



中國糧油國際有限公司
COFCO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

2004 Interim Report



For the six months ended 30 June 2004

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 2004 together with the comparative figures for the six months ended 30 June 2003. 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 2004

	Notes	Six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
TURNOVER	2	7,470,432	6,025,156
Cost of sales		(6,923,219)	(5,550,219)
Gross profit		547,213	474,937
Other revenue		69,599	82,427
Distribution costs		(304,216)	(237,817)
Administrative expenses		(99,677)	(94,874)
Other operating (expenses)/income, net		(14,485)	32,429
PROFIT FROM OPERATING ACTIVITIES	2,3	198,434	257,102
Finance costs		(40,863)	(26,132)
Share of profits less losses of associates		71	41,513
PROFIT BEFORE TAX		157,642	272,483
Tax	4	(39,568)	(44,904)
PROFIT BEFORE MINORITY INTERESTS		118,074	227,579
Minority interests		2,652	(35,528)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		120,726	192,051
INTERIM DIVIDENDS		48,496	78,619
INTERIM DIVIDENDS PER SHARE		2.76 HK cents	4.50 HK cents
EARNINGS PER SHARE	5		
Basic		6.9 HK cents	12.2 HK cents
Diluted		6.9 HK cents	11.2 HK cents

For the six months ended 30 June 2004

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY –
UNAUDITED**

FOR THE SIX MONTHS ENDED 30 JUNE 2004

		Six months ended	
		30 June	
		2004	2003
		HK\$'000	HK\$'000
<i>Notes</i>			
	TOTAL EQUITY AT BEGINNING OF PERIOD	4,130,462	3,533,146
	Prior year adjustment:		
	SSAP No.36 – restatement of biological assets	5,856	5,239
	RESTATED BALANCE	4,136,318	3,538,385
	Issue of shares, including share premium, under share option scheme	13,695	28,889
	Reserves release upon write-off of other investments	–	(1,752)
	Exchange realignment	(1,930)	–
	Net gains not recognised in the profit and loss accounts	11,765	27,137
	Net profits for the periods	120,726	192,051
	Approval of final dividends at the Annual General Meeting	(87,855)	(94,950)
	TOTAL EQUITY AT END OF PERIOD	4,180,954	3,662,623

For the six months ended 30 June 2004

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2004

		(Unaudited) 30 June 2004	(Audited and restated) 31 December 2003
	Notes	HK\$'000	HK\$'000
NON – CURRENT ASSETS			
Fixed assets		3,054,646	2,957,235
Goodwill:			
Goodwill		507,943	527,813
Negative goodwill		(14,732)	(16,432)
Interests in associates		444,182	397,601
Long term investments		33,887	36,191
Deferred tax assets		6,403	8,773
Biological assets		33,250	33,075
		4,065,579	3,944,256
CURRENT ASSETS			
Inventories		2,242,718	2,505,757
Accounts receivable	7	491,525	756,188
Other debtors, prepayments and deposits		975,668	1,060,339
Amounts due from fellow subsidiaries	13(a)	72,314	76,069
Amounts due from related companies	13(a)	81,255	1,302
Amount due from the ultimate holding company	13(a)	29,722	–
Tax prepaid		2,870	5,995
Other investments		240,004	221,370
Cash and cash equivalents		1,273,226	1,113,800
		5,409,302	5,740,820

For the six months ended 30 June 2004

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2004

		(Unaudited) 30 June 2004	(Audited and restated) 31 December 2003
	Notes	HK\$'000	HK\$'000
CURRENT LIABILITIES			
Accounts payable	8	222,297	471,334
Other payables and accruals		1,039,632	1,082,824
Amounts due to fellow subsidiaries	13(a)	6,602	7,307
Amount due to the immediate holding company	13(a)	705	705
Amount due to the ultimate holding company	13(a)	–	5,388
Amounts due to related companies	13(a)	171,824	197,448
Amounts due to minority shareholders of subsidiaries	13(a)	–	36,374
Tax payable		32,558	34,086
Interest-bearing bank loans and other loans	9(a)	2,873,269	2,807,176
		4,346,887	4,642,642
NET CURRENT ASSETS			
		1,062,415	1,098,178
TOTAL ASSETS LESS CURRENT LIABILITIES			
		5,127,994	5,042,434
NON – CURRENT LIABILITIES			
Interest-bearing bank loans and other loans	9(a)	(57,972)	(57,972)
Advance from minority shareholders of subsidiaries	9(b)	(132,870)	(114,366)
Deferred tax liabilities		(4,718)	(8,452)
		(195,560)	(180,790)
MINORITY INTERESTS			
		4,932,434	4,861,644
		(751,480)	(725,326)
		4,180,954	4,136,318
CAPITAL AND RESERVES			
Issued capital	10	175,710	174,709
Reserves	11	4,005,244	3,873,754
Proposed final dividends		–	87,855
		4,180,954	4,136,318

For the six months ended 30 June 2004

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	424,150	(352,775)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(372,134)	(337,116)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES	52,016	(689,891)
NET CASH INFLOW FROM FINANCING ACTIVITIES	38,177	472,722
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	90,193	(217,169)
Cash and cash equivalents at beginning of period	1,078,108	1,296,280
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,168,301	1,079,111
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	597,024	509,612
Non-pledged time deposits with original maturity of less than three months when acquired	571,277	569,499
	1,168,301	1,079,111

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 Financial Reporting Standards, which are inclusive of Statement of Standard Accounting Practices ("SSAP(s)") and Interpretations, issued by the Hong Kong Society of Accountants ("HKSA") 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 are prepared in accordance with SSAP No.25 "Interim Financial Reporting" and should be read in conjunction with the 2003 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 2003 except that the Group has adopted, for the first time, SSAP No.36 "Agriculture" ("SSAP No.36") which is effective for accounting periods commencing on or after 1 January 2004.

The principle effect of implementation of SSAP No.36 is in relation to the agricultural activity. The Group has adopted following accounting policy.

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 grapes 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 profit and loss account when it arises.

Agricultural produce comprises grapes. Self-grown grapes are initially 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.

In the absence of specific transitional requirements of SSAP No.36, the accounting policy mentioned above has been applied retrospectively so that the comparative figures presented have been restated accordingly as follows:

Condensed consolidated statement of changes in equity –

The opening balances of equity at 1 January 2003 and 2004 have been increased by HK\$5,239,000 and HK\$5,856,000 respectively.

For the six months ended 30 June 2004

Condensed consolidated balance sheet –

Biological assets of HK\$33,075,000 have been recorded at 31 December 2003. As a result, goodwill has been decreased by HK\$19,280,000 and minority interests have been increased by HK\$7,939,000 at 31 December 2003.

Certain comparative figures of the Interim Accounts have also been reclassified in order to achieve a consistent 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

	Edible oils, soyabean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	5,102,487	4,255,770*	522,145	301,549	106,479	89,940	1,475,218	1,194,265	264,103	183,632*	-	-	7,470,432	6,025,156
Segment results	(12,145)	83,927*	113,324	82,371	14,600	13,381	71,346	47,293	4,842	4,608*	(4,583)	10,756	187,384	242,336
Interest and dividend income													11,750	15,466
Unallocated gains and expenses, net													(700)	(700)
Profit from operating activities													198,434	257,102
Finance costs													(40,863)	(26,132)
Share of profits less losses of associates		71	45,611	-	(4,098)								71	41,513
Profit before tax													157,642	272,483

For the six months ended 30 June 2004

(b) Geographical segments

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	440,174	370,938	7,030,258	5,654,218	7,470,432	6,025,156

* 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 2004 (Unaudited) HK\$'000	Six months ended 30 June 2003 (Unaudited) HK\$'000
Gain on disposal of other investments	(920)	–
Dividends from an unlisted long term investment and listed equity securities	(2,696)	(2,315)
Net rental income	(2,435)	(2,952)
Interest income	(9,054)	(13,151)
Gain on disposal of subsidiaries	–	(721)
Cost of inventories sold	6,923,219	5,550,219
Write back of provision against inventories	(1,609)	(34,949)
Write back of provision for doubtful debts	(88)	(1,605)
Depreciation	91,590	72,675
Loss on disposal of fixed assets	1,110	543
Amortisation of a long term investment	700	700
Amortisation of goodwill	19,870	19,557
Negative goodwill recognised as income	(1,700)	(1,686)

For the six months ended 30 June 2004

4. TAX

Hong Kong profits tax has been calculated at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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 2004 (Unaudited) HK\$'000	Six months ended 30 June 2003 (Unaudited) HK\$'000
Current profits tax:		
– Hong Kong	1,340	953
– Elsewhere in the PRC	37,769	52,606
Deferred tax	1,364	(10,205)
	40,473	43,354
Share of tax (credit)/charge attributable to associates:		
– Elsewhere in the PRC	(905)	1,550
Net tax charge for the period	39,568	44,904

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\$120,726,000 (2003: HK\$192,051,000) and the weighted average number of 1,751,044,556 (2003: 1,580,332,571) 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\$120,726,000 (2003: HK\$194,514,000) after taking into account the deemed saving in finance costs of HK\$nil (2003: HK\$2,463,000) on the convertible notes; and (ii) the adjusted weighted average of 1,755,805,800 (2003: 1,737,835,554) shares comprising the weighted average number of shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of nil (2003: 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 4,761,244 (2003: 17,502,983) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all exercisable share options during the period.

6. ADDITIONS TO FIXED ASSETS

During the six months ended 30 June 2004, the Group spent approximately HK\$191,618,000 (2003: HK\$345,721,000) on additions to fixed assets.

For the six months ended 30 June 2004

7. ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable balance is as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Outstanding balances with ages:		
Within 6 months	484,912	709,622
Between 7 to 12 months	7,901	45,498
Between 1 to 2 years	2,810	4,602
Over 2 years	18,576	19,228
	514,199	778,950
Less: Provision for doubtful debts	(22,674)	(22,762)
	491,525	756,188

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 ageing analysis of accounts payable balance is as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Outstanding balances with ages:		
Within 6 months	214,299	460,207
Between 7 to 12 months	5,653	3,761
Between 1 to 2 years	333	4,862
Over 2 years	2,012	2,504
	222,297	471,334

For the six months ended 30 June 2004

9. BORROWINGS**(a) Interest-bearing bank loans and other loans**

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Bank loans:		
Secured	34,245	172,925
Unsecured	2,642,043	2,295,372
	2,676,288	2,468,297
Other loans		
Unsecured	254,953	396,851
	2,931,241	2,865,148
Bank loans repayable:		
Within one year or on demand	2,626,288	2,418,297
In the second year	28,302	28,302
In the third to fifth years, inclusive	21,698	21,698
	2,676,288	2,468,297
Other loans repayable:		
Within one year or on demand	246,981	388,879
In the second year	–	–
In the third to fifth years, inclusive	–	–
Beyond five years	7,972	7,972
	254,953	396,851
	2,931,241	2,865,148
Portion classified as current liabilities	(2,873,269)	(2,807,176)
Non-current portion	57,972	57,972

For the six months ended 30 June 2004

The bank loans bear interest at rates ranging from 1.58% to 5.84% per annum (31 December 2003: from 1.38% to 5.84%).

Other loans represent loans from the ultimate holding company of the Company and a fellow subsidiary. These balances are unsecured and interest-free except for certain loans of HK\$246,981,000 (31 December 2003: HK\$388,879,000) which bear interest at rates ranging from 2.38% to 5.31% per annum (31 December 2003: from 2.38% to 5.31%)

The ultimate holding company and an associate of the Group had guaranteed certain of the Group's unsecured bank loans up to HK\$661,143,000 (31 December 2003: HK\$327,490,000) at 30 June 2004.

(b) Advance from minority shareholders of subsidiaries

The advance from minority shareholders of subsidiaries is capital in nature. The balance is unsecured, interest-free and has no fixed terms of repayment.

10. SHARE CAPITAL

	Number of ordinary shares issued	Par value <i>HK\$'000</i>
Balance as at 1 January 2004	1,747,088,974	174,709
Issue of shares pursuant to share option scheme	10,011,000	1,001
Balance as at 30 June 2004	1,757,099,974	175,710

For the six months ended 30 June 2004

11. RESERVES – UNAUDITED

	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 2004, as previously reported	2,758,564	134,267	2,183	-	64,038	2,499	906,347	3,867,898
Effect of adopting SSAP No.36 – restatement of biological assets (Note 1)	-	-	-	-	-	-	5,856	5,856
As restated	2,758,564	134,267	2,183	-	64,038	2,499	912,203	3,873,754
Issue of shares pursuant to share option scheme	12,694	-	-	-	-	-	-	12,694
Profit for the period	-	-	-	-	-	-	120,726	120,726
Transfer from retained profits	-	846	-	-	42,532	934	(44,312)	-
Exchange realignment	-	-	-	-	-	(1,930)	-	(1,930)
At 30 Jun 2004	2,771,258	135,113	2,183	-	106,570	1,503	988,617	4,005,244
At 1 Jan 2003, as previously reported	2,413,788	135,742	2,216	55	47,413	2,522	679,537	3,281,273
Effect of adopting SSAP No.36 – restatement of biological assets (Note 1)	-	-	-	-	-	-	5,239	5,239
As restated	2,413,788	135,742	2,216	55	47,413	2,522	684,776	3,286,512
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	861,562	3,504,302

12. PLEDGES OF ASSETS

Certain bank loans of the Group are secured by charges over the Group's fixed assets held outside Hong Kong with total carrying amount of approximately HK\$72,296,000 (31 December 2003: HK\$176,657,000).

13. CONNECTED AND 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)

	Notes	Six months ended 30 June 2004 (Unaudited) HK\$'000	Six months ended 30 June 2003 (Unaudited) HK\$'000
Transactions with fellow subsidiaries:			
Purchase of goods and raw materials**	(i)	47,151	45,294
Operating lease rental expenses*	(i)	532	849
Sale of goods*	(i)	152,271	174,209
Interest expenses*	9(a)	7,512	2,462
Transactions with the ultimate holding company:			
Sale of goods*	(i)	134,323	38,560
Purchase of goods and raw materials*	(i)	103,369	56,344
Operating lease rental expenses**	(i)	2,595	2,752
Management fee expenses**	(i)	4,435	4,409
Royalty fee expenses	(i)	7,560	6,194
Interest expenses *	9(a)	172	332
Management fee income*	(i)	12,800	19,897
Transactions with related companies:			
Purchases of goods and raw materials*	(i)	3,425,145	2,902,497
Processing and services charge paid*	(i)	2,365	848
Transactions with associates:			
Sale of goods*	(i)	13,057	73,466
Purchase of goods and raw materials**	(i)	22,712	31,454
Transactions with minority shareholders of subsidiaries:			
Sale of goods*	(i)	104,553	58,271
Purchase of raw materials*	(i)	951,883	1,143,810

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

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

Note:

(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.

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) In addition to the above connected transactions, sales and purchases of HK\$42,738,000 (2003: HK\$39,800,000) and HK\$1,419,000 (2003: HK\$21,078,000), respectively, were made by certain subsidiaries of the Company to/from Eastbay Oils & Fats Industries (Guangzhou) Co., Ltd, a company indirectly owned as to 84% by the Company and as to 10% by a connected party. These transactions have been eliminated on consolidation but constitute connected transactions under the Listing Rules.

(c) Pursuant to certain licensing agreements entered into between the Group and a related party, the Group is granted the exclusive right to use certain trademarks for its edible oils, soyabean meal and related products businesses. During the period, the licensing fee was waived by the related party.

14. CAPITAL COMMITMENTS

At 30 June 2004, the Group had the following capital commitments:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Capital commitments in respect of Property, plant and equipment: Authorised, but not contracted for	71,268	45,419

15. APPROVAL OF THE INTERIM ACCOUNTS

The Interim Accounts were approved by the board of Directors on 18 August 2004.

INTERIM DIVIDENDS

The Directors declare the payment of an interim dividend of 2.76 HK cents (2003: 4.50 HK cents) per share in respect of the six months ended 30 June 2004. The interim dividend will be payable on 20 September 2004 to shareholders of the Company whose names appear on the Register of the Members of the Company on 10 September 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 6 September 2004 to 10 September 2004, 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 3 September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's consolidated turnover for the period under review was HK\$7,470,432,000, representing an increase of 24% compared with the corresponding period last year. Profit attributable to shareholders amounted to HK\$120,726,000, a decrease of 37% from 2003. The basic earnings per share for the period under review were 6.9 HK cents, 43% less than the 12.2 HK cents per share recorded last year.

The Group manages five food-related core businesses: edible oils, soyabean meal and related products; wineries; confectionery; flour milling; and trading.

The performance of these businesses during the period under review, as well as other information related to the Group, was set out below:

Edible oils, soyabean meal and related products

The Group is China's largest edible oils and soyabean meal producer, and is involved in the sale of "四海" soyabean meal (an important raw material in the feed of domestic animals and poultry); the oil extraction, refining and sale of retail bulk edible oils and "Fortune" consumer-pack oils; and the manufacture and sale of related products.

During the period under review, the profitability of edible oils and soyabean meal was greatly affected by the costs of raw materials. The price of soyabeans, the principal raw material, surged from US\$290 per tonne at the end of last year to approximately US\$440 per tonne in mid-April of this year, and remained at this high level for almost three months. The unprecedented sharp rise in price, as well as the long duration of this increase, heavily affected the oil-extraction industry in China. In addition, a variety of factors caused freight charges to continue to soar, to US\$75-\$86 per tonne in the first quarter of this year from US\$35 per tonne at the end of last September. This unprecedented drastic increase in freight charges occurring over an extended period exerted even greater pressure on the oil-extraction industry.

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Even worse for the industry was the first-quarter outbreak of bird flu, which greatly affected the feed and livestock-breeding industries. This caused a significant decrease in the demand for soyabeans. Meanwhile, the macro-economic measures of China put into place caused some edible-oil processing enterprises to experience problems with their capital flow, thus further intensifying their operational difficulties.

The combination of all of these negative factors increased expenses to such a great degree, that these costs could not be completely transferred to downstream products, which resulted in enormous losses in the operation of the overall industry. Many oil-extraction enterprises in China could not overcome these obstacles and some encountered great financial difficulties.

During the period under review, in order to ease the pressure of cost increases, the Group cut back on the purchase of imported soyabeans and restricted production to adapt to the unfavorable environment.

To deal with these unavoidably tough operating conditions, the Group relied on its strengths and took effective measures to face the challenges. In this way, it was able to overcome the many difficulties and minimize losses, outperforming its competitors. This sector recorded a turnover of HK\$5,102,487,000, representing an increase of 20% over the corresponding period last year and accounting for 68% of total turnover. Sales of soyabean meal reached 1,211,000 tonnes, a 19% decrease over the previous year; sales of retail bulk edible oils were 449,000 tonnes, down 13%; and sales of consumer-pack oils amounted to 163,000 tonnes, representing a 2% growth.

The conditions encountered during the first half of this year have been rarely seen in the history of the oil industry in China. With the lowering of soyabean prices to a more reasonable level, the decrease in freight charges and the elimination of other unfavorable factors, the market has gradually begun to recover. Meanwhile, after analyzing recent experiences in the industry, the Group believes that the market will continue to develop in a mature and healthy way.

Like other sectors, the oil industry in China has grown steadily. Edible oils and feeds have maintained an annual growth rate of around 10%. Therefore, demand should continue to be promising and the short-term impact on the oil industry will not affect future growth of both production and demand.

In this industry, the Group has the advantages of capital strength, advanced technologies and equipment, excellent management, an established sales network and the experience gained through many years of foreign trade operations. The Group is thus well placed to seize the opportunity resulting from changes in the industry to continue developing strategies for growth; use effective measures to participate in market integration; and strengthen its risk management capability to further enhance its control and influence over the market, therefore improving its overall competitive edge. In addition, the Group will continue to promote the "Fortune" brand to increase its market share. Meanwhile, the Group will speed up the development of advanced processing techniques for soyabeans and oils to manufacture such products as soy lecithin and specialty oils, which will then become another source of growth.

Wineries

This business mainly comprises the production and sale of "Great Wall" wine within China. During the period under review, the turnover of Great Wall wine was HK\$522,145,000, representing a substantial increase of 73% compared to last year and accounting for 7% of total turnover. The performance of this business was encouraging.

The increase in turnover resulted mostly from the brand recognition of "Great Wall" and the continued growth of market demand for wine. This improvement is also due to the gradual effects of the integration of its three wineries in purchasing, sales, management and brand building. The Group expects to maximize the potential of each of these wineries. The ultimate goals are to integrate production management, market channels and brand image; and create a larger consumer base, resulting in increased production and market share. The integration significantly improved the operational efficiency of the winery in Shacheng.

China decreased the tariff on imported bottled wine to 14% at the beginning of this year, leading foreign wineries to speed up their entrance into the Chinese wine market. Chinese enterprises also took advantage of the continuing growth in demand for wine to establish more production bases and their own brands. The Group has prepared for this increased competition by enhancing product quality, continuing to promote its brand name, improving its marketing techniques and gradually expanding its sales network. "Great Wall" wine will therefore still be able to secure a stable market share and maintain its No. 1 position among the brands of dry wine in China.

In order to increase its market share further, the Group has been seeking opportunities to expand its business in China; the Group is also exploring the possibility of cooperation with foreign wineries, which would generate greater profit.

Confectionery

The Group produced and distributed confectionery and chocolate products within the country under the brand name "Le Conte". During the period, this sector recorded HK\$106,479,000 in turnover, representing an increase of 18% over the corresponding period last year and accounting for 1.4% of total turnover.

Despite sharp increases in the prices of cocoa, nuts and packaging materials, which directly affected gross profit margin, the Group was able to record satisfactory turnover and profit due to effective cost control; flexible purchase, production and sales policies; and strengthened internal management.

Due to the great potential of China's snack-food market, which is supported by high consumer demand, the Group will focus on promotion along with the research and development of new products and packaging. The aim is to develop a high-end confectionery market by creating multiple brands and increasing market share and controlling costs. In the next six months, the Group will add two production lines: one for jelly-based candies, and the other for chocolate thins. The total annual production capacity for chocolate products will exceed 10,000 tonnes. In addition, since the second half of the year is generally the high season for the sales of chocolate products, the Group believes that the confectionery and chocolate sector will continue to make a positive contribution to its overall business.

For the six months ended 30 June 2004

Flour Milling

During the interim period, flour milling recorded HK\$264,103,000 in turnover, up 44% over the preceding year and comprising 3.6% of total turnover.

In the face of challenges due to rising production costs and fierce competition in the flour market, the Group continuously adjusted the product portfolio through increasing the proportion of high-end flour. Currently, specialty flour accounts for approximately 16% of turnover and ordinary flour 84%. In addition, the Group will speed up the pace of development of both new and downstream products such as vermicelli, strengthen cost control and product management, and widen the flour sales network, to further improve its profitability.

Moreover, with continued concerted efforts to apply the Group's strategy of promoting regional products, it is hoped this division will achieve the goal of creating a national brand.

Trading

The Group has been engaging in domestic trade and the import and export of foodstuffs, grains and animal feedstock. During the period under review, the Group was mainly involved in the bulk commodity back-to-back trading of sugar, maize, fishmeal, cotton meal, vegetable meal, cereals, soyabeans and red beans. The Group also processed raw materials for export. In addition, it carried out foodstuff trade agency services on a commission basis. During the period, the trading business recorded HK\$1,475,218,000 in turnover, representing an increase of 24% compared to the corresponding period of 2003 and accounting for 20% of total turnover. The proportion of the trading business by segment was approximately 75% for exports, 20% for imports and the remaining 5% for domestic trade.

In response to the ever-changing market, the Group adjusted its trading strategies to increase the export of rice, thus contributing significantly to turnover. The Group will continue to create new trading channels and commodities. Management believes that capitalizing on the Group's diversified trading business model, its more than 50 years of experience in the foodstuff industry, established international network and strict risk-management system, the trading business can still contribute healthy and stable operating profit.

Liquidity and Financial Resources

The Group's financial position was sound with a stable cash flow. As at the end of June 2004, the Group's total shareholders' equity amounted to HK\$4,180,954,000, representing an increase of 1.1% compared with last year (as restated). As at 30 June 2004, the Group's cash and bank deposits totaled HK\$1,273,226,000 (31 December 2003: HK\$1,113,800,000). The Group's net current assets were approximately HK\$1,062,415,000 (31 December 2003: HK\$1,098,178,000). Taking into consideration the above as well as bank loans and other loans and facilities available, management believes that the Group will be able to meet its daily operational and capital expenditure.

For the six months ended 30 June 2004

The Group's monetary assets, liabilities 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 greenback, together with minimum fluctuation in the exchange rate between the Hong Kong dollar and Renminbi, the Group believes that its exposure to exchange-rate movement is limited.

Capital Structure

During the year under review, the issued share capital of the Company increased by 10,011,000 shares as a result of the exercise of share options by certain executive Directors of the Company and employees of the Group. The share capital of the Company remained the same during the period under review, except for the change in share structure as mentioned above.

As at 30 June 2004, the Group had no significant borrowings except for certain bank loans; loans from minority shareholders of the Group's subsidiaries; loans from the Company's ultimate holding company, China National Cereals, Oils & Foodstuffs Import & Export Corporation ("COFCO"); and loans from a wholly owned subsidiary of COFCO, all of which totaled HK\$3,064,111,000 (31 December 2003: HK\$2,979,514,000). During the period under review, all bank borrowings of the Group bore a fixed annual interest of between 1.58% and 5.84% (31 December 2003: between 1.38% and 5.84%). Other borrowings were interest-free or bore fixed annual interest rates ranging from 2.38% to 5.31% (31 December 2003: from 2.38% to 5.31%).

As at the end of June 2004, the Group's total assets were approximately HK\$9,474,881,000 (31 December 2003: HK\$9,685,076,000, as restated), and the aggregate debts (excluding loans of minority shareholders of subsidiaries that were of a capital nature) were HK\$2,931,241,000 (31 December 2003: HK\$2,865,148,000). Based on the above, the Group's gearing ratio was approximately 30.9% (31 December 2003: 29.6%).

Contingent Liabilities and Assets Pledged

As at 30 June 2004, the Group had no material contingent liabilities, and certain of the Group's bank loans were secured by charges over its fixed assets with a net carrying value of approximately HK\$72,296,000 (31 December 2003: HK\$176,657,000).

Employment and Remuneration Policy

As at 30 June 2004, the Group employed approximately 5,210 employees in China and Hong Kong (31 December 2003: 5,117 employees). All employees are remunerated according to their performance, experience and prevailing trade practices. Both on-the-job and professional training are provided as well. The Group provided retirement benefits, either in the form of the Mandatory Provident Fund Exempted ORSO or Mandatory Provident Fund entitlement, to employees in Hong Kong. A similar scheme is also maintained for employees in China. Details concerning the retirement benefit schemes are set out in the 2003 Annual Report.

For the six months ended 30 June 2004

The Group has implemented a share option scheme (the "Scheme") to reward eligible employees (including executive Directors of the Company) according to their individual merits. During the period under review, the executive Directors of the Company and employees of the Group exercised share options in respect of an aggregate of 10,011,000 shares. A total of 33,214,000 share options of the Company were outstanding as at the end of June 2004.

The share options 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 did not grant share options to its executive Directors and other eligible employees of the Group.

Additional details of the Scheme are disclosed in this Interim Report in accordance with the Listing Rules.

Changes in the Group's Structure

During the period under review, there were no material changes in the structure of the Group.

PROSPECTS

In general, the wineries, confectionery, flour milling and trading businesses performed satisfactorily, while the edible oils, and soyabean meal and related products businesses experienced decreases in profitability due to market factors. However, the latter business was only rarely affected and these occurrences did not shake the strong foundation of the Group.

During the period, the Company survived many market-related hardships and overcame the difficulties caused by soaring prices and bird flu. The Group also gained valuable experience in risk management, laying a stronger base for continued development in the future.

As the per capita income of China continues to grow, the consumer market in China will offer enormous potential. This will undoubtedly create a solid platform for the Group's healthy development.

After strong efforts over the past several years, "Fortune", "Great Wall" and "Le Conte" have all become leading brands for the Group's edible-oil, wine and confectionery businesses in China. The Group will continue to strengthen its branding, further expand its market share and enlarge its sales network to consolidate its leading position in the market.

In addition, the Group will seek partners for co-operation and other opportunities in various fields to further advance the development of its businesses, and continue to generate stable returns for shareholders.

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

As at 30 June 2004, 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	1,500,000	1
	Beneficial owner	4,500,000	2
Mr Liu Fuchun	Beneficial owner	1,350,000	1
	Beneficial owner	4,050,000	2
Mr Yu Guangquan	Beneficial owner	117,000	1
	Beneficial owner	2,700,000	2
Mr Xue Guoping	Beneficial owner	900,000	1
	Beneficial owner	2,700,000	2
Mr Liu Yongfu	Beneficial owner	900,000	1
	Beneficial owner	2,700,000	2
Mr Ng Eng Leong	Beneficial owner	900,000	2
Mr Qu Zhe	Beneficial owner	105,000	1
	Beneficial owner	320,000	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 granted to Directors under a share option scheme of the Company, details of which are set out in the following section headed "Share Option Scheme".

Saved as disclosed above, none of the Directors had any long positions in the shares, underlying shares and debentures of the Company and its associated corporations.

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

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

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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	Number of share options					Date of grant share options	Exercise period of share options	Exercise price of share options HK\$	Weight average closing price of the Company's share immediately before the date of exercise HK\$
	Outstanding at 1.1.2004	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.06.2004				
Mr Zhou Mingchen	1,500,000	-	1,500,000	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	4.250
	4,500,000	-	-	-	4,500,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-
	6,000,000	-	1,500,000	-	4,500,000				
Mr Liu Fuchun	1,350,000	-	1,350,000	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	4.250
	4,050,000	-	-	-	4,050,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-
	5,400,000	-	1,350,000	-	4,050,000				
Mr Yu Guangquan	117,000	-	117,000	-	-	23.3.2001	23.3.2002 - 22.3.2006	1.368	4.250
	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-
	2,817,000	-	117,000	-	2,700,000				
Mr Xue Guoping	900,000	-	900,000	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	4.250
	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-
	3,600,000	-	900,000	-	2,700,000				
Mr Liu Yongfu	900,000	-	900,000	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	4.250
	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-
	3,600,000	-	900,000	-	2,700,000				
Mr Ng Eng Leong	300,000	-	300,000	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	3.475
	900,000	-	-	-	900,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-
	1,200,000	-	300,000	-	900,000				

For the six months ended 30 June 2004

Name of Director	Number of share options					Date of grant share options	Exercise period of share options	Exercise price of share options HK\$	Weight average closing price of the Company's share immediately before the date of exercise HK\$
	Outstanding at 1.1.2004	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.06.2004				
Mr Qu Zhe	105,000	-	105,000	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	4.250
	320,000	-	-	-	320,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-
	425,000	-	105,000	-	320,000				
Other employees of the Group	240,000	-	240,000	-	-	5.3.2001	5.3.2002 - 4.3.2006	1.368	4.400
	4,599,000	-	4,599,000	-	-	23.3.2001	23.3.2002 - 22.3.2006	1.368	4.240
	1,000,000	-	-	-	1,000,000	3.10.2001	3.10.2002 - 2.10.2006	1.370	-
	14,704,000	-	-	360,000	14,344,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-
	20,543,000	-	4,839,000	-	15,344,000				-
	43,585,000	-	10,011,000	360,000	33,214,000				-

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.

For the six months ended 30 June 2004

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

The interests/short positions of substantial shareholders in the shares and underlying shares of the Company as at 30 June 2004, 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 30 June 2004:

Substantial Shareholders	Capacity and nature of interest	Number of shares held Long Position	Notes	Percentage of the Company's issued share capital
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,054,810,949	(1)	60.031%
COFCO (BVI) No.108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	(1)	7.968%
COFCO (Hong Kong) Limited ("COFCO (HK)")	Beneficial owner	10,138,000	(1)	0.577%
	Interest of controlled corporation	1,194,810,949	(1)&(2)	67.999%
COFCO	Interest of controlled corporation	1,204,948,949	(1)&(3)	68.576%
J.P. Morgan Chase & Co.	Beneficial owner	28,000	(1)	0.002%
	Investment manager	85,004,000	(1)	4.838%
	Custodian corporation	38,606,000	(1)	2.197%
	/approved lending agent			

Notes:

- (1) Long position 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).

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

As at 30 June 2004, 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 2004, the Company had not been notified of any persons other than the substantial shareholders above 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.

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 2004.

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.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code"). The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the period and they all confirmed that they have fully complied with the required standard set out in the Model Code.

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, 18 August 2004