



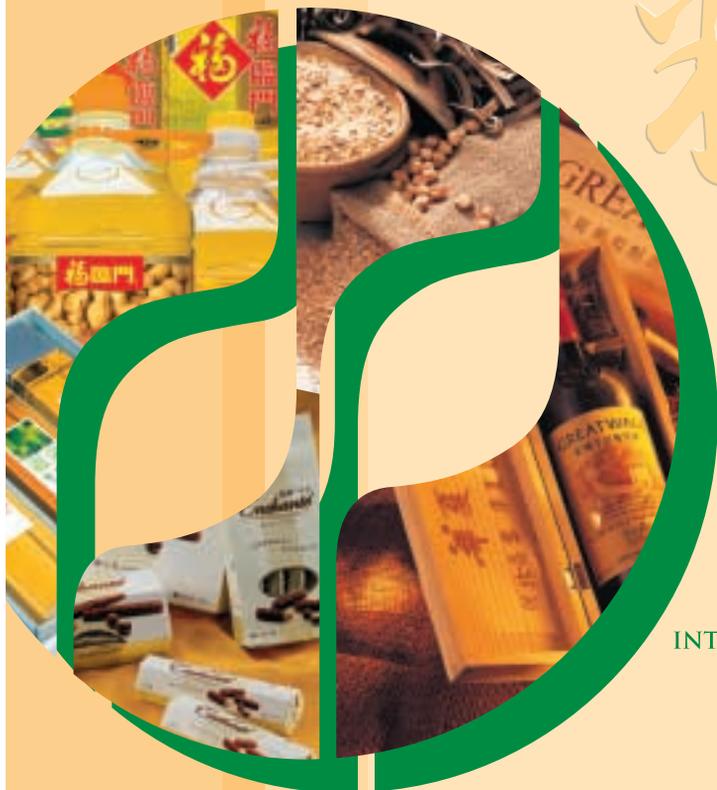
中國糧油國際有限公司

COFCO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0506)

# 中國糧油



INTERIM REPORT  
2006

## CONTENTS

	Pages
Corporate Information	2
Independent Review Report	3
Condensed Consolidated Income Statement	4
Condensed Consolidated Statement of Change in Equity	5
Consolidated Balance Sheet	6
Condensed Consolidated Cash Flow Statement	8
Notes to Condensed Consolidated Financial Statements	9
Management Discussion and Analysis	20

## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Mr. Ning Gaoning (*Chairman*)  
Mr. Liu Fuchun (*Vice-Chairman*)  
Mr. Qu Zhe (*Managing Director*)  
Mr. Xue Guoping  
Mr. Liu Yongfu  
Mr. Yu Xubo

#### Independent Non-executive Directors

Mr. Stephen Edward Clark  
Mr. Tan Man Kou  
Mr. Yuen Tin Fan, Francis

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

Mr. Yuen Tin Fan, Francis (*Committee Chairman*)  
Mr. Stephen Edward Clark  
Mr. Qu Zhe

### COMPANY SECRETARY

Ms. Liu Kit Yee, Linda

### SOLICITORS

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

### AUDITORS

Ernst & Young

### PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
Bank of Communications Company Limited  
Deutsche Bank  
Hang Seng Bank Limited  
ING Bank N.V.  
Rabobank  
UBS AG

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### PRINCIPAL OFFICE IN HONG KONG

33rd Floor  
Top Glory Tower  
262 Gloucester Road  
Causeway Bay  
Hong Kong

### BRANCH SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Progressive Registration Limited  
26/F Tesbury Tower  
28 Queen's Road East  
Hong Kong

For the six months ended 30 June 2006

## INDEPENDENT REVIEW REPORT



安永會計師事務所

To the Board of Directors

**COFCO International Limited**

*(Incorporated in Bermuda with limited liability)*

### Introduction

We have been instructed by the Company to review the interim financial report set out on pages 4 to 19.

### Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion 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.

### Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

**Ernst & Young**

*Certified Public Accountant*

Hong Kong  
17 August 2006

For the six months ended 30 June 2006

## CONDENSED CONSOLIDATED INTERIM RESULTS

The board of directors (the "Directors") of COFCO International Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2006 together with the comparative figures for the six months ended 30 June 2005. The interim results as at and for the six months ended 30 June 2006 have been reviewed by Ernst & Young, the auditors of the Company, in accordance with the Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and by the audit committee of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June 2006 (Unaudited) HK\$'000	Six months ended 30 June 2005 (Unaudited) HK\$'000
<b>REVENUE</b>	2	<b>8,535,407</b>	7,860,282
Cost of sales		<b>(7,566,524)</b>	(7,005,462)
Gross profit		<b>968,883</b>	854,820
Other income and gains		<b>114,910</b>	69,581
Distribution costs		<b>(500,147)</b>	(448,881)
Administrative expenses		<b>(143,546)</b>	(132,937)
Other operating expenses		<b>(8,053)</b>	(8,033)
Finance costs		<b>(82,210)</b>	(54,401)
Share of profits and losses of associates		<b>60,360</b>	28,639
<b>PROFIT BEFORE TAX</b>	2, 3	<b>410,197</b>	308,788
Tax	4	<b>(100,755)</b>	(86,375)
<b>PROFIT FOR THE PERIOD</b>		<b>309,442</b>	222,413
Attributable to:			
Equity holders of the parent		<b>282,505</b>	203,981
Minority interests		<b>26,937</b>	18,432
		<b>309,442</b>	222,413
<b>INTERIM DIVIDENDS</b>		<b>79,256</b>	76,493
<b>INTERIM DIVIDENDS PER SHARE</b>		<b>4.50 HK cents</b>	4.35 HK cents
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	5		
Basic		<b>16.0 HK cents</b>	11.6 HK cents
Diluted		<b>15.9 HK cents</b>	11.6 HK cents

For the six months ended 30 June 2006

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Six months ended 30 June 2006 (Unaudited) HK\$'000</b>	Six months ended 30 June 2005 (Unaudited) HK\$'000
Total equity at 1 January	5,630,362	5,202,039
Exchange differences on translation of the financial statements of foreign entities	47,605	580
Changes in fair value of available-for-sale investments	(876)	-
Total income and expenses for the period recognised directly in equity	46,729	580
Profit for the period	309,442	222,413
Total recognised income and expense for the period	356,171	222,993
Dividends paid to minority shareholders	(72,067)	(1,923)
Capital injection from minority shareholders of a subsidiary	26,087	-
Acquisition of subsidiaries	(34,650)	-
Exchange realignment shared by minority shareholders	8,408	-
Issue of shares, including share premium account	8,926	4,919
Equity-settled share option arrangements	3,150	9,805
Dividends	(76,614)	(65,766)
Total equity at 30 June	5,849,773	5,372,067
Total recognised income and expense for the period attributable to:		
Equity holders of the parent	282,505	203,981
Minority interests	26,937	18,432
	309,442	222,413

For the six months ended 30 June 2006

## CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	3,364,952	3,315,407
Investment properties		50,562	50,562
Deposit for purchase of property, plant and equipment		4,206	107,861
Goodwill		735,547	481,995
Interests in associates		579,326	548,218
Available-for-sale investments		41,052	43,890
Prepaid land premiums		221,278	192,324
Deferred tax assets		9,626	6,491
Biological assets		36,258	35,840
<b>TOTAL NON-CURRENT ASSETS</b>		<b>5,042,807</b>	<b>4,782,588</b>
<b>CURRENT ASSETS</b>			
Inventories		2,775,652	2,891,776
Accounts receivable	7	694,708	1,120,330
Other debtors, prepayments and deposits		782,021	835,887
Amounts due from fellow subsidiaries		231,799	79,686
Amounts due from related companies		7,701	107,826
Amount due from the ultimate holding company		40,672	–
Tax prepaid		2,686	3,409
Investments at fair value through profit and loss		52,865	79,925
Derivative financial instruments		11,451	12,314
Pledged deposits		–	402,000
Cash and cash equivalents		1,274,790	983,367
<b>TOTAL CURRENT ASSETS</b>		<b>5,874,345</b>	<b>6,516,520</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable	8	534,094	688,000
Other payables and accruals		796,253	712,095
Amounts due to fellow subsidiaries		202,844	9,526
Amount due to the immediate holding company		705	705
Amounts due to the ultimate holding company		–	197,247
Amounts due to related companies		51,870	559,017
Tax payable		62,786	24,408
Interest-bearing bank loans and other loans	9	3,339,796	3,403,269
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,988,348</b>	<b>5,594,267</b>
<b>NET CURRENT ASSETS</b>		<b>885,997</b>	<b>922,253</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,928,804</b>	<b>5,704,841</b>

For the six months ended 30 June 2006

**CONDENSED CONSOLIDATED BALANCE SHEET (continued)**

	<i>Notes</i>	<b>At 30 June 2006 (Unaudited) HK\$'000</b>	At 31 December 2005 (Audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Advance from minority shareholders of subsidiaries	9	71,815	69,140
Deferred tax liabilities		7,216	5,339
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>79,031</b>	74,479
<b>NET ASSETS</b>		<b>5,849,773</b>	5,630,362
<b>EQUITY ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Issued capital	10	176,124	175,845
Reserves	11	4,695,544	4,433,769
Proposed dividends		79,256	76,614
		<b>4,950,924</b>	4,686,228
<b>MINORITY INTERESTS</b>		<b>898,849</b>	944,134
<b>TOTAL EQUITY</b>		<b>5,849,773</b>	5,630,362

For the six months ended 30 June 2006

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June 2006 (Unaudited) <i>HK\$'000</i>	Six months ended 30 June 2005 (Unaudited) <i>HK\$'000</i>
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>329,654</b>	(276,623)
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>	<b>151,905</b>	(22,759)
<b>NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES</b>	<b>481,559</b>	(299,382)
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES</b>	<b>(174,466)</b>	1,051,868
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>307,093</b>	752,486
Cash and cash equivalents at beginning of period	<b>954,702</b>	1,005,615
Effect of foreign exchange rate changes, net	<b>8,623</b>	–
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>1,270,418</b>	1,758,101
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>725,813</b>	1,121,676
Non-pledged time deposits with original maturity of less than three months when acquired	<b>544,605</b>	636,425
	<b>1,270,418</b>	1,758,101

For the six months ended 30 June 2006

## NOTES:

### 1. BASIS OF PREPARATION

The unaudited condensed consolidated results (the "Interim Accounts") are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting issued by the HKICPA and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Interim Accounts have been prepared under the historical cost convention, except for the remeasurement of certain financial instruments, investment properties and biological assets.

The accounting policies adopted in the Interim Accounts are consistent with those followed in the preparation of the Group's financial statement for the year ended 31 December 2005, except as described below.

In the current interim period, the Group has adopted, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group's Interim Accounts.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group is in the process of assessing the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS1 (Amendment)	Capital disclosures ( <i>Note 1</i> )
HKFRS7	Financial instruments: Disclosures ( <i>Note 1</i> )
HK(IFRIC)-INT7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ( <i>Note 2</i> )
HK(IFRIC)-INT8	Scope of HKFRS2 ( <i>Note 3</i> )
HK(IFRIC)-INT9	Reassessment of embedded derivatives ( <i>Note 4</i> )

*Note 1* Effective for annual periods beginning on or after 1 January 2007

*Note 2* Effective for annual periods beginning on or after 1 March 2006

*Note 3* Effective for annual periods beginning on or after 1 May 2006

*Note 4* Effective for annual periods beginning on or after 1 June 2006

For the six months ended 30 June 2006

## 2. REVENUE AND SEGMENT INFORMATION

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period. An analysis of the Group's unaudited segment revenue and unaudited segment result for business segments, and an analysis of the Group's unaudited segment revenue for geographical segments for the period is as follows:

### (a) Business segments

	Edible oils, soybean meal and related products		Wineries		Confectionery		Trading		Flour milling		Corporate and others		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	5,587,020	5,291,829	893,711	775,337	150,863	89,284	1,614,809	1,405,971	289,004	297,861	-	-	8,535,407	7,860,282
Segment results	110,491	53,712	164,031	149,072	(144)	8,816	126,117	117,179	6,207	4,583	9,557	(8,189)	416,259	325,173
Interest and dividend income													15,788	10,077
Unallocated gains and expenses, net													-	(700)
Finance costs													(82,210)	(54,401)
Share of results of associates	60,360	28,639											60,360	28,639
Profit before tax													410,197	308,788

### (b) Geographical segments

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	393,043	274,328	8,142,364	7,585,954	8,535,407	7,860,282

For the six months ended 30 June 2006

### 3. PROFIT BEFORE TAX

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

	<b>Six months ended 30 June 2006 (Unaudited) HK\$'000</b>	Six months ended 30 June 2005 (Unaudited) HK\$'000
Cost of inventories sold	7,566,524	7,005,462
Depreciation	130,409	107,841
(Gain) loss on disposal of property, plant and equipment	(910)	585
Impairment of goodwill	10,669	9,655
Provision for doubtful debts	71	-
Dividends from an unlisted long term investment and listed equity securities	(13)	(12)
Net rental income	(6,299)	(6,384)
Fair value gains, net:		
Investment at fair value through profit or loss	(16,389)	(8,875)
Interest income	(15,775)	(10,065)

### 4. TAX

Hong Kong profits tax has been calculated at the rate of 17.5 per cent. (2005: 17.5 per cent.) 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 countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Six months ended 30 June 2006 (Unaudited) HK\$'000</b>	Six months ended 30 June 2005 (Unaudited) HK\$'000
Current profits tax:		
– Hong Kong	2,761	1,628
– Elsewhere in the PRC	98,947	83,706
Deferred tax	(953)	1,041
	<b>100,755</b>	<b>86,375</b>

For the six months ended 30 June 2006

## 5. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

	<b>Six months ended 30 June 2006 (Unaudited) HK\$</b>	Six months ended 30 June 2005 (Unaudited) HK\$
<b>Earnings</b>		
Profit attributable to ordinary equity holders to the parent, used in the earnings per share calculations	<b>282,505,000</b>	203,981,000
<b>Number of shares</b>		
	<b>Six months ended 30 June 2006</b>	Six months ended 30 June 2005
<b>Shares</b>		
Weighted average number of shares in issue during the period used in basic earnings per share calculation	<b>1,760,453,842</b>	1,758,054,670
Weighted average number of shares: Assumed issued at no consideration on deemed exercise of all share options outstanding during the period	<b>13,186,731</b>	6,134,015
Weighted average number of shares used in the diluted earnings per share calculation	<b>1,773,640,573</b>	1,764,188,685

## 6. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2006, the Group spent approximately HK\$148,259,000 (2005: HK\$249,768,000) on additions to property, plant and equipment.

For the six months ended 30 June 2006

## 7. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables 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 receivable are non-interest-bearing.

An analysis of the accounts receivable as at 30 June 2006 is as follows:

	<b>At 30 June 2006 (Unaudited) HK\$'000</b>	At 31 December 2005 (Audited) HK\$'000
Outstanding balances with ages:		
Within 6 months	<b>547,837</b>	1,069,399
Between 7 to 12 months	<b>139,888</b>	50,540
Between 1 to 2 years	<b>13,623</b>	7,098
Over 2 years	<b>15,825</b>	15,687
	<b>717,173</b>	1,142,724
Less: Provision for doubtful debts	<b>(22,465)</b>	(22,394)
	<b>694,708</b>	1,120,330

## 8. ACCOUNTS PAYABLE

An analysis of the accounts payable as at 30 June 2006 is as follows:

	<b>At 30 June 2006 (Unaudited) HK\$'000</b>	At 31 December 2005 (Audited) HK\$'000
Outstanding balances with ages:		
Within 6 months	<b>478,104</b>	669,791
Between 7 to 12 months	<b>52,763</b>	4,355
Between 1 to 2 years	<b>853</b>	9,524
Over 2 years	<b>2,374</b>	4,330
	<b>534,094</b>	688,000

For the six months ended 30 June 2006

**9. BORROWINGS**

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

	<b>At 30 June 2006 (Unaudited) HK\$'000</b>	At 31 December 2005 (Audited) HK\$'000
Bank loans:		
Secured	155,491	505,595
Unsecured	1,770,157	1,132,175
	<b>1,925,648</b>	1,637,770
Other loans:		
Unsecured	1,414,148	1,765,499
	<b>3,339,796</b>	3,403,269
Bank loans repayable:		
Within one year or on demand	1,925,648	1,637,770
In the second year	–	–
In the third to fifth years, inclusive	–	–
	<b>1,925,648</b>	1,637,770
Other loans repayable:		
Within one year or on demand	1,414,148	1,765,499
In the second year	–	–
In the third to fifth years, inclusive	–	–
	<b>1,414,148</b>	1,765,499
	<b>3,339,796</b>	3,403,269
Portion classified as current liabilities	<b>(3,339,796)</b>	(3,403,269)
Non-current portion	–	–

The bank loans bear interest at rates ranging from 4.50% to 6.17% per annum (31 December 2005: from 4.09% to 5.58%).

Other loans represent loans from the ultimate holding company of the Company and a fellow subsidiary. These balances are unsecured and interest-free except for certain loans of HK\$1,414,148,000 (31 December 2005: HK\$1,765,499,000) which bear interest at rates ranging from 4.70% to 6.00% per annum (31 December 2005: from 4.20% to 5.58%).

The ultimate holding company and an associate of the Group had guaranteed certain of the Group's unsecured bank loans up to HK\$1,062,158,000 (31 December 2005: HK\$1,132,175,000) at 30 June 2006.

**(b) Advances from minority shareholders of subsidiaries**

The advances from minority shareholders of subsidiaries are capital in nature. The balances are unsecured, interest-free and has no fixed terms of repayment.

For the six months ended 30 June 2006

## 10. SHARE CAPITAL

	Number Of ordinary Shares issued	Par value HK\$'000
Balance as at 1 January 2006	1,758,449,974	175,845
Issue of shares pursuant to share option scheme	2,790,000	279
Balance as at 30 June 2006	1,761,239,974	176,124

## 11. RESERVES

	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Investment revaluation reserve (Unaudited) HK\$'000	Reserve funds (Unaudited) HK\$'000	Employee share-based compensation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2006	2,776,042	134,267	(2,077)	148,319	31,093	61,984	1,284,141	4,433,769
Exchange realignment	-	-	-	-	-	47,605	-	47,605
Profit for the period	-	-	-	-	-	-	282,505	282,505
Issue of shares pursuant to share option scheme	8,647	-	-	-	-	-	-	8,647
Change in fair value of available-for-sale investments	-	-	(876)	-	-	-	-	(876)
Equity-settled share option arrangement	-	-	-	-	3,150	-	-	3,150
2006 interim dividend	-	-	-	-	-	-	(79,256)	(79,256)
<b>At 30 Jun 2006</b>	<b>2,784,689</b>	<b>134,267</b>	<b>(2,953)</b>	<b>148,319</b>	<b>34,243</b>	<b>109,589</b>	<b>1,487,390</b>	<b>4,695,544</b>

For the six months ended 30 June 2006

## 11. RESERVES (continued)

	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Reserve funds (Unaudited) HK\$'000	Employee share-based compensation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2005	2,771,258	134,267	117,972	13,132	2,411	1,043,188	4,082,228
Issue of shares pursuant to share option scheme	4,784	-	-	-	-	-	4,784
Profit for the period	-	-	-	-	-	203,981	203,981
Equity-settled share option arrangement	-	-	-	9,805	-	-	9,805
Transfer from retained profits	-	-	26,573	-	-	(26,573)	-
Exchange realignment	-	-	-	-	580	-	580
At 30 Jun 2005	2,776,042	134,267	144,545	22,937	2,991	1,220,596	4,301,378

## 12. PLEDGES OF ASSETS

Certain bank loans of the Group are secured by charges over the Group's property, plant and equipment and prepaid land premiums held outside Hong Kong with total carrying amount of approximately HK\$447,487,000 (31 December 2005: HK\$726,794,000).

For the six months ended 30 June 2006

### 13. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Interim Accounts, the Group had the following material transactions with related parties during the period under review:

(a)

	Notes	Six months ended 30 June 2006 (Unaudited) HK\$'000	Six months ended 30 June 2005 (Unaudited) HK\$'000
Transactions with fellow subsidiaries:			
Sale of goods*	(i)	226,242	205,996
Purchase of goods*	(i)	337,278	145,712
Operating lease rental paid**	(i)	–	3,983
Interest expenses paid**	(ii)	29,373	10,438
Transactions with the ultimate holding company:			
Sale of goods*	(i)	–	50,925
Purchase of goods*	(i)	–	36,306
Royalty paid	(i)	6,529	11,586
Management fee income*	(i)	16,263	21,459
Management fee paid**	(i)	–	3,968
Transactions with related companies:			
Sale of goods*	(i)	192,846	294
Purchase of goods*	(i)	3,659,827	3,670,996
Storage and processing paid*	(i)	2,181	–
Transactions with associates:			
Sale of goods*	(i)	29,498	27,327
Purchase of goods*	(i)	71,043	–
Processing fee expenses	(i)	–	9,021
Management fee received**	(i)	1,667	–
Transactions with the intermediate holding company:–			
Sale of goods*	(i)	9,387	13,927

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

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

For the six months ended 30 June 2006

### 13. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Note:

- (i) These transactions were carried out with reference to the prevailing market prices or, where no market prices were available, at cost plus a percentage of profit mark-up.
  - (ii) Interest rates arising from the loans from the ultimate holding company and its beneficially wholly-owned subsidiary COFCO Finance Corporation Limited ("COFCO Finance"), which are unsecured and of which HK\$1,414,148,000 are repayable within one year, bear interests at rates ranging from 4.70% to 6.00% per annum.
- (b) In addition to the above connected transactions, the sale and purchase of edible oils and oil-related products and the resale of soybean with a total value of approximately HK\$58,462,000 were made by certain subsidiaries of COFCO Oils & Fats Holdings Limited, a wholly-owned subsidiary of the Company, to its other subsidiaries. These transactions have been eliminated on consolidation but still constituted connected transactions under the Listing Rules.
- (c) Except for the loans of HK\$1,414,148,000 (31 December 2005: HK\$1,765,499,000) from the ultimate holding company and COFCO Finance, the terms of which are detailed in note 9 to the financial statements, the remaining balances with fellow subsidiaries, holding companies, related companies and minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.
- (d) Pursuant to certain licensing agreements entered into between the Group and a related party, the Group has been granted the exclusive right to use certain trademarks for its edible oils, soybean meal and related products businesses. The licensing fee for the period under review and prior year was waived by the related party.
- (e) Compensation of key management personnel of the Group.

	<b>Six months ended 30 June 2006 (Unaudited) HK\$'000</b>	<b>Group Six months ended 30 June 2005 (Unaudited) HK\$'000</b>
Salaries, allowances and benefits in kind	876	874
Equity-settled share option expenses	96	199
Retirement benefits scheme contributions	29	29
Total compensation paid to key management personnel	<b>1,001</b>	1,102

For the six months ended 30 June 2006

#### 14. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	<b>At 30 June 2006 (Unaudited) HK\$'000</b>	At 31 December 2005 (Audited) HK\$'000
Guarantees given to banks in connection with facilities granted to: Subsidiaries	<b>312,000</b>	312,000

As at the balance sheet date, none of the above facilities were utilised by the subsidiaries.

#### 15. CAPITAL COMMITMENTS

At 30 June 2006, the Group had the following capital commitments:

	<b>At 30 June 2006 (Unaudited) HK\$'000</b>	At 31 December 2005 (Audited) HK\$'000
Capital commitments in respect of property, plant and equipment:		
Authorized, but not contracted for	<b>244,614</b>	236,111
Contracted, but not provided for	<b>45,315</b>	145,879
	<b>289,929</b>	381,990

#### 16. OTHER COMMITMENTS

##### Commitments under future contracts

	<b>At 30 June 2006 (Unaudited) HK\$'000</b>	At 31 December 2005 (Audited) HK\$'000
Sale of soybean meal	<b>636,567</b>	80,120
Sale of soybean	–	127,134
Purchase of soybean oil	<b>7,628</b>	–
Purchase of corn	<b>21,411</b>	–

Other than disclosed above, neither the Group had no significant capital or other commitments as at the balance sheet date.

#### 17. APPROVAL OF THE INTERIM ACCOUNTS

The Interim Accounts were approved by the Board on 17 August 2006.

For the six months ended 30 June 2006

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's consolidated turnover for the period under review was HK\$8,535 million, representing an increase of 8.6% over the corresponding period of last year. Profits attributable to shareholders amounted to HK\$282.5 million, an increase of 38.5% over the corresponding period of last year. The basic earnings per share for the period under review were 16 HK cents, representing a 38% increase from 11.6 HK cents per share for the corresponding period of last year.

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

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

### Edible oils, soybean meal and related products

The Group is currently the largest producer of edible oils and soybean meal in the PRC. We are principally engaged in the oil extraction and refined oil businesses, as well as the sale of related products, such as the “四海” brand soybean meal (an important ingredient used in animal and poultry feed), the retailing of bulk edible oils, the “Fortune” brand consumer-pack oils, as well as other specialty oils in the PRC.

During the period under review, this business stayed in line with the trend established in 2005 and continued its recovery. Contribution to turnover from this business rose 5.6% to HK\$5,587 million compared with the corresponding period of last year, accounting for 65.5% of the Group's total turnover. Sales of soybean meal reached 1,149,000 tonnes, rising 10.5% against the corresponding period of last year. The sales of bulk edible oil rose to 417,000 tonnes, growing 15.4% over the same period of last year while the sales of consumer-packaged oil were 124,000 tonnes, decreasing by 2.5% over the same period of last year.

During the first quarter of 2006, the business maintained its balance between supply and demand and performed satisfactorily. However, during the second quarter, results were affected by the weak demand for soybean meal due to over-supply. During the first half of the year, the price of soybeans remained stable and demand maintained organic growth. Despite a decrease in the sales price, earnings recorded measurable growth due to the decrease in unit costs and the rise in the sales volume of soybean meal and bulk edible oils. The sales volume for consumer-pack oils dropped, mainly due to the fact that a portion of turnover had already been accounted for in the accounts for the year 2005, as the Chinese New Year, the peak sales season, arrived earlier than in the previous year. Nevertheless, the gross profit margin for consumer-pack oils improved.

For the six months ended 30 June 2006

China's edible oils industry faces a number of challenges including surplus extraction capacities as well as the fact that domestic prices of soybean meal and oil are not in line with international soybean prices. To keep abreast of market information, we have established a market information analysis and research center to strengthen risk controls and enhance competitiveness. To cope with the intensifying competition, we will continue to perfect our production chain, expand our competitive edge, keep improving our product structure, adjust marketing strategies, raise market share for our "Fortune" brand consumer-pack oil, while also optimizing operational processes and fixed cost management in our factories. At the same time, we will focus on perfecting and developing sales channels and strengthen our communications with major clients. We will continue to increase our investments in technological research to produce edible oil products that meet customer demands, while in turn stimulate greater sales within the sector.

## Wineries

The Group's winery business is mainly engaged in the production and sale of wine under the "Greatwall" brand in China. The business consists of the entire production process from vineyards to wine-making to sales and marketing. During the period under review, turnover of "Greatwall" wines reached HK\$894 million, representing an increase of 15.3% over the same period of last year and accounting for 10.5% of the total turnover. With sales volumes reaching 45,748 tonnes, performance has been encouraging.

The rapid increase in turnover and sales volume shows how well "Greatwall" wines are being received among Chinese customers. However, as there was a poor grape harvest last year, the price of raw materials rose, leading to a rise in costs in this sector which pressured the gross profit margin. After the acquisition of a 40% equity interest in both COFCO Greatwall Wine (Yantai) Co., Ltd. ("COFCO Greatwall Wine") and Yantai Greatwall Wines and Spirits Co., Ltd. ("Yantai Greatwall") was completed in June this year, this business sector will implement a policy of production and sales segregation, as well as a sales integration plan. The change in the sales model will affect the short-term growth of turnover to a certain extent. However, in terms of long-term development, this integration of sales channels will benefit the overall development of the business.

In the face of the downward pressures on the sales price of an average tonne of wine, the Group will raise the ex-factory price of low-end products, implement a sales strategy to support the sale of medium-to high-end products and lower market development costs for the low-end wine market. To consolidate our market position, we will continue our integration, implementing and executing tailor-made integration plans based on regional characteristics to stabilize and improve distributor initiatives, re-position our brand values, perfect our brand structure and align our product lines, while also strengthening standards of technical management to accelerate the research and development of new products and develop other wine products. We believe that these measures will bring faster and more substantial growth for our "Greatwall" wine business.

For the six months ended 30 June 2006

## Confectionery

The Group produces and distributes the “Le Conte” brand of confectionery products and chocolates in China. During the period under review, turnover for this sector totalled HK\$151 million, an increase of 69% over the same period of last year, and accounted for 1.8% of the total Group turnover.

Affected by the rising international prices of raw materials in the market, there was immense pressure on costs. During the period under review, prices of raw materials such as white sugar and cocoa continued to rise. The price of white sugar in one instance increased from RMB2,800 per tonne at the end of 2004 to RMB5,000 per tonne this year, bringing down the gross profit margin of the products. In addition, advertising expenditures to boost sales also eroded the growth in sales revenues and brought pressure on operations.

To improve the sales structure of this sector, the Group will adopt measures to increase the number of specialized products, distributors and personnel while implementing specialized marketing strategies to develop second-and third-tier cities and other small channels. We expect the number of distributors in small channels shall substantially increase. In addition, we will develop more consumer-pack chocolate and jelly candies to facilitate sales in these channels. We will enhance our promotion efforts, especially on products for the small channels, choosing media with wide coverage, extensive reach and effective communication as the major platform to drive retail strength and distributor activities during the initial launch of these products.

## Flour Milling

During the period under review, the flour business recorded a turnover of HK\$289 million, down 3% from the same period of last year and accounting for 3.4% of the total Group turnover.

China’s flour industry is characterized by large scale and scattered markets with a geographically wide area of consumption. The industry faces excess capacities and is in the process of being streamlined. The Group owns several regionally well-known brand names such as “神象”. Apart from cultivating and enhancing brand awareness and devoting a great deal of effort to developing these brands into national brands, the Group will continue to improve the production and sales ratio of high-end flour products to achieve a higher consolidated gross profit margin.

To improve profitability, the Group will be developing new and downstream products, strengthening cost controls and product management as well as expanding the flour sales network. At the same time, we will enhance the management of our procurement, production and sales activities to increase synergies among our flour mills.

For the six months ended 30 June 2006

## Trading

The Group has been engaged in the domestic trading of, as well as the import and export of, foodstuffs, grains and animal feedstock for some time. During the period under review, the Group was mainly involved in the bulk, mainly back-to-back, commodity trading of rice, soybeans, red beans, sugar, fruit and vegetables. We also processed raw materials for export and provided foodstuffs trade agency services on a commission basis. Our total trading business consists of approximately 87.8% in exports, 7.4% in imports and the remaining 4.8% in domestic trade.

During the period under review, the consolidated turnover for the trading business amounted to HK\$1,615 million, showing an increase of 14.9% over the same period of last year and accounting for 18.9% of the total Group turnover. Of this turnover, the trading of rice represented the highest proportion accounting for 54.03% of the trading business turnover.

Despite the rise in bulk commodity exports by the Group, the increase concentrated mainly on commodities with lower gross profit margins which resulted in lower profit contribution.

Given the ever-changing market environment, the Group will continue to explore new initiatives in commodities and trading channels. With our diverse trading model, more than 50 years of experience in the food trade, established international trade network and well-established and strict risk management systems, we believe that our trading business will continue to generate promising and steady operational profits for the Group.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position is sound with stable cash flows. As at 30 June 2006, total shareholders' equity stood at HK\$4,951 million, representing an increase of 5.6% compared with that at 31 December 2005. As at 30 June 2006, the Group's cash and bank deposits totaled HK\$1,275 million (31 December 2005: HK\$1,385 million). The Group's net current assets were approximately HK\$886 million (31 December 2005: HK\$922 million).

Based on the above together with bank loans as well as other loans and facilities available to the Group, the management believe that the Group's financial resources are sufficient for all debt payments, day-to-day operations and capital expenditures.

As the Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi and United States dollars, the management believe that the Group's exposure to exchange rate risks is limited.

## CAPITAL STRUCTURE

During the period under review, the Company issued an aggregate of 2,790,000 shares of HK\$0.10 each. The issued share capital of the Company increased by HK\$279,000 as a result of an employee exercising his share options. Save for the above, there were no other changes in the share capital of the Company during the period under review.

For the six months ended 30 June 2006

As at 30 June 2006, the Group had no significant borrowings apart from certain bank loans, loans from minority shareholders of the Company's subsidiaries and loans from a fellow subsidiary totaling HK\$3,412 million (31 December 2005: HK\$3,472 million). During the period under review, all the Group's bank borrowings bore annual interest rates of between 4.5% and 6.17% (31 December 2005: between 4.09% and 5.58%). Other borrowings were interest-free or bore annual interest rates ranging from 4.7% to 6% (31 December 2005: from 4.2% to 5.58%).

As at 30 June 2006, net assets of the Group were approximately HK\$4,951 million (31 December 2005: HK\$4,686 million) and net debts (the total of debt excluding loans of a capital nature from minority shareholders of subsidiaries less cash and bank deposits) were HK\$2,065 million (31 December 2005: HK\$2,018 million). Based on the above, the Group's gearing ratio was approximately 41.7% (31 December 2005: 43.1%).

## CONTINGENT LIABILITIES AND ASSETS PLEDGED

As at 30 June 2006, the Group had no material contingent liabilities.

As at 30 June 2006, certain bank loans of the Group were secured by charges over certain fixed assets, prepaid land premium and investment properties with net book value of approximately HK\$448 million (31 December 2005: HK\$727 million).

## EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2006, the Group employed approximately 8,446 staff in China and Hong Kong (31 December 2005: 7,717). Employees are paid according to their performance, experience and prevailing trade practices, and are provided with on-the-job and professional training. Employees in Hong Kong receive retirement benefits, either in the form of a Mandatory Provident Fund Exempted ORSO scheme or Mandatory Provident Fund entitlement. There is a similar scheme for employees in mainland China. Details of these retirement benefit schemes were set out in the Group's 2005 annual report.

The Company has implemented a share option scheme (the "Scheme") to reward eligible employees (including executive directors of the Company) according to individual merit. During the period under review, an employee of the Company exercised share options in respect of 2,790,000 shares, while share options with regard to a total of 2,910,000 shares lapsed. As at 30 June 2006, there were outstanding share options with regard to a total of 51,404,000 shares.

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

Additional details on the Scheme are disclosed in this interim report in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

For the six months ended 30 June 2006

## CHANGES IN THE GROUP'S STRUCTURE

During the period under review, a wholly-owned subsidiary of the Company jointly established COFCO Navavalley Jundung Vineyard Co., Ltd. (the "Joint Venture") with a connected party with the subsidiary of the Company taking a 55% equity interest in the Joint Venture. Details of the Joint Venture were disclosed in the Company's 2005 annual report. During the period under review, the Group completed the acquisition of the remaining 40% equity interest in both COFCO Greatwall Wine and Yantai Greatwall. As a result of the two acquisitions, COFCO Greatwall Wine and Yantai Greatwall became wholly-owned subsidiaries of the Group.

Apart from the above, there were no other material changes in the structure of the Group.

## PROSPECTS

In conclusion, the edible oils, soybean meal and related products, wineries, flour milling and trading businesses recorded encouraging results for the period under review. Earnings from the confectionary business registered a temporary decline due to the higher promotion expenses.

There has been considerable concern over the appreciation of the Renminbi. However, since the Group's assets and operations are principally denominated in Renminbi, while the principal raw material for the soybean business (which accounts for the largest contribution to turnover) is imported soybeans, and as the trading business (with exports accounting for a large share of this business) mainly operates under a back-to-back model, the appreciation of the Renminbi will have a positive impact, benefiting the Group's overall operations.

The Group will devote considerable effort to research on business policies to enhance business strategies and promote our products and branding, while also furthering our marketing and service strategies. We will strengthen our management to facilitate our further development in every aspect of our business to maximize value for our shareholders.

With our pro-active approach and effective measures, we will accelerate our development and move towards our goal to become a leader in China's branded food industry.

## INTERIM DIVIDEND

The Directors declare the payment of an interim dividend of 4.50 HK cents (2005: 4.35 HK cents) per share in respect of the six months ended 30 June 2006. The interim dividend will be payable on 29 September 2006 to shareholders of the Company whose names appear on the register of the members of the Company on 14 September 2006.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 September 2006 to 14 September 2006, both days inclusive, during which period no share transfer will be effected. To qualify for the above interim dividend, all transfer, accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars and Transfer Office in Hong Kong, Progressive Registration Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 8 September 2006.

For the six months ended 30 June 2006

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

As at 30 June 2006, the interests and short positions of the Directors and their associates in the shares, debentures or underlying shares of the Company or any of its associated companies (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, or which are required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company were as follows:

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

Name of director	Capacity/ Nature of interests	Number of shares in long position	Total	Approximate percentage of the issued share capital (%) <sup>*</sup>
Mr. Liu Fuchun	Beneficial owner	1,350,000 <sup>1</sup>	9,900,000	0.56
	Beneficial owner	8,550,000 <sup>2</sup>		
Mr. Xue Guoping	Beneficial owner	900,000 <sup>1</sup>	6,600,000	0.37
	Beneficial owner	5,700,000 <sup>2</sup>		
Mr. Liu Yongfu	Beneficial owner	900,000 <sup>1</sup>	6,600,000	0.37
	Beneficial owner	5,700,000 <sup>2</sup>		
Mr. Qu Zhe	Beneficial owner	105,000 <sup>1</sup>	775,000	0.04
	Beneficial owner	670,000 <sup>2</sup>		

Notes:

- (1) Long position in the shares of the Company (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
- (2) Long position in the underlying shares of the Company pursuant to share options granted to directors under a share option scheme of the Company, details of which are set out in the following section headed "Share Option Scheme".

\* The percentage has been adjusted based on the total number of shares of the Company in issue as at 30 June 2006 (i.e. 1,761,239,974 shares).

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

For the six months ended 30 June 2006

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

As at 30 June 2006, none of the directors and their associates had any short positions in the shares, underlying shares and debentures of the Company and its associated companies.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. On 13 May 2002, the Scheme was amended to comply with certain amendments to the Listing Rules which came into effect on 1 September 2001.

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

Name or category of participant	Number of share options				At 30 June 2006	Date of grant of share options <sup>1</sup>	Exercise period of share options	Exercise price of share options <sup>2</sup> HK\$	Price of Company's share <sup>3</sup>	
	At 1 January 2006	Granted during the period	Exercised during the period	Lapsed during the period					At grant date of option HK\$	At exercise date of option HK\$
<b>Directors</b>										
Mr. Liu Fuchun	4,050,000	-	-	-	4,050,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	4,500,000	-	-	-	4,500,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	-	-
	8,550,000	-	-	-	8,550,000					
Mr. Qu Zhe	320,000	-	-	-	320,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	350,000	-	-	-	350,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	-	-
	670,000	-	-	-	670,000					
Mr. Xue Guoping	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	3,000,000	-	-	-	3,000,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	-	-
	5,700,000	-	-	-	5,700,000					
Mr. Liu Yongfu	2,700,000	-	-	-	2,700,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	3,000,000	-	-	-	3,000,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	-	-
	5,700,000	-	-	-	5,700,000					
Mr. Yu Guangquan (resigned on 18 January 2006)	2,700,000	-	(1,890,000)	(810,000) <sup>4</sup>	0	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	4.275
	3,000,000	-	(900,000)	(2,100,000) <sup>4</sup>	0	20.8.2004	20.8.2005 - 19.8.2009	3.050	-	4.275
	5,700,000	-	(2,790,000)	(2,910,000)	0					
<b>Other employees</b>										
In aggregate	1,000,000	-	-	-	1,000,000	3.10.2001	3.10.2002 - 2.10.2006	1.370	-	-
	14,614,000	-	-	-	14,614,000	10.9.2003	10.9.2004 - 9.9.2008	3.644	-	-
	15,170,000	-	-	-	15,170,000	20.8.2004	20.8.2005 - 19.8.2009	3.050	-	-
	30,784,000	-	-	-	30,784,000					
	57,104,000	-	(2,790,000)	(2,910,000)	51,404,000					

For the six months ended 30 June 2006

Note:

- (1) The vesting period of the share options is twelve months from the date of the grant until the commencement of the exercise period.
  - (2) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- # 30% and 70% of the share options granted to Mr. Yu Guangquan on 10 September 2003 and 20 August 2004 respectively lapsed one month after the date he ceased to be an employee of the Company on 30 April 2006.

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

The interests and short positions of substantial shareholders in the shares and underlying shares of the Company as at 30 June 2006, as recorded in the register required to be kept under section 336 of the SFO, were as follows:

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

The Company had been notified of the following substantial shareholders' interests in the shares and underlying shares as at 30 June 2006:

Name of substantial shareholders	Capacity/Nature of	Number of shares in interests long position	<i>Notes</i>	Approximate percentage of the issued share capital (%) <sup>*</sup>
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,054,810,949	(1)	59.890
COFCO (BVI) No. 108 Limited ("COFCO BVI")	Beneficial owner	140,000,000	(1)	7.949
COFCO (Hong Kong) Limited ("COFCO (HK)")	Beneficial owner Interest of controlled corporations	10,138,000 1,194,810,949	(1) (1) & (2)	0.576 67.839
China National Cereals, Oils & Foodstuffs Corporate ("COFCO")	Interest of controlled corporations	1,204,948,949	(1) & (3)	68.415

Notes:

- (1) Long position in the shares of the Company.
- (2) COFCO (HK) is deemed to be interested in 1,194,810,949 shares in aggregate held by Wide Smart and COFCO (BVI) in which COFCO (HK) is entitled to exercise one-third or more of the voting power at general meetings of Wide Smart and COFCO BVI.

For the six months ended 30 June 2006

- (3) COFCO is deemed to be interested in 1,204,948,949 shares in aggregate held by Wide Smart, COFCO BVI and COFCO (HK) in which COFCO is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart, COFCO BVI and COFCO (HK).
- \* The percentage has been adjusted based on the total number of shares of the Company in issue as at 30 June 2006 (i.e. 1,761,239,974 shares).

Save as disclosed above, as at 30 June 2006, the Company had not been notified of any persons other than the substantial shareholders above who had long positions in the shares or underlying shares of the company, which are required to be recorded in the register required to be kept under Section 336 of the SFO.

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

As at 30 June 2006, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a good standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. At the annual general meeting ("2006 AGM") of the Company held on 25 May 2006, resolution has been passed by the shareholders to amend the Bye-Laws to eliminate the limitation to the number of directors who should retire by rotation at each annual general meeting so that every director (including those appointed for specific terms) shall be subject to retirement by rotation at least every three years.

The Company has complied with the principles and code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2006 with deviations from code provisions A.4.1 and E.1.2 of the Code in respect of the service term of independent non-executive directors and the attendance of the chairman of the board at the annual general meeting respectively.

### Code Provision A.4.1

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

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

### Code Provision E.1.2

Under code provision E.1.2, the chairman of the board should attend the Company's annual general meeting. The Chairman of the Board did not attend the 2006 AGM due to other commitment.

For the six months ended 30 June 2006

## REMUNERATION COMMITTEE

The Company's remuneration committee was established with specific written terms of reference in accordance with the requirements of the Code and comprises two independent non-executive directors, namely Mr. Stephen Edward Clark and Mr. Francis Yuen Tin Fan, who acts as the chairman of the committee, and one executive director, namely Mr. Qu Zhe. The primary duties of the remuneration committee include without limitation, (i) establishing a formal and transparent procedure for developing policies on remuneration; (ii) determining the terms of the specific remuneration package of each executive director and senior management, etc.

## AUDIT COMMITTEE

The Company's audit committee comprises of three independent non-executive directors, namely Mr. Stephen Edward Clark, Mr. Tan Man Kou and Mr. Francis Yuen Tin Fan. Mr. Tan acts as the chairman of the committee. The audit committee was established with specific written terms of reference with the task of monitoring the financial reporting procedures, reviewing internal control and risk management system of the Group and monitoring the relationship with external auditors. The audit committee reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2006. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed financial report matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2006.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Upon specific enquiries of all directors, all directors have confirmed that they fully complied with the required standards set out in the Model Code throughout the six months ended 30 June 2006.

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

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

## APPRECIATION

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

By Order of the Board  
**COFCO International Limited**  
**Qu Zhe**  
*Managing Director*

17 August 2006, Hong Kong