管理提昇 內涵成長

Management excellence driving organic growth

2012
INTERIM REPORT
中期業績報告

中國糧油控股有限公司

CHINA AGRI-INDUSTRIES HOLDINGS LIMITED

Stock Code 股份代號:606

中粮 COFCO

Chinese Olympic Committee Official Partner

中国奥委会合作伙伴

2012
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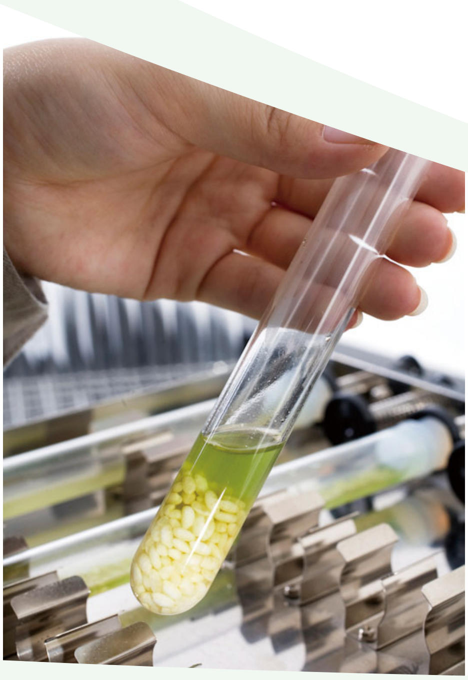
中國糧油控股有限公司
CHINA AGRI-INDUSTRIES HOLDINGS LIMITED






管理提昇　內涵成長

Management excellence driving organic growth

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01 Corporate Information

Directors

Chairman of the Board and Executive Director
YU Xubo

Executive Directors
LV Jun *(Managing Director)*
YUE Guojun *(Vice President)*

Non-executive Directors
NING Gaoning
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

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

Nomination Committee

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

Executive Committee

LV Jun *(Chairman)*
YU Xubo
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
Agricultural Development Bank of China
Australia and New Zealand Banking Group Limited
Banco Santander, S.A.
Bank of China Limited
Bank of China (Hong Kong) Limited
China Construction Bank Corporation
DBS Bank Limited
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.

Registered Office

31st Floor, Top Glory Tower
262 Gloucester Road
Causeway Bay, Hong Kong

Share Registrar and Transfer Office

Tricor Progressive Limited
26th Floor, Tesbury Centre
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Wanchai, Hong Kong

Investor Relations

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Company Website

www.chinaagri.com

Stock Code

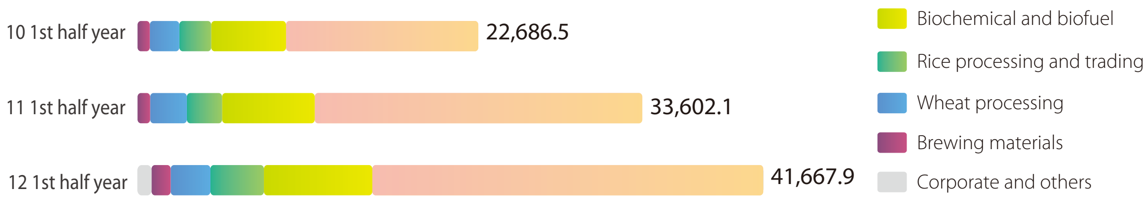
606

02 Financial Highlights

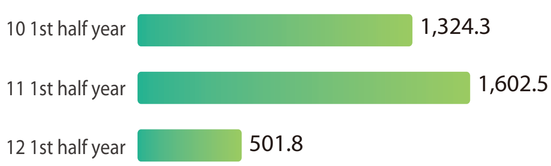
For the six months ended 30 June 2012

	Unit	For the period ended 30 June 2012	2011	Increase/ (Decrease) %
Revenue:	HK$ million	**41,667.9**	33,602.1	24%
– Oilseeds processing	HK$ million	**26,023.4**	21,805.0	19%
– Biochemical and biofuel	HK$ million	**7,217.3**	6,168.0	17%
– Rice processing and trading	HK$ million	**3,561.4**	2,343.7	52%
– Wheat processing	HK$ million	**2,646.8**	2,445.1	8%
– Brewing materials	HK$ million	**1,271.8**	840.3	51%
– Corporate and others	HK$ million	**947.2**	–	N/A
Profit before tax	HK$ million	**663.0**	2,427.0	(73%)
Operating profit (segment results)	HK$ million	**962.2**	2,642.1	(64%)
Operating profit before depreciation and amortisation	HK$ million	**1,580.3**	3,095.1	(49%)
Operating margin	%	**2.3**	7.9	N/A
Profit attributable to owners of the Company	HK$ million	**501.8**	1,602.5	(69%)
Earnings per share:				
– Basic	HK$	**0.1243**	0.3968	(69%)
– Diluted	HK$	**0.1242**	0.3767	(67%)
Interim dividend per share	HK$	**0.031**	0.079	(61%)
Closing price per share at period-end	HK$	**4.23**	8.24	(49%)
Market capitalisation at period-end	HK$ million	**17,082.3**	33,276.2	(49%)

Revenue HK$ million



Profit Attributable to Owners of the Company HK$ million



03 Management Discussion and Analysis

Business Review

Oilseeds Processing Business

China Agri-Industries Holdings Limited ("China Agri" or the "Company") is one of the largest vegetable oil and oilseeds meal producers in China. Its products include soybean oil, palm oil, rapeseed oil and oilseeds meals, and are primarily sold under the brand names "Fuzhanggui" (福掌柜), "Sihai" (四海), "Xiyingying" (喜盈盈) and "Guhua" (谷花).

The oilseeds processing business is the Company's largest revenue contributor, accounting for 62.5% of total revenue in the first half of 2012. Soaring prices for raw materials in the international market outweighed the rise of product prices in the domestic market during the first half of the year. This had a direct impact on the segment's gross profit margin, which declined by 5.3 percentage points year-on-year to 3.5%, but still an industry-leading level in China. Additionally, the change in the U.S. Dollar-Renminbi exchange rate resulted in a significant year-on-year decrease in foreign exchange gains, which also impacted the segment's earnings to a certain extent. However, leveraging the management team's many years of experience in the industry and building upon the production capacity that was strategically expanded in prior years, the Company was able to maintain capacity utilisation at industry-leading levels and significantly boost total sales volume as a result. The sales volume of vegetable oil grew by 10.7% year-on-year to 1.38 million metric tons and the sales of oilseeds meals grew by 63.2% year-on-year to 3.17 million metric tons. The higher sales volume drove an increase in revenue from the oilseeds business of 19.3% year-on-year to HK$26,023.4 million.

During the first half of the year, the increase in soybean prices in the international market was larger than the rise in the product prices in domestic end market, thus exposing the oilseeds processing business to earnings pressure that was experienced industry-wide in China. In response to such a difficult operating environment, the Company adequately analysed the market trends and not only used timely hedging to manage risks and ensure long-term raw material supply, but also actively leased warehouses near its primary sales areas in order to minimise transportation costs, provide more responsive sales support, ensure adequate inventory supply, and lower inventory risk.

Oil pipelines of COFCO East Ocean Oils & Grains

For sales and distribution, China Agri started to benefit from enhancements made to the geographic footprint of the Company's operations in prior years. As a result, the Company was able to coordinate customer sales orders across different regions based on demand and pricing differences between regions. The Company also implemented a specialised information platform for its customers that provides information on purchase orders, delivery of goods and contract fulfillment, as well as important market intelligence. All of this allowed customers to make timely planning decisions about procurement, which in turn enabled the Company to keep abreast of market trends and market demand more effectively.

Furthermore, by closely monitoring market opportunities and keeping in line with national policies, the Company accelerated its efforts to develop mid-sized packaged products and was able to introduce a number of major bulk oil customers to these newer products during the period. As a result, the Company was able to add nearly one hundred new customers and expand the overall scale of the business. Sold under the national brand name of "Fuzhanggui" (福掌柜), the Company was also able to price its mid-sized packaged oil products at a premium, primarily through the promotion of the brand, packaging enhancements and the development of new products that cater to the unique requirements of individual regions.

As of 30 June 2012, the Company operated a total of fifteen oilseeds processing plants in Jiangsu, Shandong, Tianjin, Guangxi, Hubei, Guangdong, Jiangxi, Anhui, Chongqing and Xinjiang. The plants had a combined annual crushing capacity of 10.38 million metric tons and a combined refining capacity of 4.17 million metric tons. The Company further increased production capacity and sales contribution from its four rapeseed processing plants and two soybean processing plants in Guangxi and Tianjin, all six of which commenced operation last year. The Company also further diversified its product portfolio and streamlined its geographic footprint. With the completion of capacity expansion in the oilseeds processing business, the Company will focus more on leveraging the strategic locations of its plants around coastal areas to improve the efficiency of procurement, which should help to consolidate and expand market share.

Looking ahead to the second half of the year, the challenges posed by market competition and the difficult operating environment will accelerate the consolidation of the domestic oilseeds crushing sector and help eliminate uncompetitive industry players that have low capacity utilisation rates. Such anticipated developments, together with the arrival of the peak season for the consumption of vegetable oil and soybean meal, are likely to alleviate the pressure on profitability in the sector. However, with the uncertainty of economic conditions in China, and given that weather conditions in the major soybean growing regions around the world largely determine the global soybean output and pricing trends, the Company expects bulk commodity prices to fluctuate. The Company will closely monitor market trends, utilise hedging policies and carefully implement its strategy across procurement, processing, sales and risk control. Furthermore, the Company will continue to look for opportunities around industrial consolidation, make good use of its nationwide factory coverage, and actively help expand the market so as to solidify and strengthen its leading market position.

Biochemical and Biofuel Business

Alcohol storage tanks

For the first half of 2012, China Agri's biochemical and biofuel businesses reported a 17.0% year-on-year growth in total revenue to HK$7,217.3 million, primarily due to an increase in sales volume. In particular, corn starch sales grew by 12.7% year-on-year to 753,000 metric tons; fuel ethanol sales grew by 14.3% year-on-year to 192,000 metric tons. However, it proved to be difficult to fully pass on the significant year-on-year increases in raw material prices to customers in the first half of 2012 given the sluggish market demand for some products. This resulted in a decline in the gross profit margin from 15.1% for the corresponding period last year to 13.4%.

During the period under review, corn prices continued to surge. In response to the challenging market environment, the Company adopted a flexible yet prudent procurement policy in order to maintain a stable supply for production. The Company is also committed to the research and development of technology and exploration of potential areas to reduce waste in order to more stringently control costs.

Biochemical Business

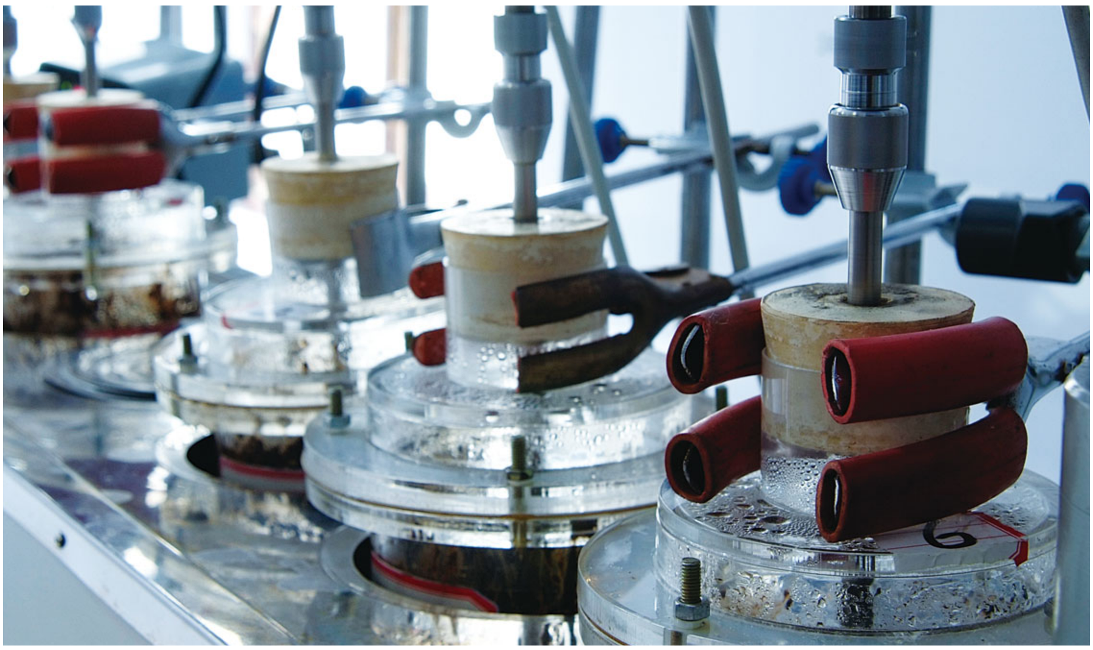
The Company's biochemical business is primarily engaged in the processing of corn. Its products include corn starch, sweeteners (maltodextrin, fructose syrup and maltose syrup, etc.), crude corn oil and feed ingredients.

For the first half of 2012, revenue from the biochemical business grew by 32.3% year-on-year to HK$4,365.8 million. The rise was attributable to an increase in sales of the Company's major products and was made possible by successful capacity expansion in prior years. However, domestic corn prices remained high, and the Company was unable to fully pass on the higher prices to its customers because of weak market demand for starch and sweeteners.

During the period under review, downstream enterprises, including manufacturers of paper and food, reduced their purchases of corn starch in the midst of China's economic slowdown. This factor, together with a year-on-year decline in cane sugar prices, affected the market demand for sweeteners and made them less desirable as a substitute for cane sugar. In response to such difficult market conditions, the Company focused on expanding sales to regions and customers where higher selling prices can be achieved and stepped up efforts at selling large-sized packaged products. This helped reduce packaging costs, and improve inventory turnover and cash flow. The Company also launched new higher value-added products and other customised products in order to capture what the Company believed to be unmet market demand. During the period, the Company developed starch that is specifically formulated for the manufacturing of paper as well as dextrin that was specifically formulated for medical use. Efforts such as these helped to enhance economies of scale and sales efficiencies.

As of 30 June 2012, the Company had a total of six factories in Jilin, Heilongjiang, Shanghai and Hubei, with annual corn processing capacity of 2.45 million metric tons and annual sweetener production capacity of 550,000 metric tons. 100,000 metric tons of the Company's production capacity for sweeteners at the Sichuan Chengdu Industrial Plant is currently in the trial production phase. For the second half of the year, the Company will continue to raise the conversion rate of starch, and will expand its production capacity for sweeteners by a total of 300,000 metric tons at its Jilin, Shanghai and Hebei facilities, bringing production capacity of sweeteners to 950,000 metric tons, which will make the Company a leading producer in the industry in China. The Company also expects to bring 100,000 metric tons of monosodium glutamate (MSG) production capacity on line at its Heilongjiang facility as scheduled.

Looking forward, the Company expects demand in the downstream market to increase, mainly because of arrival of the peak season for festival consumption in the second half of the year, as well as greater demand for beer and cold beverages as summer draws near. However, the sluggish market during the past six months did help accelerate industrial consolidation. There were a number of small-and-medium-sized enterprises that exited the market, which is expected to help make more room for the development of the industry. China Agri will leverage its strengths and continue to develop more consumer-facing starch products for the downstream market and other higher value-added products that can help it extend its penetration and market share within the midstream market.



Testing instruments for cellulosic ethanol

Biofuel Business

The Company is one of China's major fuel ethanol producers. The Company's biofuel products 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 2012, revenue from the biofuel business was HK$2,851.5 million, which was largely unchanged from the corresponding period last year. During the period, the Company took an active role in strengthening its communication with gasoline customers and relevant regulatory authorities, and increased its efforts to expand the size of various end market, helping increase the Company's sales volume of fuel ethanol products. Despite the amendments of subsidy policies for corn and tapioca fuel ethanol, the National Development and Reform Commission (NDRC) adjusted gasoline prices four times during the period. This caused average fuel ethanol prices to be higher than that of in the corresponding period last year. Profitability of the biofuel business continued to be healthy.

As of 30 June 2012, the Company had a total of two factories in Heilongjiang and Guangxi with a combined production capacity of 600,000 metric tons for fuel ethanol, anhydrous ethanol and consumable alcohol.

Looking ahead to the second half of the year, the Company will offer higher quality products as a result of technological upgrades, and will actively get involved in non-grain-based fuel ethanol production projects as a part of the Chinese government's efforts to promote the use of this new type of fuel. The Company hopes to contribute to the promotion of renewable and environmentally-friendly energy.

Rice Processing and Trading Business

The Company is a leading packaged rice supplier and the largest rice exporter and importer in China, engaging primarily in the processing and trading of white and parboiled rice. Its branded packaged rice products are primarily sold under the brand names "Fortune" (福临门), "Five Lakes" (五湖) and "Jinying" (金盈). The major traditional markets for exports include Japan, South Korea, Hong Kong and Macau.

For the first half of 2012, domestic sales rose by 67.0% year-on-year to 531,000 metric tons, accounting for 86.0% of the Company's overall rice business sales. Driven by a surge in domestic sales, the rice business recorded a 52.0% year-on-year growth in revenue to HK$3,561.4 million. Nevertheless, domestic sales are still at an early stage of development. Both market expansion and the operation of new plants will require upfront investments, but China Agri believes that these investments will help the Company gain a leading position in the industry over the long term. During the first half of the year, the raw material prices rose at a higher rate than the product prices due to stiff competition in the industry, which has in turn exerted pressure on the profitability of the Company's domestic sales.

During the period under review, given the widening gap between domestic and international rice prices, export sales decreased by 28.9% year-on-year to 86,000 metric tons. In light of this trend, the Company leveraged its experience in international trading to import some high-quality rice from major exporters, including Pakistan and Vietnam, at relatively lower prices. This not only relieved some of the pressure from rising raw material prices, but also allowed the Company to meet diversified demand for rice in the domestic market. During the period, the Company continued to contribute more resources to attracting more renowned customers in the catering, food processing and convenience store industries. By actively developing new products and offering differentiated products – including a wide assortment of imported rice varieties, according to customer demand, the Company was able to expand its sales in the first half of the year.

Warehouses of COFCO Dalian Rice

Display booths for COFCO's rice products

With the tempering inflation rate in China, more and more people bought packaged rice instead of unpacked rice. The Company strived to maintain its leading position in China and established a total of 22 sales offices and sales departments in plants nationwide. Products are currently being sold in more than 60,000 outlets. The Company also took an active role in enhancing its brand recognition and consumer loyalty. During the period, the Company forged a partnership with the China Space Foundation to supply packaged rice under the brand name "Fortune" (福临门). Negotiations related to product supply are currently under way. The Company was also appointed by the General Administration of Sport in China to be the official rice supplier to Chinese athletes at the London Olympics Games. In addition, the Company launched a new branded-packaged rice product in July under the name "Jin Feng Nian" (金豐年) and started distributing it to high-end supermarket chains in Hong Kong. During the period under review, the market penetration of the Company's branded rice products through both modern and traditional channels was greatly enhanced.

The Company's newly constructed rice processing plants in Heilongjiang, Jiangsu and Sichuan commenced operation in the first half of 2012. In addition to the existing rice processing plants located in Heilongjiang, Liaoning, Jiangxi, Jiangsu, Ningxia, Hubei, Jilin and Anhui, the Company has a total of fourteen rice processing plants with a combined annual production capacity of 1.935 million metric tons as of 30 June 2012. Of which, three processing plants in Jilin, Liaoning and Anhui are expected to complete their trial runs and start operations around the second half of the year. The Company's processing plants are near grain growing areas and sales markets, which help to enhance the efficiency in both production and distribution. By implementing various improvements related to the procurement process, such as increasing contract farming in quality growing areas, and developing strategic suppliers and general trading, the Company believes it can exert greater control over its sourcing of raw grains.

Looking ahead, with the newly constructed plants coming on-stream in the second half of the year, the Company's nationwide geographic footprint will provide the Company with distinct advantages over procurement, reduce pressures related to rising raw material prices, and help develop the domestic sales market. Furthermore, consolidation in the domestic rice market is expected to accelerate as a result of stiff industry competition. The Company will actively explore different channels, including catering and food processing, and will continue to emphasise brand building and the development of end-user channels in order to increase the penetration of its rice brands and solidify and enhance its leading market position.

Wheat Processing Business

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

In the first half of 2012, the wheat processing business posted solid results. Higher product prices drove an increase in revenue from the wheat processing business of 8.2% year-on-year to HK$2,646.8 million. The market demand for wheat products in general was relatively stable. During the period, the sales volume of flour was 597,000 metric tons, which was largely unchanged from the corresponding period last year. The Company bolstered its efforts to increase sales volumes of its downstream products, the sales volume of noodles rose 42.1% year-on-year as a result.

During the period under review, the price of wheat remained stable in the anticipation of an abundant harvest. The Company closely monitored price trends of raw materials, exercised stringent control over raw material costs, appropriately adjusted procurement strategies and controlled inventories in accordance with changes in the market environment. This allowed the Company to secure the necessary supply of raw materials for its processing plants and safeguard against risks arising from fluctuations in raw material prices. In order to capitalise on opportunities brought by continued economic growth and accelerated consolidation of the flour industry in China, the Company further integrated its operations and professional management system, and implemented product diversification and cost reduction strategies to meet the evolving and changing needs of consumers and enhance the market position of its products.

Xiangxue-branded flour and noodle products

While continuing to enhance its well-established partnerships with the leading food processing companies in China, the Company also looked for opportunities to diversify further downstream where it believes new growth drivers can be created around higher value-added products. During the period, the Company managed to grow its branded business and increase the sales volumes of packaged flour, noodles and breads by accelerating the optimisation of sales channels and enhancing the innovation, research and development (R&D) capabilities for such products.

2012 will be a critical year of rapid expansion of production capacity within the Company's wheat processing business. In the first half of the year, the Company proactively optimised the geographic footprint of its new capacity in order to prepare for the future growth of the business. As of 30 June 2012, the Company operated eleven plants in Henan, Hebei, Jiangsu, Liaoning, Fujian, Shandong and Beijing, with an aggregate annual processing capacity of 2.01 million metric tons of wheat, 113,000 metric tons of noodles and around 2,000 metric tons of baked goods. A production plant in Chengdu, Sichuan with an annual processing capacity of 240,000 metric tons of wheat and 18,000 metric tons of noodles is currently under trial production. In the second half of the year, the Company will further expand its presence near major end markets by building flour and noodle processing plants and production facilities in Zhejiang, Henan and Hebei. The Company expects its annual production capacity to increase by 1.20 million metric tons for wheat processing and nearly 10,000 metric tons for noodle production. The Company actively worked to strengthen its regional sales management, consolidate its existing core markets and exploring new core markets to ensure that the newly added production capacity will reach optimal utilisation as soon as possible.

Looking ahead, the Company believes that the market will continue to expand steadily given the anticipated rapid growth of the flour and noodle industries. In the second half of the year, as the new production capacity comes on-stream, the Company should start to see greater economies of scale. With a strong management team, highly integrated operations, wide ranging customer networks, and well established capabilities at sourcing raw materials and controlling costs, the Company believes it is well positioned to expand its packaged flour and noodles business and achieve sustainable growth over the long term.

Brewing Materials Business

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

During the period under review, revenue from the brewing materials business increased by 51.3% year-on-year to HK$1,271.8 million on a 35.8% year-on-year increase in malt sales to 295,000 metric tons. In the first half of 2012, abundant harvests in major barley growing regions including Canada and Australia, and record-high output in Argentina have resulted in a substantial decline in global malting barley prices and rapid replenishment of inventories by breweries. Leveraging its capabilities in monitoring and analysing market trends, China Agri took advantage of the opportunities to stock up on inventories during periods of low prices, which helped lay a solid foundation for growth in the business. In addition, the Company actively adjusted its sales strategies to secure more orders and expand the overall reach of the business. However, the drop in raw material prices left the Company with less room for price negotiation for its products, causing the gross profit margin to fall from its high levels, but still maintaining it at industry-leading levels.

The Company greatly values its relationships with major brewing partners. To better manage these relationships, the Company established a dedicated department to centralise sales activities for all major customers to ensure a clear and orderly sales process. This helped to improve both the efficiency and scale of the business during the first half of the year. In addition, the Company continued to develop innovative new products and production technology in order to meet the diversified requirements of customers. As a result, the Company saw significant year-on-year growth in sales of special and refined malts from customers that cater to middle and high-end markets.

Brewing materials – malt

As of 30 June 2012, 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 geographical proximity of the plants in Liaoning and Jiangsu to ports and the Company's end markets lowered the cost of transportation and helped to effectively expand the Company's market penetration in nearby regions. In addition, the Company's malt processing plant in Yakeshi, Inner Mongolia, is located near growing areas for malting barley, and these malt products were primarily directed to domestic markets, helping to diversify the Company's product mix and satisfy varied demand from the market.

Looking ahead, pricing trends for barley will mainly be subject to weather conditions in the second half of the year. The Company will closely monitor market trends, take an active role in controlling the pace of purchasing, and arrange for malting barley procurement based on a judicious review of malt sales contracts in an aim to safeguard the Company against risks related to fluctuations in raw material prices. Furthermore, apart from the expected steady growth of annual production volume of beer in China, greater growing demand from consumers for richly flavored beers with a higher malt content will continue to drive sales. The Company will step up R&D and other efforts to create innovative processes and products, optimise the product mix, and raise customer service standards in order to better cater to customers and expand market share.

Financial Review

Overview of Financial Results for the Six Months Ended 30 June 2012

	Six months ended 30 June		
	2012	2011	Change
	HK$ million	HK$ million	%
Revenue	**41,667.9**	33,602.1	24.0%
Cost of sales	**(39,025.3)**	(29,973.4)	30.2%
Gross profit	**2,642.6**	3,628.7	(27.2%)
Other income and gains	**535.4**	811.1	(34.0%)
Selling and distribution costs	**(1,275.5)**	(1,083.7)	17.7%
Administrative expenses	**(738.0)**	(666.1)	10.8%
Other expenses	**(73.6)**	(10.7)	587.9%
Finance costs	**(481.0)**	(358.6)	34.1%
Share of profits of associates	**53.1**	106.3	(50.0%)
Profit before tax	**663.0**	2,427.0	(72.7%)
Income tax expense	**(90.1)**	(336.0)	(73.2%)
Profit for the period	**572.9**	2,091.0	(72.6%)
Profit attributable to owners of the Company	**501.8**	1,602.5	(68.7%)

The total revenue of the Group for the six months ended 30 June 2012 was HK$41,667.9 million, representing an increase of 24.0% over the corresponding period last year. The increase reflected both new operating capacity coming into production and the development of our existing businesses. However, a complex global economic environment and severe industry competition made it unable to fully pass higher raw material costs through to the sales price of products, depressing profits. Profit attributable to owners of the Company of HK$501.8 million was recorded during the period, down 68.7% from HK$1,602.5 million in the same period last year.

Revenue

The Group's total revenue for the six months ended 30 June 2012 amounted to HK$41,667.9 million, up 24.0% from HK$33,602.1 million in the same period last year. All business segments reported an increase in sales volume due to a number of new projects that went into operation during the period. During the period, growth in revenue was achieved across all business segments. Among the Group's five main business segments, the largest contribution to revenue was from oilseeds segment, which accounted for 62.5% of the total revenue during the period as compared to 64.9% for the corresponding period last year.

Gross Profit and Gross Profit Margin

During the period, gross profit of the Group declined by HK$986.1 million to HK$2,642.6 million (six months ended 30 June 2011: HK$3,628.7 million) and the overall gross profit margin decreased from 10.8% in the corresponding period last year to 6.3%. The oilseeds and rice segments accounted for most of the decline in gross profit. In the oilseeds segment, intense competition in China's soybean crushing industry limited increases in selling prices despite higher costs for imported raw materials. This resulted in a substantial decline in gross profit margin. In the rice segment, export market shrank while the domestic sales were still at an early stage of development, hampered the Group's effectiveness in passing on the cost pressure to customers.

Selling and Distribution Costs

For the six months ended 30 June 2012, selling and distribution costs were HK$1,275.5 million, up 17.7% year-on-year from HK$1,083.7 million. The increase was due to higher transportation costs arising from expanded scale of business and higher sales volume.

Administrative Expenses

Administrative expenses comprise mainly employees compensation and daily operation costs. During the period, administrative expenses were HK$738.0 million (six months ended 30 June 2011: HK$666.1 million). As most of the new projects went into operation in the second half of 2011, administrative costs have risen in year-on-year terms.

Finance Costs

For the six months ended 30 June 2012, finance costs were HK$481.0 million, representing an increase of HK$122.4 million, or 34.1%, over HK$358.6 million in the corresponding period last year. Loan balances and borrowing costs rose during the period relative to the previous period. An analysis is shown as follows:

	Six months ended 30 June	
	2012	**2011**
	HK$ million	**HK$ million**
Interest on:		
Bank loans wholly repayable within five years	**402.0**	307.9
Bank loans wholly repayable over five years	**7.1**	3.1
Loans from fellow subsidiaries	**13.4**	14.6
Loan from an intermediate holding company	**44.4**	–
Convertible bonds	**51.9**	51.1
Total interest expenses	**518.8**	376.7
Less: Interest capitalised	**(37.8)**	(18.1)
	481.0	358.6

Income Tax Expense

Income tax expense dropped by HK$245.9 million to HK$90.1 million as a result of the decrease in pre-tax profit during the period.

Interim Dividend

The Board has declared the payment of an interim dividend of 3.1 HK cents (six months ended 30 June 2011: 7.9 HK cents) per share for the six months ended 30 June 2012. This interim dividend will be payable on 9 October 2012 to shareholders whose names appear on the register of members of the Company on 18 September 2012.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

On 27 April 2012, the Group completed the acquisition of the entire issued share capital of Poly Idea Investments Limited together with the shareholder's loan at a cash consideration of RMB28.9 million (equivalent to approximately HK$35.7 million) from COFCO (Hong Kong) Limited, the intermediate holding company of the Company. The subsidiary of Poly Idea Investments Limited is engaged in the production and sales of safflower oil, rapeseed oil, oil meal and saffron wine; grain and wine package products; grain and oil machinery import and export business. Please refer to the Company's announcements dated 16 March 2012 and 20 March 2012 for details.

On 27 April 2012, the Group completed the acquisition of the entire issued share capital of Sharp Global Limited together with the shareholder's loan at a cash consideration of RMB95.5 million (equivalent to approximately HK$117.9 million) from Full Great Investments Limited, a fellow subsidiary of the Company. The wholly-owned subsidiary of Sharp Global Limited is engaged in research & development, production, processing and sales of food additives, microencapsulation natural active substances and products with plant natural active ingredients. Please refer to the Company's announcements dated 19 March 2012 and 20 March 2012 for details.

Save as disclosed above, the Group did not have any other significant investments held nor any material acquisitions and disposals of subsidiaries during the period.

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 its own funds and bank loans.

The Group entered into New 2011 Financial Services Agreement with COFCO Finance Co., Ltd. through COFCO Agri-Industries Management Co., Ltd. (a subsidiary of the Company) with an aim of achieving more efficient deployment and application of funds within the Group so as to reduce the average borrowing costs 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.

By 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, as well as foreign currency forward contracts to mitigate exchange rate exposure.

Cash and Bank Deposits

As at 30 June 2012, the Group had a strong cash position, with available cash and bank deposits (including pledged deposits) amounting to HK$9,162.7 million (31 December 2011: HK$9,189.7 million). During the period, the Group recorded net cash outflow from operations of approximately HK$968.5 million (year ended 31 December 2011: net cash inflow of HK$1,205.5 million). These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

Bank Loans and Other Borrowings

The total interest-bearing bank loans and other borrowings (including the liability component of convertible bonds) amounted to HK$36,776.7 million (31 December 2011: HK$32,915.0 million) as at 30 June 2012. The increase in borrowings was mainly used for the daily operation and business expansion of the Group. These loans are repayable within the following periods:

	30 June 2012 HK$ million	31 December 2011 HK$ million
Within one year or on demand	**27,173.8**	24,071.2
In the second year	**4,032.2**	150.5
In the third to fifth years, inclusive	**5,407.3**	8,638.6
Beyond five years	**163.4**	54.7
	36,776.7	32,915.0

The interest-bearing bank loans carried annual interest rates ranging between 0.83% and 7.05% (31 December 2011: between 0.82% and 7.22%). Other borrowings (including the liability component of convertible bonds) carried annual interest rates ranging between 2.71% and 6.56% (31 December 2011: between 2.71% and 6.31%). As at 30 June 2012, the Group has pledged assets with an aggregate carrying value of HK$538.0 million (31 December 2011: HK$650.4 million) to secure bank loans and banking facilities of the Group. The Group had no unutilised committed banking facilities as at 30 June 2012 and 31 December 2011. 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 2012 and 31 December 2011 are set out below:

	30 June 2012	31 December 2011
Net gearing ratio (the ratio of net debt to shareholders' equity)	**124.2%**	108.0%
Liquidity ratio (the ratio of current assets to current liabilities)	**1.21**	1.25
Quick ratio (the ratio of current assets less inventories to current liabilities)	**0.62**	0.71

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$27,614.0 million at 30 June 2012 (31 December 2011: HK$23,725.3 million).

Capital Expenditures

The total capital expenditures of the Group for the six months ended 30 June 2012 are tabulated below:

	For the six months ended 2012 HK$ million	2011 HK$ million
Business units:		
Oilseeds processing	**239.1**	1,970.9
Biochemical and biofuel	**893.5**	862.1
Rice processing and trading	**487.1**	763.5
Wheat processing	**345.6**	35.2
Brewing materials	**5.8**	72.2
Corporate and others	**364.8**	109.1
	2,335.9	3,813.0

Capital Commitments

Capital commitments outstanding and not provided for in the Group's condensed consolidated interim financial information as at 30 June 2012 are set out below. These commitments are to be financed by loans and working capital of the Group.

	30 June 2012 HK$ million	31 December 2011 HK$ million
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**1,470.1**	2,944.8
Contracted, but not provided for	**1,427.8**	1,802.6
	2,897.9	4,747.4

Human Resources

The Group employed 28,107 (31 December 2011: 25,459) staff as at 30 June 2012:

	30 June 2012 Number of staff	31 December 2011 Number of staff
Oilseeds processing business	**8,502**	8,378
Biochemical and biofuel business	**11,746**	10,659
Rice processing and trading business	**2,799**	2,463
Wheat processing business	**4,239**	3,149
Brewing materials business	**698**	684
Corporate	**123**	126
	28,107	25,459

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 2012 amounted to approximately HK$762.7 million (six months ended 30 June 2011: HK$706.7 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 Mainland China.

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 2012, China Agri-Industries Holdings Limited shifted its strategy from a primary focus of growing market share through capacity expansion in all business segments to a more targeted effort of organic growth as it seeks to build a fully integrated production model that spans from origination to consumption. By focusing on optimising the current geographic footprint, fine-tuning the product mix, expanding distribution channels, maximising utilisation of current capacity, enhancing overall food safety and quality of its products, the Company believes it can sustain its leading position in the food processing industry.

Hong Kong, 29 August 2012

04 Corporate Governance and Other Information

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 2012	Exercised	Lapsed	At 30 June 2012
(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
LV 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

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 2012	Exercised	Lapsed	At 30 June 2012
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	4,630,000	–	–	4,630,000
			7-8-2011	7-8-2011 to 6-8-2014	4,576,000	–	–	4,576,000
			7-8-2012	7-8-2012 to 6-8-2014	4,576,000	–	100,000	4,476,000
			7-8-2013	7-8-2013 to 6-8-2014	4,576,000	–	100,000	4,476,000
					20,409,000	–	200,000	20,209,000
	Total				23,579,000	–	200,000	23,379,000

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

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 2012	Exercised	Lapsed	At 30 June 2012
(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
LV 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 1 January 2012	Exercised	Lapsed	At 30 June 2012
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

Note:

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.

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

As at 30 June 2012, 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 in long position *(Note 1)*	Number of shares held in long position	Percentage *(Note 2)*
NING Gaoning	Beneficial owner	1,300,000	–	0.03%
YU Xubo	Beneficial owner and interest of spouse *(Note 3)*	1,300,000	181,000	0.04%
LV Jun	Beneficial owner	1,070,000	400,000	0.04%
YUE Guojun	Beneficial owner	1,200,000	200,000	0.03%
MA Wangjun	Beneficial owner	1,150,000	–	0.03%
WANG Zhiying	Beneficial owner	550,000	–	0.01%

Notes:

1. *These underlying shares 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" above.*
2. *The percentage of interests is calculated based on the total number of shares of the Company in issue as at 30 June 2012, being 4,038,369,839 shares.*
3. *181,000 shares were held by the spouse of Mr. Yu Xubo.*

Interests in Underlying Shares of Associated Corporation

Name	Name of associated corporation	Capacity	Number of underlying shares held in long position *(Note 1)*	Percentage *(Note 2)*
NING Gaoning	China Foods Limited	Beneficial owner	1,620,000	0.06%

Notes:

1. *Mr. Ning Gaoning has been granted options entitling him to subscribe an aggregate of 1,620,000 shares of China Foods Limited, of which: (i) 880,000 share options were granted 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; and (ii) 740,000 share options were granted 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.*
2. *The percentage of interests is calculated based on the total number of shares of China Foods Limited in issue as at 30 June 2012, being 2,794,774,756 shares.*

Save as disclosed above, as at 30 June 2012, 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 2012, 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 2012, 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 2012, 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 2012, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company.

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 2012.

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 2012, 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 to 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.

During the six months ended 30 June 2012, the Company has complied with all the code provisions and, where appropriate, the applicable recommended best practices set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (newly effective from 1 April 2012) contained 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 8 June 2012 due to his another business commitment. The Company recognises the importance of maintaining effective communication with shareholders. The Chairman ensures that a system of effective communication with shareholders of the Company and receipt by the directors of adequate and complete information is in place. He facilitates constructive communications with the controlling shareholder to enhance corporate strategy and governance whilst providing support and advice to the Managing Director to maintain regular dialogue with other shareholders and investors. Their views or concerns are communicated to the Board.

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 8 June 2012, the Company re-elected Mr. Ning Gaoning as a non-executive Director, Mr. Lv Jun as an executive Director, and Mr. Victor Yang as an independent non-executive Director. Please refer to Appendix II to the Company's circular dated 26 April 2012 for their biographies and other information.

Disclosure of Directors' Information Pursuant to Rule 13.51B(1) of the Listing Rules

The changes in the biographical details of the Directors since the publication of the 2011 annual report in April 2012 are set out below:

Mr. Ning Gaoning, a non-executive Director of the Company, was appointed as an independent non-executive director of BOC Hong Kong (Holdings) Limited.

Mr. Lv Jun, the Managing Director of the Company, ceased to be the general manager of the oilseeds processing division.

Mr. Ma Wangjun, a non-executive Director of the Company, ceased to be a non-executive director of China Mengniu Dairy Company Limited. Moreover, he was appointed as a non-executive director of The Hong Kong Parkview Group Limited.

Review of Interim Results

The unaudited condensed consolidated interim financial information of the Company for the six months ended 30 June 2012 have been reviewed by the Audit Committee of the Company and our external auditors, Ernst & Young.

Interim Dividend

The Board has declared the payment of an interim dividend of 3.1 HK cents (six months ended 30 June 2011: 7.9 HK cents) per share for the six months ended 30 June 2012 payable on Tuesday, 9 October 2012 to shareholders whose names appear on the register of members of the Company on Tuesday, 18 September 2012.

Closure of Register of Members

The register of members of the Company will be closed on Monday, 17 September 2012 and Tuesday, 18 September 2012, 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 Friday, 14 September 2012.

Investor Relations

As a listed company, China Agri greatly values its relations with investors. Over the past few years, the Company has been actively working to improve transparency, enhance information disclosure standards, and regularly update investors about new business developments. The Company's investor relations team simultaneously and regularly reports developments in the capital markets to the management so that the Company's executives can improve the operating capabilities and overall governance of the Company.

During the first half of 2012, the Company continued to improve communication with the market by organising a variety of investor relations activities, which included regular one-on-one meetings, conference calls and group meetings with investors, both current and potential shareholders, and analysts in the market. Following the release of the Company's interim financial results, the investor relations team also organised press conferences, analyst presentations, and financial media interviews with senior management in order to provide greater insight on the Company's business operations and strategic plans. In addition, the Company also conducted several non-deal roadshows in Hong Kong during the period. All of these meetings are conducted in an effort to strengthen the market's confidence in the Company.

During the period under review, the Company was awarded for "Best Corporate Social Responsibility" and "Best Investor Relations," and once again received an "Annual Recognition Award" by Corporate Governance Asia magazine in its 2012 poll. Mr. Ning Gaoning, Non-Executive Director of the Company, was honoured with an "Asian Corporate Director Recognition Award 2012", which China Agri believes helps demonstrate the Company's commitment to corporate governance and investor relations. In addition, the Company was once again named in the "Annual Awards 2012" of "The Credible Enterprise of China Accreditation" by the China Enterprise Reputation and Credibility Association (Overseas). The Company believes this represents recognition of the Company's longstanding corporate culture of integrity as well as its continuous efforts to enhance consumer services.

The Company has been selected as a constituent of several key benchmark indices, including, Hang Seng Composite Index, Hang Seng Composite Industry Index – Consumer Goods, Hang Seng Composite Large Cap Index, Hang Seng China-Affiliated Corporations Index, Hang Seng Mainland 100, Hang Seng Corporate Sustainability Index, Hang Seng Mainland and HK Corporate Sustainability Index, and FTSE Asian Sector Food and Beverage Index.

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

05 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 32 to 62 which comprises the condensed consolidated statement of financial position of China Agri-Industries Holdings Limited (the "Company") as at 30 June 2012 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

22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

29 August 2012

06 Condensed Consolidated Interim Financial Information

Condensed Consolidated Income Statement

For the six months ended 30 June 2012

	Notes	For the six months ended 30 June 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
REVENUE	4	**41,667,893**	33,602,111
Cost of sales	6	**(39,025,255)**	(29,973,425)
Gross profit		**2,642,638**	3,628,686
Other income and gains	4	**535,428**	811,082
Selling and distribution costs		**(1,275,549)**	(1,083,645)
Administrative expenses		**(737,993)**	(666,130)
Other expenses		**(73,551)**	(10,728)
Finance costs	5	**(481,016)**	(358,629)
Share of profits of associates		**53,074**	106,343
PROFIT BEFORE TAX	6	**663,031**	2,426,979
Income tax expense	7	**(90,153)**	(335,959)
PROFIT FOR THE PERIOD		**572,878**	2,091,020
Attributable to:			
Owners of the Company		**501,839**	1,602,488
Non-controlling interests		**71,039**	488,532
		572,878	2,091,020
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		**12.43 HK cents**	39.68 HK cents
Diluted		**12.42 HK cents**	37.67 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 2012

	For the six months ended 30 June 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
PROFIT FOR THE PERIOD	**572,878**	2,091,020
Exchange difference on translation of financial statements of overseas entities	**(128,422)**	425,329
Other comprehensive income for the period, net of tax	**(128,422)**	425,329
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**444,456**	2,516,349
Attributable to:		
Owners of the Company	**391,175**	1,973,415
Non-controlling interests	**53,281**	542,934
	444,456	2,516,349

Condensed Consolidated Statement of Financial Position

30 June 2012

	Notes	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**21,246,620**	19,877,668
Prepaid land premiums		**2,458,342**	2,284,270
Deposits for purchases of items of property, plant and equipment		**492,705**	290,502
Goodwill		**1,076,038**	1,074,240
Interests in associates		**2,198,114**	2,184,777
Available-for-sale investments		**368**	370
Intangible assets		**50,360**	38,388
Deferred tax assets		**438,270**	539,290
Total non-current assets		**27,960,817**	26,289,505
CURRENT ASSETS			
Inventories		**22,792,379**	19,038,228
Accounts and bills receivables	11	**4,601,765**	5,760,131
Prepayments, deposits and other receivables		**6,221,863**	5,176,754
Derivative financial instruments		**130,176**	514,878
Due from fellow subsidiaries	17	**2,077,558**	2,296,321
Due from related companies	17	**406,815**	264,275
Due from the ultimate holding company	17	**506**	5,296
Due from non-controlling shareholders of subsidiaries	17	**14,054**	167,417
Due from associates	17	**1,338,138**	1,174,228
Tax recoverable		**281,904**	159,469
Pledged deposits		**9,866**	14,052
Cash and cash equivalents		**9,152,849**	9,175,653
Total current assets		**47,027,873**	43,746,702
CURRENT LIABILITIES			
Accounts and bills payables	12	**4,530,845**	3,585,895
Other payables and accruals		**5,094,178**	6,391,372
Deferred income		**64,793**	85,836
Derivative financial instruments		**164,860**	12,492
Interest-bearing bank and other borrowings		**27,173,812**	24,071,217
Due to fellow subsidiaries	17	**1,635,315**	453,401
Due to the ultimate holding company	17	**4,178**	43
Due to an intermediate holding company	17	**42,532**	36,570
Due to related companies	17	**15**	64
Due to non-controlling shareholders of subsidiaries	17	**28,525**	31,183
Due to associates	17	**55,325**	9,726
Tax payable		**83,168**	255,502
Total current liabilities		**38,877,546**	34,933,301
NET CURRENT ASSETS		**8,150,327**	8,813,401
TOTAL ASSETS LESS CURRENT LIABILITIES		**36,111,144**	35,102,906

Condensed Consolidated Statement of Financial Position

30 June 2012

	Notes	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**5,738,071**	5,011,598
Convertible bonds	13	**3,864,771**	3,832,231
Due to non-controlling shareholders of subsidiaries	17	**207,220**	207,709
Deferred income		**689,113**	666,406
Deferred tax liabilities		**188,927**	274,937
Total non-current liabilities		**10,688,102**	9,992,881
Net assets		**25,423,042**	25,110,025
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	**403,837**	403,837
Reserves		**21,695,647**	21,406,458
Proposed dividend		**125,189**	153,458
		22,224,673	21,963,753
Non-controlling interests		**3,198,369**	3,146,272
Total equity		**25,423,042**	25,110,025

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Notes	Attributable to owners of the Company											
		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 2012		**403,837**	**5,275,156***	**4,747,007***	**51,739***	**77,965***	**874,174***	**2,667,821***	**7,712,596***	**153,458**	**21,963,753**	**3,146,272**	**25,110,025**
Total comprehensive income for the period		-	-	-	-	-	-	(110,664)	501,839	-	391,175	53,281	444,456
Transfer from retained profits		-	-	-	-	-	124,559	-	(124,559)	-	-	-	-
Contribution from a non-controlling shareholder		-	-	-	-	-	-	-	-	-	-	2,140	2,140
Acquisition of subsidiaries	16	-	-	-	-	-	-	-	-	-	-	10,153	10,153
Acquisition of non-controlling interests		-	(1,853)	-	-	-	-	-	-	-	(1,853)	(13,477)	(15,330)
Equity-settled share option arrangements	15	-	-	-	-	25,056	-	-	-	-	25,056	-	25,056
2011 final dividend declared		-	-	-	-	-	-	-	-	(153,458)	(153,458)	-	(153,458)
Proposed 2012 interim dividend	8	-	-	-	-	-	-	-	(125,189)	125,189	-	-	-
At 30 June 2012		**403,837**	**5,273,303***	**4,747,007***	**51,739***	**103,021***	**998,733***	**2,557,157***	**7,964,687***	**125,189**	**22,224,673**	**3,198,369**	**25,423,042**

* These reserve accounts comprise the consolidated reserves of HK$21,695,647,000 (31 December 2011: HK$21,406,458,000) in the condensed consolidated statement of financial position.

	Notes	Attributable to owners of the Company											
		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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	**(968,508)**	(7,001,315)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(2,672,436)**	(3,039,614)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**3,685,286**	10,887,239
NET INCREASE IN CASH AND CASH EQUIVALENTS	**44,342**	846,310
Cash and cash equivalents at beginning of period	**9,175,653**	7,404,309
Effects of foreign exchange rate changes, net	**(67,146)**	91,484
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**9,152,849**	8,342,103
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**8,301,629**	6,637,300
Non-pledged time deposits with original maturity of less than three months when acquired	**851,220**	1,704,803
	9,152,849	8,342,103

Notes to the Condensed Consolidated Interim Financial Information

30 June 2012

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 biochemical and biofuel products;
- processing and trading 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 ("COFCO"), 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 2011.

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 2011, except in relation to the following revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) that affect the Group and are adopted by the Group for the first time for the current period's financial information:

HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

2. Basis of Preparation and Accounting Policies (Continued)

HKFRS 7 Amendments introduce more extensive and onerous quantitative and qualitative disclosure requirements. Disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Consequently, the Group will be required to capture information in the detail necessary to disclose the contractual cash flows that would or may be required to repurchase derecognised financial assets.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC) Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis.

The adoption of the above revised HKFRSs has no significant impact on the Group's condensed consolidated interim financial information.

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

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

(f) the corporate and others segment comprises the Group's feed processing business and 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/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, gain on bargain purchase, finance costs 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.

3. Operating Segment Information (Continued)

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 2011: Nil).

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2012 and 2011.

Six months ended 30 June 2012

	Oilseeds processing HK$'000 (Unaudited)	Biochemical and biofuel HK$'000 (Unaudited)	Rice processing and trading 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	26,023,419	7,217,348	3,561,432	2,646,788	1,271,792	947,114	-	41,667,893
Intersegment sales	22,890	10,320	-	1,282	-	-	(34,492)	-
Other revenue	86,438	304,820	7,349	19,356	2,432	2,021	(15,777)	406,639
Segment results	457,409	471,267	(73,146)	69,526	119,916	(82,788)	-	962,184
Interest income								125,603
Gain on bargain purchase								3,186
Finance costs								(481,016)
Share of profits of associates								53,074
Profit before tax								663,031
Income tax expense								(90,153)
Profit for the period								572,878
Other segment information:								
Depreciation and amortisation	153,426	230,659	47,891	32,630	51,626	101,848	-	618,080
Capital expenditure	239,087	893,456	487,066	345,603	5,833	364,841	-	2,335,886
As at 30 June 2012								
Assets and liabilities								
Segment assets	33,136,421	14,091,881	7,906,648	3,611,734	3,082,411	16,363,812	(15,285,220)	62,907,687
Unallocated assets								12,081,003
Total assets								74,988,690
Segment liabilities	12,771,343	5,898,879	4,608,811	2,146,093	1,065,459	1,295,281	(15,285,220)	12,500,646
Unallocated liabilities								37,065,002
Total liabilities								49,565,648

3. Operating Segment Information (Continued)

Six months ended 30 June 2011

	Oilseeds processing HK$'000 (Unaudited)	Biochemical and biofuel HK$'000 (Unaudited)	Rice processing and trading 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 31 December 2011								
Assets and liabilities								
Segment assets	31,140,878	12,762,231	7,792,032	3,161,646	2,722,020	14,281,728	(13,897,569)	57,962,966
Unallocated assets								12,073,241
Total assets								70,036,207
Segment liabilities	10,894,737	5,110,670	5,129,372	2,180,498	1,091,719	955,017	(13,897,569)	11,464,444
Unallocated liabilities								33,461,738
Total liabilities								44,926,182

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	
	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Other income		
Government grants*	**322,440**	223,605
Interest income	**125,603**	37,158
Compensation income	**1,100**	3,194
Others	**4,918**	4,388
	454,061	268,345
Gains		
Gains on disposal of raw materials, by-products and scrap items	**54,883**	53,355
Logistic service and storage income	**15,273**	8,997
Gain on disposal of items of property, plant and equipment (note 10)	**8,002**	–
Realised and unrealised fair value gains on foreign currency forward contracts, net	**–**	1,619
Gains on foreign exchange, net	**–**	473,206
Gain on bargain purchase (note 16)	**3,186**	–
Reversal of impairment of receivables	**23**	485
Others	**–**	5,075
	81,367	542,737
	535,428	811,082

* 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 financial grants based on the quantity of fuel ethanol produced and sold. An amount of HK$117,323,000 (six months ended 30 June 2011: HK$169,384,000) 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	
	2012	**2011**
	HK$'000	**HK$'000**
	(Unaudited)	**(Unaudited)**
Interest on:		
Bank loans wholly repayable within five years	**401,986**	307,864
Bank loans wholly repayable over five years	**7,120**	3,125
Loans from fellow subsidiaries	**13,424**	14,624
Loan from an intermediate holding company	**44,398**	–
Convertible bonds	**51,915**	51,051
Total interest expenses	**518,843**	376,664
Less: Interest capitalised	**(37,827)**	(18,035)
	481,016	358,629

6. Profit Before Tax

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

	For the six months ended 30 June 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Cost of inventories sold or services provided	**37,888,183**	30,376,012
Realised and unrealised fair value losses/(gains) of derivative financial instruments, net	**838,417**	(1,081,970)
Write-down of inventories to net realisable value	**225,900**	483,588
Provision for loss on purchase commitments*	**72,755**	195,795
Cost of sales	**39,025,255**	29,973,425
Depreciation	**589,243**	431,116
Amortisation of intangible assets	**1,278**	812
Recognition of prepaid land premiums	**27,559**	21,016
Employee benefit expenses (including directors' remuneration)	**762,697**	706,677
(Gain)/loss on disposal of items of property, plant and equipment (note 10)	**(8,002)**	6,785
Realised and unrealised fair value losses/(gains) on foreign currency forward contracts, net	**7,733**	(1,619)

* 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 2012, 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$72,755,000 (six months ended 30 June 2011: HK$195,795,000) is estimated by the Directors with reference to the expected selling prices of the corresponding products, and a provision thereon has been made in the condensed consolidated income statement for the six months ended 30 June 2012. 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 2011: 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 being approved by the relevant authorities as high-technology enterprises in Mainland China, and the relevant authorities have granted these subsidiaries preferential CIT rate of 15%.

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	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current – Hong Kong		
Charge for the period	**35,647**	138,783
Current – Mainland China		
Charge for the period	**122,739**	141,415
Overprovision in prior periods	**(68,528)**	(6,243)
Tax rebates and credits	**(8,225)**	(16,694)
Deferred tax	**8,520**	78,698
Total tax charge for the period	**90,153**	335,959

8. Dividend

On 29 August 2012, the board of directors declared an interim dividend of 3.1 HK cents (six months ended 30 June 2011: 7.9 HK cents) per ordinary share, amounting to a total of HK$125,189,400 (six months ended 30 June 2011: HK$319,031,200).

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 2012 is based on the profit for the period attributable to ordinary equity holders of the Company of HK$501,839,000 (six months ended 30 June 2011: HK$1,602,488,000), and the weighted average number of 4,038,369,839 ordinary shares (six months ended 30 June 2011: 4,038,369,839 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 the 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.

For the six months ended 30 June 2012, no adjustments in respect of convertible bonds have been made to the earnings and number of shares used in the basic earnings per share calculation due to that the outstanding convertible bonds has an anti-dilutive effect on the basic earnings per share amount presented.

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

Earnings

	For the six months ended 30 June	
	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**501,839**	1,602,488
Interest on convertible bonds	**–**	51,051
Profit attributable to ordinary equity holders of the Company used in the diluted earnings per share calculation	**501,839**	1,653,539

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

Number of shares

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**4,038,369,839**	4,038,369,839
Effect of dilution-weighted average number of ordinary shares:		
Share options	**3,727,996**	10,053,475
Convertible bonds	**–**	341,105,602
	4,042,097,835	4,389,528,916

10. Property, Plant and Equipment

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a total cost of HK$2,001,830,000 (six months ended 30 June 2011: HK$3,116,890,000), not including property, plant and equipment acquired through business combinations.

Items of property, plant and equipment with a net book value of HK$24,508,000 (six months ended 30 June 2011: HK$11,412,000) were disposed of by the Group during the six months ended 30 June 2012, resulting in a net gain on disposal of HK$8,002,000 (six months ended 30 June 2011: a net loss of HK$6,785,000).

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 180 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.

11. Accounts and Bills Receivables (Continued)

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 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Within 3 months	**4,107,589**	3,650,824
3 to 12 months	**493,542**	2,107,835
1 to 2 years	**634**	1,472
	4,601,765	5,760,131

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, is as follows:

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Within 3 months	**4,338,008**	3,534,547
3 to 12 months	**177,824**	40,938
1 to 2 years	**9,625**	5,462
Over 2 years	**5,388**	4,948
	4,530,845	3,585,895

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

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.

13. Convertible Bonds (Continued)

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. And the conversion price has been further adjusted from HK$11.248 per share to HK$11.110 per share with effect from 17 September 2011 upon the declaration of interim dividend in respect of the six-month period ended 30 June 2011.

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 fulfiling 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 2012 HK$'000 (Unaudited)	**31 December 2011 HK$'000 (Audited)**
Authorised:		
10,000,000,000 (31 December 2011: 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 2011: 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.

15. Share Option Scheme (Continued)

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 2012		30 June 2011	
	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**	**23,579**	4.666	24,021
Forfeited during the period	**4.666**	**(200)**	4.666	(442)
At 30 June	**4.666**	**23,379**	4.666	23,579

Pursuant to an ordinary resolution passed on 25 May 2010 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 2012 are as follows:

Number of options granted to					
Directors '000	Employees '000	Total '000	Vesting period (dd–m–yyyy)	Exercise price per share HK$	Exercise period (dd–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	4,476	5,136	7–8–2007 to 6–8–2012	4.666	7–8–2012 to 6–8–2014
660	4,476	5,136	7–8–2007 to 6–8–2013	4.666	7–8–2013 to 6–8–2014
3,170	20,209	23,379			

15. Share Option Scheme (Continued)

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 2012 are as follows:

Number of options granted to Directors '000	Number of options granted to Employees '000	Total '000	Vesting period (dd-m–yyyy)	Exercise price per share HK$	Exercise period (dd-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 prior years were amounted to approximately HK$222,075,000 of which the Group recognised share option expenses of HK$25,056,000 during the period (six months ended 30 June 2011: HK$14,073,000).

The fair values of the equity-settled share options were estimated as at the date of grant or modification, 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	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 combinations for the period ended 30 June 2012

(a) During the six months ended 30 June 2012, the Group acquired 100% equity interest in Poly Idea Investments Limited ("Poly Idea") together with the shareholder's loan from COFCO (HK), an intermediate holding company of the Company, at a cash consideration of approximately HK$35,694,000. Poly Idea is an investment holding company, which holds 77.04% equity interest in COFCO Tayuan Safflower (Xinjiang) Co., Limited ("Tayuan"). Tayuan is engaging in the processing and sales of safflower oil and rapeseed oil.

The Group has elected to measure the non-controlling interest in Tayuan at the non-controlling interest's proportionate share of Tayuan's identifiable net assets.

The fair values of the identifiable assets and liabilities of Poly Idea and its subsidiary and the shareholder's loan as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	**18,294**
Prepaid land premiums	**10,239**
Intangible assets	**4,593**
Inventories	**18,963**
Accounts and bills receivables	**12,151**
Prepayments, deposits and other receivables	**1,106**
Cash and cash equivalents	**12,948**
Accounts and bills payables	**(28,393)**
Other payables and accruals	**(5,737)**
Deferred tax liabilities	**(115)**
	44,049
Non-controlling interest	**(10,153)**
Goodwill on acquisition	**1,798**
	35,694
Satisfied by cash	**35,694**

16. Business Combinations (Continued)

Business combinations for the period ended 30 June 2012 (Continued)

(a) (Continued)

An analysis of the cash flows in respect of the acquisition of Poly Idea and the shareholder's loan is as follows:

	For the six months ended 30 June 2012 HK$'000
Cash consideration	**(35,694)**
Cash and cash equivalents acquired	**12,948**
Net outflow of cash and cash equivalents in respect of the acquisition of Poly Idea and the shareholder's loan	**(22,746)**

During the six months ended 30 June 2012, Poly Idea and Tayuan generated revenue and net loss of approximately HK$16,213,000 and HK$3,784,000, respectively. Since the acquisition date, Poly Idea and Tayuan contributed revenue of HK$3,148,000 to the Group and contributed a net loss of approximately HK$1,697,000 to the Group's consolidated profit for the period.

16. Business Combinations (Continued)

Business combinations for the period ended 30 June 2012 (Continued)

(b) During the six months ended 30 June 2012, the Group acquired 100% equity interest in Sharp Global Limited ("Sharp Global") together with the shareholder's loan from Full Great Investments Limited, a fellow subsidiary of the Group, at a cash consideration of approximately HK$117,951,000. Sharp Global is an investment holding company, which holds 100% equity interest in COFCO TECH Bioengineering (Tianjin) Co., Ltd. ("COFCO TECH"). COFCO TECH is engaging in producing, processing and trading of food additives, microencapsulation natural active substances.

The fair values of the identifiable assets and liabilities of Sharp Global and its subsidiary and the shareholder's loan as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	**77,984**
Prepaid land premiums	**20,400**
Intangible assets	**6,406**
Inventories	**108,074**
Accounts and bills receivables	**3,164**
Prepayments, deposits and other receivables	**25,440**
Cash and cash equivalents	**21,671**
Interest-bearing bank borrowings	**(76,617)**
Accounts and bills payables	**(22,876)**
Other payables and accruals	**(38,456)**
Deferred tax liabilities	**(4,053)**
	121,137
Gain on bargain purchase (note 4)	**(3,186)**
	117,951
Satisfied by cash	**117,951**

16. Business Combinations (Continued)

Business combinations for the period ended 30 June 2012 (Continued)

(b) (Continued)

An analysis of the cash flows in respect of the acquisition of Sharp Global and the shareholder's loan is as follows:

	For the six months ended 30 June 2012 HK$'000
Cash consideration	**(117,951)**
Cash and cash equivalents acquired	**21,671**
Net outflow of cash and cash equivalents in respect of the acquisition of Sharp Global and the shareholder's loan	**(96,280)**

During the six months ended 30 June 2012, Sharp Global and COFCO TECH generated revenue and net profit of approximately HK$172,524,000 and HK$17,491,000, respectively. Since the acquisition date, Sharp Global and COFCO TECH contributed revenue of HK$71,587,000 to the Group and contributed a net profit of approximately HK$5,436,000 to the Group's consolidated profit for the period.

16. Business Combinations (Continued)

Business combination for the period ended 30 June 2011

During the six months ended 30 June 2011, the Group acquired 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

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 to 30 June 2011, Qinzhou Huagang did not contribute any revenue to the Group and contributed a net loss of approximately HK$3,530,000 to the Group's consolidated profit for that period.

* For identification purpose only

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:

	Notes	For the six months ended 30 June 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Transactions with fellow subsidiaries:			
Sales of goods	(i)	**3,870,400**	4,148,183
Purchases of goods	(i)	**1,944,342**	1,149,762
Operating lease rental paid	(i)	**2,012**	2,737
Interest expense	(ii)	**13,424**	13,850
Brokerage fee paid	(i)	**12,197**	13,465
Logistics service and storage income	(i)	**488**	27
Other service income	(i)	**4,141**	3,683
Transactions with the ultimate holding company:			
Operating lease rental paid	(i)	**8,281**	10,101
Transaction with an intermediate holding company:			
Interest expense	(ii)	**44,398**	–
Transactions with associates:			
Sales of goods	(i)	**1,492,662**	1,126,387
Purchases of goods	(i)	**51,322**	109,977
Interest income	(iii)	**2,401**	1,738
Other service income	(i)	**2,884**	305
Transactions with related companies[#]:			
Sales of goods	(i)	**140,246**	311,754
Purchases of goods	(i)	**3,610,908**	3,148,992
Brokerage fee paid	(i)	**4,624**	1,130
Transactions with non-controlling shareholders of subsidiaries:			
Sales of goods	(i)	**464,624**	440,410
Purchases of goods	(i)	**51,983**	21,625

[#] 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$55,414,000 (six months ended 30 June 2011: HK$352,654,000) and with an associate for sales of goods of HK$186,224,000 (six months ended 30 June 2011: HK$879,247,000), 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 to fellow subsidiaries arose from loans from a fellow subsidiary, which were unsecured and bore interest rates ranging from 6.06% to 6.56% per annum (six months ended 30 June 2011: ranging from 4.374% to 6.31% per annum). The interest expense to an intermediate holding company arose from loans from COFCO (HK) which was unsecured and bore interest at rates of 3.4% and 4.2% per annum (six months ended 30 June 2011: Nil).

(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 2011: 2.0% and 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$269,872,000 (31 December 2011: HK$351,548,000), which bore interest at rates ranging from 6.10% to 6.56% per annum (31 December 2011: 6.10% and 6.31% per annum) and will be repaid within one year. Loans from an intermediate holding company of HK$2,615,837,000 (31 December 2011: HK$2,260,306,000) which bears interest at rates of 3.4% and 4.2% per annum (31 December 2011: 3.4% per annum), is not repayable within one year.

(2) Loans due from an associate of HK$204,745,000 (31 December 2011: HK$205,881,000), which bore interest rates of 2.0% and 2.5% per annum (31 December 2011: 2.0% and 2.5% per annum).

(3) Amounts due to non-controlling shareholders of subsidiaries of HK$207,220,000 (31 December 2011: HK$207,709,000), which are financing in nature and not repayable within one year from the end of the reporting period.

17. Related Party Transactions (Continued)

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Short term employee benefits	**3,987**	6,091
Post-employment benefits	**166**	167
Equity-settled share option expense	**2,501**	2,871
Total compensation paid to key management personnel	**6,654**	9,129

(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 enters into extensive transactions covering, but not limited to, purchases of agricultural raw materials, sales of diversified products, purchases of property, plant and equipment and other assets, receiving of services, and making deposits and borrowings with State-owned Enterprises, other than the COFCO group, in the normal course of business at terms comparable to those with other non state-owned enterprises. The directors consider that transactions with other State-owned Enterprises are activities 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 constitutes 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 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Within one year	**7,947**	7,217
In the second to fifth years, inclusive	**7,731**	6,262
After five years	**44,538**	46,403
	60,216	59,882

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 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	**1,470,083**	2,944,824
Contracted, but not provided for	**1,427,818**	1,802,571
	2,897,901	4,747,395

20. Other Commitments

(a) Commitments under commodity futures contracts:

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Sales of soybean meals	**3,681,507**	–
Sales of soybean	**3,590,106**	9,387,394
Sales of soybean oil	**4,308,783**	5,795,378
Sales of palm oil	**1,027,975**	2,244,177
Sales of early grains	**63,409**	–
Sales of corn	**28,645**	413,316
	12,700,425	17,840,265
Purchases of soybean	**4,995,028**	348,249
Purchases of soybean oil	**120,080**	–
Purchases of soybean meals	**722,506**	–
Purchases of vegetable oil	**1,231,667**	–
Purchase of corn	**–**	19,067
	7,069,281	367,316

(b) Commitments under foreign currency forward contracts:

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Sales of United States dollars	**365,446**	787,431
Sales of Euro	**7,900**	–
	373,346	787,431

Other than disclosed above, the Group did not have any significant commitments or contingent liabilities at the end of the reporting period (31 December 2011: 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 29 August 2012.

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