

CHINA AGRI-INDUSTRIES HOLDINGS LIMITED  
中國糧油控股有限公司

A COFCO Company 中糧集團成員企業



**中糧**  
**COFCO**  
自然之源 重塑你我

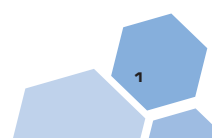
2007  
Interim Report  
中期業績報告



Stock Code 股份代號 : 606

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## DIRECTORS

### Chairman and Non-executive Director

Ning Gaoning

### Executive Directors

Yu Xubo (*Managing Director*)

Lu Jun

Yue Guojun

### Non-executive Directors

Chi Jingtao

Ma Wangjun

### Independent Non-executive Directors

Lam Wai Hon, Ambrose

Victor Yang

Patrick Vincent Vizzone (appointed on 20 June 2007)

Shi Yuanchun (resigned on 20 June 2007)

## AUDIT COMMITTEE

Lam Wai Hon, Ambrose (*Chairman*)

Victor Yang

Ma Wangjun

Patrick Vincent Vizzone (appointed on 20 June 2007)

Chi Jingtao (appointed on 19 September 2007)

## REMUNERATION COMMITTEE

Chi Jingtao (*Chairman*)

Lam Wai Hon, Ambrose

Victor Yang

Patrick Vincent Vizzone (appointed on 20 June 2007)

Ma Wangjun (appointed on 19 September 2007)

## NOMINATION COMMITTEE

Ning Gaoning (*Chairman*)

Lam Wai Hon, Ambrose

Victor Yang

Patrick Vincent Vizzone (appointed on 20 June 2007)

Chi Jingtao (appointed on 19 September 2007)

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Li Wai Kwan

## LEGAL ADVISOR

Herbert Smith LLP

## AUDITORS

Ernst & Young

*Certified Public Accountants*

## COMPLIANCE ADVISOR

BOCOM International Holdings Company Limited

## PRINCIPAL BANKERS

Bank of China Limited

Bank of China (Hong Kong) Limited

China Construction Bank Corporation

Industrial and Commercial Bank of China Limited

Industrial and Commercial Bank of China (Asia) Limited

Rabobank International (Hong Kong) Limited

## REGISTERED OFFICE

33rd Floor

Top Glory Tower

262 Gloucester Road

Causeway Bay

Hong Kong

## HEAD OFFICE

32nd Floor

Top Glory Tower

262 Gloucester Road

Causeway Bay

Hong Kong

## HONG KONG PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Progressive Registration Limited

26th Floor

Tesbury Tower

28 Queen's Road East

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## INVESTOR RELATIONS

Li Wai Kwan

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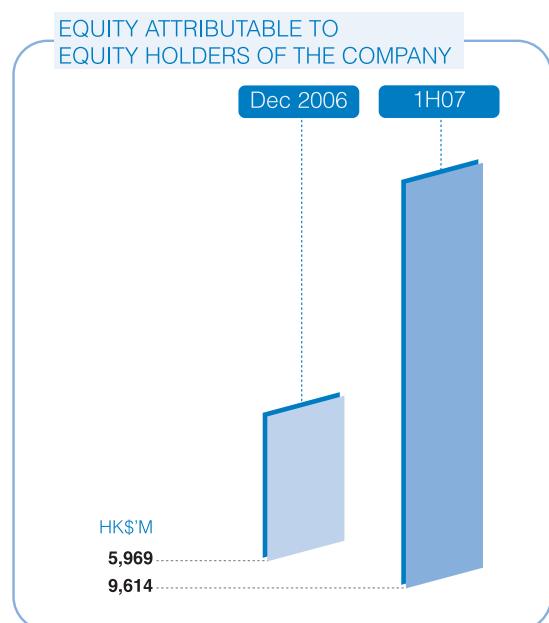
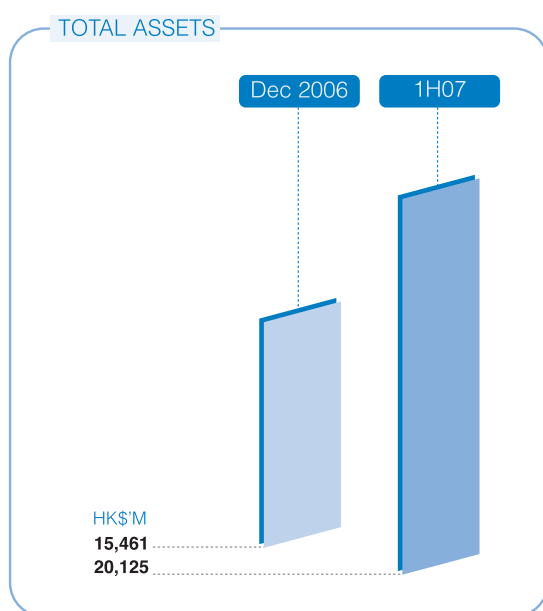
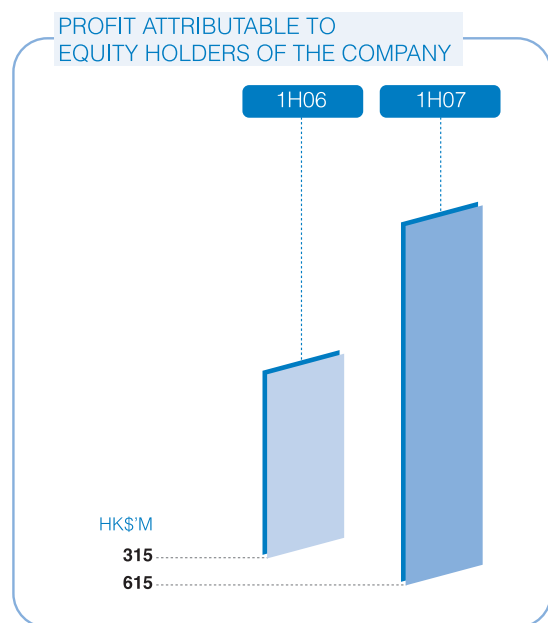
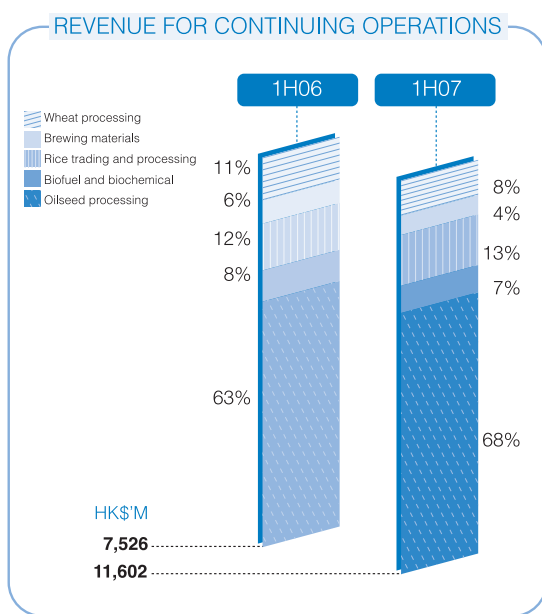
## COMPANY WEBSITE

<http://www.cahworld.com>



# Financial Highlights

- During the period under review, there was a 54% increase in revenue to HK\$11,602 million. All the five major businesses experienced sales growth and the oilseed processing unit was the largest revenue contributor.
- Operating profit for the period under review was HK\$646 million, representing an increase of 57% over the corresponding period. Operating margin improved from 5.5% to 5.6%.
- Profit attributable to equity holders of the Company surged by 95% over the corresponding period, reaching HK\$615 million. Basic earnings per share was HK19 cents.



## OPERATIONAL PERFORMANCE

China Agri-Industries Holdings Limited (the “Company”) follows a clear and focused strategy to fulfill our goal to be a total solution provider to our customers in the China’s thriving food industry.

### Oilseed processing business

We are one of the leading oilseed processors in China with annual crushing and refining capacity of approximately 4.9 million and 1.2 million metric tons, respectively. We source soybeans from the Americas, palm oil from the Southeast Asia, and cottonseeds, peanuts and a majority of rapeseeds from local farmers and grain traders, and process them in our plants located along the coastal regions and the Yangtze River. Our edible oil and oilseed meal products are distributed primarily under the “四海” and “喜盈盈” brands.

Turnover rose 42% year-on-year in the first half of 2007. Prices of edible oils, together with prices of soybeans, continued their last year’s increases during the reporting period. Despite rising prices, demand for bulk edible oils also edged up 4% compared with a year earlier. The favorable business conditions in animal breeding industry also helped growing our sales of oilseed meals and feeds by 24%.

	1H07		1H06		Change	
	Volume Ton’000	Revenue HK\$ million	Volume Ton’000	Revenue HK\$ million	Volume	Revenue
Bulk edible oils	582.5	4,051.7	561.1	2,640.4	+4%	+53%
Oilseed meals and feeds	1,512.0	3,135.6	1,318.7	2,532.5	+15%	+24%
Others	—	644.1	—	329.0	—	+96%
Total		7,831.4		5,501.9		+42%

Vibrant domestic appetite of oilseed products and ongoing consolidation of the oilseed processing industry lift the pricing power of the existing producers. The rise in edible oil prices entirely offset the adverse impact of the surging raw material costs triggered by the structural change in demand of agricultural products from both food and biofuel industry. Thus, gross margin of the business was nearly doubled to 6.9% compared with 3.5% in the first half of 2006.

Going forward, expanding production capacity and strengthening upstream raw material sourcing ability will be our primary business goals. As disclosed in the section headed “Business” of the Company’s listing prospectus dated 8 March 2007 (the “Prospectus”), we plan to complete our national network of oilseed processing production facilities by increasing our annual soybean processing capacity by 600,000 metric tons, our annual soybean oil refining capacity by 300,000 metric tons and our annual palm oil production capacity by 120,000 metric tons.

### Biofuel and biochemical business

Our biofuel business mainly consists of three assets, namely 100% of COFCO Bio-Energy (Zhaodong) Co., Ltd, 20% of Jilin Fuel Ethanol Co., Ltd and 100% of to-be-completed Guangxi fuel ethanol project. The annual fuel ethanol capacities of these assets are 180,000, 400,000 and 200,000 metric tons, respectively. Fuel ethanol project in Guangxi Province is scheduled to complete in late 2007.

Revenue increased 34% attributable to both better pricing and increase in sale volumes of our products. However, the downward adjustment of fuel ethanol prices early this year and the spike of corn costs have placed pressure on the profit margins of the business. Thanks to the management’s decisive cost-saving measures and higher by-product prices which helped offsetting part of the negative impact. Gross margin dropped to 12.0% versus 17.7% a year earlier.

## Management Discussion and Analysis

	1H07		27 Jan to 30 June 2006		Change	
	Volume	Revenue	Volume	Revenue	Volume	Revenue
	Ton'000	HK\$ million	Ton'000	HK\$ million		
Fuel ethanol	75.0	295.2	63.2	222.8	+19%	+33%
Consumable ethanol	50.1	209.7	47.4	191.8	+6%	+9%
Anhydrous ethanol	16.8	73.4	9.1	40.5	+85%	+81%
Crude corn oil	9.4	52.5	8.7	32.4	+8%	+62%
DDGS feed	106.6	129.5	80.5	79.2	+32%	+64%
Others	—	6.7	—	4.4	—	+52%
<b>Total</b>		<b>767.0</b>		<b>571.1</b>		<b>+34%</b>

With 600,000 metric tons corn processing capacity, our Yushu plant completed its trial run and started production in late July 2007 which marked a vital milestone for our new biochemical business. Our Gongzhuling plant is partially completed in third quarter this year and it will double our corn processing capacity to 1.2 million metric tons once it is in full operation by the end of this year. Our key biochemical products include starch, fructose syrup and maltodextrin etc.

### Brewing materials business

We primarily engage in the production of malt in China and our customers consist of both domestic and overseas beer breweries, namely Tsingtao, Yanjing, Budweiser, San Miguel, Snow, Kirin, Blue Ribbon and Asahi, etc.

Our new malt processing facility at Jiangyin, Jiangsu Province started operation in June 2007 and boosted our annual processing capacity by 120,000 metric tons to 480,000 metric tons. Immediately after the commencement of the new facilities, we have started the construction of Phase II which will add another 200,000 metric tons to our existing portfolio by 2008. Upon the completion of Phase III, the annual capacity of Jiangyin plant will increase to 520,000 metric tons and potentially be the world's largest single malt processing facility.

Overall revenue increased 14% only because the dried out of barley trading business offset the immense growth in the sales of malt. Gross margin jumped from 15.8% to 30.7%. Thanks to our excellent raw material sourcing and inventory management skills which helped alleviating the pressure of soaring raw material costs and, at the same time, enabled us to benefit from rising product prices.

	1H07		1H06		Change	
	Volume	Revenue	Volume	Revenue	Volume	Revenue
	Ton'000	HK\$ million	Ton'000	HK\$ million		
Malt	155.0	507.7	128.5	346.9	+21%	+46%
Malting barley	0.4	1.0	56.0	89.6	-99%	-99%
Others	20.8	12.1	35.4	18.6	-41%	-35%
<b>Total</b>		<b>520.8</b>		<b>455.1</b>		<b>+14%</b>

Looking forward, we adopted the strategy of "Growing with the Winners" for business development. We target customers with vast growth potentials and deliberately establish long term working relationships with them in a move to outpace the industry growth rates. Besides, we are dedicated to developing overseas markets to fulfill our ambition to emerge as a regional player.

# Management Discussion and Analysis

## Rice trading and processing business

We are China's largest rice exporter and we primarily engage in trading and processing of parboiled rice and white rice. We export parboiled rice to the Middle East, Africa, Eastern Europe, Central Asia and the America while we sell white rice to major traditional markets such as Japan, South Korea, Hong Kong, Central America, South Pacific Islands, Africa and the Southeast Asia.

Turnover rose 78% solely due to robust sales volume growth. However, the rising paddy and transportation costs dragged down the profitability of the business. Gross margin fell from 13.0% to 9.9%.

	1H07		1H06		Change	
	Volume	Revenue	Volume	Revenue	Volume	Revenue
	Ton'000	HK\$ million	Ton'000	HK\$ million		
Parboiled rice	91.8	210.1	49.3	113.6	+86%	+85%
White rice	490.0	1,350.8	320.4	765.1	+53%	+77%
Total		1,560.9		878.7		+78%

## Wheat processing business

We primarily engage in the processing and distribution of a broad range of flour and noodles. With 1.5 million metric tons annual wheat processing capacity, our nationwide production network enables us to serve our major customers including Danone, Nabisco, Tingyi and Hualong as well as hyper-markets and chain retailers like Carrefour, Wal-mart and Holiland.

Sales rose by 18% on a year-on-year basis on the back of the increase in both product prices and sales volume. Gross margin was stable at 5.3% versus 5.4% a year earlier.

	1H07		1H06		Change	
	Volume	Revenue	Volume	Revenue	Volume	Revenue
	Ton'000	HK\$ million	Ton'000	HK\$ million		
Flour	379.5	774.2	354.1	629.5	+7%	+23%
Noodles	19.5	47.0	16.0	35.1	+22%	+34%
Others	142.7	153.0	143.7	164.3	-1%	-7%
Total		974.2		828.9		+18%

In face of the stiff competition, we are currently adjusting our product mix to migrate to high-end products with better margins. For instance, our joint venture with Toyota Tsusho in Beijing has commenced production of a variety of freshly baked bread, frozen dough and cakes since July 2007. Besides, we are in the process of unifying our product brands into one brand “香雪”, in order to enhance our brand prominence. For capacity expansion, we have completed the acquisition of a 150,000 metric tons wheat processing facility at Luohe, Henan Province and it has started its operation since then.

An amount of HK\$57 million plant relocation compensation was included in operating income last year. There was no such item during the reporting period.

# Management Discussion and Analysis

## Human Resources

As at 30 June 2007, the Company and its subsidiaries (collectively referred to as the “Group”) employed 13,528 staff (2006: 10,860) of whom 3,448 (2006: 2,806) were employed in the oilseed processing business, 7,249 (2006: 4,901) in biofuel and biochemical business, 321 (2006: 377) in rice trading and processing business, 392 (2006: 173) in brewing materials business and 2,068 (2006: 2,603) in wheat processing business. Total remuneration for the six months ended 30 June 2007 was approximately HK\$149 million (2006: approximately HK\$138 million). Of the total remuneration, pension scheme contribution amounted to approximately HK\$9.8 million (2006: approximately HK\$9.4 million).

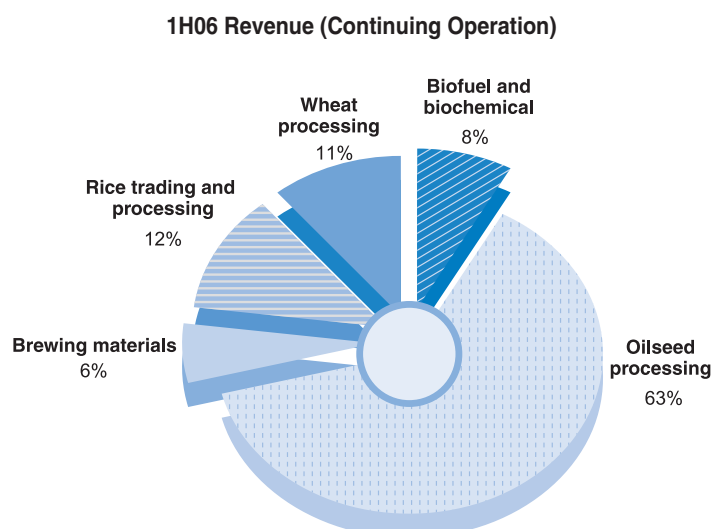
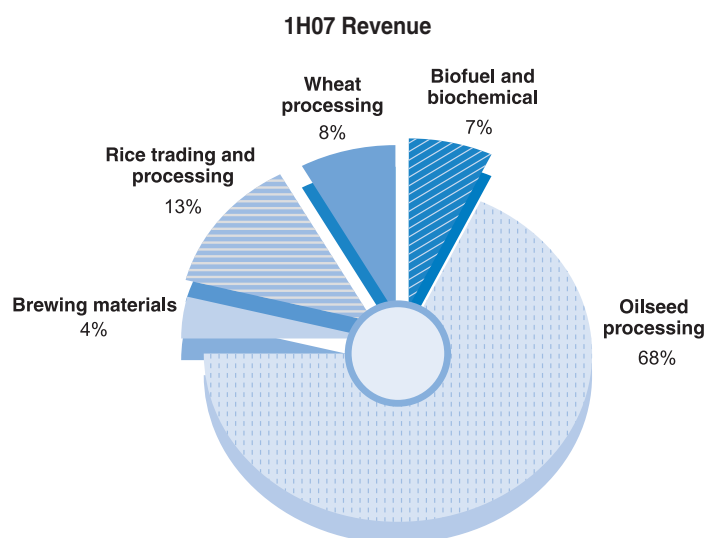
The Group adopted a share option scheme on 12 January 2007. The purposes of the share option scheme are to attract, retain and motivate eligible participants to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company. On 7 August 2007, the Group had granted a total of 27.6 million share options to certain directors and employees at an exercise price of HK\$4.666 per share.

## FINANCIAL REVIEW

### Revenue

During the six months ended 30 June 2007, there was a 54% increase in revenue to HK\$11,602 million (2006: HK\$7,526 million). Over 85% of our revenue was derived from the customers located in Mainland China.

All the five major businesses experienced sales growth and oilseed processing unit remains the largest revenue contributor to our Group in the first half of 2007.





# Management Discussion and Analysis

## Group Earnings

Operating profit of the Group for the first half of 2007 was HK\$646 million, representing an increase of 57% compared with a year earlier. Operating margin improved slightly from 5.5% to 5.6%.

Owing to the exceptional performance of oilseed processing and brewing materials business, their shares of operating profit rose noticeably. Oilseed processing business surpassed all other businesses and accounted for 58% of the total operating results of the Group. Brewing materials business nearly doubled its share to 16% and becomes the third largest operating profit contributors to our Group. Lack of once-off gain, the soar in raw material costs and the occurrence of pre-operating expenses dragged down the profit shares of wheat processing and biofuel and biochemical business respectively.

Finance costs increased by 46% to HK\$144 million during the period, fuelled by the increase in borrowings to finance working capital and new investment needs.

Share of profits of associates mostly represents the contribution from our minority stakes in Jilin Fuel Ethanol Co., Ltd. and a number of oilseed processing plants. The 23% rise of this balance was solely attributable to the better performance of associates in oilseed processing sector.

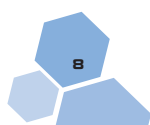
## Group's Financial Position, Liquidity and Financial Resources

As at 30 June 2007, the total assets of the Group amounted to HK\$20,125 million (December 2006: HK\$15,461 million). The equity attributable to equity holders of the Company were HK\$9,614 million, a 61% rise from HK\$5,969 million as at 31 December 2006. The increased was largely attributable to the net proceeds of HK\$2.8 billion raised from our company's initial public offering on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 March 2007.

As at 30 June 2007, the Group's total available cash and cash equivalents (including pledged deposits) was HK\$3,667 million and total bank loans and other borrowings was HK\$5,907 million. The Group is centralizing funding for all its operation at the Group level where foreign exchange exposure will be reviewed and monitored. This policy accomplishes better control of treasury operations and lower average cost of funds. Since the Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi and United States dollars, the management believes that the Group's exposure to exchange rate fluctuations is minimal.

The Group uses derivative financial instruments such as commodity futures contracts to hedge its risks associated with price fluctuations in future purchases or sales of the related commodities. It is the policy of the Group not to engage in speculative activities.

As at 30 June 2007, the net gearing ratio for the group was 21%, based on net debt of HK\$2,240 million and shareholders' equity of HK\$10,879 million. The Group services its debts primarily with recurring cash flow generated from its operation. Together with the IPO proceeds, the board of directors of the Company (the "Board") is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital and future expansion requirements.



# Management Discussion and Analysis

## **Capital Structure**

The Company was incorporated in Hong Kong on 18 November 2006. On 10 January 2007, the Company entered into a sales and purchase agreement with China Foods. Pursuant to which, the Company acquired all issued shares in China Agri-Industries, which contained agri-industries businesses acquired from both China Foods Limited (formerly known as COFCO International (“China Foods”)) and COFCO (Hong Kong) Limited during the internal reorganisation taken place in late 2006, from China Foods, and allotted and issued a total of 2,791,383,346 ordinary shares of HK\$0.1 each in the share capital of the Company to China Foods as the consideration for the acquisition. Upon completion of the transaction, the Company then became the holding company of the companies now comprising the Group. Details of the transaction were disclosed in the Prospectus.

On 21 March 2007, the spin-off of the Company from China Foods was completed. A total of 802,523,000 new shares, including those exercised under the over-allotment option, were issued in consequence of the global offering of the Company.

## **Capital Expenditure, Commitments and Contingencies**

During the six months ended 30 June 2007, we invested HK\$1,154 million, of which HK\$1,057 million (approximately 92%) was made by biofuel and biochemical business, HK\$26 million (approximately 2%) was made by oilseed processing business, HK\$38 million (approximately 3%) was made by brewing materials business, HK\$28 million (approximately 2%) was made by wheat processing business and the rest by rice trading and processing business.

As at 30 June 2007, the future capital expenditure for which the Group had contracted but unprovided for and authorized but not yet contracted amounted to approximately HK\$370 million. Other than the commitments under futures contract for the sales of soybean and soybean meal, etc, the Group had no other material commitments and contingent liabilities.

## Corporate Governance and Other Information

The shares of the Company commenced dealings on the Stock Exchange on 21 March 2007.

### DIRECTORS AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, none of the directors, chief executive of the Company or their associates has any interests and short positions in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, according to the register of members kept by the Company pursuant to section 336 of the SFO showed that the following persons/entities, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Number of issued ordinary shares held	Note	Percentage of the issued share capital of the Company
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,922,550,331	1	53.49
COFCO (BVI) No. 108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	1	3.90
COFCO (Hong Kong) Limited ("COFCO HK")	Beneficial owner	10,138,000	1	0.28
	Interest of controlled company	2,062,550,331	1 & 2	57.39
COFCO Limited ("COFCO")	Interest of controlled company	2,072,688,331	1 & 3	57.67

Notes:

1. Long positions in the shares of the Company.
2. Wide Smart and COFCO BVI are wholly owned subsidiaries of COFCO HK. COFCO HK is therefore deemed to be interested in the 2,062,550,331 shares in aggregate held by Wide Smart and COFCO BVI.
3. COFCO is deemed to be interested in the 2,072,688,331 shares in aggregate held by Wide Smart, COFCO BVI and COFCO HK as COFCO is entitled to control the exercise of or exercise 1/3 or more of the voting power at general meetings of Wide Smart, COFCO BVI and COFCO HK respectively.

Save as disclosed above, the Directors are not aware of any person as at 30 June 2007 who had an interest or short positions in the shares and underlying shares of the Company which is required to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or was directly or indirectly, interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meetings of the Company and any other member of the Group.

# Corporate Governance and Other Information

## SHARE OPTION SCHEME

Details of the share option scheme and movements are set out in note 15 to the condensed consolidated interim financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE LISTING SECURITIES OF THE COMPANY

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## MODEL CODE

The Company has adopted the Model Code as the principle standards of securities transactions for directors of the Company (the "Directors"). Directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2007.

## CORPORATE GOVERNANCE

The Company is committed in achieving a high standard of corporate governance practices and procedures and strives for a transparent and accountable management framework on enhancing the interests of shareholders. The corporate governance principles of the Company are emphasis on upholding a sound ethics and integrity in all aspects of its business, and on ensuring that affairs are conducted in accordance with applicable laws and regulations.

The Company has complied with all the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2007.

The Board acknowledges that a properly designed internal control system is one of the key elements to monitor and safeguard the resources of the Group; to produce reliable financial report for the stakeholders of the Company, and to enhance better corporate governance and compliance in return reduces the possibility of significant errors and irregularities by timely detection.

In July 2007, the Company appointed RSM Nelson Wheeler Consulting Limited ("RSM") to carry out an independent review to examine and evaluate, among others, the internal control systems, risk management, compliance status and control of the assets of the Group. The review includes two phases. Upon completion of phase one of the review and on 6 September 2007, RSM issued an internal control review report to the Board and the audit committee of the Company (the "Audit Committee"), which concluded the Company's existing internal control system is effective notwithstanding that some improvement opportunities were identified. The Board would consider and take necessary actions to improve the Company's internal control system as and when appropriate, and would continue to follow up and monitor the improvement progress to ensure that a sound and effective internal control system is maintained. The second phase of the review will commence in the fourth quarter of 2007.

## REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 June 2007 has been reviewed by the Audit Committee and our external auditors, Ernst & Young.

## INVESTOR RELATIONS

The Company discloses information in compliance with the securities regulations of the Stock Exchange, and publishes its periodic reports and announcements to the public in accordance with the law, to ensure that information disclosure is timely, fair, accurate, truthful and complete, and the legitimate rights and interests of investors are safeguarded.

Since listing in Hong Kong on 21 March 2007, the Company has carried out information disclosures in accordance with Hong Kong and international standards, ensuring that all investors are treated fairly and timely. The Company communicates with and promotes understanding from investors by means of results presentation, press conference, roadshow, reception of visits from institutional investors, e-mail, and telephone hotline. We also actively participate in meetings with investors at conferences held by international and domestic securities institutions, so as to enable investors to understand the Company's specific development strategy, business management and performance in a regular manner, and receive investor feedback on the Company. Apart from communications with analysts during the period of results announcements, the Company's senior management also meets institutional investors and analysts from time to time. During the period under review and since the public offering of the Company, our senior management personnel joined one regional investor conference, participated in one non-deal roadshow and entertained 31 company visit requests, meeting over 120 domestic and overseas investors and analysts.

### **For and on behalf of the Board**

**Yu Xubo**

Managing Director

19 September 2007

# Report On Review of Interim Financial Information



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## To the board of directors of China Agri-Industries Holdings Limited

(Incorporated in Hong Kong with limited liability)

### INTRODUCTION

We have reviewed the interim financial information set out on pages 14 to 40 which comprises the condensed consolidated balance sheet of China Agri-Industries Holdings Limited as at 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

#### Ernst & Young

Certified Public Accountants

Hong Kong

19 September 2007

# Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Notes	For the six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
<b>CONTINUING OPERATIONS</b>			
REVENUE	4	11,601,630	7,526,436
Cost of sales		(10,603,596)	(7,003,028)
Gross profit		998,034	523,408
Other income and gains	4	387,141	227,244
Selling and distribution costs		(271,279)	(212,508)
Administrative expenses		(230,606)	(116,217)
Other expenses		(82,281)	(926)
Finance costs	5	(143,959)	(98,689)
Share of profits of associates		91,219	74,224
<b>PROFIT BEFORE TAX</b>	6	<b>748,269</b>	396,536
Tax	7	(26,107)	(63,060)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>722,162</b>	333,476
<b>DISCONTINUED OPERATIONS</b>			
Profit for the period from discontinued operations	8	—	24,055
<b>PROFIT FOR THE PERIOD</b>		<b>722,162</b>	357,531
Attributable to:			
Equity holders of the Company		615,173	315,149
Minority interests		106,989	42,382
		<b>722,162</b>	357,531
<b>DIVIDENDS</b>	9	—	2,319
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY</b>			
<b>EQUITY HOLDERS OF THE COMPANY</b>			
Basic			
– For profit for the period		HK19.0 cents	HK11.3 cents
– For profit from continuing operations		HK19.0 cents	HK10.5 cents

# Condensed Consolidated Balance Sheet

As at 30 June 2007

	Notes	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	6,473,884	5,376,206
Prepaid land premiums		399,662	370,231
Deposits for purchases of items of property, plant and equipment		25,155	334,262
Goodwill		606,150	584,806
Interests in associates		1,183,713	1,081,928
Available-for-sale investment		2,387	2,387
Deferred tax assets		15,261	2,401
<b>Total non-current assets</b>		<b>8,706,212</b>	<b>7,752,221</b>
<b>CURRENT ASSETS</b>			
Inventories		4,707,765	3,674,463
Accounts and bills receivable	12	968,051	1,045,685
Deferred initial public offering expenses		—	36,523
Prepayments, deposits and other receivables		1,461,278	1,445,500
Derivative financial instruments		44,851	537
Due from fellow subsidiaries		520,956	188,356
Due from related companies		25,482	—
Due from the ultimate holding company		—	16,486
Tax recoverable		23,455	—
Pledged deposits		34,190	51,878
Liquid investment	13	1,344,121	—
Cash and cash equivalents		2,288,464	1,249,388
<b>Total current assets</b>		<b>11,418,613</b>	<b>7,708,816</b>
<b>CURRENT LIABILITIES</b>			
Accounts and bills payable	14	992,574	874,563
Other payables and accruals		1,338,401	957,477
Deferred income		2,061	1,726
Interest-bearing bank and other borrowings		5,213,896	3,302,526
Due to fellow subsidiaries		149,131	532,849
Due to the ultimate holding company		148	—
Due to the immediate holding company		—	14,010
Due to related companies		590,630	379,925
Due to minority shareholders of subsidiaries		3,031	5,005
Tax payable		69,728	45,805
<b>Total current liabilities</b>		<b>8,359,600</b>	<b>6,113,886</b>
<b>NET CURRENT ASSETS</b>		<b>3,059,013</b>	<b>1,594,930</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>11,765,225</b>	<b>9,347,151</b>



# Condensed Consolidated Balance Sheet (continued)

As at 30 June 2007

	Notes	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>11,765,225</b>	9,347,151
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>693,303</b>	2,065,085
Due to minority shareholders of subsidiaries		<b>114,085</b>	111,665
Deferred income		<b>57,586</b>	57,754
Deferred tax liabilities		<b>20,789</b>	23,480
Total non-current liabilities		<b>885,763</b>	2,257,984
Net assets		<b>10,879,462</b>	7,089,167
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	15	<b>359,391</b>	279,138
Reserves		<b>9,254,495</b>	5,689,789
		<b>9,613,886</b>	5,968,927
<b>Minority interests</b>		<b>1,265,576</b>	1,120,240
Total equity		<b>10,879,462</b>	7,089,167

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

		Attributable to equity holders of the Company								
		Share			Exchange					
Notes		Issued capital	premium account	Capital reserve	Reserve funds	fluctuation reserve	Retained profits	Total	Minority interests	Total equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2007		279,138	—	4,754,699	98,136	187,912	649,042	5,968,927	1,120,240	7,089,167
Exchange realignment and total income and expense for the period recognised directly in equity		—	—	—	—	203,234	—	203,234	35,650	238,884
Profit for the period		—	—	—	—	—	615,173	615,173	106,989	722,162
Total income and expense for the period		—	—	—	—	203,234	615,173	818,407	142,639	961,046
Issue of shares, net of share issue expenses		15	80,253	2,746,299	—	—	—	2,826,552	—	2,826,552
Transfer from retained profits		—	—	—	27,101	—	(27,101)	—	—	—
Contribution from a minority shareholder		—	—	—	—	—	—	—	3,111	3,111
Disposal of subsidiaries		17	—	—	—	—	—	—	(414)	(414)
At 30 June 2007		359,391	2,746,299	4,754,699	125,237	391,146	1,237,114	9,613,886	1,265,576	10,879,462

# Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2007

		Attributable to equity holders of the Company								
		Share			Exchange					
Notes		Issued capital	premium account	Capital reserve	Reserve funds	fluctuation reserve	Retained profits	Total	Minority interests	Total equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	At 1 January 2006	279,138	—	1,325,150	79,972	33,963	273,874	1,992,097	903,633	2,895,730
	Exchange realignment and total income and expense for the period recognised directly in equity	—	—	—	—	44,127	—	44,127	11,154	55,281
	Profit for the period	—	—	—	—	—	315,149	315,149	42,382	357,531
	Total income and expense for the period	—	—	—	—	44,127	315,149	359,276	53,536	412,812
	Transfer from retained profits	—	—	—	45,731	—	(45,731)	—	—	—
	Contribution from immediate holding company	—	—	1,093,301	—	—	—	1,093,301	—	1,093,301
	Contribution from a minority shareholder	—	—	—	—	—	—	—	20,830	20,830
	Acquisition of subsidiaries	16	—	—	—	—	—	—	4,729	4,729
	Acquisition of minority interests	—	—	—	—	—	—	—	(4,016)	(4,016)
	Dividends paid to minority shareholders	—	—	—	—	—	—	—	(12,110)	(12,110)
	Dividends paid to then shareholders of subsidiaries	9	—	—	—	—	(2,319)	(2,319)	—	(2,319)
	At 30 June 2006	279,138	—	2,418,451	125,703	78,090	540,973	3,442,355	966,602	4,408,957

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Note	For the six months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		<b>(174,882)</b>	(8,723)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		<b>(680,594)</b>	328,343
NET CASH INFLOW FROM FINANCING ACTIVITIES		<b>3,198,683</b>	258,995
NET INCREASE IN CASH AND CASH EQUIVALENTS		<b>2,343,207</b>	578,615
Cash and cash equivalents at beginning of period		<b>1,249,388</b>	523,803
Effects of foreign exchange rate changes, net		<b>39,990</b>	15,244
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<b>3,632,585</b>	1,117,662
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<b>1,422,270</b>	564,425
Money market fund	13	<b>1,344,121</b>	—
Non-pledged time deposits with original maturity of less than three months when acquired		<b>866,194</b>	553,237
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<b>3,632,585</b>	1,117,662

## 1. REORGANISATION AND BASIS OF PRESENTATION

China Agri-Industries Holdings Limited (the “Company”) is a limited liability company incorporated in Hong Kong on 18 November 2006.

On 10 January 2007, pursuant to a reorganisation scheme in preparation for the listing of the Company’s shares on the main board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired from China Foods Limited (formerly known as COFCO International Limited) (“China Foods”), the then holding company of the Company, the entire issued share capital in China Agri-Industries Limited (“China Agri-Industries”), the holding company of the subsidiaries now comprising the Group, in consideration for the allotment and issue of 2,791,383,346 ordinary shares of HK\$0.1 each in the share capital of the Company, credited as fully paid. The Company then became the holding company of the companies now comprising the Group (the “Reorganisation”).

Pursuant to the Reorganisation, the Group ceased the consumer-pack edible oil and the trading of non-rice foodstuffs businesses (the “Discontinued Operations”), which were taken up by China Foods and COFCO (Hong Kong) Limited (“COFCO HK”), respectively on 1 January 2007. Further details of the Discontinued Operations are set out in note 8 to the condensed consolidated interim financial statements.

Further details of the Reorganisation are set out in the Company’s listing prospectus dated 8 March 2007 (the “Prospectus”).

The shares of the Company were listed on the main board of the Stock Exchange on 21 March 2007.

The condensed consolidated interim financial statements have been prepared based on the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), as if the Reorganisation had been completed as at the beginning of the six months ended 30 June 2006. This is because the Company’s acquisition of the companies now comprising the Group on 10 January 2007 should be regarded as a business combination under common control as the Company and the companies now comprising the Group are all ultimately controlled by COFCO Limited (“COFCO”), before and after the Reorganisation, except for the subsidiaries acquired by COFCO during the prior period, which were accounted for using the purchase method of accounting.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted by the Group for the first time for the current period’s financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies”
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements.

## 3. SEGMENT INFORMATION

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

Details of the business segments are summarised as follows:

- (a) the oilseed processing segment engages in the extraction, refining and trading of edible oils and related businesses;
- (b) the brewing materials segment engages in the processing of malt;
- (c) the rice trading and processing segment engages in the trading and processing of rice;
- (d) the wheat processing segment engages in the production of flour products and related businesses;
- (e) the biofuel and biochemical segment engages in the production and sale of bio-ethanol and related products;
- (f) the consumer-pack edible oil segment engages in the distribution of retail package cooking oil;
- (g) the trading of non-rice foodstuffs segment engages in the trading of food commodities, animal feedstock, and agricultural and aquatic products; and
- (h) the “corporate and others” segment comprises, principally, the Group’s corporate income and expense items.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# Notes To The Condensed Consolidated Interim Financial Statements

30 June 2007

## 3. SEGMENT INFORMATION (continued)

The following table presents revenue and profit information regarding the Group's business segments for the six months ended 30 June 2007 and 2006, respectively.

	Continuing operations							Discontinued operations			Total Consolidated HK\$'000	
	Oilseed processing HK\$'000	Brewing materials HK\$'000	Rice trading and processing HK\$'000	Wheat processing HK\$'000	Biofuel and biochemical HK\$'000	Corporate and others HK\$'000	Eliminations HK\$'000	Total HK\$'000	Consumer- pack edible oil HK\$'000	Trading of non-rice foodstuffs HK\$'000		
<b>Six months ended 30 June 2007 (Unaudited)</b>												
<b>Segment revenue:</b>												
Sales to external customers	7,793,034	520,790	1,549,824	974,228	763,754	—	—	11,601,630	—	—	—	11,601,630
Intersegment sales	38,377	—	11,033	—	3,227	—	(52,637)	—	—	—	—	—
Other revenue	106,047	(260)	905	2,147	108,610	13,072	—	230,521	—	—	—	230,521
<b>Segment results</b>	<b>375,124</b>	<b>104,691</b>	<b>134,999</b>	<b>(1,643)</b>	<b>60,166</b>	<b>(27,031)</b>	<b>—</b>	<b>646,306</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>646,306</b>
Interest income								156,620				156,620
Loss on disposal of subsidiaries								(1,917)				(1,917)
Finance costs								(143,959)				(143,959)
Share of profits of associates	81,133	—	—	259	9,827	—	—	91,219	—	—	—	91,219
Profit before tax								748,269				748,269
Tax								(26,107)				(26,107)
Profit for the period								722,162				722,162
<b>Assets and liabilities</b>												
Segment assets	7,573,367	1,395,032	1,768,638	1,046,399	3,979,555	3,140,777	(3,668,147)	15,235,621	—	—	—	15,235,621
Interests in associates	837,889	—	—	51,833	293,991	—	—	1,183,713	—	—	—	1,183,713
Unallocated assets								3,705,491				3,705,491
Total assets								20,124,825				20,124,825
Segment liabilities	2,587,772	512,830	693,381	1,048,086	2,037,108	36,617	(3,668,147)	3,247,647	—	—	—	3,247,647
Unallocated liabilities								5,997,716				5,997,716
Total liabilities								9,245,363				9,245,363
<b>Other segment information:</b>												
Depreciation	94,636	17,208	7,091	12,589	27,844	25	—	159,393	—	—	—	159,393
Impairment losses recognised in the condensed consolidated income statement	59,710	—	—	—	4,291	—	—	64,001	—	—	—	64,001
Capital expenditures	25,696	38,554	4,617	28,270	1,056,896	154	—	1,154,187	—	—	—	1,154,187

# Notes To The Condensed Consolidated Interim Financial Statements

30 June 2007

## 3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2006 (Unaudited)	Continuing operations							Discontinued operations				
	Rice							Total	Consumer-		Total	Consolidated
	Oilseed processing	Brewing materials	trading and processing	Wheat processing	Biofuel and biochemical	Corporate and others	Eliminations		pack edible oil	Trading of non-rice foodstuffs		
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
<b>Segment revenue:</b>												
Sales to external customers	4,792,627	455,086	878,695	828,898	571,130	—	—	7,526,436	792,773	349,213	1,141,986	8,668,422
Intersegment sales	709,315	—	—	—	—	—	(709,315)	—	—	—	—	—
Other revenue	56,493	387	1,197	62,230	98,815	—	—	219,122	290	12,188	12,478	231,600
<b>Segment results</b>	97,626	34,242	98,584	63,632	118,800	(5)	—	412,879	11,594	24,274	35,868	448,747
Interest income								8,122			2,815	10,937
Finance costs								(98,689)			(981)	(99,670)
Share of profits of associates	61,841	—	—	1,581	10,802	—	—	74,224	—	—	—	74,224
Profit before tax								396,536			37,702	434,238
Tax								(63,060)			(13,647)	(76,707)
Profit for the period								333,476			24,055	357,531
<b>Other Segment information:</b>												
Depreciation	87,259	15,194	6,274	12,528	27,057	—	—	148,312	420	276	696	149,008
Impairment losses written back in the condensed consolidated income statement	—	—	—	—	(641)	—	—	(641)	—	—	—	(641)
Capital expenditures	112,753	57,641	314	40,908	174,312	—	—	385,928	881	1	882	386,810



#### 4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of other income and gains is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Other income</b>		
Agency commission	<b>1,315</b>	12,215
Bank interest income*	<b>156,620</b>	10,666
Investment income from money market fund	<b>13,072</b>	—
Interest income from fellow subsidiaries	—	271
Government grants	<b>121,859</b>	88,932
Compensation income	—	56,607
Rental of containers	<b>70</b>	2,393
Tax refunds	<b>9,147</b>	12,107
Others	<b>11,935</b>	9,458
	<b>314,018</b>	192,649
<b>Gains</b>		
Gain on disposal of by-products and scrap items	<b>9,514</b>	36,297
Gain on foreign exchange, net	<b>63,609</b>	13,591
	<b>73,123</b>	49,888
	<b>387,141</b>	242,537
Represented by:		
Other income and gains attributable to discontinued operations (note 8)	—	15,293
Other income and gains attributable to continuing operations reported in the condensed consolidated income statement	<b>387,141</b>	227,244
	<b>387,141</b>	242,537

\* For the six months ended 30 June 2007, bank interest income included an amount of approximately HK\$131,323,000 earned from the application money received in connection with the Company's initial public offering.

# Notes To The Condensed Consolidated Interim Financial Statements

30 June 2007

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans wholly repayable within five years	143,516	55,422
Bank loans wholly repayable beyond five years	6,461	—
Loans from the ultimate holding company, the immediate holding company and a fellow subsidiary	8,895	44,248
Total interest	158,872	99,670
Less: Interest capitalised	(14,913)	—
	143,959	99,670
Attributable to discontinued operations (note 8)	—	981
Attributable to continuing operations reported in the condensed consolidated income statement	143,959	98,689
	143,959	99,670

# Notes To The Condensed Consolidated Interim Financial Statements

30 June 2007

## 6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	<b>10,629,261</b>	8,031,591
Fair value gains of derivative instrument transactions not qualifying as hedges	<b>(29,427)</b>	(44,428)
Provision against inventories	<b>3,762</b>	1,205
Cost of sales	<b>10,603,596</b>	7,988,368
Depreciation	<b>159,393</b>	149,008
Recognition of prepaid land premiums	<b>4,933</b>	4,410
Staff costs (including directors' remuneration)	<b>148,566</b>	138,488
Impairment/(write-back of impairment) of receivables	<b>5,060</b>	(641)
Impairment of items of property, plant and equipment*	<b>58,941</b>	—
Loss on disposal of items of property, plant and equipment	<b>469</b>	521
Loss on disposal of subsidiaries	<b>1,917</b>	—

# The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operations.

\* During the current period, impairment was recognised in the condensed consolidated income statement in respect of certain items of property, plant and equipment as a result of the closure of a production line.

# Notes To The Condensed Consolidated Interim Financial Statements

30 June 2007

## 7. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2006: Nil). Pursuant to the People's Republic of China (the "PRC") income tax laws, the Company's subsidiaries incorporated in the PRC are subject to PRC corporate income tax ("CIT") at rate of 33%. However, certain of the Company's subsidiaries are operating in specific development zones in Mainland China, and the relevant authorities have granted these subsidiaries preferential CIT rates ranging from 15% to 30%.

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current - Mainland China		
Provision for the period	118,345	67,419
Overprovision in prior periods	(3,633)	—
Tax rebate	(72,648)	—
Deferred tax	(15,957)	9,288
Total tax charge for the period	26,107	76,707
Represented by:		
Tax charge attributable to discontinued operations (note 8)	—	13,647
Tax charge attributable to continuing operations reported in the condensed consolidated income statement	26,107	63,060
	26,107	76,707

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC corporate income tax law ("the New CIT Law") was approved and will become effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the CIT rate for domestic-invested and foreign-invested enterprises at 25%. The New CIT Law is expected to have no significant impact to the Group.

# Notes To The Condensed Consolidated Interim Financial Statements

30 June 2007

## 8. DISCONTINUED OPERATIONS

Pursuant to the Reorganisation as detailed in note 1 to the condensed consolidated interim financial statements, the Group discontinued its consumer-pack edible oil and the trading of non-rice foodstuffs businesses in the prior period. The transaction was completed on 31 December 2006.

The results of the Discontinued Operations for the period are presented below:

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	—	1,141,986
Cost of sales	—	(985,340)
Gross profit	—	156,646
Other income and gains	—	15,293
Expenses	—	(133,256)
Finance costs	—	(981)
Profit before tax from the discontinued operations	—	37,702
Tax related to pre-tax profit	—	(13,647)
Profit for the year from the discontinued operations	—	24,055
Attributable to:		
Equity holders of the Company	—	23,006
Minority interests	—	1,049
	—	24,055

As no assets and liabilities of the consumer-pack edible oil and the trading of non-rice foodstuffs businesses will be disposed of by the Group, neither assets nor liabilities of the consumer-pack edible oil and the trading of non-rice foodstuffs businesses was classified as held for sale.

## 9. DIVIDENDS

No interim dividend has been declared by the Company for the six months ended 30 June 2007. The dividends for the six months ended 30 June 2006 represented dividends payable by companies now comprising the Group to its then shareholders.

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the period is based on the net profit attributable to ordinary equity holders of the Company of HK\$615,173,000 (2006: HK\$315,149,000), and the weighted average number of 3,238,428,953 (2006: 2,791,383,356) ordinary shares in issue during the period.

The calculation of basic earnings per share from continuing operations for the six months ended 30 June 2006 is based on the net profit attributable to ordinary equity holders of the Company from continuing operations of HK\$292,143,000, and the weighted average number of 2,791,383,356 ordinary shares in issue during the period.

Diluted earnings per share amounts for the six months ended 30 June 2007 and 2006 have not been presented as there were no dilutive potential ordinary shares in existence during these periods.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2007, the Group acquired items of property, plant and equipment with a total cost of HK\$1,154,187,000 (2006: HK\$386,810,000), not including property, plant and equipment acquired through business combination.

Items of property, plant and equipment with a net book value of HK\$15,328,000 (2006: HK\$17,930,000) were disposed of by the Group during the six months ended 30 June 2007, resulting a net loss on disposal of HK\$469,000 (2006: HK\$521,000).

## 12. ACCOUNTS AND BILLS RECEIVABLE

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

**12. ACCOUNTS AND BILLS RECEIVABLE (continued)**

An aged analysis of the accounts and bills receivable at the balance sheet date, based on invoice date, is as follows:

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Outstanding balances with ages:		
Within three months	<b>932,085</b>	1,041,689
Three to twelve months	<b>35,112</b>	3,999
One to two years	<b>1,880</b>	1,230
Over two years	<b>1,593</b>	1,369
	<b>970,670</b>	1,048,287
Less: Impairment	<b>(2,619)</b>	(2,602)
	<b>968,051</b>	1,045,685

The carrying amounts of the accounts and bills receivable approximate to their fair values.

**13. LIQUID INVESTMENT**

As at 30 June 2007, the Group has placed an amount of approximately HK\$1,344,121,000 with a money market fund managed by a financial institution. The amount is highly liquid, readily convertible into known amounts of cash and is subject to an insignificant risk of changes in value. Such investment has a short maturity of one day when acquired, and form an integral part of the Group's cash management.

# Notes To The Condensed Consolidated Interim Financial Statements

30 June 2007

## 14. ACCOUNTS AND BILLS PAYABLE

An aged analysis of accounts and bills payable at the balance sheet date, based on invoice date, is as follows:

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Outstanding balances with ages:		
Within three months	<b>859,084</b>	867,397
Three to twelve months	<b>133,005</b>	6,557
One to two years	<b>172</b>	335
Over two years	<b>313</b>	274
	<b>992,574</b>	874,563

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

## 15. SHARE CAPITAL

### Shares

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Authorised:		
4,000,000,000 ordinary shares of HK\$0.1 each	<b>400,000</b>	400,000
Issued and fully paid:		
3,593,906,356 (31 December 2006: 10) ordinary shares of HK\$0.1 each	<b>359,391</b>	—



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30 June 2007

## 15. SHARE CAPITAL (continued)

### Shares (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 18 November 2006 (date of incorporation) to 30 June 2007:

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK\$'000
<b>Authorised:</b>			
Upon incorporation (10,000 shares of HK\$1 each)		10,000	10
Subdivision of each authorised share of HK\$1 into ten shares of HK\$0.1 each	(i)	90,000	—
		100,000	10
Increase in authorised capital	(ii)	3,999,900,000	399,990
As at 31 December 2006 and 30 June 2007		4,000,000,000	400,000
<b>Issued:</b>			
Upon incorporation (1 share of HK\$1)		1	—
Subdivision of each authorised share of HK\$1 into ten shares of HK\$0.1 each	(i)	9	—
As at 31 December 2006		10	—
On acquisition of China Agri-Industries	(iii)	2,791,383,346	279,138
Pro forma issued capital as at 31 December 2006		2,791,383,356	279,138
Issue of new shares	(iv)	697,846,000	69,785
Issue of new shares	(v)	104,677,000	10,468
As at 30 June 2007		3,593,906,356	359,391

## 15. SHARE CAPITAL *(continued)*

### Shares *(continued)*

Notes:

- (i) Pursuant to an ordinary resolution passed on 29 December 2006, the authorised and issued share capital of the Company were divided into 100,000 ordinary shares and 10 ordinary shares of HK\$0.1 each, respectively.
- (ii) Pursuant to a special resolution passed on 29 December 2006, the authorised capital of the Company was increased from HK\$10,000 to HK\$400,000,000 by the creation of an additional 3,999,900,000 ordinary shares of HK\$0.1 each, ranking *pari passu* in all respects with the existing share capital of the Company.
- (iii) On 10 January 2007, pursuant to the Reorganisation, the Company acquired from China Foods the entire issued share capital in China Agri-Industries, the holding company of the subsidiaries now comprising the Group, in consideration for the allotment and issue of 2,791,383,346 ordinary shares of HK\$0.1 each in the share capital of the Company, credited as fully paid.
- (iv) In connection with the Company's initial public offering, 697,846,000 new shares of HK\$0.1 each were issued at a price of HK\$3.72 per share for a total cash consideration, before expenses, of approximately HK\$2,595,987,000. Dealings in these shares on the Stock Exchange commenced on 21 March 2007.
- (v) In connection with the Company's initial public offering, an over-allotment option was granted to the Global Coordinator (as defined in the Prospectus) whereby the Global Coordinator, on behalf of the International Purchasers (as defined in the Prospectus), has the right to request the Company to issue and allot up to an aggregate of 104,677,000 additional shares of HK\$0.1 each to subscribers under the initial public offering. On 26 March 2007, the Global Coordinator had exercised the over-allotment option and accordingly, 104,677,000 new shares of HK\$0.1 each was issued by the Company at a price of HK\$3.72 per share for a total cash consideration, before expenses, of approximately HK\$389,398,000. Dealings in these shares on the Stock Exchange commenced on 30 March 2007.

### Share options

On 12 January 2007, the shareholders of the Company conditionally approved and adopted a share option scheme (the "Scheme") for the purpose of attract, retain and motivate eligible participants to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company. Eligible participants include, but not limited to, any directors, (excluding independent non-executive directors), officers and employees of the Group, or any other person ("the Board") may proposed. The Scheme became unconditional and effective upon listing of the shares of the Company on 21 March 2007 and, unless otherwise cancelled, amended or terminated in accordance with the Scheme, will remain in force for 10 years from 21 March 2007.

The maximum number of shares of the Company which may be issued upon exercise of all share options granted under the Scheme or any other share option scheme shall not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issued and to be issued on exercise of all share options granted and to be granted to each eligible participant in any 12-month period is limited to 1% of the shares in issue at the relevant time unless it is approved by shareholder in a general meeting of the Company.

## 15. SHARE CAPITAL *(continued)*

### Share options *(continued)*

Any grant of share options under the Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors. Any share options granted to a substantial shareholder of the Company, or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 by each grantee. The exercise period of the share options granted is determinable by the Board.

The exercise price of share options is determinable by the Board, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

As at 30 June 2007, the Company did not grant any share options to eligible participant under the Scheme.

Subsequent to the balance sheet date, on 7 August 2007, a total of 27,600,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year. These share options vest ranging from 7 August 2009 to 6 August 2011 and have an exercise price of HK\$4.666 per share and exercise period ranging from 7 August 2009 to 6 August 2012. The price of the Company's shares at the date of grant was HK\$4.35 per share.

The fair value of the share options granted on 7 August 2007 was approximately HK\$45,700,000.

At the date of the approval of the condensed consolidated interim financial statements, the shares issuable from the above outstanding share options represented approximately 0.77% of the Company's shares in issue as at that date.

**16. BUSINESS COMBINATION**

On 27 January 2006, the Group acquired a 100% interest in Techbo Limited, of which has 100% and 65% interests in COFCO Bio-Energy (Zhaodong) Co., Ltd. ("Zhaodong Bio-Energy") and China Resources Winery (Heilongjiang) Co., Ltd. ("Heilongjiang Winery"), respectively, from an independent third party. Zhaodong Bio-Energy is engaged in the production and sale of biofuel and biochemical products and Heilongjiang Winery is engaged in wine brewery.

The fair values of the identifiable assets and liabilities of Techbo Limited and its subsidiaries (collectively the "Techbo Group") as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition HK\$'000	Carrying amount H\$'000
Property, plant and equipment	613,923	594,536
Prepaid land premiums	39,338	31,691
Inventories	194,844	194,844
Accounts and bills receivable	99,649	99,649
Prepayments, deposits and other receivables	74,223	74,223
Tax recoverable	2,054	2,054
Cash and cash equivalents	240,141	240,141
Interest-bearing bank and other borrowings	(615,029)	(615,029)
Accounts payable	(25,236)	(25,236)
Due to minority shareholders	(520)	(520)
Other payables and accruals	(65,747)	(65,747)
Deferred income	(10,995)	(10,995)
Due to fellow subsidiaries	(125,760)	(125,760)
Deferred tax liabilities	(12,029)	(12,029)
Minority interests	(4,729)	(2,578)
	404,127	379,244
Goodwill on acquisition	338,451	
	742,578	
Satisfied by:		
An amount due to the immediate holding company	742,578	

An analysis of the inflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

Cash and bank balances acquired and net inflow of cash and cash equivalent in respect of the acquisition of the subsidiary	240,141
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During the six months ended 30 June 2006, Techbo Group generated revenue and net profit of HK\$680,713,000 and HK\$105,379,000, respectively. Since the acquisition of Techbo Group, Techbo Group contributed HK\$571,130,000 to the Group's revenue and HK\$89,488,000 to the Group's consolidated profit for the six months ended 30 June 2006.

# Notes To The Condensed Consolidated Interim Financial Statements

30 June 2007

## 17. DISPOSAL OF SUBSIDIARIES

	<b>For the six months ended 30 June 2007</b>
	HK\$'000
Net assets disposed of:	
Property, plant and equipment	<b>1,348</b>
Inventories	<b>1,508</b>
Accounts receivable	<b>3,073</b>
Prepayments, deposits and other receivables	<b>1,284</b>
Due from fellow subsidiaries	<b>1,100</b>
Due from associates	<b>153</b>
Cash and bank balances	<b>3,523</b>
Accounts payable	<b>(1,176)</b>
Other payables and accruals	<b>(2,929)</b>
Tax payable	<b>(1,299)</b>
Minority interests	<b>(414)</b>
	<b>6,171</b>
Loss on disposal of subsidiaries	<b>(1,917)</b>
	<b>4,254</b>
Satisfied by:	
Cash	<b>4,254</b>
An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:	
Cash consideration	<b>4,254</b>
Cash and bank balances disposed of	<b>(3,523)</b>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<b>731</b>

**18. RELATED PARTY TRANSACTIONS****(a) Transactions with related parties**

The Group had the following transactions with related parties during the period:

	Notes	For the six months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Transactions with fellow subsidiaries:			
Sales of goods	(i)	<b>1,217,167</b>	210,852
Purchases of goods	(i)	<b>85,214</b>	8,678
Operating lease rental paid	(i)	<b>1,345</b>	2,731
Interest expense	(ii)	<b>8,895</b>	33,625
Interest income	(iv)	—	271
Commission paid	(i)	<b>199</b>	3,713
Brokerage fee paid	(i)	<b>2,417</b>	310
Building management fee paid	(i)	<b>95</b>	—
Transactions with ultimate holding company:			
Interest expense	(ii)	—	10,623
Purchases of goods	(i)	<b>3,951</b>	—
Management fee paid		<b>1,518</b>	3,671
Transactions with associates:			
Sales of goods	(i)	<b>91,370</b>	29,327
Purchases of goods	(i)	<b>40,631</b>	57,294
Reimbursement of advertising expense	(iii)	—	1,657
Transactions with related companies: #			
Sales of goods	(i)	<b>59,467</b>	62
Purchases of goods	(i)	<b>4,944,881</b>	3,370,426
Transactions with minority shareholders of subsidiaries:			
Purchases of goods	(i)	—	28,585

# Related companies are companies under significant influence by the Company's ultimate holding company.

## 18. RELATED PARTY TRANSACTIONS *(continued)*

### (a) Transactions with related parties *(continued)*

Notes:

- (i) These transactions were carried out with reference to the prevailing market prices or, where no market prices were available, at cost plus a percentage of profit mark-up.
- (ii) The interest expense arose from the loans from the ultimate holding company, the immediate holding company and a fellow subsidiary, which were unsecured, bore interest at rates ranged from 5.02% to 6.30% per annum, and were fully repaid in February 2007.
- (iii) The reimbursement of advertising expense was calculated with reference to the actual advertising expense.
- (iv) During the six months ended 30 June 2006, the interest income arose from the deposits placed with a fellow subsidiary of the Group, which is a non-banking finance company regulated by the People's Bank of China (the "PBOC") and the China Banking Regulatory Commission in the PRC, and its deposit rates are set by the PBOC which is applicable to all financial institutions. The interest rates offered by the fellow subsidiary are the same as the rates promulgated by the PBOC which are applicable to account deposits with banks of the PRC or finance companies and at rates of 0.72% to 2.25% per annum. There was no deposits placed with the fellow subsidiary as at 30 June 2007 (31 December 2006: Nil).

Pursuant to the Reorganisation as detailed in note 1 above, the Group ceased the consumer-pack oils and the trading of non-rice foodstuffs businesses, which were taken up by China Foods and COFCO HK, respectively on 1 January 2007. During the six months ended 30 June 2007, the Group continued to carry out the outstanding contracts carried forward from prior years in relation to the above businesses on behalf of China Foods and COFCO HK. Revenue and profit of these outstanding contracts amounting to HK\$263,226,000 and HK\$4,943,000 are attributed to China Foods and COFCO HK, respectively, and have not been recorded in the Group's financial statements for the six months ended 30 June 2007.

### (b) Outstanding balances with related parties

Except for the following, the balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group's subsidiaries as at the balance sheet date are unsecured, interest-free and have no fixed terms of repayment:

- (1) the loans due to a fellow subsidiary of HK\$1,160,072,000 as at 31 December 2006, which bore interest at rate ranged from 5.02% to 6.30% per annum, and were fully repaid in February 2007 by the Group;
- (2) an amount due to a fellow subsidiary of HK\$356,038,000 as at 31 December 2006, which is financing in nature and were fully repaid in the current period; and
- (3) amounts due to minority shareholders of subsidiaries of HK\$114,085,000 (31 December 2006: HK\$111,665,000), which are financing in nature and are not repayable within one year from the balance sheet date.

The carrying amounts of balances with related parties approximate to their fair values.

**18. RELATED PARTY TRANSACTIONS (continued)****(c) Compensation of key management personnel of the Group**

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	4,435	242
Discretionary bonuses	1,439	437
Pension scheme contributions	118	2
Total compensation paid to key management personnel	5,992	681

**19. OPERATING LEASE ARRANGEMENTS**

The Group leases certain of its office properties and steel barrels under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to fifteen years and those for steel barrels for terms ranging from one to eleven years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June	31 December
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within one year	7,330	13,154
In the second to fifth years, inclusive	6,686	7,770
After five years	2,139	1,204
	16,155	22,128



**20. COMMITMENTS****(a) Capital commitments**

In addition to the operating lease commitments detailed in note 19 above, the Group had the following capital commitments at the balance sheet date:

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	<b>104,227</b>	383,308
Contracted, but not provided for	<b>265,608</b>	822,119
	<b>369,835</b>	1,205,427

**(b) Other commitments**

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Sales of soybean meal	<b>247,094</b>	873,943
Sales of soybean	<b>2,179,458</b>	298,992
Sales of soybean oil	<b>471,643</b>	—
Sales of rapeseed oil	<b>254,574</b>	—

Other than disclosed above, the Group did not have any significant commitments or contingent liabilities as at the balance sheet date (31 December 2006: Nil).

**21. POST BALANCE SHEET EVENTS**

Saved as disclosed in note 15 to the condensed consolidated interim financial statements in relation to the share options, the Group did not have any significant post balance sheet event.

**22. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 19 September 2007.



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