COFCO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

中國糧油國際有限公司

2003

INTERIM REPORT

CONDENSED INTERIM ACCOUNTS

The board of directors (the "Directors") of COFCO International Limited (the "Company") is pleased to present the interim report of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2003 together with the comparative figures for the six months ended 30 June 2002. These interim results have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2003

		Six months ended 30 June	
			(Restated)
		2003	2002
	Note	***HK$'000***	*HK$'000*
TURNOVER	*2*	**6,025,156**	4,342,161
Cost of sales		**(5,550,219)**	(3,831,566)
Gross profit		**474,937**	510,595
Other revenue		**82,427**	83,263
Distribution costs		**(237,817)**	(263,999)
Administrative expenses		**(88,874)**	(65,376)
Other operating income/(expenses), net		**26,429**	(18,903)
PROFIT FROM OPERATING ACTIVITIES	*2,3*	**257,102**	245,580
Finance costs		**(26,132)**	(24,507)
Share of profits less losses of associates		**41,513**	33,611
PROFIT BEFORE TAX		**272,483**	254,684
Tax	*4*	**(44,904)**	(50,470)
PROFIT BEFORE MINORITY INTERESTS		**227,579**	204,214
Minority interests		**(35,528)**	(28,588)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**192,051**	175,626
INTERIM DIVIDENDS		**71,339**	47,077
INTERIM DIVIDENDS PER SHARE		**4.5 HK cents**	3 HK cents
EARNINGS PER SHARE	*5*		
Basic		**12.2 HK cents**	11.2 HK cents
Diluted		**11.2 HK cents**	10.4 HK cents

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2003

	Note	Six months ended 30 June 2003 HK$'000	2002 HK$'000
TOTAL EQUITY AT BEGINNING OF PERIOD		**3,543,286**	3,261,719
Effect of change in accounting policy	*1*	**(10,817)**	(5,016)
RESTATED BALANCE		**3,532,469**	3,256,703
Issue of shares, including share premium, under share option scheme	*10, 11*	**28,889**	–
Reserves release upon write-off of other investments	*11*	**(1,752)**	–
Net gains not recognised in the profit and loss accounts		**27,137**	–
Net profits for the periods	*11*	**192,051**	175,626
Approval of final dividends at the Annual General Meeting		**(94,950)**	(78,461)
TOTAL EQUITY AT END OF PERIOD		**3,656,707**	3,353,868

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2003

	Note	(Unaudited) 30 June 2003 HK$'000	(Audited and restated) 31 December 2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets		**2,576,926**	2,083,953
Goodwill:			
Goodwill		**565,436**	473,565
Negative goodwill		**(18,145)**	(19,831)
Interests in associates		**352,714**	389,312
Long term investments		**33,967**	24,536
Deferred tax assets		**8,308**	4,400
		3,519,206	2,955,935
CURRENT ASSETS			
Inventories		**1,900,258**	1,483,691
Accounts receivable	7	**482,567**	614,259
Other debtors, prepayments and deposits		**818,850**	557,262
Amounts due from related companies	13(a)	**361,711**	89,916
Amounts due from fellow subsidiaries	13(a)	**50,067**	63,637
Amount due from the ultimate holding company	13(a)	**3,748**	45,070
Amount due from immediate holding company	13(a)	**144**	–
Amounts due from minority shareholders of subsidiaries	13(a)	**25**	–
Tax prepaid		**9,237**	894
Other investments		**224,360**	215,550
Cash and cash equivalents		**1,148,712**	1,434,315
		4,999,679	4,504,594

	Note	(Unaudited) 30 June 2003 HK$'000	(Audited and restated) 31 December 2002 HK$'000
CURRENT LIABILITIES			
Accounts payable	8	**302,408**	308,704
Other payables and accruals		**920,098**	763,570
Amounts due to fellow subsidiaries	13(a)	**4,921**	28,419
Amounts due to related companies	13(a)	**1,168**	38,169
Amounts due to minority shareholders of subsidiaries	13(a)	**-**	32,972
Amount due to immediate holding company	13(a)	**-**	7,902
Tax payable		**26,519**	14,005
Interest-bearing bank loans and other loans	9(a)	**2,268,783**	1,562,155
		3,523,897	2,755,896
NET CURRENT ASSETS		**1,475,782**	1,748,698
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,994,988**	4,704,633
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other loans	9(a)	**(250,424)**	(98,349)
Advances from minority shareholders of subsidiaries	9(b)	**(116,975)**	(117,209)
Convertible notes	9(c)	**(301,000)**	(301,000)
Deferred tax liabilities		**(6,754)**	(15,300)
		(675,153)	(531,858)
		4,319,835	4,172,775
MINORITY INTERESTS		**(663,128)**	(640,306)
		3,656,707	3,532,469
CAPITAL AND RESERVES			
Issued capital	10	**158,321**	156,923
Reserves	11	**3,498,386**	3,280,596
Proposed final dividends		**-**	94,950
		3,656,707	3,532,469

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2003

	Six months ended 30 June	
	2003	2002
	HK$'000	*HK$'000*
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(352,775)**	(137,084)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(337,116)**	(232,075)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	**(689,891)**	(369,159)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**472,722**	186,740
DECREASE IN CASH AND CASH EQUIVALENTS	**(217,169)**	(182,419)
Cash and cash equivalents at beginning of period	**1,296,280**	1,653,325
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,079,111**	1,470,906
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**509,612**	690,022
Non-pledged time deposits with original maturity of less than three months when acquired	**569,499**	780,884
	1,079,111	1,470,906

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION

The unaudited consolidated condensed interim accounts (the "Interim Accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("HKSSAP") No. 25 "Interim Financial Reporting" and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Interim Accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies and basis of preparation used in the preparation of the Interim Accounts are the same as those used in the annual financial statements for the year ended 31 December 2002 except that the Group has changed its accounting policy following its adoption of the HKSSAP No. 12 "Income Tax" (revised) which is effective for accounting periods commencing on or after 1 January 2003.

The significant change in the Group's accounting policy resulting from the adoption of the revised HKSSAP No. 12 is set out below:

Deferred taxation is provided in full, using liability method, on temporary differences between the tax base of assets/(liabilities) and their carrying amounts in the financial statements. Taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are not recognised unless it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on the temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled by the parent company and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing difference between taxable profit and accounting profit to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The change in accounting policy has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

As detailed in the unaudited condensed consolidated statement of changes in equity, opening balances of equity at 1 January 2002 and 2003 have been reduced by HK$5,016,000 and HK$10,817,000, respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by HK$4,400,000 and HK$15,300,000, respectively. The profit for the six months ended 30 June 2002 has been increased by HK$107,000.

Certain comparative figures of the Interim Accounts have also been reclassified to conform with the current period's presentation.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period. An analysis of the Group's unaudited segment revenue and unaudited segment result for business segments, and an analysis of the Group's unaudited segment revenue for geographical segments for the period is as follows:

(a) Business segments

Group	Edible oils, soyabean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	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*
Segment revenue: Sales to external customers	**4,163,850**	2,561,259	**301,549**	217,031	**89,940**	107,988	**1,194,265**	1,240,908	**275,552**	214,975	**-**	-	**6,025,156**	4,342,161
Segment results	**79,885**	68,426	**82,371**	50,202	**13,381**	21,754	**47,293**	74,351 *	**8,650**	4,086	**10,756**	4,503 *	**242,336**	223,322
Interest and dividend income													**15,466**	22,958
Unallocated expenses													**(700)**	(700)
Profit from operating activities													**257,102**	245,580
Finance costs													**(26,132)**	(24,507)
Share of profits less losses of associates	**45,611**	21,127	**(4,098)**	12,484									**41,513**	33,611
Profit before tax													**272,483**	254,684

(b) Geographical segments

Group	Hong Kong		Elsewhere in the People's Republic of China		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue: Sales to external customers	**370,938**	750,623	**5,654,218**	3,591,538	**-**	-	**6,025,156**	4,342,161

* *Restated*

3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting) the following:

	Six months ended 30 June 2003 (Unaudited) ***HK$'000***	Six months ended 30 June 2002 (Unaudited) *HK$'000*
Gain on disposal of other investments	**-**	(7,547)
Dividends from an unlisted long term investment and listed equity securities	**(2,315)**	(1,497)
Net rental income	**(2,952)**	(4,910)
Interest income	**(13,151)**	(21,461)
Gain on disposal of subsidiaries	**(721)**	–
Cost of inventories sold	**5,550,219**	3,831,566
Provision/(write back of provision) against inventories	**(34,949)**	2,500
Provision/(write back of provision) for doubtful debts	**(1,605)**	5,066
Depreciation	**72,675**	52,918
Loss on disposal of fixed assets	**543**	719
Amortisation of a long term investment	**700**	700
Amortisation of goodwill	**19,557**	17,592
Negative goodwill recognised as income	**(1,686)**	(1,686)

4. TAX

Hong Kong profits tax has been calculated at the rate of 17.5 per cent. (2002: 16 per cent.) on the estimated assessable profits arising in Hong Kong during the period. In 2003, the Hong Kong government enacted a change in the profits tax rate from 16 per cent. to 17.5 per cent. for the fiscal year 2003/2004. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	Six months ended 30 June 2002 (Unaudited and restated) *HK$'000*
Current profits tax:		
Hong Kong	**953**	2,086
Outside Hong Kong	**52,606**	43,007
	53,559	45,093
Deferred tax:		
Current period	**(10,205)**	18
Tax attributable to the Company and its subsidiaries	**43,354**	45,111
Share of tax attributable to associates:		
Outside Hong Kong	**1,550**	5,359
	44,904	50,470

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited net profit attributable to the shareholders for the period of HK$192,051,000 (2002: HK$175,626,000, as restated) and the weighted average number of 1,580,332,571 (2002: 1,569,229,974) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on (i) the adjusted net profit attributable to shareholders of HK$194,514,000 (2002: HK$178,147,000, as restated) after taking into account the saving in finance costs of HK$2,463,000 (2002: HK$2,521,000) on the convertible notes; and (ii) the adjusted weighted average of 1,737,835,554 (2002: 1,709,229,974) shares after taking into account the weighted average number of shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of 140,000,000 (2002: 140,000,000) shares assumed to have been issued on deemed conversion of convertible notes at the beginning of the current period; and the weighted average of 17,502,983 (2002: nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

6. ADDITIONS TO FIXED ASSETS

During the six months ended 30 June 2003, the Group spent approximately HK$345,721,000 (Six months ended 30 June 2002: HK$ 216,520,000) on additions to fixed assets.

7. ACCOUNTS RECEIVABLE

The accounts receivable of the Group includes a trading balance due from a fellow subsidiary of HK$410,000 (31 December 2002: due from an associate of HK$120,059,000).

The ageing analysis of accounts receivable balance is as follows:

	The Group	
	30 June 2003 (Unaudited) ***HK$'000***	31 December 2002 (Audited) *HK$'000*
Outstanding balances with ages:		
Within 6 months	**474,109**	596,773
Between 7 to 12 months	**4,754**	14,097
Between 1 to 2 years	**3,833**	6,627
Over 2 years	**21,410**	5,411
	504,106	622,908
Less: Provision for doubtful debts	**(21,539)**	(8,649)
	482,567	614,259

Accounts receivable, which generally have credit terms of 30-90 days, are recognised and carried at original invoiced amount less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

8. ACCOUNTS PAYABLE

The accounts payable of the Group includes trading balances due to minority shareholders of subsidiaries, a fellow subsidiary and associates of HK$27,364,000 (31 December 2002: due to fellow subsidiaries of HK$12,290,000).

The ageing analysis of accounts payable balance is as follows:

	The Group	
	30 June 2003 (Unaudited) ***HK$'000***	31 December 2002 (Audited) *HK$'000*
Outstanding balances with ages:		
Within 6 months	**297,728**	290,133
Between 7 to 12 months	**2,606**	3,653
Between 1 to 2 years	**462**	3,980
Over 2 years	**1,612**	10,938
	302,408	308,704

9. BORROWINGS

(a) Interest-bearing bank loans and other loans

	The Group	
	30 June 2003 (Unaudited)	31 December 2002 (Audited)
	HK$'000	*HK$'000*
Bank loans:		
Secured	**7,830**	106,806
Unsecured	**2,263,783**	1,474,217
	2,271,613	1,581,023
Other loans:		
Unsecured	**247,594**	79,481
	2,519,207	1,660,504
Bank loans repayable:		
Within one year or on demand	**2,249,915**	1,559,325
In the second year	**-**	-
In the third to fifth years, inclusive	**21,698**	21,698
	2,271,613	1,581,023
Other loans repayable:		
Within one year or on demand	**18,868**	2,830
In the second year	**228,726**	30,614
Beyond five years	**-**	46,037
	247,594	79,481
	2,519,207	1,660,504
Portion classified as current liabilities	**(2,268,783)**	(1,562,155)
Non-current portion	**250,424**	98,349

The bank loans bear interest at rates ranging from 1.8 per cent. to 5.84 per cent. per annum (31 December 2002: from 1.8 per cent. to 6.44 per cent. per annum).

Other loans represent loans from China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), the ultimate holding company of the Company, and a subsidiary of COFCO. Except for certain loans amounting to HK$216,038,000 (31 December 2002: HK$44,340,000) which bear interest at rates 4.54 per cent., 4.79 per cent. and 5.04 per cent. per annum (31 December 2002: 5.04 per cent. and 5.85 per cent. per annum), the remaining balances are unsecured and interest-free.

COFCO guaranteed certain of the Group's unsecured bank loans up to HK$407,417,000 (31 December 2002: HK$88,283,000) as at the balance sheet date.

(b) Advances from minority shareholders of subsidiaries

The advances from minority shareholders of subsidiaries are capital in nature. The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) Convertible notes

The convertible notes are payable to COFCO (Hong Kong) Limited ("COFCO (HK)"), the immediate holding company of the Company. There are a total of 14 convertible notes of a principal amount of HK$21.5 million each. The notes bear interest at 2 per cent. per annum and will mature on 26 October 2004. The note holders have the right to convert the notes into ordinary shares of the Company at a conversion price of HK$2.15 per share.

10. SHARE CAPITAL

	Number of ordinary shares issued	Par value
		HK$'000
Balance as at 1 January 2003	1,569,229,974	156,923
Issue of shares pursuant to share option scheme	13,975,000	1,398
Balance as at 30 June 2003	1,583,204,974	158,321

11. RESERVES – UNAUDITED

The Group

	Share premium account HK$'000	Capital reserve HK$'000	Investment properties revaluation reserve HK$'000	Other properties revaluation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 Jan 2003, as previously reported	2,413,788	135,742	2,216	55	47,413	2,522	689,677	3,291,413
Effect of adopting HKSSAP No.12 – provided for net deferred tax liabilities *(Note 1)*	–	–	–	–	–	–	(10,817)	(10,817)
As restated	2,413,788	135,742	2,216	55	47,413	2,522	678,860	3,280,596
Issue of shares pursuant to share option scheme	27,491	–	–	–	–	–	–	27,491
Profit for the period	–	–	–	–	–	–	192,051	192,051
Release upon write-off of other investments	–	(1,475)	(222)	(55)	–	–	–	(1,752)
Transfer from retained profits	–	–	–	–	15,265	–	(15,265)	–
At 30 Jun 2003	**2,441,279**	**134,267**	**1,994**	**–**	**62,678**	**2,522**	**855,646**	**3,498,386**
At 1 Jan 2002, as previously reported	2,413,788	135,742	222	55	20,114	3,014	453,400	3,026,335
Effect of adopting HKSSAP No.12 – provided for net deferred tax liabilities *(Note 1)*	–	–	–	–	–	–	(5,016)	(5,016)
As restated	2,413,788	135,742	222	55	20,114	3,014	448,384	3,021,319
Profit for the period, as restated	–	–	–	–	–	–	175,626	175,626
At 30 Jun 2002	**2,413,788**	**135,742**	**222**	**55**	**20,114**	**3,014**	**624,010**	**3,196,945**

12. PLEDGES OF ASSETS

Certain bank loans of the Group are secured by a charge over the Group's fixed assets held outside Hong Kong with net book value of approximately HK$21,863,000 (31 December 2002: HK$130,172,000).

13. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Interim Accounts, the Group had the following material transactions with related parties during the period:

(a)

	Note	**Six months ended 30 June 2003 (Unaudited)** ***HK$'000***	Six months ended 30 June 2002 (Unaudited) *HK$'000*
Transactions with fellow subsidiaries:			
Purchase of goods and raw materials	*(i)*	**45,294**	432,609
Operating lease rental expenses	*(i)*	**849**	773
Sale of goods	*(i)*	**174,209**	212,818
Freight charge expenses	*(i)*	**-**	2,302
Interest expenses	*9(a)*	**2,462**	–
Reimbursement of advertising expenses	*(ii)*	**-**	7,783
Transactions with the ultimate holding company:			
Sale of goods	*(i)*	**38,560**	–
Purchase of goods and raw materials	*(i)*	**56,344**	–
Operating lease rental expenses	*(i)*	**2,752**	2,257
Reimbursement of advertising expenses	*(ii)*	**-**	3,491
Management fee expenses	*(i)*	**4,409**	4,580
Royalty fee expenses	*(i)*	**6,194**	2,408
Interest expenses	*9(a)*	**332**	1,285
Management fee income	*(i)*	**19,897**	15,337
Transactions with a holding company:			
Interest expenses on convertible notes	*9(c)*	**2,985**	3,002
Transactions with related companies:			
Purchase of goods and raw materials	*(i)*	**2,902,497**	–
Processing and services charge paid	*(i)*	**848**	–
Transactions with associates:			
Sale of goods	*(i)*	**73,466**	33,008
Purchase of goods and raw materials	*(i)*	**31,454**	338,879
Management fee income	*(i)*	**-**	10,808
Interest income	*(iii)*	**-**	144
Transactions with minority shareholders of subsidiaries:			
Sale of goods	*(i)*	**58,271**	133,743
Purchase of raw materials	*(i)*	**1,143,810**	1,514,980

(i) These transactions were carried out with reference to the prevailing market prices or, where no market price was available, at cost plus a percentage of profit mark-up.

(ii) The reimbursement of advertising expenses was calculated with reference to the actual advertising expenses incurred for the year ended 31 December 2000.

(iii) The interest income arose from a loan to an associate of HK$26,117,000 which was unsecured, bore interest at 6 per cent. per annum and repaid during the six months ended 30 June 2002.

Except for those disclosed in note 9, the remaining balances with associates, fellow subsidiaries, holding companies, related companies and minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(b) During the period, pursuant to certain licensing agreements entered into between the Group and related parties, the Group is granted the exclusive right to use certain trade marks for its edible oils, soyabean meal and related products business with no consideration.

14. CAPITAL COMMITMENTS

At 30 June 2003, the Group had the following capital commitments:

	The Group	
	30 June 2003 (Unaudited) ***HK$'000***	31 December 2002 (Audited) *HK$'000*
Capital commitments in respect of acquisition of property, plant and equipment, contracted for	**232,760**	114,094

15. POST BALANCE SHEET EVENT

On 9 September 2003, Chocolate Products (China) Limited ("Chocolate Products"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with COFCO (HK) to acquire the entire issued share capital and the shareholder's loans of COFCO (BVI) No. 102 Limited ("COFCO (BVI)") from COFCO (HK) at an aggregate consideration of HK$33,000,000. The sole asset of COFCO (BVI) is its 14 per cent. equity interest in Shenzhen Le Conte Foodstuff Company Limited, in which Chocolate Products owns the remaining 86 per cent. interest.

16. APPROVAL OF THE INTERIM ACCOUNTS

The Interim Accounts were approved by the board of Directors on 9 September 2003.

INTERIM DIVIDENDS

The Directors declare the payment of an interim dividend of 4.5 HK cents (2002: 3 HK cents) per share in respect of the six months ended 30 June 2003. The interim dividend will be payable on 7 October 2003 to shareholders of the Company whose names appear on the Register of Members of the Company on 30 September 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24 to 30 September 2003, both days inclusive, during which period no share transfer will be effected. To qualify for the above interim dividend, all transfer, accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars and Transfer Office in Hong Kong, Progressive Registration Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 23 September 2003.

MANAGEMENT DISCUSSION & ANALYSIS

During the period under review, the Group recorded a consolidated turnover of HK$6,025,156,000, an increase of 38.8% when compared to the corresponding period last year. Profit attributable to shareholders amounted to HK$192,051,000, representing an increase of 9.4% when compared to the corresponding period last year. Basic earnings per share for the period under review was 12.2 HK cents, an increase of 8.9% when compared to 11.2 HK cents per share in the corresponding period last year. If the non-recurring gain of HK$7,547,000 arising from the disposal of a non-core investment were excluded from the results for the corresponding period last year, profit attributable to shareholders during the period represents an increase of 14% from the corresponding period last year.

The Company commenced significant strategic business restructuring in 2001. Since then, the Group has established and currently manages five food related core businesses, namely edible oils, soyabean meal and related products, wineries, confectionery, trading and flour milling.

The results of each of the core businesses and other relevant information of the Group during the period under review were set out as follows:

Edible Oils, Soyabean Meal and Related Products

The Group is currently one of the largest edible oils and soyabean meal manufacturers in China, mainly engaged in the extraction, refinery, manufacturing and sales of "Fortune" edible oils and "四海" soyabean meal, and the manufacture and sales of related products.

During the period, the stable import of soyabeans enabled the Group to satisfy production needs, thus increasing the production volume of the factories, and ultimately leading to a substantial rise in sales of these products. It also enabled the Group to fully utilise its economies of scale and its current production chain, further reducing production costs while maintaining the Group's strong competitiveness. However, in addition to the reduced demands for consumer-pack edible oils and soyabean meal caused by the outbreak of the "Severe Acute Respiratory Syndrome" ("SARS") during the period, factors such as the upsurge in costs of raw materials of soyabeans affected the overall profitability of the business. However, with SARS contained and the reduced prices of raw materials, together with the strong bargaining power of the Group's edible oils business, profitability of the Group will soon recover.

In light of the rapidly-changing oil extraction and refinery industry in the Mainland, the gradual shift from small-scale to large-scale operations has proven to be a competitive edge and has become an inevitable trend in the industry. Therefore, the Group continues to expand its production capacity and improves its facilities. In particular, expansion works for the extraction and refinery facilities of the Group's most significant subsidiary East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd., and Great Ocean Oils & Grains Industries (Fang Cheng Gang) Co., Ltd., a major associate, have commenced, and are expected to be completed by the end of this year or the beginning of next year.

This will significantly increase the Group's production capacity in extraction and refinery, thereby further consolidating the Group's leading position in the edible oils business. In addition, the newly constructed production facilities for the production of special graded oils have fully commenced operations in the first half of the year. The facilities will mesh with the business development strategies in regards to intensifying and diversifying the Group's edible oils business, and will enhance the overall gross profit for the edible oils business. Furthermore, in order to achieve our goal of rapidly expanding production capacity, the Group continues to rent extraction and refining factories on operating leases basis.

During the period, the market competition in consumer-pack edible oils ameliorated, and "Fortune" has become one of the most notable brands in the industry. In addition, the Group continued to commit itself in brand-building and maintaining its brand competitiveness, and both gross profit margin and profitability increased during the period. Looking ahead, the Group will continue to build on the results from sales effort consolidation to further enhance the brand awareness of "Fortune" and to capture a larger share of the market.

Wineries

During the period, the outbreak of SARS in China temporarily affected the sales of "Great Wall" wine in China while certain new brands entered the market. However, because of its strong competitive edge of the "Great Wall" brand, market demand for "Great Wall" wines has since rebounded strongly. In addition, the Group consolidated its existing products and rationalised its product portfolio, while more effort was put into the marketing of high-end wine. Together with the Group's enhanced production management and cost control, not only did the Group's wineries achieve encouraging results, the gross profit margin of "Great Wall" wine also rose significantly.

After completion of the acquisition of the remaining 50% interests in China Great Wall Wine Co., Ltd. ("Great Wall Wine Company"), the Group is currently proactively consolidating its operation in sourcing, sales, management and branding, and adopted a unified advertising strategy. It is expected that the relevant consolidation will create opportunities for the Group's wine business, as well as strengthen existing brands and its sales channels. This will consolidate the leading position of "Great Wall" wine in the market, and ultimately achieve our goal of increasing profitability. The management anticipates that signs of such synergy will gradually be seen.

With SARS contained and the wine market in the Mainland becoming more developed, healthy growth of the wine market in China will follow. As such, the Group will actively take on the challenges in the domestic and overseas wine markets, strengthening sales and production management while at the same time further promoting and protecting our trademark "Great Wall" wine. The Group will also focus on protecting our intellectual property and fight counterfeiters, so as to maintain strong growth in the profitability of the Group's wine business.

Confectionery

Since consuming pattern of chocolate and confectionery differs from that of other food products, the outbreak of SARS during the period had an adverse, albeit temporary impact on the confectionery business of the Group. The drop in sales at shops led to the piling up of stocks at distributors, thereby affecting the turnover of the Group's confectionery business during the period. Nevertheless, the Group continues to optimise its product portfolio and to put extra efforts into the marketing of special confectionery, chocolate and other products with high gross profit margin.

We continue to implement effective cost controls and strengthen our internal management, so as to minimise the effects of the unfavourable market conditions, so that the gross profit margin of the Group's confectionery business was maintained at high levels.

The management firmly believes that the strategic goal to further develop its confectionery business is to consolidate the brand awareness of "Le Conte" and to enhance its image, as well as to maintain consumers' loyalty to "Le Conte" products, so as to capture a bigger market share. The Group continues to strengthen its research and development of new products, product packaging and market development, and will continue to put extra effort into marketing and to expand and improve on production capacity, while extending existing sales channels. It is expected that 23 existing products with new packaging and 28 newly developed products will be launched in the latter half of the year. With the introduction of two new production lines, these products will be fully launched in the market. Production and sales have both seen signs of recovery and it is expected that there will be improvements in the results this year in comparison with that of last year.

Management believes that the chocolate and confectionery market in the Mainland presents substantial potential, and consumer spending on chocolate and confectionery will continue to record considerable growth. Believing this, the Group acquired the remaining 14% interests in Shenzhen Le Conte Foodstuff Co., Ltd. ("Shenzhen Le Conte") from COFCO (Hong Kong) Limited ("COFCO (HK)"), the controlling shareholder of the Company, on 9 September this year. The acquisition will bring forth opportunities for the Group, and will ultimately benefit the Group.

Trading

The Group has been engaged in the domestic trading and international import and export trading businesses of foodstuffs, grains and animal feedstock. During the period under review, the Group was mainly engaged in the bulk commodity back-to-back trading of sugar, maize, fishmeal, cotton meal, vegetable meal, cereal, soyabeans and red beans, as well as the trading of imported raw materials for processing. The Group also carried out foodstuffs trading agency services on a commission basis.

During the period, fluctuations in the prices of sugar directly affected the trading of imported sugar products for processing, and trade volume decreased as a result. On the other hand, demand of cereal remained strong, and the size of the Group's cereal export business expanded with a notable rise in trade volumes. Accordingly, the overall turnover of the Group only decreased slightly compared to the corresponding period last year.

China's accession to the WTO has led to a gradual opening up of most of the Mainland foodstuffs import and export markets, resulting in increasingly intense competition within the trading business. Nonetheless, leveraging on the Group's diversified trading business and its over 50 years of experience in foodstuff trading, together with its well-established international trading network and comprehensive and stringent risk management on trading, coupled with our efforts in exploring new trading channels and products, the management believes that the trading business will continue to generate stable and encouraging operating profits for the Group.

Flour Milling

The effects of SARS on the flour milling business has been minimal.

During the period, the Group increased its efforts in sales, particularly on its sales product portfolio, and focused on the production and sales of middle to high-end flour, leading to a general rise in gross profit for the business. During the period, raw materials and production costs have both risen, while sales prices slightly fell. Management has adopted new measures, such as adjusting product portfolio, liaising with sales distributors as well as cost controls, management consolidation and product quality controls which have seen encouraging results.

The Group will continue to adopt a proactive approach in facing the challenges in the flour milling industry and will speed up the development of new and downstream products, as well as to take advantage of the cheaper yet better-quality imported wheat, and to strengthen cost controls and monitor product quality while widening its flour sales network, so as to further improve profitability.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position is sound with stable cash flow. As at the end of June 2003, the Group's total shareholders' equity amounted to HK$3,656,707,000, representing 3.5% growth compared with the year end of last year (as restated). As at 30 June 2003, the Group's cash and bank deposits reached HK$1,148,712,000 (31 December 2002: HK$1,434,315,000) and the Group's net current assets were approximately HK$1,475,782,000 (31 December 2002: HK$1,748,698,000). Taking into consideration of the above as well as bank loans and other loans and facilities available to the Group, the management believes that the Group will have adequate financial resources to settle its debts and provide funding for its daily operational and capital expenditure. The Group also has sufficient internal resources to settle the payment of HK$33,000,000 for the acquisition of 14% equity interests in Shenzhen Le Conte.

The Group's monetary assets, debts and transactions are principally denominated in Hong Kong dollars, Renminbi and US dollars. Due to the pegged exchange rate between the Hong Kong dollar and the greenback, together with the minimal fluctuation in the exchange rate between Hong Kong dollars and Renminbi, the Group believes that its exposure to exchange-rate movements are limited.

CAPITAL STRUCTURE

During the period under review, the issued share capital of the Company increased by 13,975,000 shares as a result of the exercise of share options by certain Executive Directors of the Company and employees of the Group. Apart from this, there was no change in the share capital of the Company during the period under review.

As at 30 June 2003, the Company had 14 outstanding Convertible Notes (the "Convertible Notes") of an aggregate value of HK$301,000,000. The holder(s) of the Convertible Notes has the right to convert in full or in part to the Company's shares at the conversion price of HK$2.15 per share before 26 October 2004. This right of conversion had not been exercised during the period under review. The Convertible Notes carry a fixed yield of 2% per annum payable semi-annually in arrears.

As at 30 June 2003, other than the above-mentioned, certain bank loans plus advances from minority shareholders of the Group's subsidiaries and that from the Company's ultimate holding company, China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"), and a wholly owned subsidiary of COFCO, which amounted to HK$2,937,182,000 (31 December 2002: HK$2,078,713,000), the Group had no other material borrowings. During the period under review, all bank borrowings were charged at fixed interest rates ranging from 1.8% to 5.84% per annum (31 December 2002: from 1.8% to 6.44%). Other borrowings (excluding the Convertible Notes) were either interest-free or charged at fixed annual rates of 4.54%, 4.79% and 5.04% (31 December 2002: 5.04% and 5.85%).

As at the end of June 2003, the Group's total assets were approximately HK$8,518,885,000 (31 December 2002: HK$7,460,529,000, as restated), and the aggregate debts (excluding loans of minority shareholders of subsidiaries that are of capital nature) were HK$2,820,207,000 (31 December 2002: HK$1,961,504,000). Based on the above, the Group's gearing ratio was approximately 33.1% (31 December 2002: 26.3%, as restated).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2003, the Group had no material contingent liabilities.

As at 30 June 2003, certain of the Group's bank loans were secured by charges over its fixed assets with a net carrying value of approximately HK$21,863,000 (31 December 2002: HK$130,172,000).

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2003, the Group employed approximately 4,853 employees in China and Hong Kong (31 December 2002: 3,720 employees). All employees are remunerated according to their performance, experience and prevailing market rates. On-the-job and professional training are provided as well. The Group provided retirement benefits, either in the form of Mandatory Provident Fund Exempted ORSO or Mandatory Provident Fund entitlement, to employees in Hong Kong. A similar scheme is also provided for employees in China. Details concerning the retirement benefit schemes are set out in the Group's 2002 Annual Report.

In addition, the Group has implemented a share options scheme (the "Scheme") to reward eligible employees (including Executive Directors of the Company) according to their individual merits. During the period under review, share options in respect of an aggregate of 13,975,000 shares were exercised by certain Executive Directors of the Company and employees of the Group. As at the end of June 2003, a total of 35,795,000 share options of the Company were outstanding. However, subsequent to the balance sheet date of the period under review and as of the date of this report, an aggregate of 2,100,000 share options were exercised by a former Executive Director of the Company. Share options granted can be exercised at any time within four years after the expiration of a period of 12 months from the date when the options were granted. During the period under review, the Company had not granted any share options to Executive Directors of the Company or any other qualified employees of the Group.

Additional details of the Scheme have been duly disclosed herein in accordance with the Listing Rules.

CHANGES IN THE GROUP'S STRUCTURE

During the period under review, the Group completed the acquisition of the remaining 50% equity interests in Great Wall Wine Company. As a result of the acquisition, Great Wall Wine Company has changed from an associate to a wholly owned subsidiary of the Group. Apart from the above, there was no material change in the structure of the Group during the period under review.

OUTLOOK

The outbreak of the SARS epidemic in China in late April this year seriously hit the operating environment nationwide, people's spending power and market demand, so the Group's business development was also affected to a certain extent. However, China's operating environment and sentiment, commercial activities and consumer market have thoroughly recovered as SARS was contained. Working on its solid business foundation, the Group will fully capitalize on its existing financial resources in an effective manner, in order to enhance its productivity and cost effectiveness. It will also strengthen its brand awareness and devote greater efforts in marketing to consolidate its core businesses, so as to further improve the Group's earnings and returns for shareholders, leading the Group's business development to another milestone.

Following its reorganization, the Group has well positioned itself as a leader in China's consumer foodstuffs market. Looking ahead, the Group will continue to strengthen its brands and increase its market share to achieve sales growth, and as a result of which, returns for shareholders will be strengthened. Moreover, the Group will keep on trying to identify potential acquisitions with a view to generate external growth momentum, thus making the Group a famous international foodstuffs enterprise and the major gateway of foreign investments to China's foodstuffs market.

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

Save as disclosed in the following section headed "Share Option Scheme", as at 30 June 2003, 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 corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were 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 Companies as contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company were as follows:

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

Name of Director	Capacity	Number of shares held Long Position	*Notes*
Mr Zhou Mingchen	Beneficial owner	5,000,000	*2*
Mr Liu Fuchun	Beneficial owner	4,500,000	*2*
Mr Yu Guangquan	Beneficial owner	390,000	*2*
Mr Xue Guoping	Beneficial owner	3,000,000	*2*
Mr Liu Yongfu	Beneficial owner	3,000,000	*2*
Mr Ng Eng Leong	Beneficial owner	1,096,000	*1*
	Beneficial owner	300,000	*2*
Mr Qu Zhe	Beneficial owner	350,000	*2*

Notes:

(1) Long position in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).

(2) Long position in the underlying shares of the Company pursuant to share options.

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

None of the Directors had short positions in respect of shares, underlying shares and debentures of the Company and its associated corporations.

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. On 13 May 2002, the Scheme was amended to comply with certain amendments to the Listing Rules which came into effect on 1 September 2001.

The details of the movements in the number of options outstanding at the beginning and at the end of the period which were granted to the Directors and eligible employees of the Group under the Scheme were as follows:

Name of Director	Date of grant *Note (1)*	Exercise period	Exercise price *Note (2)* *HK$*	Number of share options: Outstanding at 1.1.2003	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2003	Weight average closing price of the Company's share immediately before the date of exercise *HK$*
Mr Zhou Mingchen	5.3.2001	5.3.2002 – 4.3.2006	1.368	5,000,000	-	-	5,000,000	-
Mr Liu Fuchun	5.3.2001	5.3.2002 – 4.3.2006	1.368	4,500,000	-	-	4,500,000	-
Mr Yu Guangquan (appointed 16.6.2003)	23.3.2001	23.3.2002 – 22.3.2006	1.368	- *Note (3)*	-	-	390,000 *Note (3)*	-
Mr Ma Lishan (resigned 16.6.2003)	5.8.1997	13.2.1998 – 12.2.2003	2.156	5,000,000	5,000,000	-	-	2.300
	5.3.2001	5.3.2002 – 4.3.2006	1.368	3,000,000	-	-	3,000,000 *Note (4)*	-
				8,000,000	5,000,000	-	3,000,000	-
Mr Xue Guoping	5.8.1997	13.2.1998 – 12.2.2003	2.156	5,000,000	5,000,000	-	-	2.300
	5.3.2001	5.3.2002 – 4.3.2006	1.368	3,000,000	-	-	3,000,000	-
				8,000,000	5,000,000	-	3,000,000	-
Mr Liu Yongfu	5.3.2001	5.3.2002 – 4.3.2006	1.368	3,000,000	-	-	3,000,000	-
Mr Ng Eng Leong	5.8.1997	7.2.1998 – 6.2.2003	2.156	2,000,000	2,000,000	-	-	2.338
	5.3.2001	5.3.2002 – 4.3.2006	1.368	1,000,000	700,000	-	300,000	2.850
				3,000,000	2,700,000	-	300,000	-
Mr Qu Zhe	5.3.2001	5.3.2002 – 4.3.2006	1.368	350,000	-	-	350,000	-
				31,850,000	12,700,000	-	19,540,000	-
Other employees of the Group	5.8.1997	5.2.1998 – 4.2.2003	2.156	400,000	400,000	-	-	2.100
	5.3.2001	5.3.2002 – 4.3.2006	1.368	800,000	560,000	-	240,000	2.675
	23.3.2001	23.3.2002 – 22.3.2006	1.368	15,720,000 *Note (3)*	315,000	-	15,015,000 *Note (3)*	2.643
	3.10.2001	3.10.2002 – 2.10.2006	1.370	1,000,000	-	-	1,000,000	-
				17,920,000	1,275,000	-	16,255,000	-
				49,770,000	13,975,000	-	35,795,000	-

Notes:

(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 similar changes in the Company's share capital.

(3) The share options held by Mr Yu Guangquan were disclosed (i) in the category of "Other employees of the Group" prior to his appointment as a Director on 16 June 2003 and (ii) in his personal capacity as a Director as from 16 June 2003.

(4) The share options held by Mr Ma Lishan as at 30 June 2003 were exercisable within one month following the date of his resignation as a Director on 16 June 2003 up to his entitlement at the date of resignation.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

The interests/short positions of Substantial Shareholders in the shares and underlying shares of the Company as at 30 June 2003, as recorded in the register required to be kept under section 336 of the SFO, were as follows:

(a) Aggregate long position in the share 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 30 June 2003:

		Number of shares held		
Substantial Shareholders	**Capacity**	**Long Position**	*Notes*	**% of Shareholding**
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,054,810,949	*(1)*	66.625%
COFCO (HK)	Beneficial owner	10,138,000	*(1)*	0.640%
	Beneficial owner	140,000,000	*(2)*	8.843%
	Interest of controlled corporation	1,054,810,949	*(1)&(3)*	66.625%
COFCO	Interest of controlled corporation	1,064,948,949	*(1)&(4)*	67.265%
	Interest of controlled corporation	140,000,000	*(2)&(4)*	8.843%

Notes:

(1) Long position in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).

(2) Long position in the underlying shares of the Company pursuant to unlisted equity derivatives. This represents the interest of COFCO (HK) in 14 convertible notes which entitle COFCO (HK) to convert the same into 140,000,000 shares of the Company.

(3) COFCO (HK) is deemed to be interested in 1,054,810,949 shares held by Wide Smart in which COFCO (HK) is entitled to exercise one-third or more of the voting power at general meetings of Wide Smart.

(4) COFCO is deemed to be interested in (i) 1,064,948,949 shares in aggregate held by Wide Smart 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 and COFCO (HK) and (ii) the derivative interest in the convertible notes held by COFCO (HK) as mentioned in Note (2) above.

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

As at 30 June 2003, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

Save as disclosed herein, as at 30 June 2003, the Company had not been notified of any persons other than the substantial shareholders who had interests or short 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.

CORPORATE GOVERNANCE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the independent non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

In accordance with the Code of Best Practice in the Listing Rules, the Company has established an Audit Committee comprising both independent non-executive Directors of the Company as members with written terms of reference.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters related to the preparation of the unaudited consolidated condensed interim accounts for the six months ended 30 June 2003.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of the subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

By Order of the Board
Yu Guangquan
Managing Director

Hong Kong, 9 September 2003