Interim Report 2005

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

(Incorporated in Bermuda with limited liability)

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CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. Ning Gaoning *(Chairman)*
Mr. Liu Fuchun *(Vice-Chairman)*
Mr. Yu Guangquan *(Managing Director)*
Mr. Xue Guoping
Mr. Liu Yongfu
Mr. Ng Eng Leong
Mr. Qu Zhe

Independent Non-executive Directors
Mr. Stephen Edward Clark
Mr. Tan Man Kou
Mr. Yuen Tin Fan, Francis

AUDIT COMMITTEE

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

REMUNERICATION COMMITTEE

Mr. Yuen Tin Fan, Francis *(Committee Chairman)*
Mr. Stephen Edward Clark
Mr. Yu Guangquan

COMPANY SECRETARY

Ms. Liu Kit Yee, Linda

SOLICITORS

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

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House
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PRINCIPAL OFFICE IN HONG KONG

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BRANCH SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Progressive Registration Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

For the six months ended 30 June 2005

CONDENSED INTERIM ACCOUNTS

The board of directors (the "Board") 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 2005 together with the comparative figures for the six months ended 30 June 2004. These interim results have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

	Notes	**Six months ended 30 June 2005** ***HK$'000***	Six months ended 30 June 2004 *HK$'000* (Restated)
TURNOVER	*2*	**7,860,282**	7,470,432
Cost of sales		**(7,005,462)**	(6,923,219)
Gross profit		**854,820**	547,213
Other revenue		**69,581**	69,599
Distribution costs		**(448,881)**	(304,216)
Administrative expenses		**(132,937)**	(102,256)
Other operating expenses, net		**(8,033)**	(14,485)
PROFIT FROM OPERATING ACTIVITIES	*2, 3*	**334,550**	195,855
Finance costs		**(54,401)**	(40,863)
Share of results of associates	*4*	**28,639**	976
PROFIT BEFORE TAX		**308,788**	155,968
Tax	*5*	**(86,375)**	(40,473)
PROFIT AFTER TAX		**222,413**	115,495
Net (profit) / loss attributable to minority interests		**(18,432)**	2,652
NET PROFIT ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**203,981**	118,147
INTERIM DIVIDENDS ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**76,493**	48,496
INTERIM DIVIDENDS PER SHARE ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**4.35 HK cents**	2.76 HK cents
EARNINGS PER SHARE ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS	*6*		
Basic		**11.6 HK cents**	6.7 HK cents
Diluted		**11.6 HK cents**	6.7 HK cents

For the six months ended 30 June 2005

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Notes	**Six months ended 30 June 2005** *HK$'000*	Six months ended 30 June 2004 *HK$'000* (Restated)
Total equity at 1 January		**4,312,985**	4,135,027
Prior year adjustments:	*1*		
HKAS1 – Reclassification of minority interests		**878,335**	718,330
HKAS39 – Restatement of financial instruments at fair value		**(2,313)**	–
HKFRS3 – Restatement of negative goodwill brought forward		**13,032**	–
Restated balance		**5,202,039**	4,853,357
ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS			
Issue of shares, including share premium	*11,12*	**4,919**	13,695
Increase in capital reserve of employee share options	*12*	**9,805**	2,579
Exchange differences on translation of the financial statements of foreign entities	*12*	**580**	(1,930)
Net gains not recognised in the profit and loss accounts		**15,304**	14,344
Net profit for the period		**203,981**	118,147
Dividends		**(65,766)**	(87,855)
		153,519	44,636
ATTRIBUTABLE TO MINORITY INTERESTS			
Increase in equity of a subsidiary		**–**	30,000
Dividends paid to minority shareholders of subsidiaries		**(1,923)**	(2,261)
Net profit (loss) for the period		**18,432**	(2,652)
		16,509	25,087
Total equity at 30 June		**5,372,067**	4,923,080

For the six months ended 30 June 2005

CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) 30 June 2005 HK$'000	(Audited and restated) 31 December 2004 HK$'000
NON-CURRENT ASSETS			
Fixed assets		**3,128,834**	3,009,744
Goodwill		**489,905**	499,560
Interests in associates		**456,992**	429,397
Long term investments		**33,411**	33,902
Lease premium for land		**181,745**	161,734
Deferred tax assets		**5,893**	6,725
Biological assets		**33,623**	33,623
TOTAL NON-CURRENT ASSETS		**4,330,403**	4,174,685
CURRENT ASSETS			
Inventories		**2,585,852**	1,772,988
Accounts receivable	*8*	**628,732**	959,128
Other debtors, prepayments and deposits		**1,056,161**	697,965
Lease premium for land		**4,826**	4,557
Amounts due from fellow subsidiaries	*14*	**52,366**	84,133
Amounts due from related companies	*14*	**102,738**	3,142
Amount due from the ultimate holding company	*14*	**36,934**	6,899
Tax prepaid		**6,905**	3,118
Other investments		**180,552**	311,670
Cash and cash equivalents		**1,760,601**	1,104,813
TOTAL CURRENT ASSETS		**6,415,667**	4,948,413
TOTAL ASSETS		**10,746,070**	9,123,098
CURRENT LIABILITIES			
Accounts payable	*9*	**461,548**	439,794
Other payables and accruals		**874,331**	661,792
Amounts due to fellow subsidiaries	*14*	**6,619**	50,178
Amount due to the immediate holding company	*14*	**705**	705
Amounts due to related companies	*14*	**207,419**	45,780
Amounts due to minority shareholders of subsidiaries	*14*	**–**	2,068
Tax payable		**33,616**	43,901
Interest-bearing bank loans and other loans	*10(a)*	**3,690,457**	2,578,766
TOTAL CURRENT LIABILITIES		**5,274,695**	3,822,984

For the six months ended 30 June 2005

CONSOLIDATED BALANCE SHEET (continued)

	Notes	**(Unaudited) 30 June 2005 HK$'000**	(Audited and restated) 31 December 2004 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other loans	*10(a)*	**31,557**	31,557
Advance from minority shareholders of subsidiaries	*10(b)*	**62,649**	61,625
Deferred tax liabilities		**5,102**	4,893
TOTAL NON-CURRENT LIABILITIES		**99,308**	98,075
TOTAL LIABILITIES		**5,374,003**	3,921,059
TOTAL EQUITY ATTRIBUTABLE TO MINORITY INTERESTS		**894,844**	878,335
CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS			
Issued capital	*11*	**175,845**	175,710
Reserves	*12*	**4,301,378**	4,082,228
Proposed final dividends		**–**	65,766
TOTAL EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**4,477,223**	4,323,704
TOTAL LIABILITIES AND EQUITIES		**10,746,070**	9,123,098
NET CURRENT ASSETS		**1,140,972**	1,125,429
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,471,375**	5,300,114

For the six months ended 30 June 2005

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

	Six months ended 30 June 2005 ***HK$'000***	Six months ended 30 June 2004 *HK$'000*
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	**(276,623)**	424,150
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(22,759)**	(372,134)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING ACTIVITIES	**(299,382)**	52,016
NET CASH INFLOW FROM FINANCING ACTIVITIES	**1,051,868**	38,177
INCREASE IN CASH AND CASH EQUIVALENTS	**752,486**	90,193
Cash and cash equivalents at beginning of period	**1,005,615**	1,078,108
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,758,101**	1,168,301
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**1,121,676**	597,024
Non-pledged time deposits with original maturity of less than three months when acquired	**636,425**	571,277
	1,758,101	1,168,301

For the six months ended 30 June 2005

NOTES:

1. BASIS OF PREPARATION

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has undertaken to converge by 1 January 2005 all Hong Kong Financial Reporting Standards ("HKFRSs") with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material aspects as at 31 December 2004.

The unaudited consolidated results (the "Interim Accounts") are prepared in accordance with HKFRSs issued by the HKICPA and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Interim Accounts have been prepared under the historical cost convention, except for the remeasurement of certain financial instruments, investment properties and biological assets.

Starting from financial year ended 31 December 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below and certain comparative figures of the Interim Accounts have been restated in accordance with the relevant requirements.

HKAS1	Presentation of Financial Statements
HKAS2	Inventories
HKAS7	Cash Flow Statements
HKAS8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS10	Events after the Balance Sheet Date
HKAS12	Income Taxes
HKAS14	Segment Reporting
HKAS16	Property, Plant and Equipments
HKAS17	Leases
HKAS18	Revenue
HKAS19	Employee Benefits
HKAS20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS21	The Effects of Changes in Foreign Exchange Rates
HKAS23	Borrowing Costs
HKAS24	Related Party Disclosures
HKAS26	Accounting and Reporting by Retirement Benefit Plans
HKAS27	Consolidated and Separate Financial Statements
HKAS28	Investment in Associates
HKAS32	Financial Instruments: Disclosure and Presentation
HKAS33	Earnings per Share
HKAS34	Interim Financial Reporting
HKAS36	Impairment of Assets

For the six months ended 30 June 2005

1. BASIS OF PREPARATION (continued)

HKAS37	Provisions, Contingent Liabilities and Contingent Assets
HKAS38	Intangible Assets
HKAS39	Financial Instruments: Recognition and Measurement
HKAS40	Investment Properties
HKAS41	Agriculture
HKFRS2	Share-based Payments
HKFRS3	Business Combinations
HK(SIC)-Int21	Income Taxes – Recovery of Revalued Non-depreciable Assets

(a) The accounting policies which have material impacts on the Group are set out below:

Adoption of HKAS32 and HKAS39

The adoption has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Until 31 December 2004, investments of the Group were classified into long term investments, which are included in the balance sheet at cost less amortisation and impairment losses, and other investments, which are stated at fair value at the balance sheet date. Bank deposits with embedded derivatives for yield enhancement were treated as bank deposits and stated at cost. The unexpired forward foreign exchange contracts and future commodity contracts entered by the Group at the balance sheet date are not recognised in the balance sheet.

In accordance with the provisions of HKAS32 and HKAS39:

- Investments have been redesignated into available-for-sales financial assets (namely "long term investments"), financial assets at fair value through profit and loss account (namely "other investments") and loans and receivables (which include bank deposits and cash and cash equivalents). The classification depends on the purpose for which the investments were held at inception. For debt securities and bank deposits with embedded derivatives for yield enhancement, where the economic characteristics and the risks of such derivatives are not closely related to the host securities and bank deposits, all such debt securities, bank deposits and embedded derivatives are designated as other investments with changes in fair value recognised in the profit and loss account.

For the six months ended 30 June 2005

1. BASIS OF PREPARATION (continued)

(a) The accounting policies which have material impacts on the Group are set out below: (continued)

Adoption of HKAS32 and HKAS39 (continued)

- All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investments. Subsequent to initial recognition, other investments are remeasured at fair value and changes in fair value are dealt with in the profit and loss account. Long term investments are remeasured at fair value, with unrealised gains and losses arising from changes in fair value recognised in the investment revaluation reserve.

- Derivative financial instruments entered by the Group are carried in the balance sheet at fair value through profit and loss account.

The transitional provisions of HKAS39 are as follows:

- recognise all derivatives at fair value in the balance sheet on 1 January 2005 and adjust retained profits accordingly;

- redesignate all investments into long term investments, other investments and loans and receivables on 1 January 2005;

- remeasure those financial assets or financial liabilities that should be measured at fair value and those that should be measured at amortised cost and adjust retained profits accordingly at 1 January 2005.

Adoption of HKFRS2

This adoption has resulted in a change in accounting policy for the Company's employee share options. Prior to this adoption, the provision of employee share options did not result in a charge to the profit and loss account.

Following the adoption of HKFRS2, the fair value of employee share options at grant date is amortised over the relevant vesting periods to the profit and loss account as an expense, with a corresponding increase recognised in a capital reserve within the equity attributable to the Company's shareholders. If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapsed or unexercised, the related capital reserve is transferred directly to retained profits. HKFRS2 has been applied retrospectively for all employee share options granted after 7 November 2002 and not vested as at 1 January 2004.

For the six months ended 30 June 2005

1. **BASIS OF PREPARATION (continued)**

(a) The accounting policies which have material impacts on the Group are set out below: (continued)

Adoption of HKFRS3 and HKAS36

The adoption has resulted in a change in accounting policy for goodwill. In prior periods, positive goodwill which arose on or after 1 January 2001 was amortised on a straight-line basis over its estimated useful life of 20 years or the management contract period of 10 years starting from October 2001 and was subject to impairment testing when there were indications of impairment.

With effect from 1 January 2005, in accordance with HKFRS3 and HKAS36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. Also with effect from 1 January 2005, in accordance with HKFRS3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as "negative goodwill" under the previous accounting policy), this excess is recognised immediately in the profit and loss account as it arises. The transitional provisions of HKFRS3 have required the Group to eliminate the carrying amounts of accumulated amortisation with a corresponding entry to the cost of positive goodwill and derecognise the carrying amounts of negative goodwill against retained profits as at 1 January 2005.

(b) Summary of material effects of changes in the accounting policies are set out below:

(I) Effect of adoption of HKFRSs on the comparative figures of consolidated profit and loss account

	As previously reported	HKAS1	HKAS17	HKAS40	HKAS32 & HKAS39	HKFRS2	HKFRS3	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the six months ended 30 June 2004								
Net profit attributable to the Company's shareholders	120,726	–	–	–	–	(2,579)	–	118,147

For the six months ended 30 June 2005

1. BASIS OF PREPARATION (continued)

(b) Summary of material effects of changes in the accounting policies are set out below: (continued)

(II) Effect of adoption of HKFRSs on the comparative figures of the consolidated statement of changes in equity

	As previously reported	HKAS1	HKAS17	HKAS40	HKAS32 & HKAS39	HKFRS2	HKFRS3	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total equity at 1 January 2004								
Increase/(decrease) in equity								
Within equity attributable to the Company's shareholders								
Employee share-based compensation reserve	–	–	–	–	–	1,618	–	1,618
Investment properties revaluation reserves	2,183	–	–	(2,183)	–	–	–	–
Retained profits	911,396	–	–	2,183	–	(1,618)	–	911,961
Within equity attributable to minority interests	–	718,330	–	–	–	–	–	718,330

For the six months ended 30 June 2005

1. BASIS OF PREPARATION (continued)

(b) Summary of material effects of changes in the accounting policies are set out below: (continued)

(III) Effect of adoption of HKFRSs on the comparative figures of consolidated balance sheet

	As previously reported	HKAS1	HKAS17	HKAS40	HKAS32 & HKAS39	HKFRS2	HKFRS3	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2004								
Increase/(decrease) in assets								
Fixed assets	3,174,061	–	(164,317)	–	–	–	–	3,009,744
Lease premium for land (non-current)	–	–	161,734	–	–	–	–	161,734
Lease premium for land (current)	–	–	4,557	–	–	–	–	4,557
Negative goodwill	(13,032)	–	–	–	–	–	13,032	–
Other debtors, prepayments and deposits	699,939	–	(1,974)	–	–	–	–	697,965
Other investments	277,525	–	–	–	34,145	–	–	311,670
Cash and cash equivalents	1,144,448	–	–	–	(39,635)	–	–	1,104,813
Increase/(decrease) in liabilities								
Other payables and accruals	664,969	–	–	–	(3,177)	–	–	661,792
Increase/(decrease) in equity								
Within equity attributable to the Company's shareholders								
Employee share-based compensation reserve	–	–	–	–	–	13,132	–	13,132
Investment properties revaluation reserves	2,183	–	–	(2,183)	–	–	–	–
Retained profits	1,043,418	–	–	2,183	(2,313)	(13,132)	13,032	1,043,188
Within equity attributable to minority interests	–	878,335	–	–	–	–	–	878,335

For the six months ended 30 June 2005

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period under review. 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 under review is as follows:

(a) Business segments

	Edible oils, soyabean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)										(Restated)		(Restated)
Segment revenue:														
Sales to external customers	**5,291,829**	5,102,487	**775,337**	522,145	**89,284**	106,479	**1,405,971**	1,475,218	**297,861**	264,103	**-**	-	**7,860,282**	7,470,432
Segment results	**53,712**	(12,145)	**149,072**	113,324	**8,816**	14,600	**117,179**	71,346	**4,583**	4,842	**(8,189)**	(7,162)	**325,173**	184,805
Interest and dividend income													**10,077**	11,750
Unallocated gains and expenses, net													**(700)**	(700)
Profit from operating activities													**334,550**	195,855
Finance costs													**(54,401)**	(40,863)
Share of results of associates	**28,639**	976											**28,639**	976
Profit before tax													**308,788**	155,968

(b) Geographical segments

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**274,328**	440,174	**7,585,954**	7,030,258	**7,860,282**	7,470,432

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 2005 (Unaudited) ***HK$'000***	Six months ended 30 June 2004 (Unaudited) *HK$'000*
Cost of inventories sold	**7,005,462**	6,923,219
Write back of provision against inventories	**–**	(1,609)
Depreciation	**107,841**	91,590
Loss on disposal of fixed assets	**585**	1,110
Amortisation of a long term investment	**700**	700
Amortisation of goodwill	**–**	19,870
Negative goodwill recognised as income	**–**	(1,700)
Impairment of goodwill	**9,655**	–
Gain on disposal of other investments	**–**	(920)
Dividends from an unlisted long term investment and listed equity securities	**(12)**	(2,696)
Net rental income	**(6,384)**	(2,435)
Interest income	**(10,065)**	(9,054)
Write back of provision for doubtful debts	**–**	(88)

4. SHARE OF RESULTS OF ASSOCIATES

	Six months ended 30 June 2005 (Unaudited) ***HK$'000***	Six months ended 30 June 2004 (Unaudited) *HK$'000* (Restated)
Share of profits less losses of associates	**31,573**	71
Share of tax (charge) / credit of associates	**(2,934)**	905
	28,639	976

For the six months ended 30 June 2005

5. TAX

Hong Kong profits tax has been calculated at the rate of 17.5 per cent. (2004: 17.5 per cent.) on the estimated assessable profits arising in Hong Kong during the period under review. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June 2005 (Unaudited) ***HK$'000***	Six months ended 30 June 2004 (Unaudited) *HK$'000* (Restated)
Current profits tax:		
– Hong Kong	**1,628**	1,340
– Elsewhere in the PRC	**83,706**	37,769
Deferred tax	**1,041**	1,364
	86,375	40,473

6. EARNINGS PER SHARE ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS

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

Earnings	**Six months ended 30 June 2005 (Unaudited)** ***HK$***	Six months ended 30 June 2004 (Unaudited) *HK$* (Restated)
Net profit attributable to the Company's shareholders, used in the basic and diluted earnings per share calculations	**203,981,000**	118,147,000

6. EARNINGS PER SHARE ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS (continued)

Shares	Number of shares **Six months ended 30 June 2005**	 Six months ended 30 June 2004
Weighted average number of ordinary shares in issue during the period under review used in basic earnings per share calculation	**1,758,054,670**	1,751,044,556
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all exercisable share options during the period under review	**6,134,015**	4,761,244
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**1,764,188,685**	1,755,805,800

7. ADDITIONS TO FIXED ASSETS

During the six months ended 30 June 2005, the Group spent approximately HK$249,768,000 (2004: HK$191,618,000) on additions to fixed assets.

8. ACCOUNTS RECEIVABLE

An analysis of the accounts receivable as at 30 June 2005 is as follows:

	(Unaudited) At 30 June 2005 ***HK$'000***	(Audited) At 31 December 2004 *HK$'000*
Outstanding balances with ages:		
Within 6 months	**622,175**	933,336
Between 7 to 12 months	**7,322**	24,731
Between 1 to 2 years	**684**	3,638
Over 2 years	**21,933**	20,805
	652,114	982,510
Less: Provision for doubtful debts	**(23,382)**	(23,382)
	628,732	959,128

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.

For the six months ended 30 June 2005

9. ACCOUNTS PAYABLE

An analysis of the accounts payable as at 30 June 2005 is as follows:

	(Unaudited) At 30 June 2005 *HK$'000*	(Audited) At 31 December 2004 *HK$'000*
Within 6 months	**401,068**	423,744
Between 7 to 12 months	**57,194**	4,850
Between 1 to 2 years	**2,005**	9,248
Over 2 years	**1,281**	1,952
	461,548	439,794

10. BORROWINGS

(a) Interest-bearing bank loans and other loans

	(Unaudited) At 30 June 2005 *HK$'000*	(Audited) At 31 December 2004 *HK$'000*
Bank loans:		
Secured	**334,220**	57,830
Unsecured	**2,757,305**	2,073,778
	3,091,525	2,131,608
Other loans		
Unsecured	**630,489**	478,715
	3,722,014	2,610,323
Bank loans repayable:		
Within one year or on demand	**3,067,940**	2,108,023
In the second year	**–**	–
In the third to fifth years, inclusive	**23,585**	23,585
	3,091,525	2,131,608
Other loans repayable:		
Within one year or on demand	**622,517**	470,743
In the second year	**–**	–
In the third to fifth years, inclusive	**7,972**	7,972
	630,489	478,715
	3,722,014	2,610,323
Portion classified as current liabilities	**(3,690,457)**	(2,578,766)
Non-current portion	**31,557**	31,557

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10. BORROWINGS (continued)

(a) Interest-bearing bank loans and other loans (continued)

The bank loans bear interest at rates ranging from 3.00% to 5.04% per annum (31 December 2004: from 2.57% to 6.34%).

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$622,517,000 (31 December 2004: HK$470,743,000) which bear interest at rates ranging from 4.49% to 5.58% per annum (31 December 2004: from 2.31% to 5.58%).

The ultimate holding company and an associate of the Group had guaranteed certain of the Group's unsecured bank loans up to HK$252,868,000 (31 December 2004: HK$272,465,000) at 30 June 2005.

(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.

11. SHARE CAPITAL

	Number of ordinary shares issued	Par value
		HK$'000
Balance as at 1 January 2005	1,757,099,974	175,710
Issue of shares pursuant to share option scheme	1,350,000	135
Balance as at 30 June 2005	1,758,449,974	175,845

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12. RESERVES – UNAUDITED

	Share premium account HK$'000	Capital reserve HK$'000	Investment properties revaluation reserve HK$'000	Reserve funds HK$'000	Employee share-based compensation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005, as previously reported	2,771,258	134,267	2,183	117,972	–	2,411	1,043,418	4,071,509
Effect of adopting HKAS39 – In respect of financial instruments *(Note 1)*	–	–	–	–	–	–	(2,313)	(2,313)
Effect of adopting HKAS40 – In respect of investment properties *(Note 1)*	–	–	(2,183)	–	–	–	2,183	–
Effect of adopting HKFRS2 – In respect of employee share options *(Note 1)*	–	–	–	–	13,132	–	(13,132)	–
Effect of adopting HKFRS3 – In respect of negative goodwill *(Note 1)*	–	–	–	–	–	–	13,032	13,032
As restated	2,771,258	134,267	–	117,972	13,132	2,411	1,043,188	4,082,228
Issue of shares pursuant to share option scheme	4,784	–	–	–	–	–	–	4,784
Profit for the period	–	–	–	–	–	–	203,981	203,981
Staff costs recognised under employee share option scheme	–	–	–	–	9,805	–	–	9,805
Transfer from retained profits	–	–	–	26,573	–	–	(26,573)	–
Exchange realignment	–	–	–	–	–	580	–	580
At 30 Jun 2005	**2,776,042**	**134,267**	**–**	**144,545**	**22,937**	**2,991**	**1,220,596**	**4,301,378**

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12. RESERVES – UNAUDITED (continued)

	Share premium account HK$'000	Capital reserve HK$'000	Investment properties revaluation reserve HK$'000	Reserve funds HK$'000	Employee share-based compensation reserve 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	911,396	3,872,947
Effect of adopting HKAS40 – In respect of investment properties *(Note 1)*	–	–	(2,183)	–	–	–	2,183	–
Effect of adopting HKFRS2 – In respect of employee share options *(Note 1)*	–	–	–	–	1,618	–	(1,618)	–
As restated	2,758,564	134,267	–	64,038	1,618	2,499	911,961	3,872,947
Issue of shares pursuant to share option scheme	12,694	–	–	–	–	–	–	12,694
Profit for the period	–	–	–	–	–	–	118,147	118,147
Staff costs recognised under employee share option scheme	–	–	–	–	2,579	–	–	2,579
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**	**–**	**106,570**	**4,197**	**1,503**	**985,796**	**4,004,437**

13. 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$353,197,000 (31 December 2004: HK$151,131,000).

For the six months ended 30 June 2005

14. 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 under review:

(a)

	Notes	**Six months ended 30 June 2005 (Unaudited) *HK$'000***	Six months ended 30 June 2004 (Unaudited and restated) *HK$'000*
Transactions with fellow subsidiaries:			
Sale of goods*	*(i)*	**205,996**	152,271
Purchase of goods*	*(i)*	**145,712**	47,151
Operating lease rental paid**	*(i)*	**3,983**	3,127
Interest expenses paid**	*(ii)*	**10,438**	7,512
Transactions with the ultimate holding company:			
Sale of goods*	*(i)*	**50,925**	134,323
Purchase of goods *	*(i)*	**36,306**	103,369
Royalty paid	*(i)*	**11,586**	7,560
Management fee income*	*(i)*	**21,459**	12,800
Management fee paid**	*(i)*	**3,968**	4,435
Interest expenses paid*	*(ii)*	**–**	172
Transactions with related companies:			
Sale of goods*	*(i)*	**294**	–
Purchases of goods *	*(i)*	**3,670,996**	3,425,145
Processing and services charge paid*	*(i)*	**–**	2,365
Transactions with associates:			
Sale of goods*	*(i)*	**27,327**	13,057
Purchase of goods *	*(i)*	**–**	22,712
Processing fee expenses	*(i)*	**9,021**	–
Transactions with minority shareholders of subsidiaries:			
Sale of goods*	*(i)*	**–**	104,553
Purchase of goods*	*(i)*	**–**	951,883

* These related party transactions also constitute connected transactions disclosable in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

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14. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Note:

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

(ii) Interest rates arising from the loans from the ultimate holding company and its beneficially wholly-owned subsidiary COFCO Finance Corporation Limited ("COFCO Finance"), which are unsecured and of which HK$622,517,000 are repayable within one year, bear interests at rates ranging from 4.49% to 5.58% per annum.

(b) In addition to the above connected transactions, the sales and purchases of edible oils and oil-related products and the resale of soybean with a total value of approximately HK$122,242,000 were made by certain subsidiaries of COFCO Oils & Fats Holdings Limited, a wholly-owned subsidiary of the Company, to its other subsidiaries. These transactions have been eliminated on consolidation but still constituted connected transactions under the Listing Rules.

(c) Except for the loans of HK$630,489,000 (31 December 2004: HK$478,715,000) from the ultimate holding company and COFCO Finance, the terms of which are detailed in note 10 to the financial statements, the remaining balances with fellow subsidiaries, holding companies, related companies and minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(d) Pursuant to certain licensing agreements entered into between the Group and a related party, the Group has been granted the exclusive right to use certain trademarks for its edible oils, soya bean meal and related products businesses. The licensing fee for the period under review and prior year was waived by the related party.

15. CAPITAL COMMITMENTS

At 30 June 2005, the Group had the following capital commitments:

	30 June 2005 (Unaudited) ***HK$'000***	31 December 2004 (Audited) *HK$'000*
Capital commitments in respect of Property, plant and equipment: Contracted, but not provided for	**150,355**	52,652

16. APPROVAL OF THE INTERIM ACCOUNTS

The Interim Accounts were approved by the Board on 7 September 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's consolidated turnover for the period under review was HK$7,860,282,000, representing an increase of 5% over the corresponding period last year. Profits attributable to shareholders amounted to HK$203,981,000, an increase of 73% over the corresponding period last year. The basic earnings per share for the period under review were 11.6 HK cents, 73% more than the 6.7 HK cents per share (as restated) for the corresponding period last year.

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

The performance of these businesses during the period under review and other information related to the Group are set out as follows:

Edible oils, soybean meal and related products

During the period under review, soybean prices were fluctuating at a relatively low level during the first quarter, traditionally a low season for soybean meal and soybean oil demand in the domestic market. Consequently, this business showed satisfactory results in a situation of supply and demand equilibrium. The Group had thus initially set the earnings target for this business for the current year at the same level as 2003 when soybean demand and supply was in equilibrium and prices were relatively satisfactory.

However, starting from the middle of the second quarter, the weather conditions in South and North America, the spread of cereal rusts in North America and other unfavourable news concerning the harvest of soybean had an adverse influence on soybean prices, causing them to surge sharply. Meanwhile, domestic prices of soybean meal and soybean oil dropped due to the traditionally low season in the second quarter and the occasional occurrence of avian flu in addition to oversupply of soybean meal and soybean oil. While the world prices of soybean increase, the domestic prices of soybean meal and soybean oil decrease. This situation exerted substantially higher pressure on the costs of this sector in China and to a large extent affected results of the business in the second quarter.

In spite of all this, the business registered considerable growth compared to the corresponding period last year, which was attributable to its own strength and effective measures in face of changes. Turnover for the period reached HK$5,291,829,000, accounting for 67.3% of total turnover. Soybean meal sales were 1,644,704 tonnes, an increase of 36% over the same period last year. Edible oil sales were 566,127 tonnes, rising 37% over the same period last year. Consumer-packaged oil sales were 211,412 tonnes, increasing 25% over the same period last year.

In the first half of 2004, China's edible oil industry experienced an adverse operating environment unprecedented in history and soybean prices had not yet stabilized in the first half of 2005. With soybean prices returning to a reasonable level and other unfavourable factors being removed, the market has been recovering. On the other hand, there is surplus extraction capacity in China's edible oil industry and the country, despite being a leading market for soybeans, has no pro-active control over international soybean prices. These remain major challenges for the industry. This situation points to the need for edible oil industry to be streamlined so as to increase competitiveness and to foster healthy growth.

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To improve the profitability of the business in general, the Group has in recent years been enhancing the development of 'Fortune' consumer-packaged oils. By means of the strong brand name and increased marketing, 'Fortune' consumer-packaged oils continue to register a growth rate of over 20%, upholding their position in the market. Moreover, the Group has been making efforts in the development of other new consumer-packaged oil products with a relatively high gross profit margin compared with soybean oil, such as peanut oil, sunflower seed oil and safflower seed oil. During the period under review, sales of edible oil and consumer-packaged edible oils continued to rise was a result of the sustained product portfolio adjustment and the drive of the consumer product brand strategy.

Wineries

The winery business of the Group, which owns a complete production chain from vineyard to brewery, is engaged mainly in the production and sales of wine under the brand name 'Great Wall' in China. During the period under review, sales of Great Wall wine were HK$775,337,000, representing a substantial increase of 48% over the same period last year and accounting for 9.9% of total turnover, which was encouraging.

As one of China's major wines, Great Wall wine has been upholding its leading position in the country's dry red wine market. During the period under review, turnover increased rapidly, which is largely attributable to the effect of the Great Wall brand. Market demand for wine continued to grow. At the same time the integration of the procurement, sales, management and brand names of the Group's three wineries continued to take effect, with Shacheng Winery most obviously benefiting from such integration in terms of operational efficiency. While every winery has its own advantages, production management, market channels and branding are being consolidated so as to gain synergy, extend consumers' choice and increase market share.

The Group will devote itself to the development of high-end wine. It will continue to adjust its product structures and enhance its product portfolio. Based on further protection and increased promotion of the Great Wall brand, the Group will develop high-end wine market. The development of a chateau marks a further advance by Great Wall wine into higher terrain. Further development of high-end wine will improve the profitability of Great Wall wine in addition to upgrading the brand and raising its market position.

While emphasizing internal growth, the Group will actively explore and seek any external opportunities for expansion to make room for the development of its winery business.

Confectionery

The confectionery business produces and distributes chocolate and other confectionery products in China under the brand name "Le Conte". During the period under review, this sector recorded HK$89,284,000 in turnover, representing a decrease of 16% over the corresponding period last year and accounting for 1.1% of total turnover.

Although the organic growth of China's chocolate market has been considerable, this market is relatively small and sales are mainly realized during festivals. During the period under review, this business registered a decrease in sales. One of the main reasons was the overlap of the Lunar New Year and St. Valentine's Day, both traditionally high seasons for chocolate sales. This meant losing one good chance for promoting sales. Compared to the sales of chocolate during the period around St. Valentine's Day last year, the sales dropped by HK$10.38 million this year.

Apart from this, to improve profitability and product supply efficiency, the Group's large and medium-sized points of sale in Beijing and Shanghai abandoned their dealership system and adopted direct supply model. This resulted in a decrease in turnover but a significantly better gross profit margin. The Group believes that lower sales were an inevitable but temporary phenomenon during the process of modifying the dealership system. In the long run, such modification will be beneficial to business development.

The snack food market in China has great potential and consumption is promising. While controlling costs, the Group will strengthen its market promotion and invest in packaging and the research and development of new confectionery products other than chocolate. The Group will use a multiple brand strategy to expand the high-end confectionery and chocolate market and increase its market share. Meanwhile, the Company will look for opportunities for expansion through mergers and acquisitions.

Flour Milling

During the period under review, flour milling business recorded HK$297,861,000 in turnover, up 13% over the same period last year and accounting for 3.8% of total turnover.

China's flour industry is characterized by scattered markets, large scale and a geographically wide area of consumption. The industry faces excess capacity and is in the process of streamlining. The Group owns regionally renowned brand names. Apart from cultivating its brands, enhancing brand prominence and devoting its effort to developing these brands into nationally well-known names, the Group will continue to improve the ratio of high-end flour production and sales in order to realize a higher consolidated gross profit margin.

To improve profitability, the Group will strive to develop new products and downstream products, strengthen cost control and product management in addition to expanding the flour sales network. Moreover, the Group will enhance the management of and dovetailing among procurement, production and sales to increase the synergy among its flour mills.

Trading

The Group has been engaged in the domestic trade as well as import and export of foodstuffs, grains and animal feedstock. During the period under review, the Group was mainly engaged in the bulk, mainly back-to-back commodity trading of rice, soybeans, red beans, sugar, fruit and vegetables. It also processed raw materials for export. In addition, it provided foodstuffs trade agency services on a commission basis. The Group's trading business consists of approximately 87% exports, 12% imports and the remaining 1% domestic trade.

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During the period under review, imported products decreased. The consolidated turnover of trading business totalled HK$1,405,971,000 with a decrease of 4.7% over the corresponding period last year and accounted for 17.9% of total turnover. However, profits increased significantly over the corresponding period last year.

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

In response to the ever-changing market, the Group will continue to open up new trading channels and introduce new products. It is believed that with the Group's diversified trading model, its more than 50 years of experience in the foodstuffs trade, its established international trade network and its well developed and strict risk management system, the trading business will continue to generate promising and steady operational profit for the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position is sound with a stable cash flow. As at 30 June 2005, the Group's total shareholders' equity was HK$4,477,223,000, representing an increase of 3.6% compared with that at 31 December 2004 (as restated). As at 30 June 2005, the Group's cash and bank deposits totalled HK$1,760,601,000 (31 December 2004: HK$1,104,813,000 (as restated)). The Group's net current assets were approximately HK$1,140,972,000 (31 December 2004: HK$1,125,429,000 (as restated)).

Based on the above together with bank loans and other loans and facilities available to the Group, the management believes that the Group's financial resources are adequate for all debt payments and it will have sufficient funds for its daily operation and capital expenditure.

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

CAPITAL STRUCTURE

During the period under review, the issued share capital of the Company increased by 1,350,000 shares as a result of an executive director exercising his share options. There are no other changes in the share capital of the Company apart from this during the period under review.

As at 30 June 2005, the Group had no significant borrowings apart from certain bank loans, loans from minority shareholders of the Company's subsidiaries, loans from the Company's ultimate holding company, China National Cereals, Oils & Foodstuffs Corporation ("COFCO") and loans from a wholly owned subsidiary of COFCO totalling HK$3,784,663,000 (31 December 2004: HK$2,671,948,000). During the period under review, all bank borrowings of the Group bore a fixed annual interest of between 3.00% and 5.04% (31 December 2004: between 2.57% and 6.34%). Other borrowings were interest-free or bore fixed annual interest rates ranging from 4.49% to 5.58% (31 December 2004: from 2.31% to 5.58%).

As at 30 June 2005, the Group's net assets were approximately HK$4,477,223,000 (31 December 2004: HK$4,323,704,000, as restated), and the net debts (the total of debt excluding loans from minority shareholders of subsidiaries that were of a capital nature less cash and bank deposits) were HK$1,961,413,000 (31 December 2004: HK$1,505,510,000). Based on the above, the Group's gearing ratio was approximately 43.8% (31 December 2004: 34.8%, as restated).

CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2005, the Group had no material contingent liabilities.

As at 30 June 2005, the Group's certain bank loans were secured by charges over its fixed assets and investment property with a net book value of approximately HK$353,197,000 (31 December 2004: HK$151,131,000).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2005, the Group had approximately 6,911 employees in China and Hong Kong (31 December 2004: 6,507). Employees are remunerated according to their performance, experience and prevailing trade practices. On-the-job and professional training are provided to them. The Group provides to employees in Hong Kong retirement benefits, either in the form of Mandatory Provident Fund Exempted ORSO or Mandatory Provident Fund entitlement. There is a similar scheme for employees in mainland China. Details of the retirement benefit schemes are set out in the Group's 2004 Annual Report.

The Company has implemented a share option scheme (the "Scheme") to reward eligible employees (including executive directors of the Company) according to individual merits. During the period under review, one executive director of the Company exercised share options in respect of 1,350,000 shares, and share options in respect of a total of 8,150,000 shares lapsed. As at 30 June 2005, there were outstanding share options in respect of a total of 58,074,000 shares.

Share options can be exercised at any time within four years after the expiration of a 12-month period from the date when the options are granted. During the period under review, the Company granted no share options to the Company's executive directors or 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 was no material change in the structure of the Group.

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PROSPECTS

In conclusion, during the period under review, the wineries and trading businesses recorded promising results, but the edible oils, soybean meal and related products business was affected by market factors and recorded below-expectation profits while chocolate business earnings registered a temporary decrease due to the overlapping of festivals and the modification of sales and marketing methods.

The appreciation of Renminbi has attracted everybody's attention. As the assets and operations of the Group are principally denominated in Renminbi, as the principal raw material of soybean business (which accounts for the biggest proportion in the turnover) is imported soybeans and the trading business (which accounted for a comparatively large share of the Group's exports) is running under a back-to-back model, the appreciation of Renminbi has a positive impact on the Group and benefits its operation.

The Group will devote its effort to researching and furthering its various business strategies in order to foster the upgrading of its strategy relating to products, brands, marketing and services, to further improve management and thus to further develop its various businesses and create more value for the Company and its shareholders.

We are full of confidence and have high expectations for the future. With our pro-active spirit and effective measures, the Group will certainly accelerate its development and proceed towards its target of being a leader in China's branded foodstuffs market.

INTERIM DIVIDENDS

The Board declare the payment of an interim dividend of 4.35 HK cents (2004: 2.76 HK cents) per share in respect of the six months ended 30 June, 2005. The interim dividend will be payable on 5 October 2005 to shareholders of the Company whose names appear on the Register of the Members of the Company on 28 September 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23 September 2005 to 28 September 2005, 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 22 September 2005.

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

As at 30 June, 2005, the interests and short positions of the Directors and their associates in the shares, debentures or underlying shares of the Company or any of its associated companies (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7, 8 and 9 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or are required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

Name of director	Capacity/Nature of interests	Number of shares in long position	Total	Percentage of aggregate interests to total number of issued shares (%)*
Mr. Li Fuchun	Beneficial owner	1,350,000[1]		
	Beneficial owner	8,550,000[2]	9,900,000	0.56
Mr. Yu Guangquan	Beneficial owner	117,000[1]		
	Beneficial owner	5,700,000[2]	5,817,000	0.33
Mr. Xue Guoping	Beneficial owner	900,000[1]		
	Beneficial owner	5,700,000[2]	6,600,000	0.38
Mr. Li Yongfu	Beneficial owner	900,000[1]		
	Beneficial owner	5,700,000[2]	6,600,000	0.38
Mr. Ng Eng Leong	Beneficial owner	1,900,000[2]	1,900,000	0.11
Mr. Qu Zhe	Beneficial owner	105,000[1]		
	Beneficial owner	670,000[2]	775,000	0.04

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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 set out in the following section headed "Share Option Scheme".

* The percentage has been adjusted based on the total number of shares of the Company in issue as at 30 June, 2005 (i.e. 1,758,449,974 shares).

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

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

As at 30 June, 2005, none of the directors and their associates had any short positions in the shares, underlying shares and debentures of the Company and its associated companies.

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.

For the six months ended 30 June 2005

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

Name or category of participant	Number of share options: At 1 January 2005	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2005	Date of grant of share options[1]	Exercise price of share options	Exercise price of Share options[2] HK$	The closing price of the Company's share immediately before the date of exercise HK$
Directors									
Mr. Liu Fuchun	4,050,000	–	–	–	4,050,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	–
	4,500,000	–	–	–	4,500,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	–
	8,550,000	–	–	–	8,550,000				
Mr. Yu Guangquan	2,700,000	–	–	–	2,700,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	–
	3,000,000	–	–	–	3,000,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	–
	5,700,000	–	–	–	5,700,000				
Mr. Xue Guoping	2,700,000	–	–	–	2,700,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	–
	3,000,000	–	–	–	3,000,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	–
	5,700,000	–	–	–	5,700,000				
Mr. Liu Yongfu	2,700,000	–	–	–	2,700,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	–
	3,000,000	–	–	–	3,000,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	–
	5,700,000	–	–	–	5,700,000				
Mr. Ng Eng Leong	900,000	–	–	–	900,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	–
	1,000,000	–	–	–	1,000,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	–
	1,900,000	–	–	–	1,900,000				
Mr. Qu Zhe	320,000	–	–	–	320,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	–
	350,000	–	–	–	350,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	–
	670,000	–	–	–	670,000				
Mr. Zhou Mingchen (resigned on 24 January 2005)	4,500,000	–	(1,350,00)	(3,150,000)#	–	10.9.2003	10.9.2004 – 9.9.2008	3.644	4.075
	5,000,000	–	–	(5,000,000)#	–	20.8.2004	20.8.2005 – 19.8.2009	3.050	–
	9,500,000	–	(1,350,000)	(8,150,000)	–				
Other employees									
In aggregate	1,000,000	–	–	–	1,000,000	3.10.2001	3.10.2002 – 2.10.2006	1.370	–
	13,984,000	–	–	–	13,984,000	10.9.2003	10.9.2004 – 9.9.2008	3.644	–
	14,870,000	–	–	–	14,870,000	20.8.2004	20.8.2005 – 19.8.2009	3.050	–
	29,854,000	–	–	–	29,854,000				
	67,574,000	–	(1,350,000)	(8,150,000)	58,074,000				

For the six months ended 30 June 2005

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 other similar changes in the Company's share capital.

\# 30% of the share options granted to Mr. Zhou Mingchen on 10 September, 2003 were exercised within one month following the date of his resignation as a director on 24 January, 2005 and the balance of share options granted on 10 September, 2003 and 20 August, 2004 lapsed one month after the date of his resignation.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The interests and short positions of substantial shareholders in the shares and underlying shares of the Company as at 30 June, 2005, as recorded in the register required to be kept under section 336 of the SFO, were as follows:

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

The Company had been notified of the following substantial shareholders' interests in the shares and underlying shares as at 30 June, 2005:

Name of substantial shareholders	Capacity/Nature of interests	Number of shares in long position	*Notes*	Percentage of aggregate interests to total number of issued shares (%)*
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,054,810,949	*(1)*	59.985
COFCO (BVI) No. 108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	*(1)*	7.962
COFCO (Hong Kong) Limited ("COFCO (HK)")	Beneficial owner	10,138,000	*(1)*	0.577
	Interest of controlled corporations	1,194,810,949	*(1) & (2)*	67.947
COFCO	Interest of controlled corporations	1,204,948,949	*(1) & (3)*	68.523

For the six months ended 30 June 2005

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).

* The percentage has been adjusted based on the total number of shares of the Company in issue as at 30 June, 2005 (i.e. 1,758,449,974 shares).

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

As at 30 June, 2005, 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 above, as at 30 June, 2005, 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.

CORPORATE GOVERNANCE

The Company had complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2005 with deviations from code provisions A.4.1, A.4.2 and E.1.2 of the CG Code in respect of the service term of independent non-executive directors, retirement by rotation of directors and the attendance of the chairmen of the board and committees at the annual general meeting respectively.

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors shall be appointed for a specific term and subject to re-election.

None of the existing independent non-executive directors of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, all directors of the Company (executive and non-executive) are subject to retirement by rotation at each annual general meeting under the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

For the six months ended 30 June 2005

Code Provision A.4.2

Under the code provision A.4.2, all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointments, and each director, including those appointed for a specific term, shall be subject to retirement by rotation at lease once every three years.

According to the previous Bye-Laws of the Company, the chairman of the board, managing director and joint managing director of the Company were not subject to retirement by rotation or taken into account in determining the number of directors to retire. This constitutes a deviation from the code provision A.4.2. To comply with the code provision, relevant amendment to Bye-Laws of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 9 May, 2005 (the "AGM"). All directors of the Company are now subject to retirement by rotation.

Code Provision E.1.2

Under the code provision E.1.2, the chairman of the board shall attend the Company's annual general meeting and arrange for the chairmen of the audit committee and remuneration committee or in the absence of the chairmen of such committees, another members of the committees or failing this their duly appointed delegates, to be available to answer questions at the annual general meeting. The Chairman of the Board was unable to attend the AGM as he had another engagement that was important to the Company's business. The chairman of the Audit Committee resigned on 28 April, 2005 for personal reasons and the vacancy was then yet to be filled. Other members of the Audit Committee were unable to attend the AGM as they were occupied in other businesses.

AUDIT COMMITTEE

Terms of reference of the Audit Committee have been updated in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's interim and annual reports and financial statements. The Audit Committee comprises three independent non-executive directors.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial report matters related to the preparation of the unaudited condensed interim accounts for the six months ended 30 June, 2005.

REMUNERATION COMMITTEE

A remuneration committee has been established with specific written terms of reference in accordance with the requirements of the CG Code. The Remuneration Committee comprises two independent non-executive directors and one executive director.

For the six months ended 30 June 2005

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Upon specific enquiry of all directors, each of them has confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June, 2005.

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

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

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank the shareholders for their continuing support and all the staff for their dedication and hard work.

By Order of the Board
Yu Guangquan
Managing Director

Hong Kong, 7 September 2005