



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

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 606)**

**ANNOUNCEMENT OF INTERIM RESULTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2007**

**FINANCIAL HIGHLIGHTS**

- During period under review, there was a 54% increase in revenue to HK\$11,602 million. All the five major businesses experienced sales growth and oilseed processing unit was the largest revenue contributor.
- Operating profit for the period under review was HK\$646 million, represented an increase of 57% over the corresponding period. Operating margin improved from 5.5% to 5.6%.
- Profit attributable to equity holders of the Company surged by 95% over the corresponding period, reaching HK\$615 million. Basic earnings per share were HK19 cents.
- The Board of Directors does not recommend the payment of an interim dividend.

## INTERIM RESULTS

The board of directors (the “Board”) of China Agri-Industries Holdings Limited (the “Company”) is pleased to present the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006 as follows:

### Condensed Consolidated Income Statement

For the six months ended 30 June 2007

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

**Condensed Consolidated Balance Sheet**  
*As at 30 June 2007*

		<b>30 June 2007 HK\$'000 (Unaudited)</b>	<b>31 December 2006 HK\$'000 (Audited)</b>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>6,473,884</b>	5,376,206
Prepaid land premiums		<b>399,662</b>	370,231
Deposits for purchases of items of property, plant and equipment		<b>25,155</b>	334,262
Goodwill		<b>606,150</b>	584,806
Interests in associates		<b>1,183,713</b>	1,081,928
Available-for-sale investment		<b>2,387</b>	2,387
Deferred tax assets		<b>15,261</b>	2,401
Total non-current assets		<b>8,706,212</b>	7,752,221
<b>CURRENT ASSETS</b>			
Inventories		<b>4,707,765</b>	3,674,463
Accounts and bills receivable	9	<b>968,051</b>	1,045,685
Deferred initial public offering expenses		—	36,523
Prepayments, deposits and other receivables		<b>1,461,278</b>	1,445,500
Derivative financial instruments		<b>44,851</b>	537
Due from fellow subsidiaries		<b>520,956</b>	188,356
Due from related companies		<b>25,482</b>	—
Due from the ultimate holding company		—	16,486
Tax recoverable		<b>23,455</b>	—
Pledged deposits		<b>34,190</b>	51,878
Liquid investment		<b>1,344,121</b>	—
Cash and cash equivalents		<b>2,288,464</b>	1,249,388
Total current assets		<b>11,418,613</b>	7,708,816
<b>CURRENT LIABILITIES</b>			
Accounts and bills payable	10	<b>992,574</b>	874,563
Other payables and accruals		<b>1,338,401</b>	957,477
Deferred income		<b>2,061</b>	1,726
Interest-bearing bank and other borrowings		<b>5,213,896</b>	3,302,526
Due to fellow subsidiaries		<b>149,131</b>	532,849
Due to the ultimate holding company		<b>148</b>	—
Due to the immediate holding company		—	14,010
Due to related companies		<b>590,630</b>	379,925
Due to minority shareholders of subsidiaries		<b>3,031</b>	5,005
Tax payable		<b>69,728</b>	45,805
Total current liabilities		<b>8,359,600</b>	6,113,886

	30 June 2007 HK\$'000 <i>(Unaudited)</i>	31 December 2006 HK\$'000 <i>(Audited)</i>
<i>Notes</i>		
<b>NET CURRENT ASSETS</b>	<b><u>3,059,013</u></b>	<b><u>1,594,930</u></b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b><u>11,765,225</u></b>	<b><u>9,347,151</u></b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	<b>693,303</b>	2,065,085
Due to minority shareholders of subsidiaries	<b>114,085</b>	111,665
Deferred income	<b>57,586</b>	57,754
Deferred tax liabilities	<b><u>20,789</u></b>	<u>23,480</u>
Total non-current liabilities	<b><u>885,763</u></b>	<u>2,257,984</u>
Net assets	<b><u>10,879,462</u></b>	<u>7,089,167</u>
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Company</b>		
Issued capital	<b>359,391</b>	279,138
Reserves	<b><u>9,254,495</u></b>	<u>5,689,789</u>
	<b>9,613,886</b>	5,968,927
<b>Minority interests</b>	<b><u>1,265,576</u></b>	<u>1,120,240</u>
Total equity	<b><u>10,879,462</u></b>	<u>7,089,167</u>

## **Notes To The Condensed Consolidated Interim Financial Statements**

*For the six months ended 30 June 2007*

### **1. REORGANISATION AND BASIS OF PRESENTATION**

The Company is a limited liability company incorporated in Hong Kong on 18 November 2006.

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

Pursuant to the Reorganisation, the Group ceased the consumer-pack edible oil and the trading of non-rice foodstuffs businesses (the "Discontinued Operations"), which were taken up by China Foods and COFCO (Hong Kong) Limited, respectively on 1 January 2007.

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

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

## 3. SEGMENT INFORMATION

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

Details of the business segments are summarised as follows:

- (a) the oilseed processing segment engages in the extraction, refining and trading of edible oils and related businesses;
- (b) the brewing materials segment engages in the processing of malt;
- (c) the rice trading and processing segment engages in the trading and processing of rice;
- (d) the wheat processing segment engages in the production of flour products and related businesses;
- (e) the biofuel and biochemical segment engages in the production and sale of bio-ethanol and related products;
- (f) the consumer-pack edible oil segment engages in the distribution of retail package cooking oil;
- (g) the trading of non-rice foodstuffs segment engages in the trading of food commodities, animal feedstock, and agricultural and aquatic products; and

- (h) the “corporate and others” segment comprises, principally, the Group’s corporate income and expense items.

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

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

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

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



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

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

An analysis of other income and gains is as follows:

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

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

## 5. PROFIT BEFORE TAX

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

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

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

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

## 6. TAX

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

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

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

## 7. DIVIDENDS

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

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

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

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

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

## 9. ACCOUNTS AND BILLS RECEIVABLE

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

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

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

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

## 10. ACCOUNTS AND BILLS PAYABLE

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

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

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

## MANAGEMENT DISCUSSION & ANALYSIS

### OPERATIONAL PERFORMANCE

The Company follows a clear and focused strategy to fulfill our goal to be a total solution provider to our customers in the China's thriving food industry.

#### Oilseed processing business

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

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

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

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

### **Biofuel and biochemical business**

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

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

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

## **Brewing materials business**

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

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

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

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

## **Rice trading and processing business**

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

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

## **Wheat processing business**

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

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

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

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

## **Human Resources**

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

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

## **FINANCIAL REVIEW**

### **Revenue**

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

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



## **Group Earnings**

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

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

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

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

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

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

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

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

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

## **Capital Structure**

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

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

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

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

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

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

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

## **MODEL CODE**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as the principle standards of securities transactions for directors of the Company. Directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2007.

## **CORPORATE GOVERNANCE**

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

## **REVIEW OF INTERIM RESULTS**

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

For and on behalf of the Board  
**China Agri-Industries Holdings Limited**  
**Yu Xubo**  
*Managing Director*

Hong Kong, 19 September 2007

*As at the date of this announcement, the Board comprises: Mr. Ning Gaoning as an non-executive director and chairman of the Board, Mr. Yu Xubo, Mr. Lu Jun and Mr. Yue Guojun as executive directors; Mr. Chi Jingtao and Mr. Ma Wangjun as non-executive directors; and Mr. Lam Wai Hon, Ambrose, Mr. Victor Yang and Mr. Patrick Vincent Vizzone as independent non-executive directors.*