中粮
COFCO
自然之源 重塑你我

2011
INTERIM REPORT
中期業績報告

CHINA AGRI-INDUSTRIES HOLDINGS LIMITED
中國糧油控股有限公司
Stock Code 股份代號：606

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Excellent food chain, quality products

產業鏈　好產品

Contents

Corporate Information

Directors

Chairman of the Board and Non-executive Director
NING Gaoning

Executive Directors
YU Xubo *(Managing Director)*
LU Jun *(Vice President)*
YUE Guojun *(Vice President)*

Non-executive Directors
MA Wangjun
WANG Zhiying

Independent Non-executive Directors
LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Audit Committee

LAM Wai Hon, Ambrose *(Chairman)*
Victor YANG
Patrick Vincent VIZZONE
MA Wangjun
WANG Zhiying

Remuneration Committee

WANG Zhiying *(Chairman)*
MA Wangjun
LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Nomination Committee

NING Gaoning *(Chairman)*
WANG Zhiying
LAM Wai Hon, Ambrose
Victor YANG
Patrick Vincent VIZZONE

Executive Committee

YU Xubo *(Chairman)*
LU Jun
YUE Guojun

Qualified Accountant

CHAN Ka Lai, Vanessa

Company Secretary

LOOK Pui Fan

Auditors

Ernst & Young
Certified Public Accountants

Legal Advisor

Herbert Smith LLP

Principal Bankers

Agricultural Bank of China Limited
Australia and New Zealand Banking Group Limited
Banco Santander, S.A.
Bank of China Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
(Hong Kong Branch)
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Rabobank International (Hong Kong Branch)
Standard Chartered Bank (Hong Kong) Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

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Stock Code

606

Financial Highlights

For the six months ended 30 June 2011

	Unit	For the period ended 30 June 2011	2010	Increase/ (Decrease) %
Revenue:	HK$ million	**33,602.1**	22,686.5	48%
– Oilseeds processing	HK$ million	**21,805.0**	12,801.2	70%
– Biofuel and biochemical	HK$ million	**6,168.0**	4,979.9	24%
– Rice trading and processing	HK$ million	**2,343.7**	2,122.0	10%
– Wheat processing	HK$ million	**2,445.1**	1,965.4	24%
– Brewing materials	HK$ million	**840.3**	818.0	3%
Profit before tax	HK$ million	**2,427.0**	2,287.3	6%
Operating profit (segment results)	HK$ million	**2,642.1**	2,303.6	15%
Operating profit before depreciation and amortisation	HK$ million	**3,095.1**	2,665.9	16%
Operating margin	%	**7.9**	10.2	N/A
Profit attributable to owners of the Company	HK$ million	**1,602.5**	1,324.3	21%
Earnings per share:				
– Basic	HK$	**0.397**	0.343	16%
– Diluted	HK$	**0.377**	0.342	10%
Interim dividend per share	HK$	**0.079**	0.066	20%
Closing price per share at period-end	HK$	**8.24**	9.08	(9%)
Market capitalisation at period-end	HK$ million	**33,276.2**	35,051.4	(5%)

Revenue HK$ million

Profit Attributable to Owners of the Company HK$ million

Management Discussion and Analysis

Business Review

Oilseeds Processing Business

The Company is one of the largest edible oil and oilseeds meal producers in China. Its products include soybean oil, palm oil, rapeseed oil and oilseeds meals, which are sold primarily under the brand names of Fuzhanggui (福掌柜), Sihai (四海), Xiyingying (喜盈盈) and Guhua (谷花).

The oilseeds processing business is the largest revenue contributor of the Company, accounting for 64.9% of total revenue for the first half of 2011. Thanks to increases in both sales volume and selling prices, the business recorded a 70.3% year-on-year growth in revenue to HK$21,805.0 million. Despite difficult market conditions, operating profit registered a 18.3% year-on-year increase to HK$1,899.3 million. The improved profit was due to prudent approaches to raw material purchases and effective hedging strategies on purchases and related products.

In the first half of 2011, tight global supply of soybeans kept soybean prices at a high level with fluctuations in a narrow range. Feedstock prices of imported palm oil also stayed at a high level. With measures to combat the faster-than-expected growing trend of consumer prices in China, edible oil prices were unable to keep pace with the uptrend in feedstock prices, resulting in losses across the domestic oilseeds processing industry. On the other hand, lacklustre demand from end-users of oilseeds meals left the industry with oversupply and further softened the selling prices of products, putting more pressure on the domestic oilseeds processing industry.

To cope with such industry-wide challenges, the Company carefully monitored and analysed market trends and made advanced purchases of raw materials at opportune time for future production to alleviate the pressure of rising costs. Meanwhile, it also judiciously entered into hedging arrangements for its raw materials and related products, which sought to manage the inherent risks associated with price fluctuations of raw materials and related products. It also raised its management standard and implemented a range of effective cost control measures.

Revenue was
HK$21,805.0 million

Increases in both sales volume and selling prices led to a 70.3% year-on-year growth in revenue for oilseeds processing business

Newly built silos at COFCO Excel Joy (Tianjin) Co., Ltd.

Management Discussion and Analysis

Annual oilseeds crushing capacity will increase by

47%

In 2011, the Company's oilseeds crushing capacity will increase by 47% to 10.38 million metric tons

An inspector of COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. conducts sampling test on oils

In the area of customer service, the Company ensured stable supply and good after-sales services, in order to maintain a satisfactory growth in edible oil sales. During the period under review, sales of edible oil increased by 33.2% year-on-year to 1.24 million metric tons, while the sales of oilseeds meal products grew by 29.4% year-on-year to 1.94 million metric tons.

To ensure the production of its new factories are effectively absorbed by the market, the Company implemented a number of initiatives, such as conducting market surveys, staff training sessions, internal coordination of logistics facilities for the new factories and strengthened its customer relationship management well ahead of new factory openings. All of these efforts yielded good results and the new factories have been operating smoothly. During the period under review, the Company launched its cooking oil products in southern, central and northern China to further expand its market reach. These products have been widely accepted in these markets.

As at 30 June 2011, the Company operated a total of nine oilseeds processing plants, located in Shandong, Jiangsu, Hubei, Jiangxi, Guangdong and Guangxi. The plants had a combined annual crushing capacity of 8.28 million metric tons and a combined refining capacity of 2.85 million metric tons. In addition, the Company is constructing four rapeseed processing plants in Anhui, Hubei and Chongqing and a soybean processing plant in Tianjin. All of these new plants, with a combined annual crushing capacity of 2.10 million metric tons and refining capacity of 1.32 million metric tons, are expected to commence operation one after the other in the second half of 2011. Upon completion of the construction, the Company's annual oilseeds crushing capacity will increase by 47% to 10.38 million metric tons and its refining capacity will grow by 85% to 4.17 million metric tons relative to the end of 2010. The expanded production capacity is expected to boost sales and help to strengthen the Company's leading position in the industry.

Looking ahead to the second half of 2011, the determining factors in soybean output and price trends will be weather conditions in the soybean growing areas. In China, the oilseeds processing industry will move into busy season and as demand for livestock feeds recovers, capacity utilisation rate is expected to rise gradually in the oilseeds crushing industry. The Company will continue to optimise its business layout and enhance its management capability. It will focus on bringing the oilseeds processing plants that are currently under construction into production on schedule. As to purchasing, the Company will control its raw material cost by diversifying source of supply and making use of forward contracts. It will also apply effective hedging strategies to manage the inherent risks associated with price fluctuations in raw materials and related products. Furthermore, the Company will continue to optimise its sales channels and raise customer service standard. With all these measures in place, the Company is confident that it can provide safe and healthy products to its customers, increase brand recognition, expand market share and strengthen its industry leadership.

Management Discussion and Analysis

Biofuel and Biochemical Business

For the first half of 2011, the Company's biofuel and biochemical business recorded a 23.9% year-on-year growth in revenue to HK$6,167.9 million, while operating profit increased by 6.3% year-on-year to HK$523.4 million.

Revenue from biofuel business was

HK$2,867.4 million

Revenue from biofuel business increased by 38.1% year-on-year due to higher product prices

A corn growing depot in Zhaodong, Heilongjiang

Biofuel Business

The Company is one of China's major fuel ethanol producers, and operates its biofuel business mainly through two subsidiaries, COFCO Bio-Energy (Zhaodong) Co., Ltd. and Guangxi COFCO Bio-Energy Co., Ltd. The latter one is the first and only non-grain-based fuel ethanol producer in China, using tapioca as raw material. Products of the Company's biofuel business include fuel ethanol, anhydrous ethanol, consumable alcohol, crude corn oil and corn distiller's dried grains with solubles (corn DDGS).

For the first half of 2011, revenue from biofuel business increased by 38.1% year-on-year to HK$2,867.4 million due to higher product prices mainly led by two factors. First, in February 2011, the National Development and Reform Commission (NDRC) changed its pegging of fuel ethanol ex-factory price to No. 93 gasoline price from that of No. 90 gasoline. Second, NDRC raised gasoline prices twice during the period, leading to rises in fuel ethanol prices.

During the period under review, the Company made opportune and anticipatory purchases of raw materials by following market trends closely and used a combination of various procurement methods to cope with the increasing corn prices in the domestic market as well as to secure a stable supply of raw materials. Additionally, it enhanced internal coordination within the Company and strengthened collaboration with third-party suppliers' to build its inventory at lower cost and mitigate the uptrend impact of raw material prices. Moreover, the Company continued to raise its management standards and improve production processes to reduce cost and save energy.

For the first half of 2011, the Company's fuel ethanol sales decreased by 9.5% year-on-year to 168,000 metric tons because Guangxi has not yet fully converted its entire vehicle fuel market to ethanol-blended gasoline. Sales of anhydrous ethanol and consumable alcohol totaled 71,000 metric tons, up by 23.7% year-on-year. Sales of crude corn oil and corn DDGS totaled 229,000 metric tons, up by 13.3% year-on-year. During the period, the Company actively communicated with the relevant regulatory departments to expedite the full conversion of Guangxi's vehicle fuel market to ethanol-blended gasoline. On the other hand, the Company also cooperated with the State Administration of Industry and Commerce to enforce regulatory compliance aimed at raising the level of fuel ethanol consumption in Guangxi.

Management Discussion and Analysis

As at 30 June 2011, the Company had two factories in Guangxi and Heilongjiang with a combined annual production capacity of 600,000 metric tons for fuel ethanol, anhydrous ethanol and consumable alcohol, of which fuel ethanol alone accounted for 380,000 metric tons.

Looking ahead, the Company will further strengthen cost control and meet customers' requirements for high quality products through technological upgrade. Meanwhile, it will actively get involved in non-grain-based fuel ethanol production projects in conjunction with the Chinese government's efforts to promote the use of this new type of fuel, making contributions to the promotion of renewable and environmentally friendly energy.

Biochemical Business

The Company's biochemical business is primarily engaged in corn processing. Its products include corn starch, sweeteners (maltodextrin, fructose syrup and maltose syrup) and livestock feed additives.

For the first half of 2011, corn price hikes drove up prices of the products, resulting in a 13.7% year-on-year increase in revenue to HK$3,300.5 million. Corn starch sales grew by 7.3% year-on-year to 668,000 metric tons. Sweetener sales increased by 10.3% year-on-year to 167,000 metric tons.

The Company conducted research and development, product innovation and technological upgrade with a market-oriented approach. It developed and launched high value-added products to broaden its product range and attract more customers. During the period under review, it succeeded in developing different kinds of specialty starch for producing corrugated paper, ham sausage and rice vermicelli, carried out marketing campaigns for these products and will launch them into market when ready for commercialisation. Meanwhile, the Company stepped up its efforts to market a new corn starch specifically developed for brewing beer according to the specifications of the breweries. It also ensured stable supply to high-end customers such as China Resources Snow Breweries and InBev by signing long-term procurement contracts with them based on strategic partnerships. As a result, sales of the specialty starch for brewing beer grew satisfactorily from a year ago.

During the period under review, cane sugar price remained high, stimulating demand for fructose syrup from producers of candies, pastry and beverages. The Company continued to supply fructose syrup to all the seven bottling plants of Coca-Cola and Pepsi Cola in northeastern China. It also produced customised syrup products to meet the various needs of the candy and pastry producers. In addition, the Company produced a maltose syrup for brewing beer which helped breweries raise efficiency and reduce costs in production. This product was well received by the market.

Revenue from biochemical business was

HK$3,300.5 million

Revenue from biochemical business increased by 13.7% year-on-year owing to higher selling prices

A laboratory in the R&D center of the biofuel division

Management Discussion and Analysis

As at 30 June 2011, the Company had four factories in Jilin and Shanghai with a combined annual corn processing capacity of 1.85 million metric tons and a combined annual sweetener production capacity of 450,000 metric tons. In addition, it is building new factories in Heilongjiang and Wuhan which are scheduled to be completed in the second half of 2011. The factories will add an annual corn processing capacity of 600,000 metric tons, an annual sweetener production capacity of 100,000 metric tons and an annual monosodium glutamate (MSG) production capacity of 100,000 metric tons.

Looking ahead, demand for the biochemical products is expected to grow. In order to increase the added value of its products and enhance its competitive strength, the Company will further diversify into downstream processing businesses. It will also enhance its capability for developing and producing sweeteners and MSG, and provide suitable products and after-sales services for its customers according to their specific needs. Furthermore, it will strengthen its capability for sourcing raw materials by diversifying its sources for procuring quality raw materials, implement strict cost control measures, and raise customer service efficiency to solidify its market position and expand market share.

Rice Trading and Processing Business

The Company is a leading packaged rice supplier and the largest rice exporter in China, engaging primarily in the processing and trading of white and parboiled rice. Its consumer packaged rice are sold primarily under the brand names of Fortune (福临门), Five Lakes (五湖) and Jinying (金盈). The Company exports to major traditional markets including Japan, South Korea, Hong Kong and Macau as well as the Middle East, Eastern Europe, Africa, Central Asia and the Americas.

For the first half of 2011, rice trading and processing revenue grew by 10.4% year-on-year to HK$2,343.7 million. Revenue growth was a result of an increase in domestic sales. However, operating profit fell to HK$22.5 million during the period under review from HK$80.5 million in the corresponding period last year due to two factors. First, the Company made significant investments in the domestic business as part of its expansion strategy. Second, volume and profit margins in the export business were affected by weaker selling prices in international markets and rising domestic raw grain prices.

In order to ensure sufficient supply in the domestic market, China's rice export quota was reduced comparing to that of last year's. For the six months ended 30 June 2011, the Company received altogether 74.1% share of the nation's rice export quota through the COFCO Group based on a trade agent agreement, making it the largest rice exporter in China. Nevertheless, price hikes in domestic raw grains, along with abundant supply in international markets and appreciation of Renminbi against US dollar made China's rice export less competitive. As a result, both of the Company's export volume and profit margin declined compared to the corresponding period last year. Its export sales decreased by 42.1% to 121,000 metric tons from a year ago.

In view of rising prices in domestic raw grains, the Company closely followed the international market trends and grasped the market opportunity to import quality rice at a lower cost from major rice-exporting countries such as Thailand and Vietnam to satisfy diversified domestic demand. The move also helped alleviate the increasing raw material cost pressures.

Revenue was

HK$2,343.7 million

Revenue from rice trading and processing business grew by 10.4% year-on-year as a result of an increase in domestic sales

Rice seedlings are cultivated by COFCO East Ocean Oils & Grains Industries (Zhangjiagang) Co., Ltd. in a large-scaled and scientific way

Management Discussion and Analysis

45,000 outlets

Consumer packaged rice are sold in more than 45,000 outlets, including hypermarkets, supermarkets, grocery stores and restaurants

Fortune (福临门)-branded rice is available for sale at supermarkets

The Company strengthened its sales system, organisational structure and management capability as part of a growth strategy in the Chinese domestic market. Presently, the Company has 20 domestic sales branches, and is using its nationwide network to expand its customer base and upgrade its sales channels. Meanwhile, the Company adapted production to demand so that it was able to respond to changes in market demand in a timely manner based on finely segmented sales channels. During the period under review, the Company continued to strengthen its customer base in northern China, and developed new markets in southern China by conducting research and development on rice varieties in Jiangsu, Ningxia and other southern rice-growing regions in order to expand its product range and meet wider customer demand.

To gain greater brand recognition and market coverage, the Company accelerated its sales network expansion and developed traditional sales channels in grocery stores while maintaining stable sales in the modern sector of supermarket chains. It also upgraded its customer base and convened an annual gathering of distributors as part of its effort to broaden sales channels. Presently, the Company's products are sold in more than 45,000 outlets, including hypermarkets, supermarkets, grocery stores and restaurants. During the period under review, the Company's domestic rice sales jumped by 36.7% year-on-year to 318,000 metric tons. According to the market survey conducted by AC Nielsen in June 2011 on consumer packaged rice sold in hypermarkets in 16 major cities in China, the Company had a 14% market share in hypermarkets there, making it the largest packaged rice supplier in the country.

During the period under review, the Company improved its procurement network by expanding points of procurement in major rice-growing regions in the country, and building processing plants near grain producing areas. In addition, the Company leveraged its well established procurement network to actively purchase raw grains during harvest seasons. It also used various methods to ensure stable quality grain supply including general trading, reserve rotation, direct sourcing and contract farming during harvest seasons. It also participated in national grain auctions to complement its grain sources and keep procurement cost outside harvest seasons low.

As at 30 June 2011, the Company operated a total of six rice processing plants, located in Liaoning, Jiangxi, Jiangsu, Heilongjiang and Ningxia with a combined annual processing capacity of 865,000 metric tons. It will continue to optimise its strategic layout with an aim of becoming one of China's largest rice producers. Presently, the Company is constructing five rice processing plants near grain growing areas in Heilongjiang, Jilin, Liaoning, Jiangsu and Anhui and one rice processing plant near its target market in Sichuan. These six processing plants will have a combined annual processing capacity of 923,000 metric tons and are scheduled to enter their trial runs around the end of 2011.

Management Discussion and Analysis

Looking ahead to the second half of 2011, the rice industry will remain in an early stage of consolidation. Although the share of consumer packaged rice in total sales continued to grow in China, the consumer behavior of changing from buying rice in small portions from open bin vendors to buying packaged rice has slowed down because of inflation. In addition, the rice processing industry is very fragmented and therefore will remain highly competitive. In order to cope with these challenges, the Company took a market-oriented approach and continued to build an integrated value chain of the rice business and improved procurement, processing, and overall operation of the value chain. The move has enhanced the competitive advantage of the Company's rice business on the domestic market. In exports, the Company will seek new markets while maintaining its market advantage in existing traditional ones. It will make steady progress towards the goals of its development strategy, build upon and improve its customer relations, broaden its sales channels and network and enhance brand recognition to solidify its leading position in China's rice industry.

Wheat Processing Business

The Company is one of the largest wheat processors in China. Its products include general-purpose flour, special-purpose flour, noodles and breads. Its consumer packaged products are sold primarily under the brand names of Fortune (福临门) and Xiangxue (香雪).

For the first half of 2011, the climate was favourable for winter wheat with crop output growing consistently for the last eight years, keeping China's national reserves with plentiful wheat stockpiles. Nevertheless, wheat price in China moved up steadily on rising inflation and price hikes of major commodities in the global markets. Amid rising wheat prices, the Company stepped up its effort to integrate its operation and strengthen its management system, and adopted a range of stringent cost control measures, aiming to increase profitability. The Company was able to pass on the cost increases to its customers by optimising both customer base and product mix. During the period under review, the Company increased the proportion of mid-range and high-end products in its overall product mix.

Thanks to increases in both sales volume and selling prices, the business posted satisfactory results for the period under review. Revenue increased by 24.4% year-on-year to HK$2,445.1 million while operating profit increased by 44.9% year-on-year to HK$77.5 million.

Revenue was

HK$2,445.1 million

Revenue from wheat processing business increased by 24.4% year-on-year, thanks to increases in both sales volume and selling prices

Mr. Yu Xubo, the Managing Director, visits a supermarket for Xiangxue (香雪)-branded noodles

Management Discussion and Analysis

As to procurement, the Company closely monitored and analysed the price trends of raw grains and centralised its procurement by taking full advantage of market information sources, raising management standards and enhancing internal coordination. It controlled the pace and cost of raw grain procurement by using a variety of methods, including participation in auctions, reserve rotation, direct sourcing and general trading. In addition, the Company enhanced its capability for sourcing quality raw grains by expanding the scale of cooperation with farmers through contract farming and managing the entire supply chain which spans quality raw grain plantation, processing, procurement, storage and distribution. It introduced quality raw grain cultivation and economy of scale through rural cooperatives.

In the area of sales and distribution, the Company developed special-purpose flour with high-added value including products for use in food industry and catering services in order to meet customers' specific needs. In particular, the Company jointly developed new varieties of flour with customers such as high-growth foodstuff producers and catering chains to better meet their specific requirements, and provided them with after-sales technical support. The Company also formed strategic partnerships with leading foodstuff companies including Tingyi, Kraft, Dali and Yum! to leverage their huge sales channels and large market coverage. This helped the Company expand market share and maintain a leading position in the industry. For the first half of 2011, the Company's flour sales increased by 9.3% year-on-year to 602,000 metric tons. Sales of consumer packaged flour and dried noodles also grew favourably as the Company expanded its distribution channels and improved its sales network.

The Company's factories are located near raw grain growing areas or target markets, making raw materials procurement and customer service more efficient. As at 30 June 2011, the Company had 11 factories in Hebei, Henan, Jiangsu, Liaoning, Fujian, Shandong and Beijing with a combined annual wheat processing capacity of 2.011 million metric tons, and a combined annual bread baking capacity of 2,000 metric tons. Furthermore, its dried noodle factories in Liaoning and Jiangsu came on stream in May and June respectively, bringing the Company's total annual dried noodle production capacity to 100,200 metric tons, up 49% from a year ago. The Company will fully utilise its dried noodle production capacity and optimise its product mix through better planning and market expansion.

Looking ahead, wheat prices are expected to stabilise. As a staple food, flour remains in huge demand based on a wide consumer base as it serves as an important raw ingredient for the food industry and catering services. China's demand for flour is expected to increase steadily as the country's population grows. In particular, demand for flour in the country's food industry and catering services is estimated to be strong. By adhering to an integrated operation and a sophisticated management system, the Company will strengthen its capabilities for sourcing raw materials and controlling costs. It will also continue to optimise both its customer base and product mix, leverage its established relationships with sizeable clients and focus on developing high value-added products to respond to the market's changing needs and demands.

Management Discussion and Analysis

Brewing Materials Business

The Company is a leading supplier of brewing materials in China, engaging in the production of malt and sales to domestic market and exports to Southeast Asian countries.

For the first half of 2011, revenue from brewing materials business increased slightly by 2.7% year-on-year to HK$840.3 million. The growth was due primarily to an increase in selling prices. Thanks to strong business acumen and an efficient procurement system to keep inventory costs low, operating profit grew by 24.3% year-on-year to HK$156.8 million.

Malting barley prices have been rising since the fourth quarter of 2010 as inclement weather during crop harvest reduced the output in major barley growing regions including Canada and Australia. This also led to lower inventory levels in the brewing materials industry. In early 2011, barley output fell in Europe due to drought, pushing up the crop prices even further. The high prices of raw materials curbed demand as breweries were inclined to use up their existing low-cost inventories. With fewer new purchases, the Company's malt sales decreased by 12.3% year-on-year to 217,000 metric tons. In response to these adverse market conditions, the Company adjusted its production plan as part of its cost control measures.

As to procurement, the Company stepped up its effort to diversify its raw material source by importing quality malting barley from Argentina. The move helped mitigate the adverse effects of the major barley growing areas' extreme weather on the quality of malting barley and, at the same time, ensured stable supply of low-cost, high-quality raw materials. Moreover, the Company arranged for malting barley procurement based on a careful review of malt sales contracts in order to pass on increased costs to customers to maintain profit margins. On the sales front, the Company continued to strengthen its long-term relationships with major clients by enhancing its customer service standards.

In the period under review, the Company emphasised on new product development and innovations in both product and production technology to meet clients' specific requirements, and in particular, sales of special and refined malts targeting middle to high-end markets recorded satisfactory growth. As part of its efforts to broaden its product range, the Company introduced caramel malt (焦香麥芽), which was well received by its customers.

Revenue was
HK$840.3 million

Revenue from brewing materials business increased by 2.7% year-on-year, due to an increase in selling prices

Germination boxes of COFCO Malt (Dalian) Co., Ltd.

Management Discussion and Analysis

As at 30 June 2011, the Company had three malt processing plants in Liaoning, Jiangsu and Inner Mongolia with a combined annual processing capacity of 740,000 metric tons. The malt processing plant in Yakeshi, Inner Mongolia was completed and came into production in November 2010, and its products were mainly for domestic market. It is located near malting barley growing areas, making timely procurement and lower-cost transportation possible, and satisfying the market demand for domestically grown barley.

As the world's largest beer-consuming country, China's demand for malt is expected to increase, creating good prospects for brewing materials industry. Although malting barley prices are projected to remain high as long as output is uncertain in Australia and Argentina, breweries' demand for malt will grow again in the second half of the year as the breweries' low-cost inventories deplete. This should help boost sales at the Company's brewing materials business. The Company will continue to monitor and analyse market trends and will seize market opportunities to solidify and expand market share by enhancing its raw materials sourcing capabilities to ensure stable supply, improving production cost control, optimising product mix and raising customer service standards.

Management Discussion and Analysis

Financial Review

The Group's Results for the Period

The overall performance of China economy in the first half of 2011 was encouraging despite pressures derived from the macroeconomic measures from the government. During the period, the Company achieved satisfactory performance by adhering to its prudent operating strategy with enhanced efforts in sales management and cost controls, in view of the challenges posed by sustained cost pressures arising from the high level of agricultural product prices.

For the six months ended 30 June 2011, the Group's revenue recorded a growth of 48.1% to HK$33,602.1 million. Consistent growth in sales was achieved across all five business segments. As the largest revenue and operating profit contributor of the Group's five segments, oilseeds processing business accounted for 64.9% and 71.9% of the total revenue and operating profit respectively for the period, as compared to 56.4% and 69.7% for the corresponding period last year. Oilseeds processing business demonstrated an excellent performance, whereas biofuel and biochemical, wheat processing and brewing materials businesses were stable with steady increase in profit. The rice trading and processing business was going through a business model transformation process whose profitability was adversely affected. As a result, profit attributable to the owners of the Company for the period was HK$1,602.5 million, up 21.0% from HK$1,324.3 million for the corresponding period last year. Basic earnings per share for the period also rose to 39.7 HK cents from 34.3 HK cents for the corresponding period last year.

For the six months ended 30 June 2011, the Group's finance costs increased by 147.0% year-on-year to HK$358.6 million (six months ended 30 June 2010: HK$145.2 million), which was primarily attributed to funds raised by the Group for production capacity expansion and general working capital purposes.

Segment Results

Oilseeds processing business

For the six months ended 30 June 2011, oilseeds processing business reported sales revenue of HK$21,805.0 million, representing a jump of 70.3% over HK$12,801.2 million for the corresponding period last year, thanks to the significant growth in sales of edible oils and soybean meals driven by the release of production capacity from the completion of new projects and uplifts in the average selling prices of edible oils by 43.0% year-on-year. During the first half of the year, as raw material prices continued to run high and the selling prices of relevant oilseeds products were depressed, the oilseeds industry suffered losses amidst severe operating environment. Nonetheless, the Group analysed the oilseeds market thoroughly and seized the procurement opportunities of raw materials timely so as to lock-in the purchase costs and manage its risks with an effective hedging policy. Combining with a variety of effective cost control measures, the Group achieved a profit margin of 8.8% for the period, higher than the industry level, though down 6.1 percentage points over the corresponding period last year. The oilseeds processing business recorded an operating profit of HK$1,899.3 million (six months ended 30 June 2010: HK$1,605.4 million) for the period. It is expected that sales will be boosted following the release of new production capacity which in turn further strengthen the Group's premier position in the oilseeds industry.

Biofuel and biochemical business

For the six months ended 30 June 2011, revenue from the biofuel and biochemical business amounted to HK$6,167.9 million, a growth of 23.9% over the corresponding period last year. During the period, the rise in corn price drove up the selling prices of related products. Attributable to the expanded market share gained at the good timing and stable supply of products, sales volume of starch and sweeteners of 7.3% and 10.3% were up respectively. At the same time, starch, sweeteners and consumable ethanol became the key drivers for revenue growth with year-on-year increments in selling prices of 20.9%, 31.0% and 24.1% respectively. Enhanced internal synergy, expanded external cooperation, diversified procurement sources, effective cost control on production and continuous exploration of growth potentials enabled the Group to sustain stable profit for biofuel and biochemical business, recording an operating profit of HK$523.4 million for the period, up 6.3% over the corresponding period last year, with an overall profit margin of 15.1% (six months ended 30 June 2010: 14.8%).

Management Discussion and Analysis

Rice trading and processing business

During the period, revenue of rice trading and processing business was HK$2,343.7 million, an increase of 10.4% over the corresponding period last year, primarily attributable to the growth in domestic sales. At the critical phase of business model transformation, rice trading and processing business recorded a substantial increase in domestic sales volume to 318,000 metric tonnes with a year-on-year growth of 36.7%. It continues to maintain its leadership position in consumer packaged rice sector in China. As the domestic sales continued to develop, the Group devoted more efforts in enhancing its sales and promotion channels and enriching its product mix, resulting in higher gross profit margin. As for the exporting business, with the competitiveness of exported rice being undermined by a number of factors, such as high price of domestic raw materials, ample international supply and consistent Renminbi appreciation, the Group's export sales and profit were adversely affected, however it remained as the largest rice exporter in China. In summary, rice trading and processing business recorded an operating profit of HK$22.5 million for the period, down from HK$80.5 million for the corresponding period last year. Concurrent with the continuation of domestic sales expansion, the Group will optimise its management system and continue to strengthen its competitive edges in sales channel and coverage, enabling it to raise profitability.

Wheat processing business

During the period, on the back of growths in both sales volume and selling prices, the wheat processing business recorded steady increase in revenue of 24.4% to HK$2,445.1 million. Although the costs of raw materials increased, the Group was benefitted by an integrated operation and professional management, stringent costs control as well as successfully passing the costs to customers by enlarging the proportion of mid-range and high-end products. As a result, the Group maintained a profit margin of 8.6% (six months ended 30 June 2010: 8.7%) and recorded an operating profit of HK$77.5 million, a year-on-year growth of 44.9%. The Group will expand the high-end market and realign its customer mix to improve revenue and profit and, consequently, consolidating its leading position in wheat processing industry.

Brewing materials business

Brewing materials business recorded a revenue of HK$840.3 million for the current period, which maintained at a similar level of the corresponding period last year. The average selling price of malt during the period was around HK$3,750 per metric ton, a year-on-year growth of 17.1%. In view of the hindered demands for premium malt by price hikes and the high level of inventory kept by brewery customers, the Group recorded a year-on-year decline in sales volume of 12.3%. However, the Group timely grasped the procurement opportunities to mitigate pressures from the increasing raw material costs, thus enabling the Group to achieve a profit margin higher than the industry level and record an increase in operating profit by HK$30.7 million to HK$156.8 million. The Group will continue to reinforce our customer network and enhance marketing efforts with an aim of boosting the domestic and international market shares.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

Save for those disclosed in this interim report, the Group did not have any other significant investments held nor any material acquisitions and disposals of subsidiaries during the period under review.

Management Discussion and Analysis

Working Capital and Financial Policy

The Group adheres to a prudent financial management policy in the management of our financial affairs and centralises funding required for all business operations. The policy ensures that cash inflows generated from operating activities together with undrawn banking facilities are sufficient to meet the demands required for day-to-day operations, loan repayments, capital expenditure and potential business expansion opportunities, while effectively monitoring the Group's liquidity and financial resources. During the period, the Group's operations were mainly financed by our own funds and bank loans.

For the purpose of more efficient deployment and application of funds within the Group, the Group entered into the Financial Services Agreement and the Entrustment Loan Framework Agreement with COFCO Finance Company Limited through COFCO Agri-Industries Management Company Limited (a subsidiary of the Company) in order to reduce the average borrowing costs of the Group and better facilitate intra-Group settlement services. During the period, the Group enhanced the liquidity of funds, reduced finance costs and effectively monitored the use of funds through this treasury platform.

Closely monitoring its exposures to fluctuations in exchange rates and commodity prices, the Group uses commodity futures contracts to timely hedge its risks associated with price fluctuations in raw material purchases or sales of the related products to lock-in profit, as well as foreign currency forward contracts to mitigate exchange rate exposure.

Cash Position

The Group maintained a strong financial position with available cash and bank deposits (including pledged deposits) amounting to HK$8,373.0 million (31 December 2010: HK$7,522.5 million) as at 30 June 2011. During the period, net cash outflow used in operations of approximately HK$7,001.3 million (year ended 31 December 2010: net cash outflow of HK$8,211.5 million) was recorded. These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

Bank Loans and Other Borrowings

As at 30 June 2011, the total interest-bearing bank loans and other borrowings (including the liability component of convertible bonds) amounted to HK$37,284.3 million (31 December 2010: HK$25,843.0 million). The increment was mainly used for the expansion of the Group. These loans are repayable within the following periods:

	30 June 2011 HK$ million	31 December 2010 HK$ million
Within one year or on demand	**30,657.1**	19,767.2
In the second year	**382.3**	217.4
In the third to fifth years, inclusive	**6,185.5**	5,810.9
Beyond five years	**59.4**	47.5
	37,284.3	25,843.0

Among the above total loans, HK$35,335.0 million or 94.8% (31 December 2010: HK$23,487.9 million or 90.9%) are at fixed interest rates. As at 30 June 2011, the Group has pledged assets with an aggregate carrying value of HK$2,826.0 million (31 December 2010: HK$1,006.5 million) to secure bank loans and banking facilities of the Group. The Group had no unutilised committed banking facilities as at 30 June 2011 and 31 December 2010. The Group will continue to obtain financing on an unsecured basis whenever possible and supplement such borrowings with secured financing.

Financial Ratios

The Group's financial ratios at 30 June 2011 and 31 December 2010 are set out below:

	30 June 2011	31 December 2010
Net gearing ratio (the ratio of net debt to shareholders' equity)	**138.2%**	96.0%
Liquidity ratio (the ratio of current assets to current liabilities)	**1.20**	1.32
Quick ratio (the ratio of current assets less inventories to current liabilities)	**0.63**	0.76

Net debt represents the Group's total interest-bearing bank loans and other borrowings (including the liability component of convertible bonds) less cash and cash equivalents and pledged deposits. Therefore, the net debt of the Group was HK$28,911.3 million at 30 June 2011 (31 December 2010: HK$18,320.5 million).

Capital Expenditures

Total capital expenditures of the Group for the six months ended 30 June 2011 is tabulated below:

	For the six months ended 30 June	
	2011 HK$ million	2010 HK$ million
Business units:		
Oilseeds processing	**1,970.9**	672.3
Biofuel and biochemical	**862.1**	146.1
Rice trading and processing	**763.5**	126.6
Wheat processing	**35.2**	45.3
Brewing materials	**72.2**	267.4
Corporate and others	**109.1**	8.2
	3,813.0	1,265.9

Capital Commitments

Capital commitments outstanding and not provided for in the Group's condensed consolidated interim financial information as at 30 June 2011 are set out below. These commitments are to be financed by loans and working capital of the Group.

	30 June 2011 HK$ million	31 December 2010 HK$ million
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**4,131.5**	5,677.4
Contracted, but not provided for	**2,983.8**	2,734.3
	7,115.3	8,411.7

Management Discussion and Analysis

Human Resources

The Group employed 21,718 (31 December 2010: 20,186) staff at 30 June 2011:

	30 June 2011 Number of staff	31 December 2010 Number of staff
Oilseeds processing business	**6,192**	5,139
Biofuel and biochemical business	**9,484**	9,220
Rice trading and processing business	**2,248**	1,900
Wheat processing business	**2,980**	3,136
Brewing materials business	**691**	679
Corporate	**123**	112
	21,718	20,186

The Group's employees are remunerated according to job nature, individual performance and market trends with built-in merit components. Total remuneration (including directors' remuneration) for the six months ended 30 June 2011 amounted to approximately HK$706.7 million (six months ended 30 June 2010: HK$480.8 million). Employees in Hong Kong receive retirement benefits, mostly in form of a mandatory provident fund entitlement, and a similar benefit scheme is offered to employees in the PRC.

The Group adopted a share option scheme on 12 January 2007 to attract, retain and motivate senior management personnel and key employees, and provide eligible participants with an opportunity to acquire equity interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares.

In addition, the Group encourages employees' participation in continuing training programmes, seminars and e-learning, through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

Outlook

In light of the growth in China economy and the commitment to promoting the development of modern agriculture, the Group continues to enhance its operation efficiency, market share and profitability by way of expanding production capacity and optimising coverage across all business segments. Building on a sound financial position and professional management, the Group strives to establish itself as a world-class integrated oil and grain enterprise spanning the entire value chain, underlined by a commitment to delivering nutritious, safe, healthy and quality products to the customers.

Hong Kong, 30 August 2011

Share Option Scheme

Movements of the share options, which were granted under the share option scheme of the Company, during the period are set out below:

Share Options Granted on 7 August 2007

Category of participants	Date of grant (d-m-yyyy)	Exercise price per share (HK$)	Vesting date (d-m-yyyy)	Exercise period (d-m-yyyy)	Number of share options			
					At 1 January 2011	Exercised	Lapsed	At 30 June 2011
(A) Directors								
NING Gaoning	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	140,000	–	–	140,000
			7-8-2010	7-8-2010 to 6-8-2014	140,000	–	–	140,000
			7-8-2011	7-8-2011 to 6-8-2014	140,000	–	–	140,000
			7-8-2012	7-8-2012 to 6-8-2014	140,000	–	–	140,000
			7-8-2013	7-8-2013 to 6-8-2014	140,000	–	–	140,000
					700,000	–	–	700,000
YU Xubo	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	140,000	–	–	140,000
			7-8-2010	7-8-2010 to 6-8-2014	140,000	–	–	140,000
			7-8-2011	7-8-2011 to 6-8-2014	140,000	–	–	140,000
			7-8-2012	7-8-2012 to 6-8-2014	140,000	–	–	140,000
			7-8-2013	7-8-2013 to 6-8-2014	140,000	–	–	140,000
					700,000	–	–	700,000
LU Jun	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	–	–	–	–
			7-8-2010	7-8-2010 to 6-8-2014	130,000	–	–	130,000
			7-8-2011	7-8-2011 to 6-8-2014	130,000	–	–	130,000
			7-8-2012	7-8-2012 to 6-8-2014	130,000	–	–	130,000
			7-8-2013	7-8-2013 to 6-8-2014	130,000	–	–	130,000
					520,000	–	–	520,000

Corporate Governance and Other Information

Category of participants	Date of grant (d-m-yyyy)	Exercise price per share (HK$)	Vesting date (d-m-yyyy)	Exercise period (d-m-yyyy)	Number of share options			
					At 1 January 2011	Exercised	Lapsed	At 30 June 2011
YUE Guojun	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	130,000	–	–	130,000
			7-8-2010	7-8-2010 to 6-8-2014	130,000	–	–	130,000
			7-8-2011	7-8-2011 to 6-8-2014	130,000	–	–	130,000
			7-8-2012	7-8-2012 to 6-8-2014	130,000	–	–	130,000
			7-8-2013	7-8-2013 to 6-8-2014	130,000	–	–	130,000
					650,000	–	–	650,000
MA Wangjun	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	120,000	–	–	120,000
			7-8-2010	7-8-2010 to 6-8-2014	120,000	–	–	120,000
			7-8-2011	7-8-2011 to 6-8-2014	120,000	–	–	120,000
			7-8-2012	7-8-2012 to 6-8-2014	120,000	–	–	120,000
			7-8-2013	7-8-2013 to 6-8-2014	120,000	–	–	120,000
					600,000	–	–	600,000
(B) Employees	7-8-2007	4.666	7-8-2009	7-8-2009 to 6-8-2014	2,051,000	–	–	2,051,000
			7-8-2010	7-8-2010 to 6-8-2014	4,700,000	–	70,000	4,630,000
			7-8-2011	7-8-2011 to 6-8-2014	4,700,000	–	124,000	4,576,000
			7-8-2012	7-8-2012 to 6-8-2014	4,700,000	–	124,000	4,576,000
			7-8-2013	7-8-2013 to 6-8-2014	4,700,000	–	124,000	4,576,000
					20,851,000	–	442,000	20,409,000
	Total				24,021,000	–	442,000	23,579,000

Notes:

1. The amended vesting schedule under the share option scheme was approved by the shareholders on 25 May 2010 and the resulting amendments to the terms of the above share options granted took effect accordingly.

2. Employees refer to those working under employment contracts that were regarded as "Continuous Contract" for the purposes of the Employment Ordinance of Hong Kong.

Share Options Granted on 31 March 2011

On 31 March 2011, the Company granted a total of 45,300,000 share options to certain eligible participants at an exercise price of HK$8.72 per share. Validity period of these options is 7 years from the date of grant but subject to the following vesting schedule:

Category of participants	Date of grant (d–m–yyyy)	Exercise price per share (HK$)	Vesting date (d–m–yyyy)	Exercise period (d–m–yyyy)	Number of share options			
					At 31 March 2011	Exercised	Lapsed	At 30 June 2011
(A) Directors								
NING Gaoning	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	120,000	–	–	120,000
			31–3–2014	31–3–2014 to 30–3–2018	120,000	–	–	120,000
			31–3–2015	31–3–2015 to 30–3–2018	120,000	–	–	120,000
			31–3–2016	31–3–2016 to 30–3–2018	120,000	–	–	120,000
			31–3–2017	31–3–2017 to 30–3–2018	120,000	–	–	120,000
					600,000	–	–	600,000
YU Xubo	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	120,000	–	–	120,000
			31–3–2014	31–3–2014 to 30–3–2018	120,000	–	–	120,000
			31–3–2015	31–3–2015 to 30–3–2018	120,000	–	–	120,000
			31–3–2016	31–3–2016 to 30–3–2018	120,000	–	–	120,000
			31–3–2017	31–3–2017 to 30–3–2018	120,000	–	–	120,000
					600,000	–	–	600,000
LU Jun	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	110,000	–	–	110,000
			31–3–2014	31–3–2014 to 30–3–2018	110,000	–	–	110,000
			31–3–2015	31–3–2015 to 30–3–2018	110,000	–	–	110,000
			31–3–2016	31–3–2016 to 30–3–2018	110,000	–	–	110,000
			31–3–2017	31–3–2017 to 30–3–2018	110,000	–	–	110,000
					550,000	–	–	550,000
YUE Guojun	31–3–2011	8.72	31–3–2013	31–3–2013 to 30–3–2018	110,000	–	–	110,000
			31–3–2014	31–3–2014 to 30–3–2018	110,000	–	–	110,000
			31–3–2015	31–3–2015 to 30–3–2018	110,000	–	–	110,000
			31–3–2016	31–3–2016 to 30–3–2018	110,000	–	–	110,000
			31–3–2017	31–3–2017 to 30–3–2018	110,000	–	–	110,000
					550,000	–	–	550,000

Category of participants	Date of grant (d-m-yyyy)	Exercise price per share (HK$)	Vesting date (d-m-yyyy)	Exercise period (d-m-yyyy)	Number of share options			
					At 31 March 2011	Exercised	Lapsed	At 30 June 2011
MA Wangjun	31-3-2011	8.72	31-3-2013	31-3-2013 to 30-3-2018	110,000	–	–	110,000
			31-3-2014	31-3-2014 to 30-3-2018	110,000	–	–	110,000
			31-3-2015	31-3-2015 to 30-3-2018	110,000	–	–	110,000
			31-3-2016	31-3-2016 to 30-3-2018	110,000	–	–	110,000
			31-3-2017	31-3-2017 to 30-3-2018	110,000	–	–	110,000
					550,000	–	–	550,000
WANG Zhiying	31-3-2011	8.72	31-3-2013	31-3-2013 to 30-3-2018	110,000	–	–	110,000
			31-3-2014	31-3-2014 to 30-3-2018	110,000	–	–	110,000
			31-3-2015	31-3-2015 to 30-3-2018	110,000	–	–	110,000
			31-3-2016	31-3-2016 to 30-3-2018	110,000	–	–	110,000
			31-3-2017	31-3-2017 to 30-3-2018	110,000	–	–	110,000
					550,000	–	–	550,000
(B) Employees	31-3-2011	8.72	31-3-2013	31-3-2013 to 30-3-2018	8,380,000	–	–	8,380,000
			31-3-2014	31-3-2014 to 30-3-2018	8,380,000	–	–	8,380,000
			31-3-2015	31-3-2015 to 30-3-2018	8,380,000	–	–	8,380,000
			31-3-2016	31-3-2016 to 30-3-2018	8,380,000	–	–	8,380,000
			31-3-2017	31-3-2017 to 30-3-2018	8,380,000	–	–	8,380,000
					41,900,000	–	–	41,900,000
	Total				45,300,000	–	–	45,300,000

Notes:

1. The closing price of the Company's shares immediately before the date on which the above share options were granted was HK$8.76 per share.

2. The fair value of above share options granted to the Company's directors and the employees as at the date of grant, using Binominal Option Pricing Model, was HK$3.83 per share.

3. The accounting policy adopted for the share options are set out in note 30 to the financial statements of the Company's 2010 annual report.

4. Employees refer to those working under employment contracts that were regarded as "Continuous Contract" for the purposes of the Employment Ordinance of Hong Kong.

Additional information in relation to the share option scheme is set out in note 15 to the condensed consolidated interim financial information.

Corporate Governance and Other Information

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2011, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (together, "Discloseable Interests") were as follows:

Interests in Underlying Shares of the Company

Name	Capacity	Number of underlying shares held *(Note 1)*	Percentage *(Note 2)*
NING Gaoning	Beneficial owner	1,300,000	0.03%
YU Xubo	Beneficial owner	1,300,000	0.03%
LU Jun	Beneficial owner	1,070,000	0.03%
YUE Guojun	Beneficial owner	1,200,000	0.03%
MA Wangjun	Beneficial owner	1,150,000	0.03%
WANG Zhiying	Beneficial owner	550,000	0.01%

Notes:

1. Interests in the underlying shares are long positions. These are share options granted pursuant to the share option scheme of the Company, particulars of which are set out in the section "Share Option Scheme".

2. The percentage of interests is calculated based on the total number of shares of the Company in issue as at 30 June 2011, being 4,038,369,839 shares.

Corporate Governance and Other Information

Interests in Underlying Shares of Associated Corporation

Name	Name of associated corporation	Capacity	Number of underlying shares held	Percentage *(Note 3)*
NING Gaoning	China Foods Limited	Beneficial owner	880,000 *(Note 1)*	0.03%
		Beneficial owner	740,000 *(Note 2)*	0.03%

Notes:

1. Interests in the underlying shares are long positions. Those are share option granted by China Foods Limited on 27 September 2007 at an exercise price of HK$4.952 per share and, subject to a vesting schedule, exercisable during the period from 27 September 2009 to 26 September 2014.

2. Interests in the underlying shares are long positions. Those are share option granted by China Foods Limited on 29 March 2011 at an exercise price of HK$4.910 per share and, subject to a vesting schedule, exercisable during the period from 29 March 2013 to 28 March 2018.

3. The percentage of interests is calculated based on the total number of shares of China Foods Limited in issue as at 30 June 2011, being 2,792,659,756 shares.

Save as disclosed above, as at 30 June 2011, none of the Directors, chief executives or their respective associates had any other Discloseable Interests.

Substantial Shareholders' Interests in Shares of the Company

As at 30 June 2011, the following persons had an interest or short position in the shares and underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO:

Name	Capacity	Number of shares held *(Note 1)*	Percentage *(Note 2)*
Wide Smart Holdings Limited	Beneficial owner	1,922,550,331	47.61%
COFCO (BVI) No.108 Limited	Beneficial owner	140,000,000	3.47%
COFCO (Hong Kong) Limited	Beneficial owner	273,764,483	6.78%
	Interest of controlled corporations *(Note 3)*	2,062,550,331	51.07%
COFCO Corporation	Interest of controlled corporations *(Note 4)*	2,336,314,814	57.85%

Notes:

1. Long positions in the shares of the Company.
2. The percentage of interests is calculated based on the total number of shares of the Company in issue as at 30 June 2011, being 4,038,369,839 shares.
3. COFCO (Hong Kong) Limited is deemed to be interested in any shares held by Wide Smart Holdings Limited and COFCO (BVI) No.108 Limited, as it is entitled to control the exercise of or exercise one-third or more of the voting power at their general meetings.
4. COFCO Corporation is deemed to be interested in any shares held by Wide Smart Holdings Limited, COFCO (BVI) No.108 Limited and COFCO (Hong Kong) Limited, as it is entitled to control the exercise of or exercise one-third or more of the voting power at their general meetings.

Save as disclosed above, as at 30 June 2011, so far as was known to the Directors, no other persons had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register kept by the Company under section 336 of the SFO.

Purchase, Redemption or Sale of the Company's Listed Securities

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company.

Corporate Governance and Other Information

Model Code

The Company has adopted the Model Code as the principal standards of securities transactions for Directors. Upon specific enquiries of all the Directors, each of them confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2011.

The Company has also adopted a code for securities transactions by relevant employees based on the Model Code concerning dealings by employees in the securities of the Company. Specified employees who are likely to be in possession of unpublished price-sensitive information related to the Group and its activities must comply with guidelines as exacting as those set out in the Model Code. During the first half of 2011, the Company has not received any non-compliance report from any of such employees.

Corporate Governance

The Company recognises the importance of corporate transparency and accountability. The Directors are committed in achieving a high standard of corporate governance practices and procedures and striving for a transparent and accountable management framework on enhancing the interests of shareholders. The corporate governance principles of the Company emphasis on upholding 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 throughout the six months ended 30 June 2011 with all the applicable code provisions and, where appropriate, the applicable recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except for the absence of the Chairman of the Board at the annual general meeting of the Company held on 9 June 2011 due to his another business commitment.

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 shareholders of the Company, and to enhance better corporate governance and compliance in return reduces the possibility of significant errors and irregularities by timely detection.

Directors Re-elected at the Annual General Meeting

At the annual general meeting of the Company held on 9 June 2011, the Company re-elected Mr. Yue Guojun as an executive Director, Mr. Ma Wangjun and Mr. Wang Zhiying as non-executive Directors, and Mr. Patrick Vincent Vizzone as an independent non-executive Director. Please refer to Appendix II to the Company's circular dated 28 April 2011 for their biographies and other information.

Review of Interim Results

The unaudited condensed consolidated interim financial information of the Company for the six months ended 30 June 2011 have been reviewed by the Audit Committee of the Company and our external auditors, Ernst & Young.

Corporate Governance and Other Information

Interim Dividend

The Board has declared the payment of an interim dividend of 7.9 HK cents (six months ended 30 June 2010: 6.6 HK cents) per share for the six months ended 30 June 2011 payable on Thursday, 6 October 2011 to shareholders whose names appear on the register of members of the Company on Friday, 16 September 2011.

Closure of Register of Members

The register of members of the Company will be closed on Thursday, 15 September 2011 and Friday, 16 September 2011, during which period no transfers of shares will be registered. In order to be qualified for entitlement to the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the share registrar and transfer office of the Company, Tricor Progressive Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 14 September 2011.

Investor Relations

The Company as a listed company regards its relations with existing and potential investors as a matter of foremost importance, and is committed to further uplifting the standard of its information disclosure and keeping the market abreast of the latest information on the Company's business operation and development strategies. Our investor relations team reports the market updates as well as investors' feedback, concerns and opinions to the senior management on a regular and timely basis, building two-way communication between the management and the investment community.

During the first half of 2011, the Company has organised a variety of investor relations activities, which includes communications with media and investors through post-results press conferences and analyst presentations. The Company also conducted non-deal roadshows in Hong Kong, Singapore and New York to provide the investment community with updates on its operations. These activities provided an opportunity for direct and mutual communications and strengthened the market's confidence in its operations. In addition, the Company provides timely information update for the market via regular activities such as one-on-one meetings, conference calls and luncheons.

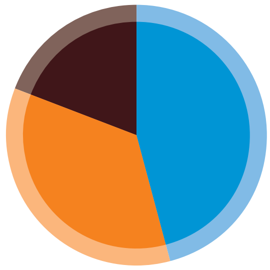
During the period under review, the Company was awarded "Best Corporate Social Responsibility" in "1st Asian Excellence Recognition Awards 2011" by Corporate Governance Asia and also once again received the "Annual Recognition Awards" from the magazine. Mr. Yu Xubo, Executive Director and Managing Director of the Company, was honoured "2nd Asian Corporate Director Recognition Awards" by Corporate Governance Asia in June. It affirms the recognition from institutional investors for the commitment of China Agri on its corporate governance and investor relations. The Company has been selected as a constituent of several key benchmark indices, including the Hang Seng Composite Index, Hang Seng Composite Industry Index – Consumer Goods, Hang Seng Composite MidCap Index, Hang Seng China-Affiliated Corporations Index, Hang Seng Mainland 100, Hang Seng Corporate Sustainability Index and FTSE Environmental Opportunities Index Series.

China Agri's business performance is covered and analysed by numerous investment banks and financial institutions. For a complete list of analysts tracking the Company, please visit its website at www.chinaagri.com.

Corporate Governance and Other Information

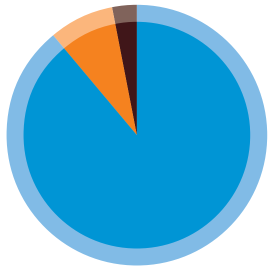
We review the Company's ownership structure on a regular basis to identify the mix of various investors. The geographical distribution of our top 20 investors is shown below:

By number of investors



- Asia Pacific 46 %
- North America 35 %
- Europe 19 %

By number of shares



- Asia Pacific 89 %
- North America 8 %
- Europe 3 %

Report on Review of Interim Financial Information

ERNST & YOUNG
安永

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 31 to 54 which comprises the condensed consolidated statement of financial position of China Agri-Industries Holdings Limited (the "Company") as at 30 June 2011 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory information. 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 of the Company 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

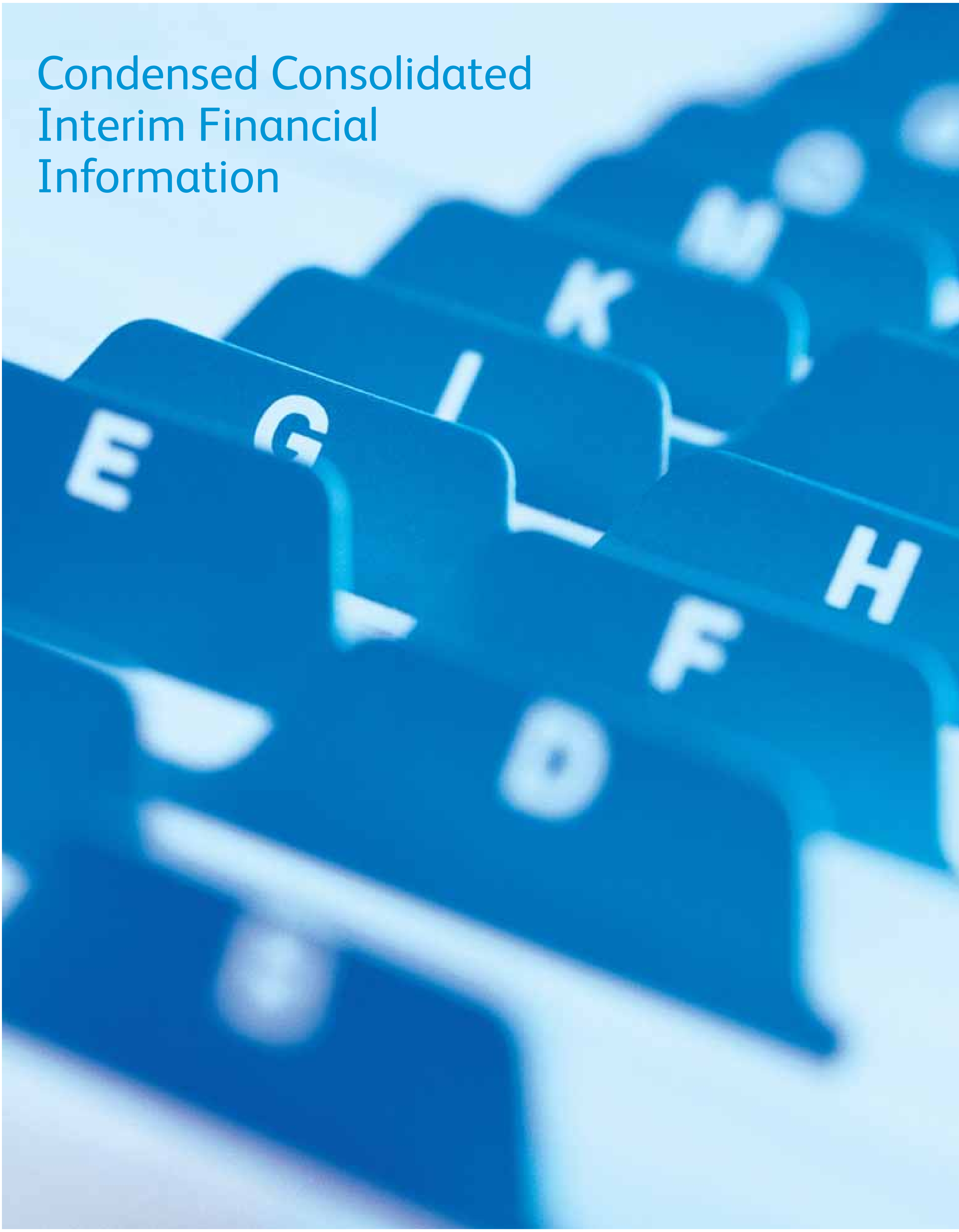
Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

30 August 2011

Condensed Consolidated Interim Financial Information



Condensed Consolidated Income Statement

For the six months ended 30 June 2011

For the six months ended 30 June

	Notes	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
REVENUE	4	33,602,111	22,686,521
Cost of sales	6	(29,973,425)	(19,378,724)
Gross profit		3,628,686	3,307,797
Other income and gains	4	811,082	510,556
Selling and distribution costs		(1,083,645)	(977,063)
Administrative expenses		(666,130)	(498,662)
Other expenses		(10,728)	(7,335)
Finance costs	5	(358,629)	(145,189)
Share of profits of associates		106,343	97,162
PROFIT BEFORE TAX	6	2,426,979	2,287,266
Income tax expense	7	(335,959)	(375,831)
PROFIT FOR THE PERIOD		2,091,020	1,911,435
Attributable to:			
Owners of the Company		1,602,488	1,324,349
Non-controlling interests		488,532	587,086
		2,091,020	1,911,435
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		39.7 HK cents	34.3 HK cents
Diluted		37.7 HK cents	34.2 HK cents

Details of the dividend proposed for the period are disclosed in note 8 to the condensed consolidated interim financial information.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
PROFIT FOR THE PERIOD	2,091,020	1,911,435
Exchange difference on translation of financial statements of overseas entities	425,329	136,767
Other comprehensive income for the period, net of tax	425,329	136,767
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,516,349	2,048,202
Attributable to:		
Owners of the Company	1,973,415	1,435,390
Non-controlling interests	542,934	612,812
	2,516,349	2,048,202

Condensed Consolidated Statement of Financial Position

30 June 2011

	Notes	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	16,536,314	13,349,306
Prepaid land premiums		1,945,546	1,422,127
Deposits for purchases of items of property, plant and equipment		888,751	625,669
Goodwill		1,071,869	1,020,635
Interests in associates		2,016,260	1,942,472
Available-for-sale investments		361	2,739
Intangible assets		37,431	37,349
Deferred tax assets		475,247	471,435
Total non-current assets		22,971,779	18,871,732
CURRENT ASSETS			
Inventories		23,285,165	15,966,257
Accounts and bills receivables	11	4,416,082	2,398,510
Prepayments, deposits and other receivables		7,614,506	6,308,185
Derivative financial instruments		573,647	305,622
Due from fellow subsidiaries	17	3,658,206	3,818,865
Due from related companies	17	632,384	262,133
Due from the ultimate holding company	17	507	370
Due from non-controlling shareholders of subsidiaries	17	17,447	30,901
Due from associates	17	573,168	958,686
Tax recoverable		328,845	275,874
Pledged deposits		30,869	118,219
Cash and cash equivalents		8,342,103	7,404,309
Total current assets		49,472,929	37,847,931
CURRENT LIABILITIES			
Accounts and bills payables	12	3,350,354	3,426,523
Other payables and accruals		5,520,294	3,778,451
Deferred income		100,162	48,019
Derivative financial instruments		188,997	830,598
Interest-bearing bank and other borrowings		30,657,089	19,767,214
Due to fellow subsidiaries	17	1,090,171	334,816
Due to the ultimate holding company	17	6,715	12,977
Due to related companies	17	32,188	280,103
Due to non-controlling shareholders of subsidiaries	17	35,510	5,433
Due to associates	17	50,855	18,694
Tax payable		220,076	125,545
Total current liabilities		41,252,411	28,628,373
NET CURRENT ASSETS		8,220,518	9,219,558
TOTAL ASSETS LESS CURRENT LIABILITIES		31,192,297	28,091,290

Condensed Consolidated Statement of Financial Position

30 June 2011

	Notes	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		31,192,297	28,091,290
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		2,827,132	2,310,466
Convertible bonds	13	3,800,127	3,765,329
Due to non-controlling shareholders of subsidiaries	17	205,482	203,523
Deferred income		536,673	423,115
Deferred tax liabilities		300,542	213,166
Total non-current liabilities		7,669,956	6,915,599
Net assets		23,522,341	21,175,691
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	403,837	403,837
Reserves		20,193,547	18,525,090
Proposed dividend		319,031	157,496
		20,916,415	19,086,423
Non-controlling interests		2,605,926	2,089,268
Total equity		23,522,341	21,175,691

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

		Attributable to owners of the Company											
	Notes	Issued capital HK$'000 (Unaudited)	Share premium HK$'000 (Unaudited)	Capital reserve HK$'000 (Unaudited)	Equity component of convertible bonds HK$'000 (Unaudited)	Employee share-based compensation reserve HK$'000 (Unaudited)	Reserve funds HK$'000 (Unaudited)	Exchange fluctuation reserve HK$'000 (Unaudited)	Retained profits HK$'000 (Unaudited)	Proposed dividend HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
At 1 January 2011		403,837	5,275,156*	4,754,699*	51,739*	38,042*	667,328*	1,714,149*	6,023,977*	157,496	19,086,423	2,089,268	21,175,691
Total comprehensive income for the period		–	–	–	–	–	–	370,927	1,602,488	–	1,973,415	542,934	2,516,349
Transfer from retained profits		–	–	–	–	–	132,414	–	(132,414)	–	–	–	–
Equity-settled share option arrangements	15	–	–	–	–	14,073	–	–	–	–	14,073	–	14,073
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	(2,641)	(2,641)
Dividends paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	(23,635)	(23,635)
2010 final dividend declared		–	–	–	–	–	–	–	–	(157,496)	(157,496)	–	(157,496)
Proposed 2011 interim dividend	8	–	–	–	–	–	–	–	(319,031)	319,031	–	–	–
At 30 June 2011		403,837	5,275,156*	4,754,699*	51,739*	52,115*	799,742*	2,085,076*	7,175,020*	319,031	20,916,415	2,605,926	23,522,341

* These reserve accounts comprise the consolidated reserves of HK$20,193,547,000 (31 December 2010: HK$18,525,090,000) in the condensed consolidated statement of financial position.

		Attributable to owners of the Company										
	Notes	Issued capital HK$'000 (Unaudited)	Share premium HK$'000 (Unaudited)	Capital reserve HK$'000 (Unaudited)	Employee share-based compensation reserve HK$'000 (Unaudited)	Reserve funds HK$'000 (Unaudited)	Exchange fluctuation reserve HK$'000 (Unaudited)	Retained profits HK$'000 (Unaudited)	Proposed dividend HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
At 1 January 2010		385,858	3,757,227	4,754,699	33,756	523,356	1,257,065	4,890,428	227,657	15,830,046	2,565,491	18,395,537
Total comprehensive income for the period		–	–	–	–	–	111,041	1,324,349	–	1,435,390	612,812	2,048,202
Transfer from retained profits		–	–	–	–	73,837	–	(73,837)	–	–	–	–
Equity-settled share option arrangements	15	–	–	–	3,392	–	–	–	–	3,392	–	3,392
Contribution from the ultimate holding company		–	–	70,281	–	–	–	–	–	70,281	–	70,281
Exercise of share options		170	10,559	–	(2,810)	–	–	–	–	7,919	–	7,919
Share issue expenses		–	(30)	–	–	–	–	–	–	(30)	–	(30)
Dividends paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	(50,664)	(50,664)
2009 final dividend declared		–	–	–	–	–	–	(100)	(227,657)	(227,757)	–	(227,757)
Proposed 2010 interim dividend	8	–	–	–	–	–	–	(266,527)	266,527	–	–	–
At 30 June 2010		386,028	3,767,756	4,824,980	34,338	597,193	1,368,106	5,874,313	266,527	17,119,241	3,127,639	20,246,880

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(7,001,315)	(419,027)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(3,039,614)	(1,396,356)
NET CASH FLOWS FROM FINANCING ACTIVITIES	10,887,239	1,195,045
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	846,310	(620,338)
Cash and cash equivalents at beginning of period	7,404,309	5,515,280
Effects of foreign exchange rate changes, net	91,484	45,449
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8,342,103	4,940,391
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	6,637,300	4,092,417
Non-pledged time deposits with original maturity of less than three months when acquired	1,704,803	847,974
	8,342,103	4,940,391

Notes to the Condensed Consolidated Interim Financial Information

30 June 2011

1. Corporate Information

China Agri-Industries Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 31st Floor, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

During the period, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- oilseeds processing;
- production and sale of biofuel and biochemical products;
- trading and processing of rice;
- wheat processing; and
- production and sale of brewing materials.

The Company is a subsidiary of COFCO (Hong Kong) Limited ("COFCO (HK)"), a company incorporated in Hong Kong. In the opinion of the directors, the ultimate holding company of the Company is COFCO Corporation, which is a state-owned enterprise registered in the People's Republic of China (the "PRC").

2. Basis of Preparation and Accounting Policies

The condensed consolidated interim financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2010.

The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements of the Group for the year ended 31 December 2010, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) that affect the Group and are adopted by the Group for the first time for the current period's financial information:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised) and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on this financial information.

The principal effects of adopting these new and revised HKFRSs are as follows:

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

2. Basis of Preparation and Accounting Policies (Continued)

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3. Operating Segment Information

For management purpose, the Group is organised into business units based on their products and services and has six reportable operating segments as follows:

(a) the oilseeds processing segment engages in the extraction, refining and trading of edible oil and related products;

(b) the biofuel and biochemical segment engages in the production and sale of biofuel and biochemical and related products;

(c) the rice trading and processing segment engages in the trading and processing of rice;

(d) the wheat processing segment engages in the production and sale of flour products and related products;

(e) the brewing materials segment engages in the trading and processing of malt; and

(f) the corporate and others segment comprises the Group's corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which in certain respects is measured differently from operating profit or loss in the consolidated financial information. Interest income, finance costs, gain on bargain purchase and share of profits of associates are managed on a group basis and are not allocated to reportable operating segments.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents and interests in associates as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, convertible bonds, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

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.

During the period, no revenue from transaction with a single external customer amounted to 10% or more of the Group's total revenue (six months ended 30 June 2010: Nil).

3. Operating Segment Information (Continued)

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2011 and 2010.

Six months ended 30 June 2011

	Oilseeds processing HK$'000 (Unaudited)	Biofuel and biochemical HK$'000 (Unaudited)	Rice trading and processing HK$'000 (Unaudited)	Wheat processing HK$'000 (Unaudited)	Brewing materials HK$'000 (Unaudited)	Corporate and others HK$'000 (Unaudited)	Eliminations HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue:								
Sales to external customers	21,805,035	6,167,865	2,343,735	2,445,132	840,344	–	–	33,602,111
Intersegment sales	286,187	72,178	–	1,381	–	–	(359,746)	–
Other revenue	472,495	238,019	6,760	11,924	31,720	22,936	(9,930)	773,924
Segment results	1,899,330	523,428	22,538	77,453	156,836	(37,478)	–	2,642,107
Interest income								37,158
Finance costs								(358,629)
Share of profits of associates								106,343
Profit before tax								2,426,979
Income tax expense								(335,959)
Profit for the period								2,091,020
Other segment information:								
Depreciation and amortisation	152,892	194,432	24,881	30,657	48,480	1,602	–	452,944
Capital expenditure	1,970,928	862,088	763,553	35,198	72,179	109,064	–	3,813,010
As at 30 June 2011								
Assets and liabilities								
Segment assets	36,986,689	11,341,374	6,866,095	3,143,959	2,922,880	12,294,322	(12,303,935)	61,251,384
Unallocated assets								11,193,324
Total assets								72,444,708
Segment liabilities	10,269,173	5,059,169	4,244,176	2,066,112	1,336,639	446,067	(12,303,935)	11,117,401
Unallocated liabilities								37,804,966
Total liabilities								48,922,367

Notes to the Condensed Consolidated Interim Financial Information

30 June 2011

3. Operating Segment Information (Continued)

Six months ended 30 June 2010

	Oilseeds processing HK$'000 (Unaudited)	Biofuel and biochemical HK$'000 (Unaudited)	Rice trading and processing HK$'000 (Unaudited)	Wheat processing HK$'000 (Unaudited)	Brewing materials HK$'000 (Unaudited)	Corporate and others HK$'000 (Unaudited)	Eliminations HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue:								
Sales to external customers	12,801,189	4,979,899	2,122,065	1,965,380	817,988	–	–	22,686,521
Intersegment sales	–	3,187	–	505	–	–	(3,692)	–
Other revenue	104,804	303,816	65,642	4,161	8,196	–	(7,717)	478,902
Segment results	1,605,434	492,358	80,499	53,439	126,159	(54,250)	–	2,303,639
Interest income								21,982
Gain on bargain purchase								9,672
Finance costs								(145,189)
Share of profits of associates								97,162
Profit before tax								2,287,266
Income tax expense								(375,831)
Profit for the period								1,911,435
Other segment information:								
Depreciation and amortisation	107,229	170,056	19,777	26,130	37,628	1,423	–	362,243
Capital expenditure	672,325	146,134	126,589	45,255	267,415	8,222	–	1,265,940
As at 31 December 2010	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Assets and liabilities								
Segment assets	25,369,837	9,799,704	5,901,967	2,859,422	2,675,718	10,940,130	(11,039,424)	46,507,354
Unallocated assets								10,212,309
Total assets								56,719,663
Segment liabilities	8,838,763	4,693,130	3,568,198	1,823,926	1,152,927	305,357	(11,039,424)	9,342,877
Unallocated liabilities								26,201,095
Total liabilities								35,543,972

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 the Group's other income and gains is as follows:

	For the six months ended 30 June	
	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Other income		
Government grants*	223,605	351,448
Interest income	37,158	21,982
Compensation income	3,194	804
Others	4,388	5,810
	268,345	380,044
Gains		
Gains on foreign exchange, net	473,206	90,120
Gains on disposal of raw materials, by-products and scrap items	53,355	24,329
Logistic service and storage income	8,997	2,361
Realised and unrealised fair value gains on foreign currency forward contracts, net	1,619	568
Reversal of impairment of receivables	485	390
Gain on bargain purchase (note 16)	–	9,672
Others	5,075	3,072
	542,737	130,512
	811,082	510,556

* Various government grants have been received for investments in certain provinces in Mainland China, for the sale of certain government subsidised products, which are available for industries or locations in which the Company's subsidiaries operate. In addition, pursuant to relevant notices issued by the Finance Bureau of the PRC for fuel ethanol producers, COFCO Bio-Energy (Zhaodong) Co., Ltd. and Guangxi COFCO Bio-Energy Co., Ltd. are entitled to a financial grant based on the quantity of fuel ethanol produced and sold. An amount of HK$169,384,000 (six months ended 30 June 2010: HK$277,797,000) has been included in the government grants for the period. There are no unfulfilled conditions or contingencies relating to these grants.

5. Finance Costs

An analysis of the Group's finance costs is as follows:

	For the six months ended 30 June	
	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Interest on:		
Bank loans wholly repayable within five years	307,864	132,025
Bank loans wholly repayable over five years	3,125	1,054
Loans from fellow subsidiaries	14,624	14,003
Convertible bonds	51,051	–
Total interest expenses	376,664	147,082
Less: Interest capitalised	(18,035)	(1,893)
	358,629	145,189

6. Profit Before Tax

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

	For the six months ended 30 June	
	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Cost of inventories sold or services provided	30,376,012	20,754,005
Realised and unrealised fair value gains of derivative financial instruments, net	(1,081,970)	(1,657,710)
Write-down of inventories to net realisable value	483,588	87,305
Provision for loss on purchase commitments*	195,795	195,124
Cost of sales	29,973,425	19,378,724
Depreciation	431,116	347,504
Amortisation of intangible assets	812	731
Recognition of prepaid land premiums	21,016	14,008
Employee benefit expenses (including directors' remuneration)	706,677	480,820
Loss on disposal of items of property, plant and equipment (note 10)	6,785	1,918
Realised and unrealised fair value gains on foreign currency forward contracts, net	(1,619)	(568)

* It is the Group's usual practice to enter into purchase contracts with delivery of raw materials at a specified future date. As at 30 June 2011, the Group had certain purchase commitments of raw materials (the "Purchase Contracts") on which the Group expects a loss as the unavoidable costs of meeting obligations under the Purchase Contracts will exceed the economic benefits expected to be received under it. The loss of HK$195,795,000 (six months ended 30 June 2010: HK$195,124,000) is estimated by the Directors with reference to the expected selling price of the corresponding products, and a provision thereon has been made in the condensed consolidated interim financial information for the six months ended 30 June 2011. This provision is included in "other payables and accruals" in the condensed consolidated statement of financial position. The Directors of the Company consider that these losses are resulted from the Group's ordinary course of business.

7. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

PRC corporate income tax ("CIT") represents tax charged on the estimated assessable profits arising in Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25%. However, certain of the Group'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 24%.

In addition to preferential CIT rates granted to the Group's certain subsidiaries in Mainland China, tax holidays were also granted by the relevant authorities to these subsidiaries, where CIT is exempted for the first two profitable years of the subsidiaries and is chargeable at half of the applicable rate for the subsequent three years. Besides, the Group's certain subsidiaries are also granted income tax exemption on the profit generated from processing of certain agricultural products.

	For the six months ended 30 June	
	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Current – Hong Kong		
Charge for the period	138,783	12,318
Current – Mainland China		
Charge for the period	141,415	159,312
Underprovision/(overprovision) in prior periods	(6,243)	4,912
Tax rebates and credits	(16,694)	–
Deferred tax	78,698	199,289
Total tax charge for the period	335,959	375,831

8. Dividend

On 30 August 2011, the board of directors declared an interim dividend of 7.9 HK cents (six months ended 30 June 2010: 6.6 HK cents) per ordinary share, amounting to a total of HK$319,031,200 (six months ended 30 June 2010: HK$266,526,600).

The amount of the interim dividend per ordinary share for the six months ended 30 June 2011 is calculated based on the number of issued ordinary shares as at 30 June 2011.

The amount of the interim dividend per ordinary share for the six months ended 30 June 2010 was calculated based on the number of issued ordinary shares as at 30 June 2010 and 178,000,000 ordinary shares issued to Wide Smart Holdings Limited, a substantial shareholder of the Company, which was completed on 2 August 2010.

9. Earnings Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic earnings per share amount for the period ended 30 June 2011 is based on the profit for the period attributable to ordinary equity holders of the Company of HK$1,602,488,000 (six months ended 30 June 2010: HK$1,324,349,000), and the weighted average number of 4,038,369,839 ordinary shares (six months ended 30 June 2010: 3,860,184,662 ordinary shares) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

Earnings

For the six months ended 30 June

	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	1,602,488	1,324,349
Interest on convertible bonds	51,051	–
Profit attributable to ordinary equity holders of the Company before interest on convertible bonds	1,653,539	1,324,349

Number of shares

For the six months ended 30 June

	2011 (Unaudited)	2010 (Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	4,038,369,839	3,860,184,662
Effect of dilution – weighted average number of ordinary shares:		
Share options	10,053,475	12,487,220
Convertible bonds	341,105,602	–
	4,389,528,916	3,872,671,882

10. Property, Plant and Equipment

During the six months ended 30 June 2011, the Group acquired items of property, plant and equipment with a total cost of HK$3,116,890,000 (six months ended 30 June 2010: HK$927,827,000), not including property, plant and equipment acquired through business combinations.

Items of property, plant and equipment with a net book value of HK$11,412,000 (six months ended 30 June 2010: HK$17,810,000) were disposed of by the Group during the six months ended 30 June 2011, resulting in a net loss on disposal of HK$6,785,000 (six months ended 30 June 2010: a net loss of HK$1,918,000).

11. Accounts and Bills Receivables

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

An aged analysis of the Group's accounts and bills receivables at the end of the reporting period, based on the invoice date and bill issue date, net of provision for impairment, is as follows:

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Within 3 months	3,627,646	2,147,725
3 to 12 months	786,115	249,861
1 to 2 years	1,518	553
Over 2 years	803	371
	4,416,082	2,398,510

12. Accounts and Bills Payables

An aged analysis of the Group's accounts and bills payables at the end of the reporting period, based on the invoice date and bill issue date, is as follows:

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Within 3 months	3,231,188	3,187,825
3 to 12 months	111,692	230,150
1 to 2 years	3,266	4,559
Over 2 years	4,208	3,989
	3,350,354	3,426,523

Accounts and bills payables are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively.

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13. Convertible Bonds

On 29 July 2010, Glory River Holdings Limited (the "Issuer"), a wholly-owned subsidiary of the Company, issued 1% fixed rate convertible bonds due on 29 July 2015 (the "Maturity Date"), with an aggregate principal amount of HK$3,875,000,000. The Company has unconditionally and irrevocably guaranteed the due payments of all sums to be payable by the Issuer. The bonds have been listed and quoted on the Singapore Exchange Securities Trading Limited on 2 August 2010.

The bonds are convertible at the option of the bondholders into ordinary shares of the Company on or after 8 September 2010 up to 19 July 2015. The initial conversion price is HK$11.375 per share and is subject to adjustment upon occurrence of certain adjustment events subsequently. Pursuant to the terms and conditions of the convertible bonds, the conversion price has been adjusted from HK$11.375 per share to HK$11.248 per share with effect from 10 June 2011 upon the Company's shareholders approval on the final dividend in respect of the financial year ended 31 December 2010.

The Issuer will, at the option of the holder of any bond, redeem all or part of such holder's bonds on 29 July 2013 at certain predetermined early redemption amount (the "Early Redemption Amount") as at the relevant date fixed for redemption, together with interest accrued but unpaid to such date. Upon fulfilling certain predetermined conditions, the bonds are redeemable in whole, but not in part, at the option of the Issuer at any time after 29 July 2013 at the Early Redemption Amount as at the relevant date fixed for redemption, together with interest accrued but unpaid to such date. The Early Redemption Amount to be repaid to the holder thereof on the relevant date is based on a gross yield to maturity identical to that applicable in the case of the redemption on the Maturity Date, being 2% per annum (calculated on a semi-annual basis).

The bonds carry interest at a rate of 1% per annum, which is payable half-yearly in arrears on 29 January and 29 July. Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the terms and conditions of the bonds, the Issuer will redeem each bond at its principal amount multiplied by 105.231% together with accrued and unpaid interest thereon on the Maturity Date.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

14. Share Capital

Shares

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Authorised: 10,000,000,000 (31 December 2010: 10,000,000,000) ordinary shares of HK$0.1 each	1,000,000	1,000,000
Issued and fully paid: 4,038,369,839 (31 December 2010: 4,038,369,839) ordinary shares of HK$0.1 each	403,837	403,837

15. Share Option Scheme

On 12 January 2007, the shareholders of the Company conditionally approved and adopted a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating directors and 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 are not limited to, any directors, (excluding independent non-executive directors), officers and employees of the Group, or any other person the board of directors may propose. 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 shareholders in a general meeting of the Company.

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 in total by each grantee. The exercise period of the share options granted is determinable by the board of directors.

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

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

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 (the "2007 Options"). The 2007 Options had an exercise price of HK$4.666 per share and an exercise period from 7 August 2009 to 6 August 2014. The closing price of the Company's shares at the date of grant was HK$4.50 per share.

The following 2007 Options were outstanding under the Scheme during the period:

	30 June 2011		30 June 2010	
	Weighted average exercise price HK$ per share	Number of options '000 (Unaudited)	Weighted average exercise price HK$ per share	Number of options '000 (Unaudited)
At 1 January	4.666	24,021	4.666	25,844
Exercised during the period	4.666	–	4.666	(1,697)
Forfeited during the period	4.666	(442)	4.666	(38)
At 30 June	4.666	23,579	4.666	24,109

15. Share Option Scheme (Continued)

Pursuant to an ordinary resolution passed on 25 May 2010 (the "Modification Date") in the annual general meeting of the shareholders, the vesting and exercise periods for the 2007 Options had been modified. The vesting periods, exercise price and exercise periods of the 2007 Options outstanding as at 30 June 2011 are as follows:

Number of options granted to					
Directors '000	Employees '000	Total '000	Vesting period (d-m-yyyy)	Exercise price per share HK$	Exercise period (d-m-yyyy)
530	2,051	2,581	7-8-2007 to 6-8-2009	4.666	7-8-2009 to 6-8-2014
660	4,630	5,290	7-8-2007 to 6-8-2010	4.666	7-8-2010 to 6-8-2014
660	4,576	5,236	7-8-2007 to 6-8-2011	4.666	7-8-2011 to 6-8-2014
660	4,576	5,236	7-8-2007 to 6-8-2012	4.666	7-8-2012 to 6-8-2014
660	4,576	5,236	7-8-2007 to 6-8-2013	4.666	7-8-2013 to 6-8-2014
3,170	20,409	23,579			

On 31 March 2011, a total of 45,300,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year (the "2011 Options"). The 2011 Options had an exercise price of HK$8.720 per share and an exercise period from 31 March 2013 to 30 March 2018. The closing price of the Company's share at the date of grant was HK$8.720 per share. None of the 2011 Options were exercised or forfeited during the period.

The vesting periods, exercise price and exercise periods of the 2011 Options outstanding as at 30 June 2011 are as follows:

Number of options granted to					
Directors '000	Employees '000	Total '000	Vesting period (d-m-yyyy)	Exercise price per share HK$	Exercise period (d-m-yyyy)
680	8,380	9,060	31-3-2011 to 30-3-2013	8.720	31-3-2013 to 30-3-2018
680	8,380	9,060	31-3-2011 to 30-3-2014	8.720	31-3-2014 to 30-3-2018
680	8,380	9,060	31-3-2011 to 30-3-2015	8.720	31-3-2015 to 30-3-2018
680	8,380	9,060	31-3-2011 to 30-3-2016	8.720	31-3-2016 to 30-3-2018
680	8,380	9,060	31-3-2011 to 30-3-2017	8.720	31-3-2017 to 30-3-2018
3,400	41,900	45,300			

The aggregate fair values of the 2007 Options and 2011 Options granted during the current period and prior years were amounted to approximately HK$222,075,000 of which the Group recognised share option expenses of HK$14,073,000 during the period (six months ended 30 June 2010: HK$3,392,000).

15. Share Option Scheme (Continued)

The fair values of the equity-settled share options were estimated as at the date of grant or Modification Date, using option pricing models, taking into account of the according terms and conditions. The following table lists the inputs to the models used:

	2011 Options	2007 Options
Date of grant/Modification Date	31 March 2011	25 May 2010
Dividend yield (%)	1.43	1.5
Expected volatility (%)	47.49	55.20
Historical volatility (%)	47.49	55.20
Risk-free interest rate (%)	2.369	1.320
Expected life of options (year)	7.0	4.2
Closing share price (HK$ per share)	8.72	8.47

The expected life of the options is determined with reference to the vesting term and original contractual term of the Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

16. Business Combinations

Business combination for the period ended 30 June 2011

During the six months ended 30 June 2011, the Group acquired the 100% equity interest in Qinzhou Huagang Oils Co., Ltd.* ("Qinzhou Huagang") from a third party at a cash consideration of approximately HK$134,806,000. Qinzhou Huagang is engaged in the production and sale of edible oil.

The fair values of the identifiable assets and liabilities of Qinzhou Huagang as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	176,524
Prepaid land premiums	55,613
Prepayments, deposits and other receivables	7,627
Other payables and accruals	(143,975)
Deferred tax liabilities	(12,217)
	83,572
Goodwill on acquisition	51,234
	134,806
Satisfied by cash	134,806

* *For identification purpose only*

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16. Business Combinations (Continued)

Business combination for the period ended 30 June 2011 (Continued)

An analysis of the cash flows in respect of the acquisition of Qinzhou Huagang is as follows:

	For the six months ended 30 June 2011 HK$'000
Cash consideration	(134,806)
Cash and cash equivalents acquired	–
Net outflow of cash and cash equivalents in respect of the acquisition of Qinzhou Huagang	(134,806)

During the six months ended 30 June 2011, Qinzhou Huagang generated revenue and net profit of approximately HK$12,016,000 and HK$3,837,000, respectively. Since the acquisition date, Qinzhou Huagang did not contribute any revenue to the Group and contributed a loss of approximately HK$3,530,000 to the Group's consolidated profits for the period.

Business combination for the period ended 30 June 2010

During the six months ended 30 June 2010, the Group acquired the 100% equity interest in COFCO (Jiangyin) Cereals, Oil & Warehouse Corporation Limited ("COFCO (Jiangyin) Warehouse") from COFCO (HK) at a cash consideration of HK$154,809,000. COFCO (Jiangyin) Warehouse is engaged in the provision of warehouse and logistic services.

The fair values of the identifiable assets and liabilities of COFCO (Jiangyin) Warehouse as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	184,692
Prepaid land premiums	34,830
Inventories	52
Accounts and bills receivables	238
Prepayments, deposits and other receivables	449
Cash and cash equivalents	1,466
Other payables and accruals	(28,051)
Tax payable	(46)
Deferred tax liabilities	(6,393)
Interest-bearing bank and other borrowings	(22,756)
	164,481
Gain on bargain purchase (note 4)	(9,672)
	154,809
Satisfied by cash	154,809

16. Business Combinations (Continued)

Business combination for the period ended 30 June 2010 (Continued)

An analysis of the cash flows in respect of the acquisition of COFCO (Jiangyin) Warehouse is as follows:

	For the six months ended 30 June
	2010 HK$'000
Cash consideration	(154,809)
Cash and cash equivalents acquired	1,466
Net outflow of cash and cash equivalents in respect of the acquisition of COFCO (Jiangyin) Warehouse	(153,343)

During the six months ended 30 June 2010, COFCO (Jiangyin) Warehouse generated revenue and net profit of HK$6,680,000 and HK$2,336,000, respectively. Since the acquisition date to 30 June 2010, COFCO (Jiangyin) Warehouse contributed HK$5,830,000 to the Group's revenue and HK$1,901,000 to the Group's consolidated profit for that period.

17. Related Party Transactions

(a) Transactions with related parties

Apart from the transactions and balances disclosed elsewhere in the interim financial information, the Group had the following transactions with related parties during the period:

		For the six months ended 30 June	
	Notes	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Transactions with fellow subsidiaries:			
Sales of goods	(i)	4,148,183	2,143,042
Purchases of goods	(i)	1,149,762	860,416
Operating lease rental paid	(i)	2,737	2,698
Interest expense	(ii)	13,850	14,003
Brokerage fee paid	(i)	13,465	16,821
Transactions with the ultimate holding company:			
Operating lease rental paid	(i)	10,101	8,877
Transactions with associates:			
Sales of goods	(i)	1,126,387	903,342
Purchases of goods	(i)	109,977	39,886
Interest income	(iii)	1,738	1,915
Transactions with related companies#:			
Sales of goods	(i)	311,754	156,200
Purchases of goods	(i)	3,148,992	3,445,989
Brokerage fee paid	(i)	1,130	–
Transactions with non-controlling shareholders of subsidiaries:			
Sales of goods	(i)	440,410	523,008
Purchases of goods	(i)	21,625	38,132

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

17. Related Party Transactions (Continued)

(a) Transactions with related parties (Continued)

Notes:

(i) Except for the transactions with a fellow subsidiary for sales of goods of HK$352,654,000 (six months ended 30 June 2010: Nil) and with an associate for sales of goods of HK$879,247,000 (six months ended 30 June 2010: HK$836,910,000), which were carried out at cost, other 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 loans from fellow subsidiaries, which were unsecured and bore interest rates ranging from of 4.374% to 6.31% per annum (six months ended 30 June 2010: ranging from 4.374% to 4.779% per annum).

(iii) The interest income arose from loans to an associate, which were unsecured and bore interest rates of 2.0% and 2.5% per annum (six months ended 30 June 2010: 2.5% per annum).

(b) Outstanding balances with related parties

Except for the following, the balances with the holding companies, fellow subsidiaries, related companies, non-controlling shareholders of the Group's subsidiaries and associates at the end of the reporting period are unsecured, interest-free and have no fixed terms of repayment:

(1) Loans from a fellow subsidiary of HK$949,976,000 (31 December 2010: HK$493,595,000), which bore interest at a rate of 4.374% per annum and will be repaid within one year.

(2) Loans to an associate of HK$200,838,000 (31 December 2010: HK$227,976,000), which bore interest rates of 2.0% and 2.5% per annum (31 December 2010: 2.5% per annum).

(3) Amounts due to non-controlling shareholders of subsidiaries of HK$205,482,000 (31 December 2010: HK$203,523,000), which are financing in nature and not repayable within one year from the end of the reporting period.

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Short term employee benefits	6,091	8,251
Post-employment benefits	167	177
Equity-settled share option expense	2,871	1,132
Total compensation paid to key management personnel	9,129	9,560

(d) Transactions with other state-owned enterprises

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the period, the Group had transactions with State-owned Enterprises including, but are not limited to, sales and purchases of processed foodstuffs and raw materials. The directors of the Company consider that transactions with other State-owned Enterprises are activities conducted in the ordinary course of the business, and that dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions is a material related party transaction that requires separate disclosure.

18. Operating Lease Arrangements

The Group leases certain of its office properties and land use right under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to eleven years and those for land use right for terms ranging from seven to fifty years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Within one year	7,719	8,670
In the second to fifth years, inclusive	8,180	12,572
After five years	46,788	45,221
	62,687	66,463

19. Capital Commitments

In addition to the operating lease commitments detailed in note 18 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	4,131,484	5,677,388
Contracted, but not provided for	2,983,843	2,734,282
	7,115,327	8,411,670

20. Other Commitments

(a) Commitments under commodity futures contracts:

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Sales of soybean meal	5,331,816	1,693,941
Sales of soybean	6,569,925	7,084,909
Sales of soybean oil	18,632,316	7,273,081
Sales of palm oil	151,591	2,365,928
Sales of rapeseed oil	2,809,149	133,113
Sales of corn	–	10,260
	33,494,797	18,561,232
Purchases of soybean	5,630,055	3,380,273
Purchases of soybean oil	–	239,377
Purchases of palm oil	3,911,818	–
	9,541,873	3,619,650

(b) Commitments under foreign currency forward contracts:

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Sales of United States dollars	–	86,517

Other than disclosed above, the Group did not have any significant commitments or contingent liabilities at the end of the reporting period (31 December 2010: Nil).

21. Approval of the Condensed Consolidated Interim Financial Information

The condensed consolidated interim financial information was approved and authorised for issue by the board of directors on 30 August 2011.

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