oil prices are not well matched with international soybean prices. To keep abreast of market information, we have set up a market information analysis and research center to strengthen risk controls and enhance competitiveness. To cope with the intensifying competition, we will continue to maximize our economies of scale, realizing significant cost advantages. We will also foster the development of our “Fortune” and “Vitoil” consumer-pack oil brands and improve sales channels even further to capture greater market share. We will also expand production capacities for other consumer-

Management

Discussion and Analysis

pack oil products, such as sunflower seed oil and safflower seed oil, which have higher gross profit margins compared with soybean oil. The Group will also move towards the value-added deep processing of oils. Our efforts to adjust the product mix have seen significant achievement with the gradual increases in the sale of peanut oil. At the same time, we will continue to increase our investments in technological development and research to produce edible oil products that meet consumer demands, while in turn stimulating greater sales within the sector.

Wineries

The Group's winery business is mainly engaged in the production and sale of wines under the "Greatwall" brand in China. The business consists of the entire production process from vineyards to wine-making to sales and marketing. During the year, sales volume of "Greatwall" wines increased from 57,000 tonnes in 2004 to 78,000 tonnes in 2005, and sales rose to HK\$1,527 million, representing a substantial increase of 31.2% over the previous year and accounting for an encouraging contribution of 8.7% to the total Group turnover.

The rapid increase in turnover and sales volumes show how well "Greatwall" wines are received among Chinese consumers. During the year, the business launched several wines produced in different areas, including its Huaxia Vineyard Cru B and Huaxia Vineyard Small Cru. These new wines aim to create a solid platform for the high-end wine market. However, due to the intense market competition and as the relatively immature section of the consumer market continued to grow, the sale of "Greatwall" wines saw some structural changes. The sale of low-end products grew at a faster pace, resulting in reductions in the average sales price of wine per tonne. Adjusting the product mix to deal with the situation, the Group set a unified and prescribed product price for low-end products while formulating a sales policy to support the sale of mid- and high-end products. We also expedited the construction work on the COFCO Navavalley Jundung Vineyard. Construction of this vineyard will be completed in 2007, with production capacities amounting to 1,000 tonnes. The construction of this vineyard will mark the evolution of "Greatwall" wines from the mid- to high-end to the premium chateau market. This will have a significant impact on

western wines as "Greatwall" wines move up in prestige and quality and allow the business to compete on a higher level in the market.

Our wineries in Shacheng and Yantai received their Hazard Analysis Critical Control Point (HACCP) Management System Certification for Food Manufacturers in 2005, further ensuring product quality. The wineries also received ISO14000 and ISO9000 Certification and QS Certification (Permission of Market Access for Food Quality and Safety), taking the Group several steps forward in the enhancement of product safety standards. During the year, the Group made every effort to protect the "Greatwall" brand, adopting comprehensive and effective measures to guard against crack down on fake wines. These measures include market monitoring, tracking and investigation, prosecution by local administration bureaus of industry and commerce as well as litigation.

During the year, due to the unfavorable weather conditions, the grape output in Shandong Province fell substantially, though market consumption continued to rise. This led to a massive increase in the purchase of original wine by wine businesses. Grape prices rose dramatically, creating pressures on the prices of wine and substantially affecting gross profit margins. Seeking to stabilize the supply of raw materials, the Group will seek stable purchase channels, while arranging and implementing purchase plans in advance.

During the past two years, we have also been working to integrate our three wineries to eliminate internal competition and cost overlaps. At the present moment, the integration of raw material purchases, production management and brand marketing have been completed with notable results. The integration of our distribution channels will be expedited in 2006. This will further improve sales performances and enhance our profitability.

Looking forward, the domestic wine industry is expected to maintain its double digit growth with promising prospects. As a leader in the industry, we will promote awareness and acceptance of a wine-drinking culture, while actively developing a mature wine consumption market. To strengthen our leading position in the market, we will

Management

Discussion and Analysis

implement a multi-brand strategy that focuses on the “Greatwall” brand and strategically select grape production bases for the setting up of wineries and investing in the construction of vineyards; we will optimize product lines and subdivisions in the market, by implementing a focused strategy characterized by growing market penetration, market and product development; and we will build our own sales teams as well as progressively set up regional sales companies. We believe that these measures will bring faster and more substantial growth for our “Greatwall” wine business.

Confectionery

The Group produces and distributes the “Le Conte” brand confectionery products and chocolates in China. During the year, “Le Conte” brand chocolate and confectionery products remained the Company’s main products in this sector. In 2005, the turnover of this sector totaled HK\$381 million, representing an increase of 10.8% over the previous year and accounting for 2.2% of the total Group turnover.

Affected by the rising international prices of raw materials in the market, the costs of raw materials for chocolate products including cocoa butter, almonds and hazelnuts recorded double digit increases, greatly pressuring operations. However, the sector managed to achieve an increase not only in gross profit margins, but also in turnover with the implementation of effective cost controls, flexible purchase, production and sales policies, strong internal management, as well as the introduction of a direct supply model instead of the previous dealership system among large and medium-sized points of sale in Beijing and Shanghai.

To expand our brand’s base, strengthen brand image and reduce the gap in awareness between our brand and other leading brands in the market, we increased our investment in marketing and promotions. We dedicated more resources into product promotion with a focus on TV advertising supported by press and magazine advertisements as well as outdoor advertisements on signposts and subways. These advertisements communicate with our target customer groups and promote the “Le Conte” brand. Although these activities have temporarily affected earnings performance,

they have strengthened our brand’s base and will help to promote long-term growth of the business.

The Group places a strong emphasis on improving the competitiveness of the “Le Conte” brand, and will continue to invest resources in marketing and promotions. With regard to product development, the Group will selectively develop products, based on market demand, which can be sold in small sales channel, such as individually packaged chocolate. At the same time, the Group will further improve the sales network, conduct research into small sales channel networks, integrate distribution resources, work with small channel dealers, establish a dedicated department and employ experienced staff to drive the expansion of distribution channels, formulate policies on channel sales, and put dedicated sales teams in charge of the expansion of small channel products. We believe that these measures will stimulate growth in the confectionery and chocolate sector and make a positive contribution to the overall business of the Group.

Flour Milling

During the year, the Group’s flour business recorded a turnover of HK\$604 million, with a 2.6% increase over the previous year, accounting for 3.4% of the total Group turnover.

China’s flour industry is characterized by large scale and scattered markets with a geographically wide area of consumption. The industry faces excess capacities and is in the process of being streamlined. The Group owns several regionally well-known brand names such as “神象”. Apart from cultivating these brands, enhancing brand prominence and devoting a great deal of effort to developing these brands into national names, we will continue to improve the ratio of high-end flour production and sales to realize higher consolidated gross profit margins.

To improve profitability, in addition to expanding the flour sales network, we will develop new products and downstream products, and strengthen cost controls and product management. At the same time, we will enhance the management of our procurement, production and sales activities to increase synergies among our flour mills.

Management

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Trading

The Group has been engaged in the domestic trading of, as well as the import and export of, foodstuffs, grains and animal feedstock for some time. In 2005, we were mainly involved in the bulk, mainly back-to-back, commodity trading of rice, soybeans, red beans, sugar, fruit and vegetables. We also processed raw materials for export and provided foodstuffs trade agency services on a commission basis. Our total trading business consists of approximately 66% in exports, 32% in imports and the remaining 2% in domestic trade.

During the year, the consolidated turnover for the trading business totalled HK\$3,205 million, representing an increase of 5.5% over the previous year and accounting for 18.2% of the total Group turnover.

Since 2004, grain production in China has resumed growth with an increase in rice exports. Among the Group's rice exports in 2005, the proportion of polished round-grain rice, which has a higher gross profit margin, increased significantly. The gross profit margin for rice product exports therefore improved markedly, benefiting our trading business as a whole.

Responding to market developments, the Group will continue to open new trading channels and introduce new products. With our diversified trading model, more than 50 years' experience in the food trade, established international trade network and our well-established and vigorous risk management system, we believe the trading business will continue to generate promising and steady operational profits for the Group.

Liquidity and Financial Resources

The Group's financial position is sound with stable cash flows. As at 31 December 2005, the Group's total shareholders' equity stood at HK\$4,686 million, representing an increase of 8.7% compared with that at 31 December 2004 (restated). As at 31 December 2005, the Group's cash and bank deposits (including pledged deposits) totalled HK\$1,385 million (31 December 2004: HK\$1,105 million (restated)). The Group's net current assets were approximately HK\$922 million (31 December 2004: HK\$1,068 million (restated)).

Based on the above, together with bank loans and other loans and facilities available to the Group, the management believes that the Group's financial resources are sufficient for all debt payments, day-to-day operations and capital expenditures.

As the Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi and United States dollars, the management believes that the Group's exposure to exchange rate risks is limited. The management is of the view that the new management mechanism for the Renminbi exchange rate introduced in July 2005 will not have a material negative impact on the Group's liquidity and financial resources.

Capital Structure

During the year, the issued share capital of the Company increased by 1,350,000 shares as a result of an executive director of the Company exercising his share options. Save as above, there were no other changes in the share capital of the Company during the year.

As at 31 December 2005, the Group had no significant borrowings apart from certain bank loans, loans from minority shareholders of the Company's subsidiaries and loans from a fellow subsidiary totaling HK\$3,472 million (31 December 2004: HK\$2,672 million). During the year, all the Group's bank borrowings bore fixed annual interest rates of between 4.09% and 5.58% (31 December 2004: between 2.57% and 6.34%). Other borrowings were interest-free or bore fixed annual interest rates ranging from 4.2% to 5.58% (31 December 2004: from 2.31% to 5.58%).

As at 31 December 2005, net debts (the total of debts excluding loans from minority shareholders of subsidiaries that were of capital nature less cash and bank deposits) were HK\$2,018 million (31 December 2004: HK\$1,506 million). Based on the above, the Group's gearing ratio was approximately 43.1% (31 December 2004: 34.9% (restated)).

Management

Discussion and Analysis

Contingent Liabilities and Assets Pledged

As at 31 December 2005, the Group had no material contingent liabilities.

As at 31 December 2005, certain bank loans of the Group were secured by charges over certain time deposits, fixed assets and investment properties with net book value of approximately HK\$727 million (31 December 2004: HK\$151 million).

Employee and Remuneration Policy

As at 31 December 2005, the Group employed approximately 7,717 staff in China and Hong Kong (31 December 2004: 6,507). Employees are paid according to their performance, experience and prevailing trade practices, and are provided with on-the-job and professional training. Employees in Hong Kong receive retirement benefits, either in the form of a Mandatory Provident Fund Exempted ORSO scheme or Mandatory Provident Fund entitlement. There is a similar scheme for employees in mainland China. Details concerning employee benefit schemes are set out in note 2.5 to the financial statements headed “Summary of Significant Accounting Policies” under sub-heading “Employee Benefits” on pages 65 to 67 of this annual report.

The Company has implemented a share option scheme (the “Scheme”) to reward eligible employees (including executive directors of the Company) according to individual merit. During the year, an executive director of the Company exercised share options in respect of 1,350,000 shares, while share options with regard to a total of 9,120,000 shares lapsed. As at 31 December 2005, share options with regard to a total of 57,104,000 shares were still outstanding.

Share options can be exercised at any time within four years after the expiration of a 12-month period from the date when the options are granted. During the year, the Company granted no share options to the Company's executive directors or other eligible employees of the Group.

Details of the Scheme are set out in note 32 to the financial statements headed “Share Option Scheme” on pages 100 to 103 of this annual report.

Changes in the Group's Structure

During the year under review, the Group established a wholly-owned subsidiary which is engaged in the oils and fats business. On 12 January 2006, a wholly-owned subsidiary of the Company and a connected party established a joint venture, in which the Company holds a 55% equity interest. Details of the joint venture and the Company's capital commitment are set out on pages 30 and 31 of this annual report.

Apart from the above, there were no other material changes in the structure of the Group during the year.

Prospects

In conclusion, in 2005, the wineries and trading businesses recorded promising results. However, the edible oils, soybean meal and related products business saw a relatively slow recovery due to market factors, while earnings from the chocolate business registered a temporary decline in view of the increases in promotion costs and adjustments in sales and marketing practices.

The appreciation of the Renminbi has attracted widespread attention. As the Group's assets are principally denominated in Renminbi, the principal raw material for the edible oils and soybean meal business (which accounts for the largest contribution to turnover) is imported soybeans, and the trading business (of which exports account for a comparatively large share) operates under a back-to-back model, the appreciation of the Renminbi has had a positive impact, benefiting the Group's operations.

The Group will devote considerable effort to business strategy research, further our business strategies and upgrade our product, brand, marketing and service strategies. Improved management practices will also enhance the development of our various businesses and create further value for our shareholders.

We have every confidence and high expectations for the future. With our pro-active spirit and effective measures, we will accelerate our development and take a major step towards our target to become a market leader in China's consumer food industry.

Qu Zhe

Managing Director

Hong Kong, 7 April 2006



“Le Conte” chocolate and confectionery products secured the second place in the market with a 13.2% share in China.



Corporate Governance Report

INTRODUCTION

The Company recognizes the importance of corporate transparency and accountability. The board of directors (the “Board”) of the Company is committed to leading the Company and its subsidiaries (the “Group”) to grow in an efficient manner directed by the Group’s vision and mission and improving corporate operation and procedures to meet corporate governance standards.

In the view of the Board, the Company complied with the principles and code provisions set out in the Code on Corporate Governance Practices (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”) throughout the accounting year ended 31 December 2005, except for the deviations from code provisions A.4.1, A.4.2 and E.1.2 of the Code which are explained below on page 17 and page 21 respectively.

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 its own code of conduct regarding directors’ securities transactions. Upon specific enquiries of all directors, each of them confirmed that they complied with the required standards set out in the Model Code.

The Company has also adopted a code for securities transactions by relevant employees based on the Model Code concerning dealings by relevant employees in the securities of the Company. Specified employees who are likely to be in possession of unpublished price-sensitive information related to the Group and its activities must also comply with guidelines as exacting as those set out in the Model Code. No non-compliance report was received from any such employees during 2005.

THE BOARD

The Board is responsible for the leadership and control of the Company and overseeing the Group’s business, strategic decisions and performances. The management is delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees including the audit committee (the “Audit Committee”) and the remuneration committee (the “Remuneration Committee”). Further details of these committees are set out below on page 19 and page 20.

The information on the number of full Board meetings and committee meetings attended by each director during the year under review is set out in the following table. Figures in brackets indicate maximum number of meetings during the period when the individual was a Board member or Board committee member (as the case may be).

Executive Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Ning Gaoning (<i>chairman</i>)	2/(5)	N/A	N/A
Liu Fuchun (<i>vice-chairman</i>)	2/(5)	N/A	N/A
Yu Guangquan (<i>former managing director</i>) # Note 1	5/(5)	N/A	1/(1)
Xue Guoping	2/(5)	N/A	N/A
Liu Yongfu	1/(5)	N/A	N/A
Qu Zhe (<i>managing director</i>) # Note 2	2/(5)	N/A	N/A
Ng Eng Leong ^{Note 3}	2/(4)	N/A	N/A

Corporate Governance Report

THE BOARD (continued)

Independent Non-Executive Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Stephen Edward Clark* #	3/(5)	2/(2)	0/(1)
Tan Man Kou*	2/(5)	0/(2)	N/A
Yuen Tin Fan, Francis * #	1/(5)	2/(2)	1/(1)
Liang Shangji ^{Note 4}	0/(1)	0/(1)	N/A

Notes:

1. Resigned as the managing director on 18 January 2006
 2. Re-designated as the managing director on 18 January 2006
 3. Deceased on 31 October 2005
 4. Resigned on 28 April 2005
- * a member of the Audit Committee
- # a member of the Remuneration Committee

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.

Minutes of the Board and Board committees have recorded in sufficient detail the matters considered by the Board and Board committees, decisions reached, including any concerns raised by 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 directors for their comment and records respectively. Some Board decisions are made via written resolutions authorized by all directors.

All Board members have access to the advice and services of the company secretary. Minutes books 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.

Corporate Governance Report

CHAIRMAN AND THE CHIEF EXECUTIVE

The chairman of the Board is Mr. Ning Gaoning, and the chief executive officer (or managing director, in the case of the Company) is Mr. Qu Zhe (Mr. Yu Guangquan, former managing director, retired on 18 January 2006). The chairman's and the managing director's roles are clearly defined to ensure their independence.

The chairman takes lead in formulating overall strategies and policies of the Company, 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 effective communication with shareholders of the Company and receipt by the directors of adequate and complete information. The role of vice-chairman is carried out by Mr. Liu Fuchun.

The managing director, supported by other Board members and the senior management, is responsible for managing the day-to-day business of the Company. He is accountable to the Board for the implementation of the Company's overall strategies as well as coordination of overall business operations.

BOARD COMPOSITION

The Board currently comprises six executive directors, namely, Messrs. Ning Gaoning, Liu Fuchun, Qu Zhe, Xue Guoping, Liu Yongfu, Yu Xubo, and three independent non-executive directors, being Messrs. Stephen Edward Clark, Tan Man Kou and Yuen Tin Fan, Francis. Mr. Zhou Mingchen and Mr. Liang Shangli resigned as an executive director and an independent non-executive director on 24 January 2005 and 28 April 2005 respectively. Mr. Ng Eng Leong, an executive director, passed away on 31 October 2005.

The Board members have no financial, business, family or other material or relevant relationships with each other. The composition of the Board has met the standard of recommended best practice under the Code for the Board to have at least one-third of its members comprising independent non-executive directors. The biographies of the directors are set out on pages 22 and 23 of this annual report under Directors and Senior Management Profile, which demonstrates a diversity of skills, expertise, experience and qualifications among the directors.

The Company has received annual confirmations of independence from the three independent non-executive directors 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

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 stipulates that, among other things, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Currently the independent non-executive directors of the Company do not have a specific term of appointment. This constitutes a deviation from code provision A.4.1. Pursuant to the existing Bye-Laws of the Company, at every annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, then the number nearest to but not greater than one-third shall retire from office. The Company considers that sufficient measures have been taken to ensure that the Company's practices in appointment of directors are no less exacting than those in the Code.

Corporate Governance Report

APPOINTMENTS, RE-ELECTION AND REMOVAL (continued)

Prior to the implementation of the Code, the chairman of the Board, managing director and joint managing director of the Company were not subject to retirement by rotation or taken into account in determining the number of directors to retire in accordance with the previous Bye-Law 111(A) of the Company's Bye-Laws. To comply with code provision A.4.2, a special resolution was passed at the annual general meeting held on 9 May 2005 ("2005 AGM") to amend the Company's Bye-Laws to the effect that every director including the chairman of the Board, managing director and joint managing director of the Company shall be subject to retirement by rotation at least once every three years.

The directors will propose to amend the Bye-Laws of the Company at the forthcoming annual general meeting to be held on 25 May 2006 ("2006 AGM") to eliminate the limitation to the number of directors who should retire by rotation at each annual general meeting so that every director (including those appointed for specific terms) shall be subject to retirement by rotation at least once every three years.

Pursuant to Bye-Law 111, Mr. Liu Fuchun and Mr. Liu Yongfu, both having been the longest in office since their last re-election, shall retire and, being eligible, offer themselves for re-election at the 2006 AGM.

To ensure full compliance with the Code provision that every director should be subject to retirement by rotation at least once every three years, Mr. Xue Guoping and Mr. Yuen Tin Fan, Francis, both having been in office for three years since their last re-election, shall also retire and, being eligible, offer themselves for re-election at the 2006 AGM.

The Company does not have a nomination committee. The Board as a whole is 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.

The annual general meeting circular contains detailed information on election of directors including biographies of all directors standing for election or re-election to ensure that shareholders make informed decisions.

Pursuant to the Bye-Laws of the Company, any director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting. In this regard, Mr. Yu Xubo, an executive director appointed on 18 January 2006, shall retire and, being eligible, offer himself for re-election at the 2006 AGM.

RESPONSIBILITIES OF DIRECTORS

The Company ensures that every newly appointed director has a proper understanding of the operations and business 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.

The independent non-executive directors take an active role in Board meetings, contribute to the development of strategies and policies and make independent judgement on issues relating to material transactions. They will take lead where potential conflicts of interest arise. They are also members of various Board committees.

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee was established on 6 April 2005 with specific written terms of reference in accordance with the requirements of the Code and currently comprises two independent non-executive directors, namely, Mr. Stephen Edward Clark and Mr. Yuen Tin Fan, Francis who acts as chairman of the committee, and one executive director, namely Mr. Qu Zhe who was appointed on 18 January 2006 to replace Mr. Yu Guangquan who retired from the Board on 18 January 2006.

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 may consult with the chairman and managing director of the Company regarding proposals for the remuneration of other executive directors. Where necessary, Remuneration Committee may have access to external professional services at the Company's expenses.

The committee members met once in 2005 to discuss the remuneration policy of the Company and the remuneration packages for executive directors and senior management.

The Remuneration Committee held a meeting on 3 April 2006 to review the remuneration policy, the remuneration packages of all executive directors and senior management for the financial year ended 31 December 2005 and the Company's share option scheme. The Remuneration Committee also informed the Board of its approval of the directors' fee for the year of 2005. All members of the Remuneration Committee attended that meeting.

AUDIT COMMITTEE

The Company has established an audit committee with specific written terms of reference which clearly deal with its authority and duties.

For the year under review, the Audit Committee is composed of three independent non-executive directors, namely, Mr. Stephen Edward Clark, Mr. Yuen Tin Fan, Francis and Mr. Tan Man Kou, who acts as chairman of the committee. Mr. Liang Shangli resigned as the chairman of the Audit Committee on 28 April 2005.

Under its terms of reference, which have been updated to comply with the Code, 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. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and is tasked with recommending to the Board 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 the discharge of its functions.

The Audit Committee met twice in 2005 with full minutes kept by the company secretary.

During the year, the Audit Committee of the Company reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters in connection with the preparation of the audited consolidated accounts for the Company for the year ended 31 December 2004 and the consolidated accounts for the Company for the six months ended 30 June 2005. They also reviewed the external auditor's management letter, as well as the external auditor's queries in respect of the accounting records, financial accounts, control system and the management's response to such queries.

All issues raised by the Audit Committee have been brought to the attention of the management for them to follow up and address.

Corporate Governance Report

AUDIT COMMITTEE (continued)

The Audit Committee held a meeting on 30 January 2006 with the Company's external auditor without executive directors' presence to review and discuss the audit plan for 2005. The Audit Committee held another meeting with the external auditor and the management on 3 April 2006 to review the accounting principles and practices adopted by the Group and discuss auditing, internal control and financial reporting matters in connection with the preparation of the audited consolidated accounts for the Company for the year ended 31 December 2005.

The Audit Committee concluded that it was satisfied with the audit and non-audit service fees, process and effectiveness, independence and objectivity of the Company's auditors Ernst & Young. The Board agrees with the Audit Committee's proposal for the re-appointment of Ernst & Young as the Company's auditors for 2006. The recommendation will be put forward for the approval of shareholders at the 2006 AGM.

During the year under review, the remuneration paid or to be payable to Ernst & Young is set out as follows:

Services rendered	Fee paid/payable HK\$'000
Audit services	1,880
Non-audit services:	
Due diligence on certain connected transactions	100
	<hr/> 1,980 <hr/>

ACCOUNTABILITY AND INTERNAL CONTROL

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 standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the management with an appropriate consideration to materiality. As at 31 December 2005, the directors, having made appropriate enquiries, 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.

During the year under review, the Company announced its annual and interim results within the periods of four months and three months respectively as required under Rules 13.49(1) and (6) of the Listing Rules.

A statement by the external auditor about its reporting responsibilities is included in its report on page 34.

The Company is currently in the process of developing procedures for review of the effectiveness of its internal control system. The annual review of the effectiveness of the Company's internal control system required under the Code shall apply to the Company for its financial year 2006.

Corporate Governance Report

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes various communication channels with shareholders and investors. Shareholders will receive printed copies of the Company's interim and annual reports and circulars as required by the Listing Rules. Annual general meetings provide a forum for shareholders to make comments and raise concerns and exchange views with the directors. Regular press conferences and briefings with analysts from investment sectors are set up from time to time to update them with performance of the Group. The Company's share registrars and transfer office serves the shareholders regarding registration matters.

As required by code provision E.1.2. of the Code, the chairman of the Board should attend annual general meetings and arrange for the chairmen of the audit and remuneration committees or in the absence of the chairmen of such committees other members of the committees or appointed delegates to be present at annual general meeting. The chairman of the Board was unable to attend the 2005 AGM as he had another engagement that was important to the Company's business. The directors present at the meeting elected Mr. Yu Guangquan, the former managing director of the Company, to chair the meeting in accordance with Bye-Law 73 of the Company's Bye-Laws.

It is the Company's practice to include details of the procedures for voting by poll and the rights of shareholders to demand a poll in the circulars to shareholders dispatched together with the annual reports. The circulars also include relevant details of proposed resolutions, including the biography of each candidate standing for election and re-election.

At the Company's 2005 AGM, all the resolutions were dealt with on a show of hands. All the resolutions were unanimously passed, with the exception of one resolution, which was relating to the granting of a general mandate to the directors to issue and dispose of additional shares not exceeding 20% of aggregate nominal amount of the share capital. One opposition vote was recorded against that resolution.

Based on the information that is publicly available to the Company and to the directors' best knowledge, the Company maintained the prescribed amount of public float throughout the year 2005 and up to the date of this annual report as required by the Listing Rules.

SOCIAL RESPONSIBILITY

The Company recognizes that it has a responsibility for matters of general concern to society. During the year, the management adopted guidelines on environment and energy practices to encourage staff and business units of the Group to apply the guidelines in their business activities and operations.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

NING GAONING

Mr. Ning, 47, was appointed as chairman of the Board of the Company in January 2005. Mr. Ning is also the chairman of China National Cereals, Oils and Foodstuffs Corporation (“COFCO”) and COFCO (Hong Kong) Limited (“COFCO (HK)”). Mr. Ning holds a Bachelor of Arts degree in Economics from Shandong University in China and a Master of Business Administration degree in Finance from the University of Pittsburgh in the United States. He is also an executive director of Lippo China Resources Limited, a listed company in Hong Kong.

LIU FUCHUN

Mr. Liu, 59, has been an executive director of the Company and the vice-chairman of the board since August 2000. Mr. Liu is also an executive director and the president of COFCO and the managing director of COFCO (HK). Mr. Liu had been responsible for COFCO’s trading business for years and now oversees COFCO’s major investments, including various Coca-Cola bottling plants and edible oils refinery plants. Mr. Liu graduated from the University of International Business and Economics in Beijing and has more than 31 years of experience in international trade and management. He worked in North America and Europe for years.

QU ZHE

Mr. Qu, 43, has been an executive director of the Company since August 2000 and was re-designated as the managing director in January 2006. He is also a member of the Remuneration Committee of the Board. Mr. Qu graduated from the Shanghai Institute of Foreign Trade and has over 19 years of experience in foreign trade and investment. He joined COFCO in 1986 and worked in North America for years.

XUE GUOPING

Mr. Xue, 55, has been an executive director of the Company since 1995. He is also an executive director and a vice-president of COFCO and a deputy managing director of COFCO (HK). Mr. Xue graduated from the University of International Business and Economics in Beijing. He has more than 30 years of experience in international trade and management and has worked abroad for more than 10 years.

LIU YONGFU

Mr. Liu, 51, has been an executive director of the Company since August 2000. Mr. Liu is also an executive director and a vice-president of COFCO and a director of COFCO (HK). Mr. Liu graduated from the University of Wuhan and has more than 20 years of experience in trading of grains, oils, feedstuffs and foodstuffs. He joined COFCO in 1976 and worked in Japan for years.

Directors and Senior Management Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

STEPHEN EDWARD CLARK

Mr. Clark, 55, was appointed as an independent non-executive director in January 2005. Mr. Clark is also a member of each of the Audit Committee and the Remuneration Committee of the Board. He is currently the managing director of Anglo Chinese Corporate Finance, Limited. He holds first class joint honors degree of Bachelor in History and History of Art from the University of Nottingham in England and a degree of Master in Business Administration from the University of Witwatersrand, Johannesburg, South Africa. He has extensive experience in corporate finance.

TAN MAN KOU

Mr. Tan, 70, was appointed as an independent non-executive director in March 2005. Mr. Tan is a member and the chairman of the Audit Committee of the Board. He currently serves as a consultant to Deloitte Touche Tohmatsu. He is a fellow of each of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Tan is a member of the Chinese People's Political Consultative Conference and a member of the Selection Committee of the Hong Kong Special Administrative Region. He is also an independent non-executive director of two other Hong Kong listed companies, namely, Harbour Centre Development Limited and The Bank of East Asia, Limited.

YUEN TIN FAN, FRANCIS

Mr. Yuen, 53, has been an independent non-executive director since 1993. Mr. Yuen is also a member of each of the Audit Committee and the Remuneration Committee of the Board and the chairman of the Remuneration Committee. He is currently the deputy chairman of each of PCCW Limited and Pacific Century Premium Developments Limited and the chairman of Pacific Century Insurance Holdings Limited, all these companies are listed companies in Hong Kong. He is also the deputy chairman of Pacific Century Group. He holds a Bachelor of Arts degree in Economics from the University of Chicago and is currently a member of the university's board of trustees. He is also the chairman of the board of trustees of Hong Kong Centre for Economic Research, a member of Shanghai People's Political Consultative Conference and a member of the board of trustee of Fudan University in Shanghai. A previous chief executive of The Stock Exchange of Hong Kong Limited from 1988 to 1991, he has extensive investment banking and business experience in Hong Kong and the Far East.

SENIOR MANAGEMENT

MA JIANPING

Mr. Ma, 42, was appointed as the deputy general manager of the Company in June 2003. Mr. Ma graduated from the University of International Business and Economics in Beijing and joined COFCO in 1986. Mr. Ma has extensive experience in corporate finance and management and has worked in Japan for years.

MAN KWOK LEUNG

Mr. Man, 30, has been the financial controller of the Company since May 2004. He holds a degree of Professional Accountancy from the Chinese University of Hong Kong and is an associate member of each of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has extensive experience in auditing and financial management.

LUO QIZHI

Ms. Luo, 38, is the head of the Group's Legal Department. She is qualified in the State of New York and China, and holds master degrees from Stanford Law School and the Law School of Xiamen University in China, respectively. Ms. Luo joined the Group in January 2005.

Report of the Directors

The directors are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates of the Company involve food processing and related businesses which include edible oils, soybean meal and related products; wineries; confectionery; flour milling; and trading.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group as of that date are set out in the financial statements on pages 35 to 117.

An interim dividend of 4.35 HK cents per share was paid on 5 October 2005. The directors recommend the payment of a final dividend of 4.35 HK cents per share in respect of the year, to shareholders on the register of members on 25 May 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profit within the capital and reserves in the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated and reclassified as appropriate, is set out on page 118. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 14 and 15 of the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options during the year, together with the reasons therefore, are set out in notes 31 and 32 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company’s reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$977,165,000, of which HK\$76,614,000 has been proposed as a final dividend for the year. In addition, the Company’s share premium account, in the amount of HK\$2,776,042,000, may be distributed in the form of fully paid bonus shares.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 9.5% of the total sales for the year with the largest customer accounting for approximately 2.3%. The five largest suppliers of the Group accounted for approximately 39.9% of the Group's total purchases for the year, with the largest supplier accounting for approximately 34.6%.

Apart from the Group's ultimate holding company, China National Cereals, Oils & Foodstuffs Corporation ("COFCO"), which is one of the Group's five largest customers, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's other four largest customers or the Group's five largest suppliers.

DIRECTORS

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

Executive Directors:

Mr. Ning Gaoning	
Mr. Liu Fuchun	
Mr. Qu Zhe	
Mr. Xue Guoping	
Mr. Liu Yongfu	
Mr. Yu Xubo	(appointed on 18 January 2006)
Mr. Ng Eng Leong	(deceased on 31 October 2005)
Mr. Yu Guangquan	(resigned on 18 January 2006)
Mr. Zhou Mingchen	(resigned on 24 January 2005)

Independent non-Executive Directors:

Mr. Stephen Edward Clark	
Mr. Tan Man Kou	
Mr. Yuen Tin Fan, Francis	
Mr. Liang Shangli	(resigned on 28 April 2005)

In accordance with Bye-Law 94 of the Company's Bye-Laws Mr. Yu Xubo will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-Law 111 of the Company's By-Laws, Mr. Liu Fuchun and Mr. Liu Yongfu, both having been the longest in office, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

To ensure full compliance with the Code provision that every director should be subject to retirement by rotation at least every three years, Mr. Xue Guoping and Mr. Yuen Tin Fan, Francis, both having been in office for three years since their last re-election, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are appointed without specific term but subject to retirement by rotation every three years as required by the Company's Bye-Laws.

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 22 to 23 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 requires the Company or any of its subsidiaries to give a notice of more than one year or to pay compensation or make other payments equivalent to more than one year's emoluments, other than statutory compensation.

Directors are subject to retirement by rotation as required by Bye-Law 111 of the Company's Bye-Laws.

DIRECTORS' INTEREST 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 subsidiaries, holding companies or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the directors and their associates in the shares, debentures or underlying shares of the Company or any of its associated companies (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") or which are required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company were as follows:

(a) Aggregate long positions in the shares, underlying shares and debentures of the Company and its associated companies

Name of director	Capacity and nature of interest	Number of shares held	Total	Approximate percentage of the issued share capital*
Mr. Liu Fuchun	Beneficial owner	1,350,000 ¹	9,900,000	0.56
	Beneficial owner	8,550,000 ²		
Mr. Yu Guangquan	Beneficial owner	117,000 ¹	5,817,000	0.33
	Beneficial owner	5,700,000 ²		
Mr. Xue Guoping	Beneficial owner	900,000 ¹	6,600,000	0.38
	Beneficial owner	5,700,000 ²		
Mr. Liu Yongfu	Beneficial owner	900,000 ¹	6,600,000	0.38
	Beneficial owner	5,700,000 ²		
Mr. Qu Zhe	Beneficial owner	105,000 ¹	775,000	0.04
	Beneficial owner	670,000 ²		

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(a) Aggregate long positions in the shares, underlying shares and debentures of the Company and its associated companies (continued)

Notes:

- 1 Long positions in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
 - 2 Long positions in the underlying shares of the Company pursuant to share options granted to directors under a share option scheme of the Company, details of which are separately disclosed in note 32 to the financial statements headed "Share Option Scheme".
- * The percentages are calculated based on the total number of shares of the Company in issue as at 31 December 2005, i.e., 1,758,449,974 shares.

Saved as disclosed above, none of the directors and their associates had any other long positions in the shares, underlying shares and debentures of the Company and its associated companies.

(b) Aggregate short positions in the shares, underlying shares and debentures of the Company and its associated companies

As at 31 December 2005, none of the directors and their associates had any short positions in the shares, underlying shares and debentures of the Company and its associated companies.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The interests and short positions of substantial shareholders in the shares and underlying shares of the Company as at 31 December 2005, as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

(a) Aggregate long positions in the shares and underlying shares of the Company

The Company had been notified of the following substantial shareholders' interests in the shares and underlying shares as at 31 December 2005:

Substantial shareholders	Capacity and nature of interest	Number of shares held	Notes	Approximate percentage of the issued share capital *
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,054,810,949	(1)	59.985
COFCO (BVI) No.108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	(1)	7.962

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

(a) Aggregate long positions in the shares and underlying shares of the Company (continued)

Substantial shareholders	Capacity and nature of interest	Number of shares held	Notes	Approximate percentage of issued share capital *
COFCO (HK)	Beneficial owner	10,138,000	(1)	0.577
	Interest of controlled corporations	1,194,810,949	(1)&(2)	67.947
COFCO	Interest of controlled corporations	1,204,948,949	(1)&(3)	68.523

Notes:

1. Long positions in the shares of the Company.
2. COFCO (HK) is deemed to be interested in 1,194,810,949 shares in aggregate held by Wide Smart and COFCO BVI in which COFCO (HK) is entitled to exercise one-third or more of the voting power at general meetings of Wide Smart and COFCO BVI.
3. COFCO is deemed to be interested in 1,204,948,949 shares in aggregate held by Wide Smart, COFCO BVI and COFCO (HK) in which COFCO is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart, COFCO BVI and COFCO (HK).

* The percentages are calculated based on the total number of shares of the Company in issue as at 31 December 2005, i.e., 1,758,449,974 shares.

Save as disclosed above, as at 31 December 2005, the Company had not been notified by any persons other than the substantial shareholders above who had long positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of the SFO.

(b) Aggregate short positions in the shares and underlying shares of the Company

As at 31 December 2005, the Company had not been notified of any short positions held by any substantial shareholder in the shares or underlying shares of the Company.

SUFFICIENT PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best 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 report.

Report of the Directors

CONNECTED TRANSACTIONS

During the year, the Company and its subsidiaries and associates entered into various transactions with certain connected persons including COFCO and its subsidiaries (collectively referred to as the “COFCO Group”). These transactions are considered to be connected transactions under the Listing Rules, which need to be disclosed herein in compliance with the requirements of Chapter 14A of the Listing Rules or the waivers previously granted by the Stock Exchange. Details of these transactions are as follows:

1. China Foods Trading Limited (“CFTL”), a wholly-owned subsidiary of the Company, entered into various transactions with the COFCO Group during the year in relation to the trading of various commodities and foodstuffs including maize and sugar, with a total value of approximately HK\$394,106,000.
2. COFCO Oils & Fats Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries and associates (collectively referred to as the “COFCO Oils & Fats Group”) entered into various transactions during the year with (i) certain members of the COFCO Group; (ii) Wilmar Trading Pte. Ltd. (“Wilmar”), a company owned by a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group; and (iii) certain companies owned by Archer Daniels Midland Asia-Pacific Limited (“ADM”), a substantial shareholder of certain subsidiaries of the COFCO Oils & Fats Group, or companies in which ADM has an interest, in relation to the sale of edible oils, oil-related products and soybean products with a total value of approximately HK\$435,359,000.

In addition, the sale of edible oils and oil-related products and the resale of soybean with a total value of approximately HK\$343,487,000 were made by certain subsidiaries of the COFCO Oils & Fats Group to other subsidiaries within the COFCO Oils & Fats Group. These transactions have been eliminated on consolidation but still constitute connected transactions under the Listing Rules.

3. The COFCO Oils & Fats Group entered into various transactions during the year with (i) the COFCO Group; (ii) Wilmar; and (iii) certain companies in which ADM has an interest in relation to the purchase of raw materials of edible oils and soybean with a total value of approximately HK\$6,946,018,000.
4. COFCO Wines & Spirits Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries entered into the following transactions during the year:
 - (i) the sale of wines and wine-related products to a company within the COFCO Group with a total value of approximately HK\$27,649,000; and
 - (ii) the purchase of wines and wine-related products from a company within the COFCO Group with a total value of approximately HK\$1,341,000.
5. COFCO (BVI) No. 100 Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (collectively referred to as the “COFCO Trading Group”) entered into various transactions with certain companies within the COFCO Group during the year in relation to the purchase of certain agricultural products, including rice products, red bean products, sesame products, cottonseed meal, rapeseed meal and chestnut products with a total value of approximately HK\$418,256,000.
6. The COFCO Trading Group entered into various transactions with certain companies within the COFCO Group during the year in relation to the sale of certain agricultural products, including rice products, red bean products, sesame products, cottonseed meal, rapeseed meal and chestnut products with a total value of approximately HK\$57,280,000.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

7. The COFCO Trading Group also entered into the following transactions with COFCO during the year:

- (i) The payment of management fees amounting to HK\$7,217,000 to COFCO in relation to the provision of management services by COFCO to the COFCO Trading Group pursuant to a service agreement dated 23 March 2004; and
- (ii) The receipt of management fees amounting to HK\$37,623,000 from COFCO in relation to the provision of management services by the COFCO Trading Group to COFCO pursuant to a service agreement dated 26 October 2001.

8. On 4 January 2006, Blissea Consortium Company Limited (“Blissea”) and CFTL, both wholly-owned subsidiaries of the Company, entered into two separate tenancy agreements with Bapton Company Limited (“Bapton”), a wholly-owned subsidiary of COFCO HK which in turn is a substantial shareholder of the Company, for the lease of certain office space in Top Glory Tower for a period of two years from 1 January 2006 to 31 December 2007 for aggregate rental and management fees not exceeding HK\$3,541,644 under each tenancy agreement.

On the same date, COFCO International (Beijing) Co., Ltd. 中糧國際(北京)有限公司 (“COFCO (Beijing)”) and COFCO Wines and Spirits Co., Ltd. 中糧酒業有限公司 (“COFCO Wines”) both wholly-owned subsidiaries of the Company, entered into two tenancy agreements with Beijing COFCO Plaza Development Co., Ltd. 北京中糧廣場發展有限公司 (“COFCO Plaza Company”), a non wholly-owned subsidiary of COFCO (HK), for the lease of certain office space in COFCO Plaza for a period of two years from 1 January 2006 to 31 December 2007 for aggregate rental and management fees not exceeding HK\$8,632,391 and HK\$2,848,334 respectively.

Pursuant to the Listing Rules, both Bapton and COFCO Plaza Company are associates of COFCO (HK), the controlling shareholder of the Company. According to the Listing Rules, a transaction between an associate of the substantial shareholder of the Company and the Company’s subsidiary is a connected transaction. Details of the transactions were disclosed in an announcement published on 6th January 2006.

9. On 12 January 2006, COFCO (BVI) No. 30 Limited (“COFCO BVI 30”), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (“Agreement”) with Shandong Longhua Investment Company Limited 山東隆華投資有限公司 (“Shandong Longhua Company”) regarding the establishment of a joint venture company, namely, COFCO Navavalley Jundung Vineyard Co., Ltd., (“JV Co.”) under the laws of the People’s Republic of China for the production and sale of wines by setting up a vineyard which will be developed into a comprehensive economic unit that encompasses vine development, grape growing, wine production and sales, development and research, vineyard tourism and promotion of oenology. Pursuant to the Agreement, COFCO BVI 30 and Shandong Longhua Company will hold as to 55% equity interest and 45% equity interest in the JV Co. respectively. COFCO BVI 30 and Shandong Longhua Company agreed to contribute approximately HK\$31,731,000 and approximately HK\$25,962,000 respectively in cash to the registered capital of the JV Co.. Pursuant to the Agreement, the total investment amount of the JV Co. is approximately HK\$96,154,000. Additional funding of up to approximately HK\$38,462,000, i.e., the difference between the total investment amount and the amount of the registered capital of the JV Co., is required by the JV Co.. This may be satisfied by bank financing or loans from COFCO BVI 30 and Shandong Longhua Company. In the event that the full amount of the additional funding is to be contributed by shareholders’ loans, the loan to be advanced by COFCO BVI 30 to the JV Co. in proportion to its 55% equity interest will amount to approximately HK\$21,154,000.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

9. Any future proportionate shareholders' loan to be contributed by COFCO BVI 30 to the JV Co. will be funded through internal resources of the Group. The Company considered that the participation in the JV Co. will enable the Group to further expand in this market segment and strengthen its position as one of the leading grape wine producers in the PRC. Shandong Longhua Company is a substantial shareholder of a non wholly-owned subsidiary of the Company, therefore Shandong Longhua Company is a connected person of the Company. Pursuant to the Listing Rules, a transaction between a connected person and a subsidiary of the Company is a connected transaction. Details of the transaction were disclosed in an announcement published on 13 January 2006.

10. On 27 March 2006, COFCO BVI 30 and COFCO Wines, both wholly-owned subsidiaries of the Company, entered into the Golden Fan Agreement and the Yantai Greatwall Agreement respectively. COFCO BVI 30 entered into the Golden Fan Agreement with First Channel International Limited ("First Channel") and the guarantors, being shareholders of First Channel, whereby COFCO BVI 30 will purchase from First Channel the entire issued share capital in Golden Fan Limited ("Golden Fan") for a consideration of RMB309,000,000 (equivalent to approximately HK\$297,115,385). COFCO BVI 30 entered into the Golden Fan Agreement with a view to acquiring the remaining 40% equity interest in COFCO Greatwall Wine (Yantai) Co., Ltd. ("COFCO Greatwall"). COFCO Greatwall is currently owned as to 60% by COFCO BVI 30 and as to 40% by Golden Fan. Upon completion of the Golden Fan Agreement, COFCO Greatwall will be wholly owned by the Company. COFCO Wines entered into the Yantai Greatwall Agreement with Shandong Longhua Company whereby COFCO Wines will purchase from Shandong Longhua Company 40% equity interest in Yantai Greatwall Wines and Spirits Co., Ltd. ("Yantai Greatwall") for a consideration of RMB1,000,000 (equivalent to approximately HK\$961,538). COFCO Wines entered into the Yantai Greatwall Agreement with a view to acquiring the remaining 40% equity interest in Yantai Greatwall. Yantai Greatwall is currently owned as to 60% by COFCO Wines and as to 40% by Shandong Longhua Company. Upon completion of the Yantai Greatwall Agreement, Yantai Greatwall will be wholly owned by the Company.

Pursuant to the Listing Rules, both First Channel and Shandong Longhua Company are connected persons of the Company. The transactions contemplated under the Golden Fan Agreement and the Yantai Greatwall Agreement constitute connected and discloseable transactions of the Company. Details of the transactions were disclosed in an announcement published on 28 March 2006.

In accordance with the requirements of the respective waivers granted by the Stock Exchange, the independent non-executive directors confirm that:

- (a) In relation to items 1 to 7
 - these transactions were entered into by the Company or Group in the ordinary and usual course of its business;
 - these transactions were entered into on normal commercial terms;
 - these transactions were fair and reasonable as far as the shareholders of the Company were concerned;
 - these transactions were 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;

Report of the Directors

CONNECTED TRANSACTIONS (continued)

(b) In relation to item 1

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 70% of the value of the Company's or Group's net tangible asset as disclosed in the Company's or Group's audited financial statements for the year;

(c) In relation to item 2

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 18% of the Company's or Group's consolidated turnover as disclosed in the Company's or Group's audited financial statements for the year;

(d) In relation to item 3

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 80% of the Company's or Group's consolidated turnover as disclosed in the Company's or Group's audited financial statements for the year;

(e) In relation to items 4(i), 4(ii), 6, 7(i) and 7(ii)

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 3% of the value of the Company's or Group's net tangible asset as disclosed in the Company's or Group's audited financial statements for the year; and

(f) In relation to item 5

- the aggregate amount of these transactions did not exceed the cap amount set for the waiver, i.e., 6% of the Company's or Group's consolidated turnover as disclosed in the Company's or Group's audited financial statements for the year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, as disclosed below, four directors of the Company, namely, Messrs. Ning Gaoning, Liu Fuchun, Xue Guoping and Liu Yongfu, also being directors of the Company's ultimate holding company, COFCO and/or its subsidiaries, are considered to have interests in the COFCO Group's flour milling business which is likely to compete directly with that of the Company.

During the year, the Company's flour milling business was operated mainly through Xiamen Haijia Flour Mills Co., Ltd. and Zhengzhou Haijia Food Co., Ltd. which target customers and consumers in the southern and central regions in China. Since the COFCO Group's flour milling business is operated mainly through its investments in two flour mills in Shenyang and Qinhuangdao, which target the flour markets in the northern and eastern regions of China, the effect of any possible competition between the flour milling business of the Company and that of the COFCO Group is minimal.

Report of the Directors

PURCHASE, SALE OR REDEMPTION 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 period under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to developing good corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 18 to page 24 of this report.

AUDITORS

There have been no changes of auditors during the past three years.

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

ON BEHALF OF THE BOARD

Qu Zhe

Managing Director

Hong Kong

7 April 2006

Report of the Auditors



安永會計師事務所

To the members

COFCO International Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 35 to 117 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

7 April 2006

Consolidated Income Statement

Year ended 31 December 2005

		(Audited and (Audited) restated) 2005 2004 HK\$'000 HK\$'000	
	Notes		
REVENUE	5	17,587,574	16,792,623
Cost of sales	6	(15,867,507)	(15,447,009)
Gross profit		1,720,067	1,345,614
Other income and gains	5	187,462	143,053
Distribution costs		(986,915)	(691,825)
Administrative expenses		(289,428)	(261,901)
Other operating income	6	81,058	6,727
Other operating expenses	6	(28,157)	(46,719)
Finance costs	7	(135,708)	(84,265)
Share of profits and losses of associates		79,127	27,444
PROFIT BEFORE TAX	6	627,506	438,128
Tax	10	(138,933)	(95,915)
PROFIT FOR THE YEAR		488,573	342,213
Attributable to:			
Equity holders of the parent	11	429,166	285,976
Minority interests		59,407	56,237
		488,573	342,213
DIVIDENDS	12	153,107	114,746
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		24.4 HK cents	16.3 HK cents
Diluted		24.3 HK cents	16.3 HK cents

Consolidated Balance Sheet

31 December 2005

		(Audited and restated) 31 December 2004 HK\$'000
	(Audited) 31 December 2005 HK\$'000	
Notes		
NON-CURRENT ASSETS		
Property, plant and equipment	14	3,315,407
Investment properties	15	50,562
Prepaid land premiums	16	192,324
Deposit for purchase of property, plant and equipment		107,861
Goodwill:	17	
Goodwill		481,995
Negative goodwill		–
Interests in associates	19	548,218
Available-for-sale investments/long term investments	20	43,890
Deferred tax assets	29	6,491
Biological assets	21	35,840
TOTAL NON-CURRENT ASSETS		4,782,588
CURRENT ASSETS		
Inventories	22	2,891,776
Accounts receivable	23	1,120,330
Other debtors, prepayments and deposits		835,887
Amounts due from fellow subsidiaries	38	79,686
Amounts due from related companies	38	107,826
Amount due from the ultimate holding company	38	–
Tax prepaid		3,409
Investments at fair value through profit and loss/ other investments	24	79,925
Derivative financial instruments	25	12,314
Pledged deposits	26	402,000
Cash and cash equivalents	26	983,367
TOTAL CURRENT ASSETS		6,516,520

Consolidated Balance Sheet

31 December 2005

		(Audited and restated) 31 December 2004 HK\$'000	(Audited) 31 December 2005 HK\$'000
	Notes		
CURRENT LIABILITIES			
Accounts payable	27	439,794	688,000
Other payables and accruals		664,969	712,095
Amounts due to fellow subsidiaries	38	50,178	9,526
Amount due to the immediate holding company	38	705	705
Amount due to the ultimate holding company	38	–	197,247
Amounts due to related companies	38	45,780	559,017
Amounts due to minority shareholders of subsidiaries	38	2,068	–
Tax payable		43,901	24,408
Interest-bearing bank loans and other loans	28	2,578,766	3,403,269
TOTAL CURRENT LIABILITIES		3,826,161	5,594,267
NET CURRENT ASSETS		1,067,994	922,253
TOTAL ASSETS LESS CURRENT LIABILITIES		5,289,395	5,704,841
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other loans	28	31,557	–
Advances from minority shareholders of subsidiaries	30	61,625	69,140
Deferred tax liabilities	29	4,893	5,339
TOTAL NON-CURRENT LIABILITIES		98,075	74,479
NET ASSETS		5,191,320	5,630,362
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	31	175,710	175,845
Reserves	33	4,071,509	4,433,769
Proposed final dividend	12	65,766	76,614
		4,312,985	4,686,228
MINORITY INTERESTS	30	878,335	944,134
TOTAL EQUITY		5,191,320	5,630,362

Liu Fuchun
Director

Qu Zhe
Director

Consolidated

Summary Statement of Changes in Equity

Year ended 31 December 2005

		Year ended 31 December 2005 HK\$'000	Year ended 31 December 2004 HK\$'000 (Restated)
	Notes		
Total equity at 1 January:			
As previously reported (including minority interests)		5,191,320	4,853,357
Opening adjustments:			
HKAS 39	2.4	(2,313)	–
HKFRS 3	2.4	13,032	–
As restated		5,202,039	4,853,357
Exchange differences on translation of the financial statements of foreign entities	33	59,573	(88)
Changes in fair value of available-for-sale investments	33	(2,077)	–
Total income and expenses for the year recognised directly in equity		57,496	(88)
Profit for the year		488,573	342,213
Total recognised income and expense for the year		546,069	342,125
Dividends paid to minority shareholders	30	(12,283)	(2,261)
Capital injection from minority shareholders	30	–	106,029
Exchange realignment shared by minority shareholders	30	18,675	–
Issue of shares, including share premium account	31	4,919	13,695
Equity-settled share option arrangements	33	13,202	14,726
Dividends	12	(142,259)	(136,351)
Total equity at 31 December		5,630,362	5,191,320
Total recognised income and expense for the year attributable to:			
Equity holders of the parent		486,662	285,888
Minority interests		59,407	56,237
		546,069	342,125
Effects of opening adjustments attributable to:			
Equity holders of the parent		10,719	–
Minority interests		–	–
		10,719	–

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		627,506	438,128
Adjustments for:			
Finance costs	7	135,708	84,265
Provision for doubtful debts	6	2,070	641
Equity-settled share option expenses	6	13,202	14,726
Depreciation	6	264,337	191,048
Loss on disposal of items of property, plant and equipment	6	495	8,523
Amortisation of prepaid land premiums	16	5,377	5,377
Impairment of available-for-sale investments	6	2,949	–
Impairment of goodwill	6	17,565	–
Change in fair value of investment properties	6	1,650	–
Share of profits and losses of associates		(79,127)	(27,444)
Interest income	5	(30,238)	(19,534)
Dividends from an unlisted available-for-sale investments/long term investment and listed equity securities	5	(3,770)	(3,875)
Gain on disposal of listed debt securities	6	–	(920)
Gain arising from changes in fair value of biological assets	6	(2,217)	(972)
Write-back of provision against inventories	6	(1,364)	(2,407)
Unrealised fair value gains of derivative instruments transactions not qualifying as hedges	6	(12,314)	–
Gain arising from changes in fair value of investments at fair value through profit and loss	6	(8,875)	–
Amortisation of goodwill	6	–	41,705
Amortisation of a long term investment	6	–	1,400
Unrealised holding gains on listed equity securities	6	–	(870)
Unrealised holding gains on unlisted portfolio funds	6	–	(1,668)
Negative goodwill recognised as income	6	–	(3,400)
Operating profit before working capital changes		932,954	724,723

Consolidated Cash Flow Statement

Year ended 31 December 2005

	2005 HK\$'000	2004 HK\$'000 (Restated)
Operating profit before working capital changes	932,954	724,723
(Increase)/decrease in inventories	(1,085,064)	735,176
Increase in accounts receivable	(145,766)	(203,581)
(Increase)/decrease in other debtors, prepayments and deposits	(181,381)	365,778
Decrease/(increase) in amounts due from fellow subsidiaries	5,983	(8,064)
Decrease/(increase) in amount due from the ultimate holding company	7,025	(6,899)
Increase in amounts due from related companies	(104,627)	(1,840)
Increase/(decrease) in accounts payable	240,179	(31,540)
Increase/(decrease) in other payables and accruals	34,989	(365,497)
(Decrease)/increase in amounts due to fellow subsidiaries	(41,568)	42,871
Increase/(decrease) in amounts due to related companies	512,401	(151,668)
Increase/(decrease) in amount due to the ultimate holding company	197,247	(5,388)
Decrease in amounts due to minority shareholders of subsidiaries	(2,106)	(34,306)
Cash generated from operations	370,266	1,059,765
Interest received	30,238	19,534
Interest paid	(135,708)	(84,265)
Hong Kong profits tax paid	(700)	(1,040)
Mainland China tax paid	(157,337)	(83,694)
Net cash inflow from operating activities	106,759	910,300

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Net cash inflow from operating activities		106,759	910,300
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in pledged deposits		(402,000)	–
Advances to associates		(36,505)	(8,140)
Repayments from a long term investment		678	889
Payment for acquisition of a subsidiary in the prior year		–	(52,358)
Dividends from associates		3,042	2,938
Dividends received from an unlisted available-for-sale investments/long term investment and listed equity securities		3,770	3,875
Proceeds from disposal of items of property, plant and equipment		3,690	1,007
Net proceeds from disposal of investments at fair value through profit and loss/other investments		306,732	221,468
Purchases of an available-for-sale investment		(15,692)	–
Purchases of investments at fair value through profit and loss/other investments		(62,935)	(313,800)
Purchases of items of property, plant and equipment	14	(565,249)	(448,624)
Addition of prepaid land premiums		(42,043)	–
Deposit for purchase of property, plant and equipment		(45,319)	–
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		70,533	(63,506)
Net cash outflow from investing activities		(781,298)	(656,251)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	31	4,919	13,695
New bank and other loans		9,530,190	8,054,536
Repayments of bank and other loans		(8,784,311)	(8,309,361)
Loans from minority shareholders of subsidiaries		7,515	689
Additional capital injection from minority shareholders of a subsidiary		–	52,599
Dividends paid		(142,259)	(136,351)
Dividends paid to minority shareholders of subsidiaries		(12,283)	(2,261)
Net cash inflow/(outflow) from financing activities		603,771	(326,454)

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000 (Restated)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(70,768)	(72,405)
Cash and cash equivalents at beginning of year		1,005,615	1,078,108
Effect of foreign exchange rate changes, net		19,855	(88)
CASH AND CASH EQUIVALENTS AT END OF YEAR		954,702	1,005,615
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	881,572	620,014
Non-pledged time deposits with original maturity of less than three months when acquired		73,130	385,601
		954,702	1,005,615

Balance Sheet

31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	373	706
Interests in subsidiaries	18	3,907,525	3,608,252
Total non-current assets		3,907,898	3,608,958
CURRENT ASSETS			
Other debtors, prepayments and deposits		1,284	3,198
Investments at fair value through profit and loss	24	345	–
Amount due from the immediate holding company	38	165	165
Cash and cash equivalents	26	54,657	4,346
Total current assets		56,451	7,709
CURRENT LIABILITIES			
Other payables and accruals		4,204	4,460
Total current liabilities		4,204	4,460
NET CURRENT ASSETS		52,247	3,249
Net assets		3,960,145	3,612,207
EQUITY			
Issued capital	31	175,845	175,710
Reserves	33	3,707,686	3,370,731
Proposed final dividend	12	76,614	65,766
Total equity		3,960,145	3,612,207

Liu Fuchun
Director

Qu Zhe
Director

Notes

to the Financial Statements

31 December 2005

1. CORPORATE INFORMATION

COFCO International Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the year, the Group is engaged in food processing and related businesses which include edible oils, soybean meal and related products; wineries; confectionery; flour milling; and trading.

The Company is a subsidiary of COFCO (Hong Kong) Limited ("COFCO (HK)"), a company incorporated in Hong Kong. The ultimate holding company is China National Cereals, Oils & Foodstuffs Corporation ("COFCO"), which is 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 also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, biological assets, derivative financial instruments and investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. 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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting

Notes

to the Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Properties
HKAS 41	Agriculture
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 28, 33, 36, 37, 41, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated summary statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

Notes

to the Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) *Equity securities*

In prior years, the Group classified its investments in equity securities intended to be held for non-trading purposes as long term investments and were stated at cost less amortisation or any impairment losses, on an individual basis. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK\$33,902,000 are redesignated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are restated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group classified its investments which are not classified as long term investments as other investments, which were stated at their fair values on an individual basis with gains and losses recognised in the income statement. In addition, the Group classified the deposits with embedded derivatives as cash and cash equivalents, and were stated at cost less any impairment losses. Upon the adoption of HKAS 39, these securities and deposits held by the Group at 1 January 2005 in the amount of HK\$277,525,000 and HK\$39,635,000, respectively, are redesignated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 32 and HKAS 39 – Financial Instruments (continued)

(ii) *Derivative financial instruments – commodity future contracts*

The Group's commodity future contracts held to hedge against its price exposure in future purchases or sales of the related commodities are recorded at fair value. The portion of the gains or losses on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, until the transaction which is being hedged is itself recognised in the financial statements. The ineffective portion of the hedge (if any) is recognised immediately in the income statement. Previously, commodity future contracts were deferred on the balance sheet until the item being hedged was itself recognised.

The adoption of HKAS 39 has resulted in a change in the accounting policy for the recognition, measurement, derecognition and disclosure of financial instruments. Further details of the effects of the above changes on these consolidated financial statements and the change in the accounting policy are summarised in notes 2.4 and 2.5 to the financial statements, respectively. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(c) HKAS 40 – Investment Properties

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In accordance with the transitional provisions of HKAS 40, the opening balance of retained profits has been restated to reflect this change. The effects of the above change are summarised in note 2.4 to the financial statements.

(d) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(d) HKFRS 2 – Share-based Payment (continued)

The Group has adopted the transitional provision of HKFRS 2 under which the new measurement policies have not applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the consolidated income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the consolidated balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained profits remains eliminated against the retained profits and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005	Effect of adopting						Total
	HKAS 1#	HKAS 17#	HKAS 32# and 39*	HKAS 40*	HKFRS 2#	HKFRS 3*	
			Change in classification of	Surplus on revaluation of	Equity-settled	Derecognition of	
Effect of new policies (Increase/(decrease))	Presentation	Prepaid land premiums	financial instruments	investment properties	share option arrangements	negative goodwill	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Property, plant and equipment	(56,038)	(158,149)	-	-	-	-	(214,187)
Investment properties	56,038	-	-	-	-	-	56,038
Prepaid land premiums	-	152,772	-	-	-	-	152,772
Negative goodwill	-	-	-	-	-	13,032	13,032
Other debtors, prepayments and deposits	-	5,377	-	-	-	-	5,377
Investments at fair value through profit and loss	-	-	33,213	-	-	-	33,213
Derivative financial instruments	-	-	932	-	-	-	932
Cash and cash equivalents	-	-	(39,635)	-	-	-	(39,635)
Liabilities/equity							
Other payables and accruals	-	-	(3,177)	-	-	-	(3,177)
Employee share-based compensation reserve	-	-	-	-	17,891	-	17,891
Investment property revaluation reserve	-	-	-	(2,183)	-	-	(2,183)
Retained profits	-	-	(2,313)	2,183	(17,891)	13,032	(4,989)

* Adjustments taken effect prospectively from 1 January 2005

Adjustments/presentation taken effect retrospectively

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect on the consolidated balance sheet (continued)

At 31 December 2005	Effect of adopting						Total
	HKAS 1	HKAS 17	HKAS 32 and 39	HKAS 40	HKFRS 2	HKFRS 3	
			Change in	Surplus on			
			classification of	revaluation of	Equity-settled		
Effect of new policies		Prepaid land	equity	investment	share option	Derecognition of	
(Increase)/(decrease))	Presentation	premiums	instruments	properties	arrangements	negative goodwill	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Property, plant and equipment	(50,562)	(197,701)	-	-	-	-	(248,263)
Investment properties	50,562	-	-	-	-	-	50,562
Prepaid land premiums	-	192,324	-	-	-	-	192,324
Negative goodwill	-	-	-	-	-	13,032	13,032
Available-for-sale investments	-	-	43,890	-	-	-	43,890
Long term investments	-	-	(45,967)	-	-	-	(45,967)
Other debtors, prepayments and deposits	-	5,377	-	-	-	-	5,377
Investments at fair value through							
profit and loss	-	-	79,925	-	-	-	79,925
Derivative financial instruments	-	-	12,314	-	-	-	12,314
Other investments	-	-	(79,925)	-	-	-	(79,925)
Liabilities/equity							
Employee share-based compensation reserve	-	-	-	-	31,093	-	31,093
Investment property revaluation reserve	-	-	-	(533)	-	-	(533)
Investment revaluation reserves	-	-	(2,077)	-	-	-	(2,077)
Retained profits	-	-	12,314	533	(31,093)	13,032	(5,214)

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

Effect of new policies (Increase/(decrease))	Effect of adopting				Total HK\$'000
	HKAS 39	HKAS 40	HKFRS 2	HKFRS 3	
	Designation of available- for-sale investments	Surplus on revaluation of investment properties	Equity-settled share option arrangements	Derecognition of negative goodwill	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
1 January 2004					
Employee share-based compensation reserve	–	–	3,165	–	3,165
Retained profits	–	–	(3,165)	–	(3,165)
					<u>–</u>
1 January 2005					
Employee share-based compensation reserve	–	–	17,891	–	17,891
Investment property revaluation reserve	–	(2,183)	–	–	(2,183)
Retained profits	(2,313)	2,183	(17,891)	13,032	(4,989)
					<u>10,719</u>

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31 December 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

- (c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policy	Effect of adopting HKFRS 2 Equity-settled share option arrangements HK\$'000
Year ended 31 December 2005	
Increase in administrative expenses	13,202
Decrease in profit	(13,202)
Decrease in basic and diluted earnings per share	(0.8 HK cents)
Year ended 31 December 2004	
Increase in administrative expenses	14,726
Decrease in profit	(14,726)
Decrease in basic and diluted earnings per share	(0.8 HK cents)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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 share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

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.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, biological assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however 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 impairment loss is credited to the income statement in the period in which it arises, 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, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset, or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.8% to 16.2%
Plant, machinery and equipment	4.5% to 25%

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction incurred during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Operating leases

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

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

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its investments, other than subsidiaries and associates, as long term investments and other investments.

Long term investments

Long term investments are investments which are intended to be held on a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose. Long term investments are included in the balance sheet at cost less amortisation or any impairment losses assessed by the directors on an individual basis. An impairment loss is charged to the income statement in the period in which it arises.

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Long term investments (continued)

Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

The profit or loss on disposal of long term investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the investments.

Other investments

Other investments are those which are not classified as long term investments, and are stated at fair value on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unrealised holding gains or losses arising from changes in fair value are dealt with in the income statement in the period in which they arise.

The profit or loss on disposal of other investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the investment. Where the investee company was previously a subsidiary or an associate of the Company and previously arising reserves attributable to this investee company remain, the reserves attributable to such investee company are also released to the income statement on disposal.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as investments at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets 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 are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

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2.5 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. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity and debt securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using 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.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

The Group uses derivative financial instruments such as commodity future contracts to hedge its risks associated with price fluctuations in future purchases or sales of the related commodities. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of commodity future contracts is calculated by reference to current commodity prices for contracts with similar maturity profiles.

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 profit or loss.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Biological assets

Grape vines are measured at their fair value less estimated point-of-sale costs. The fair value of grape vines is determined based on the present value of expected net cash flows from the grape vines discounted at a current market-determined pre-tax rate. Grape vines are perennial plants which have growth cycles of more than one year. Gain or loss arising on initial recognition of grape vines at fair value less estimated point-of-sale costs is dealt with in the income statement when it arises.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Biological assets (continued)

Agricultural product comprises grapes. Self-grown grapes are measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of grapes is determined based on market prices in the local area, which represents the estimated purchase cost that the Group has to procure such raw materials in the market on an arm's length basis.

Inventories

Inventories, other than agricultural product, which is measured in accordance with the accounting policy for "Biological assets" above, 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.

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) 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) rental income, in the period in which the properties are leased and on the straight-line basis over the lease terms;
- (c) agency commission and reimbursement of advertising expenses, on an accrual basis;
- (d) from the rendering of services, in the period in which the services are rendered;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (f) dividend income, when the shareholders' right to receive payment is established;
- (g) proceeds from the sale of investments, on the transaction dates when the relevant contract notes are exchanged; and
- (h) tax refunds, when the acknowledgement of refunds from the tax bureau is received.

Dividends

Interim dividends are simultaneously proposed and declared because the Company's memorandum and Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using Black-Scholes model, further details of which are given in note 32. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The Group has adopted the transitional provision of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

Retirement benefits schemes

Retirement benefits are provided to certain staff employed by the Group. In accordance with the Mandatory Provident Fund Schemes Ordinance, the Group’s Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO Scheme, or the Mandatory Provident Fund Scheme under which employer contributions have to be made. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group’s contributions to both schemes are at a maximum of 10% of the monthly salaries of the employees. When an employee leaves employment prior to his or her interest in the Group’s employer contributions vested fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of the forfeited contributions, in accordance with the rules of the Mandatory Provident Fund Scheme Exempted ORSO Scheme. However, in respect of the Mandatory Provident Fund Scheme, only the employer voluntary contribution amounts are refundable to the Group when the members leave employment prior to their contributions vested fully. The Group’s mandatory contributions vest fully with the employees when the employees leave employment.

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31 December 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits schemes (continued)

In addition, the employees of the Group's subsidiaries which operate in Mainland China are required to participate in the central pension scheme which is operated by the relevant authorities of the provinces or the local municipal governments in Mainland China in which the Group's subsidiaries are located. The Group contributes to these schemes in respect of its employees in Mainland China and such costs are charged to the income statement as incurred.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK\$481,995,000 (2004: HK\$499,560,000). More details are given in note 17.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

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31 December 2005

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

The carrying amounts of investment properties at 31 December 2005 was HK\$50,562,000 (2004: HK\$56,038,000).

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Details of the business segments are summarized as follows:

- (a) the edible oils, soybean meal and related products segment engages in the extraction, refining and trading of edible oils and the related businesses;
- (b) the wineries segment engages in the production, sale and trading of grape wine and other relevant beverage products;
- (c) the confectionery segment engages in the production and distribution of chocolate and other related products;
- (d) the trading segment engages in the trading of food commodities, animal feedstock, and agricultural and aquatic products;
- (e) the flour milling segment engages in flour milling and related businesses; and
- (f) the corporate and others segment comprises the Group's management services business, which provides management services relating to imports and exports, together with corporate income and expense items.

In determining the Group's geographical segments, revenues and assets are attributed to the segments based on the location of the production or service facilities.

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to the Financial Statements

31 December 2005

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2005 and 2004.

	Edible oils, Soybean meal and related products													
			Wineries		Confectionery		Trading		Flour milling		Corporate and others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)												(Restated)	
Segment revenue:														
Sales to external customers	11,870,605	11,657,102	1,526,661	1,164,246	381,236	343,725	3,204,844	3,038,295	604,228	589,255	-	-	17,587,574	16,792,623
Segment results	153,655	116,631	293,703	211,709	25,052	39,048	171,481	115,807	14,505	14,525	(17,352)	(30,984)	641,044	466,736
Interest and dividend income													32,331	23,409
Unallocated gains and expenses, net													10,712	4,804
Finance costs													(135,708)	(84,265)
Share of profits and losses of associates	79,127	27,444	-	-	-	-	-	-	-	-	-	-	79,127	27,444
Profit before tax													627,506	438,128
Tax													(138,933)	(95,915)
Profit for the year													488,573	342,213

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31 December 2005

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Edible oils, soybean meal and related products																Consolidated	
	Wineries		Confectionery		Trading		Flour milling		Corporate and others		Eliminations		Unallocated					
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
	(Restated)								(Restated)								(Restated)	
Segment assets	6,117,578	4,815,314	1,919,603	1,564,805	584,043	480,194	1,047,906	619,634	206,861	198,128	280,210	184,766	(116,746)	(22,386)	-	-	10,039,455	7,840,455
Interests in associates	548,224	429,397	-	-	-	-	(6)	-	-	-	-	-	-	-	-	-	548,218	429,397
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	711,435	845,704	711,435	845,704
Total assets	6,665,802	5,244,711	1,919,603	1,564,805	584,043	480,194	1,047,900	619,634	206,861	198,128	280,210	184,766	(116,746)	(22,386)	711,435	845,704	11,299,108	9,115,556
Segment liabilities	1,939,200	1,229,968	928,209	631,383	257,909	223,213	517,158	261,686	42,817	29,825	150,836	146,630	(1,867,492)	(1,257,586)	-	-	1,968,637	1,265,119
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,700,109	2,659,117	3,700,109	2,659,117
Total liabilities	1,939,200	1,229,968	928,209	631,383	257,909	223,213	517,158	261,686	42,817	29,825	150,836	146,630	(1,867,492)	(1,257,586)	3,700,109	2,659,117	5,668,746	3,924,236
Other segment information:																		
Depreciation, amortisation and impairment	190,220	143,650	53,075	48,846	13,097	9,361	1,348	7,017	5,927	5,854	21,184	21,402	-	-	-	-	284,851	236,130
Other non-cash expenses	1,524	8,158	663	1,018	173	22	13	-	192	-	-	-	-	-	-	-	2,565	9,198
Capital expenditure	422,926	339,523	164,092	65,630	15,435	40,756	1,580	356	3,239	2,351	20	8	-	-	-	-	607,292	448,624

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

	Hong Kong		Elsewhere in the People's Republic of China (the "PRC")		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)				(Restated)
Segment revenue:								
Sales to external customers	1,416,187	1,129,654	16,171,387	15,662,969	-	-	17,587,574	16,792,623
Other segment information:								
Segment assets	2,162,702	2,047,497	11,070,570	8,621,488	(1,934,164)	(1,553,429)	11,299,108	9,115,556
Capital expenditure	-	8	607,292	448,616	-	-	607,292	448,624

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of other income and gains is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Gain on disposal of by-products and scrap items	46,761	23,705
Gross rental income	5,287	6,736
Agency commission	11,191	5,253
Management fee income from COFCO	37,623	24,292
Bank interest income	30,238	19,534
Dividends from an unlisted available-for-sale investment/ long term investment and listed equity securities	3,770	3,875
Government grants*	1,909	5,837
Rental of containers	9,966	16,846
Others	40,717	36,975
	187,462	143,053

* Various government grants have been received for investments in certain provinces in Mainland China and for generating revenue in foreign currencies. 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):

		Year ended 31 December 2005 HK\$'000	Year ended 31 December 2004 HK\$'000 (Restated)
	Notes		
Cost of inventories sold		15,948,893	15,461,321
Realised fair value gains of derivative instruments transactions not qualifying as hedges/net realised gains on commodity future contracts	25	(65,491)	(10,933)
Unrealised fair value gains of derivative instruments transactions not qualifying as hedges	25	(12,314)	–
Write-back of provision against inventories		(1,364)	(2,407)
Gain arising from changes in fair value of biological assets		(2,217)	(972)
Cost of sales		15,867,507	15,447,009
Auditors' remuneration		2,995	2,547
Depreciation	14	264,337	196,425
Loss on disposal of property, plant and equipment		495	8,523
Impairment of available-for-sale investments/Amortisation of a long term investment		2,949	1,400
Minimum lease payments under operating leases in respect of land and buildings		34,785	24,981
Staff costs (including director's remuneration) – Note 8:			
Wages and salaries		212,068	186,643
Equity-settled share option expenses		13,202	14,726
Retirement benefits scheme contributions		12,114	7,894
		237,384	209,263
Impairment of goodwill	17	17,565	–
Changes in fair value of investment properties	15	1,650	–
Provision for doubtful debts		2,070	641
Amortisation of goodwill	17, 19	–	41,705
Fair value gains, net:			
Investments at fair value through profit or loss		(8,875)	–
Foreign exchange differences, net		(70,083)	–
Negative goodwill recognised as income	17	–	(3,400)
Gain on disposal of listed debt securities		–	(920)
Unrealised holding gains on listed equity securities		–	(870)
Unrealised holding gains on unlisted portfolio funds		–	(1,668)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		579	816
Gross rental income		(5,287)	(6,736)

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7. FINANCE COSTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	89,158	68,918
Loans from the ultimate holding company and a fellow subsidiary	37,847	13,489
Others	8,703	1,858
	135,708	84,265

8. DIRECTORS' REMUNERATION

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Fees:		
Executive directors	1,367	1,400
Independent non-executive directors	616	400
	1,983	1,800
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	6,423	5,696
Equity-settled share option expenses	7,407	8,369
Retirement benefits scheme contributions	289	226
	14,119	14,291
	16,102	16,091

In previous 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 32 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

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8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Mr. Stephen Edward Clark	187	–
Mr. Tan Man Kou	164	–
Mr. Yuen Tin Fan, Francis	200	200
Mr. Liang Shangli	65	200
	616	400

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors

Group	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share option expenses HK\$'000	Retirement benefits scheme contributions HK\$'000	Total remuneration HK\$'000
2005					
Mr. Ning Gaoning	187	867	–	25	1,079
Mr. Liu Fuchun	200	1,950	2,334	90	4,574
Mr. Yu Guangquan	200	2,834	1,556	131	4,721
Mr. Xue Guoping	200	–	1,556	–	1,756
Mr. Liu Yongfu	200	–	1,556	–	1,756
Mr. Qu Zhe	200	–	182	–	382
Mr. Ng Eng Leong	167	772	223	43	1,205
Mr. Zhou Mingchen	13	–	–	–	13
	1,367	6,423	7,407	289	15,486

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8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors (continued)

Group	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expenses	Retirement benefits scheme contributions	Total remuneration
	HK\$'000	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000 (Restated)
2004					
Mr. Liu Fuchun	200	2,000	1,897	78	4,175
Mr. Yu Guangquan	200	2,715	1,265	96	4,276
Mr. Xue Guoping	200	–	1,265	–	1,465
Mr. Liu Yongfu	200	–	1,265	–	1,465
Mr. Ng Eng Leong	200	981	421	52	1,654
Mr. Qu Zhe	200	–	149	–	349
Mr. Zhou Mingchen	200	–	2,107	–	2,307
	1,400	5,696	8,369	226	15,691

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: five (restated)) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one non-director, highest paid employee for the year are as follows:

	2005 HK\$'000
Salaries, allowances and benefits in kind	1,014
Equity-settled share option expenses	161
Retirement benefits scheme contributions	47
	1,222

In previous years, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of the grant and was included in the above non-director, highest paid employee's remuneration disclosures.

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10. TAX

Hong Kong profits tax has been calculated at the rate of 17.5 per cent. (2004: 17.5 per cent.) 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 in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December 2005 HK\$'000	Year ended 31 December 2004 HK\$'000 (Restated)
Current profits tax:		
– Hong Kong	1,970	1,265
– Elsewhere in the PRC	136,283	100,512
Over provision in prior years	–	(4,351)
Deferred (note 29)	680	(1,511)
	<hr/>	<hr/>
Tax charge for the year	138,933	95,915

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10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries 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 – 2005

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	(10,251)		637,757		627,506	
Tax at the statutory tax rate	(1,794)	17.5	210,460	33.0	208,666	33.3
Lower tax rate for specific provinces or local authority	–	–	(69,531)	(10.9)	(69,531)	(11.1)
Profit not subject to tax, due to concessions	–	–	(8,976)	(1.4)	(8,976)	(1.4)
Adjustments in respect of current tax of previous periods	–	–	3	–	3	–
Income not subject to tax	(5,679)	55.4	(25,825)	(4.0)	(31,504)	(5.0)
Expenses not deductible for tax	9,298	(90.7)	23,847	3.7	33,145	5.3
Tax losses utilised from previous periods	(269)	2.6	(497)	(0.1)	(766)	(0.1)
Tax losses not recognised	17	(0.1)	7,747	1.2	7,764	1.2
Others	397	(3.9)	(265)	–	132	–
Tax charge at the Group's effective rate	1,970	(19.2)	136,963	21.5	138,933	22.2

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10. TAX (continued)

Group – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Restated)		(Restated)		(Restated)	
Profit before tax	(22,336)		460,464		438,128	
Tax at the statutory tax rate	(3,909)	17.5	151,953	33.0	148,044	33.8
Lower tax rate for specific provinces						
or local authority	–	–	(35,094)	(7.6)	(35,094)	(8.0)
Profit not subject to tax, due to concessions	–	–	(5,008)	(1.1)	(5,008)	(1.1)
Adjustments in respect of current tax						
of previous periods	–	–	(4,351)	(0.9)	(4,351)	(1.0)
Income not subject to tax	(7,954)	35.6	(11,416)	(2.5)	(19,370)	(4.4)
Expenses not deductible for tax	12,979	(58.1)	3,857	0.8	16,836	3.8
Tax losses utilised from previous periods	(38)	0.2	(6,225)	(1.3)	(6,263)	(1.4)
Tax losses not recognised	227	(1.0)	1,087	0.2	1,314	0.3
Others	(42)	0.1	(151)	–	(193)	(0.1)
Tax charge at the Group's effective rate	1,263	(5.7)	94,652	20.6	95,915	21.9

The share of tax attributable to associates amounting to HK\$6,426,000 (2004: HK\$1,357,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The profit attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK\$472,076,000 (2004: HK\$150,410,000 (restated)).

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12. DIVIDENDS

	Year ended 31 December 2005 HK\$'000	Year ended 31 December 2004 HK\$'000
Interim – 4.35 HK cents (2004: 2.76 HK cents) per ordinary share	76,493	48,496
Proposed final – 4.35 HK cents (2004: 3.74 HK cents) per ordinary share	76,614	65,766
Additional final dividend in respect of the prior year	–	484
	153,107	114,746

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

The additional final dividend in respect of prior year represents the additional payment of final dividend of 5 HK cents per share for the year ended 31 December 2003 to the new shareholders of 9,680,000 shares registered as members between 1 April 2004 and 10 May 2004, the date upon which members were entitled to the dividend.

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

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

	Year ended 31 December 2005	Year ended 31 December 2004 (Restated)
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Earnings

Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation (HK\$)

429,166,000	285,976,000
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Number of shares

Year ended 31 December 2005	Year ended 31 December 2004
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Shares

Weighted average number of shares in issue during the year used in the basic earnings per share calculation

1,758,253,947	1,754,088,687
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Weighted average number of shares:

Assumed issued at no consideration on
deemed exercise of all share options
outstanding during the year

4,367,562	4,735,036
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Weighted average number of shares used in the diluted earnings per share calculation

1,762,621,509	1,758,823,723
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14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Group Plant, machinery and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000 (Restated)	Company Plant and equipment HK\$'000
31 December 2005					
At 31 December 2004 and at 1 January 2005:					
Cost	1,294,180	1,977,075	328,270	3,599,525	1,814
Accumulated depreciation	(206,783)	(432,868)	–	(639,651)	(1,108)
Net carrying amount	1,087,397	1,544,207	328,270	2,959,874	706
At 1 January 2005, net of accumulated depreciation	1,087,397	1,544,207	328,270	2,959,874	706
Additions	45,463	96,836	422,950	565,249	–
Disposals	(264)	(3,921)	–	(4,185)	–
Depreciation provided during the year	(58,737)	(205,600)	–	(264,337)	(333)
Transfers:					
Construction in progress	251,570	301,369	(552,939)	–	–
Investment properties	4,849	–	–	4,849	–
Exchange realignment	19,844	28,122	5,991	53,957	–
At 31 December 2005, net of accumulated depreciation	1,350,122	1,761,013	204,272	3,315,407	373
At 31 December 2005:					
Cost	1,618,945	2,402,163	204,272	4,225,380	1,814
Accumulated depreciation	(268,823)	(641,150)	–	(909,973)	(1,441)
Net carrying amount	1,350,122	1,761,013	204,272	3,315,407	373

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Group Plant, machinery and equipment	Construction in progress	Total	Company Plant and equipment
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated)	HK\$'000
31 December 2004					
At 1 January 2004:					
Cost	1,126,035	1,815,706	163,370	3,105,111	1,814
Accumulated depreciation	(97,116)	(290,789)	–	(387,905)	(775)
Net carrying amount	1,028,919	1,524,917	163,370	2,717,206	1,039
At 1 January 2004, net of accumulated depreciation	1,028,919	1,524,917	163,370	2,717,206	1,039
Additions	33,579	69,607	345,438	448,624	–
Disposals	(4,719)	(4,807)	(5)	(9,531)	–
Depreciation provided during the year	(44,246)	(152,179)	–	(196,425)	(333)
Transfers	73,864	106,669	(180,533)	–	–
At 31 December 2004, net of accumulated depreciation	1,087,397	1,544,207	328,270	2,959,874	706
At 31 December 2004:					
Cost	1,294,180	1,977,075	328,270	3,599,525	1,814
Accumulated depreciation	(206,783)	(432,868)	–	(639,651)	(1,108)
Net carrying amount	1,087,397	1,544,207	328,270	2,959,874	706

All of the Group's buildings are held outside Hong Kong under medium term leases.

At 31 December 2005, certain of the Group's fixed assets with a net book value of approximately HK\$274,232,000 (2004: HK\$95,093,000) were pledged to secure banking facilities granted to the Group (note 28).

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15. INVESTMENT PROPERTIES

	2005 HK\$'000	2004 HK\$'000
Carrying amount at 1 January	56,038	56,038
Exchange realignment	1,023	–
Net loss from a fair value adjustment	(1,650)	–
Transfer to owner-occupied property	(4,849)	–
Carrying amount at 31 December	50,562	56,038

All of the Group's investment properties are held outside Hong Kong under medium term leases.

The Group's investment properties were revalued on 31 December 2005 by BMI Appraisals Limited, independent professionally qualified valuers, at HK\$50,562,000 (2004: HK\$56,038,000) on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

At 31 December 2005, the Group's investment properties with a carrying value of HK\$50,562,000 (2004: HK\$56,038,000) were pledged to secure banking facilities granted to the Group (note 28).

16. PREPAID LAND PREMIUMS

	Group 2005 HK\$'000	2004 HK\$'000 (Restated)
Carrying amount at 1 January		
As previously reported	–	–
Effect of adopting HKAS 17 (note 2.2(a) & note 2.4(a))	158,149	163,526
As restated	158,149	163,526
Additions	42,043	–
Amortised during the year	(5,377)	(5,377)
Exchange realignment	2,886	–
Carrying amount at 31 December	197,701	158,149
Current portion included in other debtors, prepayments and deposits	(5,377)	(5,377)
Non-current portion	192,324	152,772

The leasehold land is held under medium term leases and is situated outside Hong Kong.

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17. GOODWILL/NEGATIVE GOODWILL

Group

	Goodwill	Negative goodwill	Total
	HK\$'000	HK\$'000	HK\$'000
31 December 2005			
At 1 January 2005:			
Cost as previously reported	625,857	(23,798)	602,059
Effect of adopting HKFRS 3 (note 2.2(e))	(126,297)	23,798	(102,499)
Cost as restated	499,560	–	499,560
Accumulated amortisation as previously reported	(126,297)	10,766	(115,531)
Effect of adopting HKFRS 3 (note 2.2(e))	126,297	(10,766)	115,531
Accumulated amortisation as restated	–	–	–
Net carrying amount as restated	499,560	–	499,560
Net carrying amount at 1 January 2005 as restated	499,560	–	499,560
Impairment during the year	(17,565)	–	(17,565)
Net carrying amount at 31 December 2005	481,995	–	481,995
At 31 December 2005:			
Cost	499,560	–	499,560
Accumulated impairment	(17,565)	–	(17,565)
Net carrying amount	481,995	–	481,995

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17. GOODWILL/NEGATIVE GOODWILL (continued)

Group

	Goodwill	Negative goodwill	Total
	HK\$'000	HK\$'000	HK\$'000
31 December 2004			
At 1 January 2004:			
Cost	625,857	(23,798)	602,059
Accumulated amortisation	(85,442)	7,366	(78,076)
Net carrying amount	540,415	(16,432)	523,983
Net carrying amount at 1 January 2004	540,415	(16,432)	523,983
Amortisation provided/(recognised as income) during the year	(40,855)	3,400	(37,455)
Net carrying amount at 31 December 2004	499,560	(13,032)	486,528
At 31 December 2004:			
Cost	625,857	(23,798)	602,059
Accumulated amortisation	(126,297)	10,766	(115,531)
Net carrying amount	499,560	(13,032)	486,528

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimated useful life of 20 years or the management contract period of 10 years.

As further detailed in note 2.2 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

The amounts of the goodwill remaining in the consolidated reserve, arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 2001, were HK\$89,540,000 as at 31 December 2004. The amount of goodwill is stated at its cost of HK\$261,897,000, less cumulative impairment of HK\$172,357,000 which arose in prior years.

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17. GOODWILL/NEGATIVE GOODWILL (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:

- Edible oils, soybean meal and related products cash-generating unit;
- Wineries cash-generating unit;
- Confectionary cash-generating unit;
- Trading cash-generating unit; and
- Management service cash-generating unit.

The recoverable amount of each of the above cash-generating units, except for the management service cash-generating unit, is determined based on a value in use calculation using cash flow projections based on financial budgets covering a one-year period approved by senior management. The cash flow projections have not been discounted as the effect of discounting is considered not material.

The recoverable amount of the management service cash-generating unit is determined based on a value in use calculation using cash flow projection prepared by reference to future management fee income budget approved by management covering the unexpired remaining terms of the relevant management contract. The discount rate applied to the cash flow projection is 12%.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2005 HK\$'000	2004 HK\$'000
Edible oils, soybean meal and related products	103,658	103,658
Wineries	137,769	137,769
Confectionary	113,556	113,556
Trading	12,624	12,624
Management service	114,388	131,953
	481,995	499,560

Key assumptions were used in the value in use calculation of the cash-generating units for 31 December 2005 and 31 December 2004. 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 budgeted year, increased for expected efficiency improvements and expected market development.

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17. GOODWILL/NEGATIVE GOODWILL (continued)

Impairment testing of goodwill (continued)

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for countries from where raw materials are sourced. The values assigned to key assumptions are consistent with external information sources.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	2,359,796	2,359,796
Amounts due from subsidiaries	2,251,187	1,729,391
Amounts due to subsidiaries	(575,358)	(352,835)
	4,035,625	3,736,352
Provision for impairment	(128,100)	(128,100)
	3,907,525	3,608,252

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

The value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date when the Company became the holding company of the Group pursuant to the group reorganisation in 1991 and the costs of acquisitions of certain subsidiaries in 2002.

Particulars of the Company's principal subsidiaries as at 31 December 2005 are set out in note 39 to the financial statements.

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19. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets	373,776	291,460
Amounts due from associates	40,342	5,949
Loans to associates	119,161	117,049
Goodwill	14,939	14,939
	548,218	429,397

The amount of goodwill arising from an additional capital injection made to an associate in the prior year is as follows:

Group	Goodwill
	HK\$'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	17,068
Effect of adopting HKFRS 3 (note 2.2(e))	(2,129)
Cost as restated	14,939
Accumulated amortisation as previously reported	(2,129)
Effect of adopting HKFRS 3 (note 2.2(e))	2,129
Accumulated amortisation as restated	–
Net carrying amount as restated	14,939
Cost and net carrying amount at 1 January 2005 (restated) and 31 December 2005	14,939
31 December 2004	
At 1 January 2004:	
Cost	17,068
Accumulated amortisation	(1,279)
Net carrying amount	15,789
Net carrying amount at 1 January 2004	15,789
Amortisation provided during the year	(850)
Net carrying amount at 31 December 2004	14,939
At 31 December 2004:	
Cost	17,068
Accumulated amortisation	(2,129)
Net carrying amount	14,939

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19. INTERESTS IN ASSOCIATES (continued)

The balances with associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

The loans to associates are capital in nature. The balances are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values.

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

	2005	2004
	HK\$'000	HK\$'000
Assets	4,677,445	4,754,539
Liabilities	3,403,168	3,738,563
Revenue	9,604,994	7,945,847
Profit	277,212	122,942

Particulars of the Group's principal associates as at 31 December 2005 are set out in note 40 to the financial statements.

20. AVAILABLE-FOR-SALE INVESTMENTS/LONG TERM INVESTMENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Unlisted equity investments elsewhere than Hong Kong, at fair value	28,210	31,168
Unlisted debt investments elsewhere than Hong Kong, at fair value	13,624	–
Amount due from an investee company	2,056	2,734
	43,890	33,902

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20. AVAILABLE-FOR-SALE INVESTMENTS/LONG TERM INVESTMENTS (continued)

Particulars of the principal unlisted equity investment at 31 December 2005 are as follows:

Name of company	Place of registration	Percentage of equity interest attributable to the Group	Principal activity
江蘇江源熱電有限公司 Jiangsu Jiang Yuan Thermal Power Company Limited ("JJYTP")	PRC	50	Thermal power plant operator

JJYTP is a co-operative joint venture with a term of 25 years. The sharing of the profits during the joint venture period and the sharing of the net assets at the expiration of the joint venture period are governed by the joint venture contract and are not in proportion to the joint venture partners' equity ratio. In the opinion of the directors, the Group is not in a position to exercise significant influence over the financial and operating policy decisions of JJYTP. Accordingly, JJYTP is regarded as an investment rather than an associate of the Group.

21. BIOLOGICAL ASSETS

	Group	
	2005	2004
	HK\$'000	HK\$'000
At beginning of year	33,623	32,651
Gains arising from changes in fair value attributable to physical changes	17,030	6,932
Decrease due to harvest	(14,813)	(5,960)
At 31 December	35,840	33,623

The Group harvested 3,516,000 kg of grapes with a fair value less estimated point-of-sale costs of HK\$14,813,000 in the year ended 31 December 2005.

Significant assumptions made in determining the fair value of the biological assets are as follows:

- the grape vines will continue to be competently managed and remain free from irremediable disease in the remaining estimated useful lives;
- the expected prices of grapes are based on the past actual average district prices; and
- the future cash flows have been discounted at the target rate of return on equity of the wineries segment.

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22. INVENTORIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Raw materials	1,761,314	732,021
Work in progress	72,451	40,217
Finished goods	1,058,011	1,000,750
	2,891,776	1,772,988

23. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at 31 December 2005 is as follows:

	At 31 December	At 31 December
	2005	2004
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 6 months	1,069,399	933,336
7 to 12 months	50,540	24,731
1 to 2 years	7,098	3,638
Over 2 years	15,687	20,805
	1,142,724	982,510
Less: Provision for doubtful debts	(22,394)	(23,382)
	1,120,330	959,128

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24. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER INVESTMENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000
Listed equity securities in Hong Kong, at fair value	10,925	2,897	345	–
Unlisted portfolio funds, at fair value	4,555	138,106	–	–
Unlisted debt securities, at fair value				
Hong Kong	24,669	23,400	–	–
Elsewhere	39,776	107,928	–	–
Time deposits under fund management	–	5,194	–	–
Dual currency deposit	–	39,635	–	–
	79,925	317,160	345	–

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Commodity future contracts	12,314	–

The Group has entered into various commodity future contracts to manage its price exposure in future purchases or sales of soybean meal which did not meet the criteria for hedge accounting. Changes in fair value of non-hedging derivative financial instruments amounting to HK\$78,702,000 (2004: net realised gains on commodity future contracts of HK\$10,933,000) were credited to the income statement during the year.

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26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	Group		Company	
		2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000
Cash and bank balances		881,572	620,014	6,922	1,876
Time deposits		503,795	484,799	47,735	2,470
		1,385,367	1,104,813	54,657	4,346
Less: Pledged time deposits					
Pledged for short term					
bank loans	28	(402,000)	—	—	—
Cash and cash equivalents		983,367	1,104,813	54,657	4,346

At the balance sheet date, the cash and cash equivalents and pledged deposits balances of the Group denominated in Renminbi ("RMB") amounted to HK\$1,110,364,000 (2004: HK\$847,393,000). 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 carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

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27. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date is as follows:

	At 31 December 2005 HK\$'000	At 31 December 2004 HK\$'000
Outstanding balances with ages:		
Within 6 months	669,791	423,744
7 to 12 months	4,355	4,850
1 to 2 years	9,524	9,248
Over 2 years	4,330	1,952
	<hr/>	
	688,000	439,794
	<hr/>	

The accounts payable are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the accounts payable approximate to their fair values.

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28. INTEREST-BEARING BANK LOANS AND OTHER LOANS

	Effective interest rate (%)	Maturity	Group 2005 HK\$'000	2004 HK\$'000
Current				
Bank loans – unsecured	4.5 – 5.6	2006	1,132,175	2,073,778
Bank loans – secured	4.1 – 5.2	2006	505,595	34,245
Other loans – unsecured	4.2 – 5.58	2006	1,765,499	470,743
			3,403,269	2,578,766
Non-current				
Bank loans – secured			–	23,585
Other loans – unsecured			–	7,972
			–	31,557
			3,403,269	2,610,323
Analysed into:				
Bank loans repayable:				
Within one year or on demand			1,637,770	2,108,023
In the third to fifth years, inclusive			–	23,585
			1,637,770	2,131,608
Other loans repayable:				
Within one year or on demand			1,765,499	470,743
In the third to fifth years, inclusive			–	7,972
			1,765,499	478,715
			3,403,269	2,610,323

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28. INTEREST-BEARING BANK LOANS AND OTHER LOANS (continued)

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

- (a) a charge over the Group's investment properties held outside Hong Kong with a carrying value at the balance sheet date of HK\$50,562,000 (2004: HK\$56,038,000) (note 15);
- (b) a charge over certain property, plant and equipment of the Group with a net book value of approximately HK\$274,232,000 (2004: HK\$95,093,000) (note 14); and
- (c) the pledge of certain of the Group's time deposits amounting to HK\$402,000,000 (2004: Nil) (note 26).

In addition, the ultimate holding company and an associate of the Group had guaranteed certain of the Group's unsecured bank loans up to HK\$1,132,175,000 (2004: HK\$272,465,000) as at the balance sheet date.

The other loans represent loans from a financial institution in the COFCO group. These balances are unsecured and bear interest at rates ranging from 4.2% to 5.58% (2004: 2.308% to 5.58%) per annum.

The carrying amounts of the Group's bank and other loans approximate to their fair values at the balance sheet date.

Other interest rate information

	Group			
	2005		2004	
	Fixed rate HK\$'000	Floating rate HK\$'000	Fixed rate HK\$'000	Floating rate HK\$'000
Bank loans – unsecured	421,876	710,299	1,717,799	355,979
Bank loans – secured	156,935	348,660	57,830	–
Other loans – unsecured	1,765,499	–	478,715	–

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

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29. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group

	HK\$'000
At 1 January 2004	8,452
Deferred tax credited to the income statement during the year (note 10)	(3,559)
At 31 December 2004 and at 1 January 2005	4,893
Deferred tax charged to the income statement during the year (note 10)	446
At 31 December 2005	5,339

Deferred tax assets

Group

	HK\$'000
At 1 January 2004	8,773
Deferred tax charged to the income statement during the year (note 10)	(2,048)
At 31 December 2004 and at 1 January 2005	6,725
Deferred tax charged to the income statement during the year (note 10)	(234)
At 31 December 2005	6,491

The Group has tax losses arising in Hong Kong and Mainland China of HK\$53,304,000 (2004: HK\$54,741,000) and HK\$57,235,000 (2004: HK\$36,918,000), respectively, that are available for offsetting against future taxable profits 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.

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29. DEFERRED TAX (continued)

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

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

30. MINORITY INTERESTS

The advances from minority shareholders are capital in nature. The balances are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the balances approximate to their fair values.

The movements in minority interests during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
At 1 January	878,335	718,330
Share of net profit	59,407	56,237
Dividends paid to minority shareholders	(12,283)	(2,261)
Exchange realignment	18,675	–
Capital injection	–	106,029
	944,134	878,335

31. SHARE CAPITAL

Shares

	2005 HK\$'000	2004 HK\$'000
Authorised:		
2,500,000,000 shares of HK\$0.10 each	250,000	250,000
Issued and fully paid:		
1,758,449,974 (2004: 1,757,099,974) shares of HK\$0.10 each	175,845	175,710

During the year, the subscription rights attached to 1,350,000 share options were exercised at a subscription price of HK\$3.644 per share (note 32), resulting in the issue of 1,350,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$4,919,000.

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31. SHARE CAPITAL (continued)

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

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
As at 1 January 2004	1,747,088,974	174,709	2,758,564	2,933,273
Share options exercised	10,011,000	1,001	12,694	13,695
As at 1 January 2005	1,757,099,974	175,710	2,771,258	2,946,968
Share options exercised	1,350,000	135	4,784	4,919
As at 31 December 2005	1,758,449,974	175,845	2,776,042	2,951,887

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme became effective on 23 June 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years and will expire on 22 June 2007. In 2002, the Scheme was amended to comply with certain amendments to the Listing Rules which came into effect on 1 September 2001.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent to, upon their exercise, 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under the share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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32. SHARE OPTION SCHEME (continued)

Share options granted to any director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the 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 the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

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

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

Name or category of participant	Number of share options					Price of Company's shares ³				
	At 1 January 2005	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2005	Date of grant of share options ¹	Exercise period of share options	Exercise price	At grant date of options HK\$	At exercise date of options HK\$
								of share		
								options ²		
Directors										
Mr. Liu Fuchun	4,050,000	-	-	-	4,050,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	-	-
	4,500,000	-	-	-	4,500,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	-	-
	8,550,000	-	-	-	8,550,000					
Mr. Yu Guangquan	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	-	-
	3,000,000	-	-	-	3,000,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	-	-
	5,700,000	-	-	-	5,700,000					
Mr. Xue Guoping	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	-	-
	3,000,000	-	-	-	3,000,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	-	-
	5,700,000	-	-	-	5,700,000					

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32. SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options					Date of grant of share options ¹	Exercise period of share options	Price of Company's shares ³		
	At 1 January 2005	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2005			Exercise price of share options ² HK\$	At grant date of options HK\$	At exercise date of options HK\$
Directors (continued)										
Mr. Liu Yongfu	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	-	-
	3,000,000	-	-	-	3,000,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	-	-
	5,700,000	-	-	-	5,700,000					
Mr. Qu Zhe	320,000	-	-	-	320,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	-	-
	350,000	-	-	-	350,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	-	-
	670,000	-	-	-	670,000					
Mr. Zhou Mingchen (resigned on 24 January 2005)	4,500,000	-	(1,350,000)	(3,150,000)	-	10.9.2003	10.9.2004 – 9.9.2008	3.644	-	4.075
	5,000,000	-	-	(5,000,000)	-	20.8.2004	20.8.2005 – 19.8.2009	3.050	-	-
	9,500,000	-	(1,350,000)	(8,150,000)	-					
Mr. Ng Eng Leong (passed away on 31 October 2005)#	900,000	-	-	(270,000)	630,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	-	-
	1,000,000	-	-	(700,000)	300,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	-	-
	1,900,000	-	-	(970,000)	930,000					
Other employees										
In aggregate	1,000,000	-	-	-	1,000,000	3.10.2001	3.10.2002 – 2.10.2006	1.370	-	-
	13,984,000	-	-	-	13,984,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	-	-
	14,870,000	-	-	-	14,870,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	-	-
	29,854,000	-	-	-	29,854,000					
	67,574,000	-	(1,350,000)	(9,120,000)	57,104,000					

The share options recorded as at 31 December 2005 which Mr. Ng Eng Leong was entitled to exercise on the date of his death, i.e., 31 October 2005, were passed on to his personal representative.

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32. SHARE OPTION SCHEME (continued)

Notes to the reconciliation of share options outstanding during the year:

- (1) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (2) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (3) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

The 1,350,000 share options exercised during the year resulted in the issue of 1,350,000 shares of the Company and new share capital of HK\$135,000 and share premium of HK\$4,784,000 (before issue expenses), as further detailed in note 31 to the financial statements.

As at the balance sheet date, the Company had 57,104,000 share options outstanding under the Scheme which represented approximately 3.25% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 57,104,000 additional shares of the Company and additional share capital of HK\$5,710,400 and share premium of HK\$182,864,696 (before issue expenses).

Subsequent to the balance sheet date, a total of 2,790,000 share options were exercised by an executive director and 2,910,000 share options were lapsed.

As at the date of approval of these financial statements, the Company had 51,404,000 share options outstanding under the Scheme, which represented approximately 2.92% of the Company's shares in issue as at that date.

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33. RESERVES

Group

	Notes	Share	Employee	Investment	Reserve	Exchange	Retained	Total
		premium	share-based	property		fluctuation		
		account	compensation	Capital	funds*	reserve	profits	
		HK\$'000	reserve	reserve	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004								
As previously reported		2,758,564	–	134,267	2,183	64,038	911,396	3,872,947
Prior year adjustments	2.4	–	3,165	–	–	–	(3,165)	–
As restated		2,758,564	3,165	134,267	2,183	64,038	908,231	3,872,947
Exchange realignment		–	–	–	–	(88)	–	(88)
Total income and expense for the year recognised directly in equity		–	–	–	–	(88)	–	(88)
Profit for the year attributable to equity holders of the parent (restated)		–	–	–	–	–	285,976	285,976
Total income and expense for the year		–	–	–	–	(88)	285,976	285,888
Issue of shares	31	12,694	–	–	–	–	–	12,694
Transfer from retained profits		–	–	–	53,934	–	(53,934)	–
Equity-settled share option arrangements	2.4	–	14,726	–	–	–	–	14,726
Additional 2003 final dividend declared	12	–	–	–	–	–	(484)	(484)
2004 Interim dividend	12	–	–	–	–	–	(48,496)	(48,496)
Proposed 2004 final dividend	12	–	–	–	–	–	(65,766)	(65,766)
At 31 December 2004 (as restated)		2,771,258	17,891	134,267	2,183	117,972	1,025,527	4,071,509

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33. RESERVES (continued)

Group

		Share premium account	Employee share-based compensation reserve	Capital reserve	Investment property revaluation reserve	Reserve funds*	Exchange fluctuation reserve	Investment revaluation reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005										
As previously reported		2,771,258	-	134,267	2,183	117,972	2,411	-	1,043,418	4,071,509
Prior year adjustments	2.4	-	17,891	-	-	-	-	-	(17,891)	-
Opening adjustments	2.4	-	-	-	(2,183)	-	-	-	12,902	10,719
As restated		2,771,258	17,891	134,267	-	117,972	2,411	-	1,038,429	4,082,228
Exchange realignment		-	-	-	-	-	59,573	-	-	59,573
Total income and expense for the year recognised directly in equity		-	-	-	-	-	59,573	-	-	59,573
Profit for the year attributable to equity holders of the account		-	-	-	-	-	-	-	429,166	429,166
Total income and expense for the year		-	-	-	-	-	59,573	-	429,166	488,739
Issue of shares	31	4,784	-	-	-	-	-	-	-	4,784
Changes in fair value of available-for-sale investments		-	-	-	-	-	-	(2,077)	-	(2,077)
Transfer from retained profits		-	-	-	-	30,347	-	-	(30,347)	-
Equity-settled share option arrangements	2.4	-	13,202	-	-	-	-	-	-	13,202
2005 Interim dividend	12	-	-	-	-	-	-	-	(76,493)	(76,493)
Proposed 2005 final dividend	12	-	-	-	-	-	-	-	(76,614)	(76,614)
At 31 December 2005		2,776,042	31,093	134,267	-	148,319	61,984	(2,077)	1,284,141	4,433,769

* Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of certain of the Company's subsidiaries and associates in Mainland China has been transferred to reserve funds which are restricted as to use.

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33. RESERVES (continued)

The Group's capital reserve includes the contributed surplus which represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefore under the group reorganisation in 1991, less the goodwill arising on the acquisition of subsidiaries and associates which remains eliminated against the capital reserve, as explained in note 17 to the financial statements.

Company

		Share premium account HK\$'000	Employee share-based compensation reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
	Notes					
At 1 January 2004						
As previously reported		2,758,564	–	498,184	50,899	3,307,647
Prior year adjustment:						
Equity-settled share option arrangements	2.4	–	3,165	–	(3,165)	–
As restated		2,758,564	3,165	498,184	47,734	3,307,647
Issue of shares	31	12,694	–	–	–	12,694
Equity-settled share option arrangements	2.4	–	14,726	–	–	14,726
Profit for the year (as restated)		–	–	–	150,410	150,410
Dividends	12	–	–	–	(114,746)	(114,746)
At 31 December 2004 (as restated) and 1 January 2005 (as restated)		2,771,258	17,891	498,184	83,398	3,370,731
Issue of shares	31	4,784	–	–	–	4,784
Equity-settled share option arrangements	2.4	–	13,202	–	–	13,202
Profit for the year		–	–	–	472,076	472,076
Dividends	12	–	–	–	(153,107)	(153,107)
At 31 December 2005		2,776,042	31,093	498,184	402,367	3,707,686

The contributed surplus of the Company represents the difference between the underlying net assets of Seabase International (B.V.I.) Limited and its subsidiaries and the nominal value of the Company's shares issued in exchange therefore under the group reorganisation in 1991.

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33. RESERVES (continued)

In addition to the retained profits of the Company, under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is also available for distribution to its shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of its contributed surplus, if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

34. CONTINGENT LIABILITIES

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

	Company	
	2005	2004
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to:		
Subsidiaries	312,000	234,000

As at the balance sheet date, none of the above facilities were utilised by the subsidiaries.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	4,729	1,843
In the second to fifth years, inclusive	4,818	989
	9,547	2,832

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35. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 30 years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	16,378	15,307
In the second to fifth years, inclusive	24,480	17,904
After five years	45,880	48,281
	86,738	81,492

36. CAPITAL COMMITMENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	236,111	–
Contracted, but not provided for	145,879	52,652
	381,990	52,652

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37. OTHER COMMITMENTS

(a) Commitments under forward foreign exchange contracts

	Group	
	2005	2004
	HK\$'000	HK\$'000
Sale of US dollar	–	4,339
Sale of GBP	–	4,377

(b) Commitments under future contracts

	Group	
	2005	2004
	HK\$'000	HK\$'000
Sale of soybean meal	80,120	97,972
Sale of soybean	127,134	–
Purchase of soybean meal	–	1,026

Other than disclosed above, neither the Group, nor the Company, had any significant capital or other commitments as at the balance sheet date.

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38. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) Apart from the transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2005	2004
	Notes	HK\$'000	HK\$'000
Transactions with fellow subsidiaries:			
Sales of goods *	(i)	365,748	431,721
Purchases of goods *	(i)	419,597	261,604
Operating lease rentals paid **	(i)	6,960	7,495
Interest expenses **	(ii)	13,039	11,251
Interest income	(iv)	–	4,141
Commission paid	(i)	–	108
Storage and processing expenses paid*	(i)	–	7,036
Management fee paid	(i)	3,327	–
Transactions with the ultimate holding company:			
Sales of goods *	(i)	458,643	302,465
Purchases of goods *	(i)	21,418	22,028
Royalty paid	(i)	17,766	16,752
Management fee income *	(v)	37,623	24,292
Management fee paid **	(i)	8,357	8,019
Interest expenses *	(ii)	–	331
Transactions with associates:			
Sales of goods *	(i)	88,199	93,631
Purchases of goods *	(i)	617	11,315
Purchases of steel barrel	(i)	15,911	12,512
Processing fee expenses	(i)	44,187	39,893
Reimbursement of advertising expenses	(iii)	4,485	3,773
Transactions with a related company:			
Sales of goods	(i)	1,804	–
Purchases of goods *	(i)	6,951,343	5,866,892

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38. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

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

** Certain amounts of these related party transactions also constituted connected transactions disclosable in accordance with the Listing Rules.

Notes:

- (i) These 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) These interest expenses arose from the loans from the ultimate holding company and COFCO Finance Corporation Limited ("COFCO Finance"), a wholly-owned subsidiary of COFCO, which are unsecured, and bear interest at rates ranging from 4.2% to 5.58% per annum and of which HK\$1,765,499,000 are repayable within one year.
- (iii) The reimbursement of advertising expenses was calculated with reference to the actual advertising expenses incurred for the year ended 31 December 2005.
- (iv) There interest income arose from the deposits placed with COFCO Finance. COFCO Finance is a non-banking finance company regulated by the People's Bank of China (the "PBOC") and China Banking Regulatory Commission in the PRC, and its deposit rates are set by the PBOC which is applicable to all financial institutions. The interest rates offered by COFCO Finance are the same as the rates promulgated by the PBOC which were applicable to account deposits with banks of the PRC or finance companies and ranged from 1.44% to 1.89% per annum. No deposits were placed with COFCO Finance by the Group and one of its associates as at 31 December 2005 (2004: RMB394,213,000).
- (v) The management fee incomes were calculated with reference to the actual management services expenses incurred for the year ended 31 December 2005.

In addition to the above connected transactions, the sales and purchases of edible oils and oil-related products and the resale of soybean with a total value of approximately HK\$343,487,000 were made by certain subsidiaries of the COFCO Oils & Fats Group to another subsidiaries within the COFCO Oils & Fats Group. These transactions have been eliminated on consolidation but still constitute connected transactions under the Listing Rules.

(b) Transaction with a related party

Pursuant to certain licence agreements entered into between the Group and a related party, the Group has been granted the exclusive rights to use certain trademarks for its edible oils, soybean meal and related products businesses. The licence fees for the current year and prior year were waived by the related party.

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38. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties

Except for the loans of HK\$1,765,499,000 (2004: HK\$478,715,000) from the ultimate holding company and COFCO Finance, the terms of which are detailed in note 28 to the financial statements, the remaining balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group's subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group

	Group	
	2005	2004
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,896	1,356
Equity-settled share option expenses	450	261
Retirement benefits scheme contributions	59	43
Total compensation paid to key management personnel	2,405	1,660

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

39. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2005 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2005	2004	
Blissea Consortium Company Limited	Hong Kong	Ordinary HK\$1,000	100	100	Investment holding
China Foods Trading Limited §	Hong Kong	Ordinary HK\$10,000,000	100	100	Trading of food products
中國長城葡萄酒有限公司 China Great Wall Wine Co., Ltd.*	PRC	RMB110,000,000	100	100	Production and sale of wine and beverage products

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39. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2005	2004	
中糧艾地盟糧油工業(荷澤) 有限公司 COFCO ADM Oils & Grains Industries (Heze) Co., Ltd.*	PRC	US\$12,800,000	70	70	Production and sale of edible oils
中糧國際(北京)有限公司 COFCO International (Beijing) Co., Ltd.*	PRC	RMB60,000,000	100	100	Trading of rice, cereals, oils feedstuffs, fruits, vegetables and aquatic products
COFCO International Trading Services Limited	Hong Kong	HK\$2	100	100	Provision of trading management services
中糧煙台長城葡萄酒有限公司 COFCO Greatwall Wine (Yantai) Co., Ltd.** ^Δ	PRC	RMB64,000,000	60	60	Production and sale of grape wines
中糧華夏長城葡萄酒有限公司 COFCO Huaxia Greatwall Wine Co., Ltd.* ^{ΔΔ}	PRC	RMB200,000,000	100	100	Production and sale of grape wines
中糧華夏紅酒業(深圳) 有限公司 COFCO Huaxiahong Wines and Spirits (Shenzhen) Co., Ltd.** ^{ΔΔΔ}	PRC	RMB3,000,000	80	80	Wholesale of grape wines
中糧金帝食品(深圳)有限公司 COFCO Le Conte Food (Shenzhen) Co., Ltd.*	PRC	US\$15,000,000	100	100	Production and distribution of chocolate products

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39. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2005	2004	
中糧酒業有限公司 COFCO Wines and Spirits Co., Ltd.*	PRC	RMB11,760,000	100	100	Provision of management services
中糧祥瑞糧油工業 (荊門)有限公司 Xiangrui Oils & Grains Industries (Jingmen) Co., Ltd.*	PRC	US\$7,500,000	100	100	Production and sale edible oils
東洲油脂工業(廣州)有限公司 Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd.**	PRC	RMB55,000,000	84	84	Processing and refining of edible oils and fats
東海糧油工業(張家港) 有限公司 Eastocean Oils & Grains Industries (Zhangjiagang) Co., Ltd.*	PRC	US\$98,000,000	54	54	Production and sale of edible oils, and trading of soybeans and rapeseed
秦皇島華夏長城酒業有限公司 Qinghuangdao Huaxia Greatwall Wines and Spirits Co., Ltd.	PRC	RMB1,000,000	100	100	Wholesale of grape wines
Seabase International (B.V.I.) Limited #	British Virgin Islands/ Hong Kong	Ordinary HK\$1,000	100	100	Investment holding
深圳金帝營銷有限公司 Shenzhen Le Conte Marketing Services Co., Ltd.**	PRC	RMB15,000,000	90	90	Distribution of chocolate products

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39. PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2005	2004	
廈門海嘉麵粉有限公司 Xiamen Haijia Flour Mills Co., Ltd.** §	PRC	RMB71,325,000	60	60	Manufacture of flour products
煙台長城酒業有限公司 Yantai Greatwall Wines and Spirits Co., Ltd.	PRC	RMB1,000,000	60	60	Wholesale of grape wine
黃海糧油工業(山東) 有限公司 Yellowsea Oils & Grains Industries (Shandong) Co., Ltd.*	PRC	US\$47,773,776	72.94	72.94	Production and sale of edible oils
鄭州海嘉食品有限公司 Zhengzhou Haijia Food Co., Ltd.** §	PRC	RMB30,000,000	55	55	Manufacture of flour products

Except for Seabase International (B.V.I.) Limited, all of the above principal subsidiaries are indirectly held by the Company.

* Wholly foreign-owned enterprises

** Sino-foreign equity joint ventures

§ Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Δ Formerly known as 煙台中糧葡萄酒有限公司 Yantai COFCO Winery Co., Ltd.

ΔΔ Formerly known as 華夏葡萄酒有限公司 Huaxia Winery Co., Ltd.

ΔΔΔ Formerly known as 深圳市華夏紅酒業有限公司 Shenzhen Huaxiahong Wines and Spirits Co., Ltd.

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

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40. ASSOCIATES

Particulars of the Company's principal associates as at 31 December 2005 are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2005	2004	
大海糧油工業(防城港)有限公司 Great Ocean Oil and Grain Industries (Fang Cheng Gang) Co., Ltd.	Corporate	PRC	40	40	Soybean oil extraction, refining and packaging, and production of soybean meal
萊陽魯花濃香花生油有限公司 Laiyang Luhua Fragrant Peanut Oil Co., Ltd.	Corporate	PRC	24	24	Production and sale of peanut oil
北海糧油工業(天津)有限公司 Northsea Oils & Grains Industries (Tianjin) Co., Ltd.	Corporate	PRC	50	50	Production and sale of edible oils

The above associates are held through wholly-owned subsidiaries of the Company.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and other loans, and cash and 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 receivables and accounts payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk, liquidity risk and market price risk associated with price fluctuations in future purchases and / or sales of the related commodities. The Group's overall risk management programme focuses on minimizing potential adverse effects of these risks, with material impact, on the Group's financial performance. The Group uses certain derivative financial instruments to hedge certain risk exposures, with material impact.

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group enters into derivative transactions, including principally (i) forward foreign exchange contracts, swaps and options; and (ii) future contracts of soybean meal. The purpose of entering into forward exchange contracts, swaps and options is to manage the currency risk arising from the Group's operations and its source of finance. The purpose of entering into future contracts of soybean meal is to manage the market price risk arising from the Group's edible oils, soybean meal and related products operation. The accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

Cash flow interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The effective interest rates and terms of repayment of bank loans and other loans of the Group are disclosed in Note 28. The Group has not used any derivative to hedge its exposure to cash flow interest rate risk.

Foreign currency risk

The Group mainly operates in the PRC with most of the Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi and United States dollars. Foreign currency risk arises from future commercial transactions from operations, borrowings and net investments of operations, which are denominated in currencies other than functional currency of the Group. To minimize the Group's foreign exchange exposure, the Group enters into forward foreign exchange contracts, swaps and options to reduce foreign currency risk.

Credit risk

The Group has no significant concentrations 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 has policy in place to ensure that sales are made to customers with an appropriate credit history.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet its working capital requirements.

Market price risk

The raw material cost and product selling price of the Group's edible oils, soybean meal and related products operation are substantially correlated to the prices of future commodities markets. Market price risk arises from the price fluctuations of raw material cost and product selling price during the delivery, production and storage processes. To minimize the Group's market price risk exposure, the Group enters into future contracts of soybean meal.

42. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7 April 2006.

Five Year Financial Summary

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

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
TURNOVER	17,587,574	16,792,623	13,694,462	11,110,532	6,205,430
PROFIT FROM OPERATING ACTIVITIES	684,087	494,949	562,529	560,853	338,711
Finance costs	(135,708)	(84,265)	(53,797)	(46,754)	(32,657)
Share of profits and losses of associates	79,127	27,444	96,247	54,761	19,685
PROFIT BEFORE TAX	627,506	438,128	604,979	568,860	325,739
Tax	(138,933)	(95,915)	(84,914)	(67,774)	(34,487)
PROFIT FOR THE YEAR	488,573	342,213	520,065	501,086	291,252
Attributable to:					
Equity holders of the parent	429,166	285,976	409,487	403,406	205,645
Minority interests	59,407	56,237	110,578	97,680	85,607
	488,573	342,213	520,065	501,086	291,252
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	11,299,108	9,115,556	9,676,789	7,463,843	5,907,925
TOTAL LIABILITIES	5,668,746	3,924,236	4,823,432	3,288,622	2,009,646
MINORITY INTERESTS	944,134	878,335	718,330	640,253	642,681
	6,612,880	4,802,571	5,541,762	3,928,875	2,652,327
	4,686,228	4,312,985	4,135,027	3,534,968	3,255,598