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**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 2010**

**FINANCIAL HIGHLIGHTS**

- During the period under review, there was a 15.6% increase in revenue to HK\$22,686.5 million. The oilseeds processing unit remained as the largest revenue contributor.
- The Group's operating profit for the six months period ended 30 June 2010 was HK\$2,303.6 million, representing an increase of 91.4% compared with the same period in 2009. Operating margin increased from 6.1% to 10.2%.
- Profit attributable to the owners of the Company increased by 28.3% over the corresponding period of 2009, amounting to HK\$1,324.3 million. Basic earnings per share were 34.3 HK cents (six months ended 30 June 2009: 28.0 HK cents).
- The Board of Directors (the "Board") declared the payment of an interim dividend of 6.6 HK cents per share (six months ended 30 June 2009: 6.7 HK cents per share).

## INTERIM RESULTS

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 2010 together with the comparative figures for the corresponding period in 2009 as follows:

### Condensed Consolidated Income Statement

For the six months ended 30 June 2010

|  |       | For the six months ended 30 June |                      |
|--|-------|----------------------------------|----------------------|
|  |       | 2010                             | 2009                 |
|  |       | HK\$'000                         | HK\$'000             |
|  | Notes | (Unaudited)                      | (Unaudited)          |
| <b>REVENUE</b>   | 3     | <b>22,686,521</b>                | 19,616,588           |
| Cost of sales  | 4     | <u>(19,378,724)</u>              | <u>(17,928,771)</u>  |
| Gross profit   |       | <b>3,307,797</b>                 | 1,687,817            |
| Other income and gains   | 3     | <b>510,556</b>                   | 669,245              |
| Selling and distribution costs   |       | <b>(977,063)</b>                 | (728,957)            |
| Administrative expenses  |       | <b>(498,662)</b>                 | (359,675)            |
| Other expenses   |       | <b>(7,335)</b>                   | (10,394)             |
| Finance costs  |       | <b>(145,189)</b>                 | (117,842)            |
| Share of profits of associates   |       | <u><b>97,162</b></u>             | <u>283,913</u>       |
| <b>PROFIT BEFORE TAX</b>   | 4     | <b>2,287,266</b>                 | 1,424,107            |
| Income tax expense   | 5     | <u><b>(375,831)</b></u>          | <u>(252,818)</u>     |
| <b>PROFIT FOR THE PERIOD</b>   |       | <u><b>1,911,435</b></u>          | <u>1,171,289</u>     |
| Attributable to:   |       |                                  |                      |
| Owners of the Company  |       | <b>1,324,349</b>                 | 1,031,930            |
| Minority interests   |       | <u><b>587,086</b></u>            | <u>139,359</u>       |
|  |       | <u><b>1,911,435</b></u>          | <u>1,171,289</u>     |
| <b>EARNINGS PER SHARE ATTRIBUTABLE TO<br/>ORDINARY EQUITY HOLDERS OF<br/>THE COMPANY</b> | 6     |                                  |                      |
| – Basic  |       | <u><b>34.3 HK cents</b></u>      | <u>28.0 HK cents</u> |
| – Diluted  |       | <u><b>34.2 HK cents</b></u>      | <u>28.0 HK cents</u> |
| <b>DIVIDEND PER SHARE</b>  | 7     | <u><b>6.6 HK cents</b></u>       | <u>6.7 HK cents</u>  |

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

|   | For the six months ended 30 June |                         |
|---|----------------------------------|-------------------------|
|   | 2010                             | 2009                    |
|   | HK\$'000                         | HK\$'000                |
|   | (Unaudited)                      | (Unaudited)             |
| <b>PROFIT FOR THE PERIOD</b>  | <b><u>1,911,435</u></b>          | <b><u>1,171,289</u></b> |
| Exchange difference on translation of financial statements of overseas entities | <u>136,767</u>                   | <u>15,739</u>           |
| Other comprehensive income for the period, net of tax                           | <u>136,767</u>                   | <u>15,739</u>           |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>                    | <b><u>2,048,202</u></b>          | <b><u>1,187,028</u></b> |
| Attributable to:  |                                  |                         |
| Owners of the Company   | <u>1,435,390</u>                 | <u>1,047,177</u>        |
| Minority interests  | <u>612,812</u>                   | <u>139,851</u>          |
|   | <b><u>2,048,202</u></b>          | <b><u>1,187,028</u></b> |

## Condensed Consolidated Statement of Financial Position

As at 30 June 2010

|   |              | 30 June<br>2010<br>HK\$'000<br>(Unaudited) | 31 December<br>2009<br>HK\$'000<br>(Audited) |
|---|--------------|--|--|
|   | <i>Notes</i> |  |  |
| <b>NON-CURRENT ASSETS</b>   |              |  |  |
| Property, plant and equipment                                       |              | 10,411,721                                 | 9,572,103                                    |
| Prepaid land premiums   |              | 1,186,031                                  | 1,038,265                                    |
| Deposits for purchases of items of property,<br>plant and equipment |              | 464,674                                    | 301,590                                      |
| Goodwill  |              | 1,020,635                                  | 1,020,635                                    |
| Interests in associates   |              | 1,703,309                                  | 1,644,724                                    |
| Available-for-sale investment                                       |              | 2,731                                      | 2,728  |
| Intangible assets   |              | 35,861                                     | 36,134                                       |
| Deferred tax assets   |              | 131,160                                    | 222,172                                      |
|   |              | <u>14,956,122</u>                          | <u>13,838,351</u>                            |
| Total non-current assets  |              |  |  |
| <b>CURRENT ASSETS</b>   |              |  |  |
| Inventories   |              | 11,760,388                                 | 7,031,225                                    |
| Accounts and bills receivables                                      | 8            | 2,447,029                                  | 1,921,473                                    |
| Prepayments, deposits and other receivables                         |              | 5,271,271                                  | 3,759,310                                    |
| Available-for-sale investment                                       |              | 22,925                                     | -  |
| Derivative financial instruments                                    |              | 392,180                                    | 10,211                                       |
| Due from fellow subsidiaries  |              | 1,199,624                                  | 3,103,759                                    |
| Due from related companies  |              | 9,673                                      | 57,938                                       |
| Due from the ultimate holding company                               |              | 480  | 214  |
| Due from minority shareholders of subsidiaries                      |              | 5,790                                      | 28,734                                       |
| Due from associates   |              | 876,563                                    | 683,028                                      |
| Tax recoverable   |              | 194,093                                    | 118,307                                      |
| Pledged deposits  |              | 89,137                                     | 23,784                                       |
| Cash and cash equivalents   |              | 4,940,391                                  | 5,515,280                                    |
|   |              | <u>27,209,544</u>                          | <u>22,253,263</u>                            |
| Total current assets  |              |  |  |
| <b>CURRENT LIABILITIES</b>  |              |  |  |
| Accounts and bills payables   | 9            | 3,820,414                                  | 1,270,984                                    |
| Other payables and accruals   |              | 2,440,717                                  | 1,865,747                                    |
| Deferred income   |              | 14,183                                     | 12,649                                       |
| Derivative financial instruments                                    |              | 3,321                                      | 855,246                                      |
| Interest-bearing bank and other borrowings                          |              | 13,168,890                                 | 11,712,861                                   |
| Due to fellow subsidiaries  |              | 318,760                                    | 128,784                                      |
| Due to the ultimate holding company                                 |              | 5,843                                      | -  |
| Due to an intermediate holding company                              |              | 5  | -  |
| Due to related companies  |              | 207,262                                    | 15,886                                       |
| Due to minority shareholders of subsidiaries                        |              | 22,672                                     | 36,165                                       |
| Due to associates   |              | 44,589                                     | 139,473                                      |
| Tax payable   |              | 65,904                                     | 98,513                                       |
|   |              | <u>20,112,560</u>                          | <u>16,136,308</u>                            |
| Total current liabilities   |              |  |  |

|   | <b>30 June<br/>2010<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2009<br>HK\$'000<br>(Audited) |
|---|--|--|
| <b>NET CURRENT ASSETS</b>                           | <u>7,096,984</u>                                     | <u>6,116,955</u>                             |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>        | <u>22,053,106</u>                                    | <u>19,955,306</u>                            |
| <b>NON-CURRENT LIABILITIES</b>                      |  |  |
| Interest-bearing bank and other borrowings          | 1,044,200  | 1,116,411                                    |
| Due to minority shareholders of subsidiaries        | 201,442  | 129,606                                      |
| Long-term payable                                   | -  | 5,918  |
| Deferred income                                     | 249,934  | 111,092                                      |
| Deferred tax liabilities                            | <u>310,650</u>                                       | <u>196,742</u>                               |
| Total non-current liabilities                       | <u>1,806,226</u>                                     | <u>1,559,769</u>                             |
| Net assets  | <u>20,246,880</u>                                    | <u>18,395,537</u>                            |
| <b>EQUITY</b>                                       |  |  |
| <b>Equity attributable to owners of the Company</b> |  |  |
| Issued capital                                      | 386,028  | 385,858                                      |
| Reserves  | 16,466,686   | 15,216,531                                   |
| Proposed dividend                                   | <u>266,527</u>                                       | <u>227,657</u>                               |
|   | 17,119,241   | 15,830,046                                   |
| <b>Minority interests</b>                           | <u>3,127,639</u>                                     | <u>2,565,491</u>                             |
| Total equity  | <u>20,246,880</u>                                    | <u>18,395,537</u>                            |

## Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2010

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial information is prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements of the Group for the year ended 31 December 2009, except in relation to the following new Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations) that affect the Group and are adopted by the Group for the first time for the current period’s financial information:

|  |   |
|--|---|
| HKFRS 1 (Revised)  | <i>First-time Adoption of Hong Kong Financial Reporting Standards</i>   |
| HKFRS 1 Amendments   | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>       |
| HKFRS 2 Amendments   | <i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>  |
| HKFRS 3 (Revised)  | <i>Business Combinations</i>  |
| HKAS 27 (Revised)  | <i>Consolidated and Separate Financial Statements</i>   |
| HKAS 39 Amendment  | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>  |
| HK(IFRIC)-Int 17   | <i>Distributions of Non-cash Assets to Owners</i>   |
| Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008 | <i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i> |
| HK Interpretation 4 (Revised in December 2009)   | <i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>   |

The adoption of the above new and revised HKFRS has had no significant impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial information.

## 2. OPERATING SEGMENT INFORMATION

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

- (a) the oilseeds processing segment engages in the extraction, refining and trading of edible oil and related products;
- (b) the brewing materials segment engages in the trading and 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 and sale of flour products and related products;
- (e) the biofuel and biochemical segment engages in the production and sale of biofuel and biochemical and related products; and
- (f) the corporate and others segment comprises, principally, the Group's corporate income and expense items.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial information. Group finance (including finance costs and interest income), excess over the cost of business combinations and income tax expense are managed on a group basis and are not allocated to operating segments.

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

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

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

During the period, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2010 and 2009, respectively.

**Six months ended 30 June 2010**

|   | Oilseeds<br>processing<br><i>HK\$'000</i><br>(Unaudited) | Brewing<br>materials<br><i>HK\$'000</i><br>(Unaudited) | Rice trading<br>and<br>processing<br><i>HK\$'000</i><br>(Unaudited) | Wheat<br>processing<br><i>HK\$'000</i><br>(Unaudited) | Biofuel and<br>biochemical<br><i>HK\$'000</i><br>(Unaudited) | Corporate<br>and others<br><i>HK\$'000</i><br>(Unaudited) | Eliminations<br><i>HK\$'000</i><br>(Unaudited) | Total<br><i>HK\$'000</i><br>(Unaudited) |
|---|--|--|---|---|--|---|--|---|
| <b>Segment revenue:</b>                         |  |  |   |   |  |   |  |   |
| Sales to external customers                     | 12,801,189   | 817,988  | 2,122,065   | 1,965,380   | 4,979,899  | -   | -  | 22,686,521                              |
| Intersegment sales                              | -  | -  | -   | 505   | 3,187  | -   | (3,692)  | -                                       |
| Other revenue                                   | 104,804  | 8,196  | 65,642  | 4,161   | 303,816  | -   | (7,717)  | 478,902                                 |
| <b>Segment results</b>                          | <b>1,605,434</b>   | <b>126,159</b>   | <b>80,499</b>   | <b>53,439</b>   | <b>492,358</b>   | <b>(54,250)</b>   | <b>-</b>                                       | <b>2,303,639</b>                        |
| Interest income                                 |  |  |   |   |  |   |  | 21,982                                  |
| Excess over the cost of business<br>combination |  |  |   |   |  |   |  | 9,672                                   |
| Finance costs                                   |  |  |   |   |  |   |  | (145,189)                               |
| Share of profits of associates                  | 73,974   | -  | -   | 969   | 22,219   | -   | -  | 97,162                                  |
| Profit before tax                               |  |  |   |   |  |   |  | 2,287,266                               |
| Income tax expense                              |  |  |   |   |  |   |  | (375,831)                               |
| Profit for the period                           |  |  |   |   |  |   |  | 1,911,435                               |
| <b>Assets and liabilities</b>                   |  |  |   |   |  |   |  |   |
| Segment assets                                  | 17,413,577   | 2,589,600  | 4,184,726   | 2,543,185   | 8,416,431  | 8,006,480   | (8,046,423)                                    | 35,107,576                              |
| Interests in associates                         | 1,295,920  | -  | -   | 41,817  | 365,572  | -   | -  | 1,703,309                               |
| Unallocated assets                              |  |  |   |   |  |   |  | 5,354,781                               |
| Total assets                                    |  |  |   |   |  |   |  | 42,165,666                              |
| Segment liabilities                             | 6,001,621  | 1,171,833  | 2,476,503   | 1,679,376   | 3,770,300  | 275,932   | (8,046,423)                                    | 7,329,142                               |
| Unallocated liabilities                         |  |  |   |   |  |   |  | 14,589,644                              |
| Total liabilities                               |  |  |   |   |  |   |  | 21,918,786                              |
| <b>Other segment information:</b>               |  |  |   |   |  |   |  |   |
| Depreciation and amortisation                   | 107,229  | 37,628   | 19,777  | 26,130  | 170,056  | 1,423   | -  | 362,243                                 |
| Capital expenditure                             | 672,325  | 267,415  | 126,589   | 45,255  | 146,134  | 8,222   | -  | 1,265,940                               |

## Six months ended 30 June 2009

|  | Oilseeds<br>processing<br><i>HK\$ '000</i><br>(Unaudited) | Brewing<br>materials<br><i>HK\$ '000</i><br>(Unaudited) | Rice trading<br>and<br>processing<br><i>HK\$ '000</i><br>(Unaudited) | Wheat<br>processing<br><i>HK\$ '000</i><br>(Unaudited) | Biofuel and<br>biochemical<br><i>HK\$ '000</i><br>(Unaudited) | Corporate<br>and others<br><i>HK\$ '000</i><br>(Unaudited) | Eliminations<br><i>HK\$ '000</i><br>(Unaudited) | Total<br><i>HK\$ '000</i><br>(Unaudited) |
|--|---|---|--|--|---|--|---|--|
| <b>Segment revenue:</b>                          |   |   |  |  |   |  |   |  |
| Sales to external customers                      | 11,835,178  | 742,629   | 2,173,458  | 1,666,462  | 3,198,861   | –  | –   | 19,616,588                               |
| Intersegment sales                               | 5,728   | –   | 88   | –  | –   | –  | (5,816)   | –  |
| Other revenue                                    | 221,476   | 19,664  | 2,957  | 2,414  | 368,085   | –  | –   | 614,596                                  |
| <b>Segment results</b>                           | <b>659,963</b>  | <b>(3,504)</b>  | <b>232,547</b>   | <b>61,869</b>  | <b>300,318</b>  | <b>(47,806)</b>  | <b>–</b>  | <b>1,203,387</b>                         |
| Interest income                                  |   |   |  |  |   |  |   | 16,802                                   |
| Excess over the cost of business<br>combinations |   |   |  |  |   |  |   | 37,847                                   |
| Finance costs                                    |   |   |  |  |   |  |   | (117,842)                                |
| Share of profits of associates                   | 259,359   | –   | –  | 1,953  | 22,601  | –  | –   | 283,913                                  |
| Profit before tax                                |   |   |  |  |   |  |   | 1,424,107                                |
| Income tax expense                               |   |   |  |  |   |  |   | (252,818)                                |
| Profit for the period                            |   |   |  |  |   |  |   | 1,171,289                                |
| <b>Assets and liabilities</b>                    |   |   |  |  |   |  |   |  |
| Segment assets                                   | 13,469,931  | 2,217,298   | 1,488,131  | 1,425,949  | 7,014,000   | 9,928,428  | (10,117,940)                                    | 25,425,797                               |
| Interests in associates                          | 1,430,474   | –   | –  | 49,063   | 385,664   | –  | –   | 1,865,201                                |
| Unallocated assets                               |   |   |  |  |   |  |   | 6,087,560                                |
| Total assets                                     |   |   |  |  |   |  |   | 33,378,558                               |
| Segment liabilities                              | 4,485,580   | 747,413   | 1,312,838  | 1,042,432  | 3,173,474   | 4,190,352  | (10,117,940)                                    | 4,834,149                                |
| Unallocated liabilities                          |   |   |  |  |   |  |   | 10,524,120                               |
| Total liabilities                                |   |   |  |  |   |  |   | 15,358,269                               |
| <b>Other segment information:</b>                |   |   |  |  |   |  |   |  |
| Depreciation and amortisation                    | 107,390   | 37,126  | 11,131   | 18,973   | 151,233   | 847  | –   | 326,700                                  |
| Capital expenditure                              | 142,131   | 70,228  | 70,084   | 52,846   | 176,848   | 2,012  | –   | 514,149                                  |

### 3. 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:

|   | For the six months ended 30 June |                                 |
|---|----------------------------------|---------------------------------|
|   | 2010<br>HK\$'000<br>(Unaudited)  | 2009<br>HK\$'000<br>(Unaudited) |
| <b>Other income</b>   |                                  |                                 |
| Government grants*  | 351,448                          | 453,895                         |
| Agency commission   | -                                | 621                             |
| Interest income   | 21,982                           | 16,802                          |
| Compensation income   | 804                              | 53,399                          |
| Others  | 5,810                            | 7,435                           |
|   | <u>380,044</u>                   | <u>532,152</u>                  |
| <b>Gains</b>  |                                  |                                 |
| Gains on disposal of raw materials, by-products and scrap items | 24,329                           | 13,636                          |
| Fair value gains on foreign currency forward contracts, net     | 568                              | -                               |
| Gains on foreign exchange, net                                  | 90,120                           | 57,387                          |
| Excess over the cost of business combinations                   | 9,672                            | 37,847                          |
| Reversal of impairment of receivables                           | 390                              | 909                             |
| Logistic service and storage income                             | 2,361                            | 21,053                          |
| Others  | 3,072                            | 6,261                           |
|   | <u>130,512</u>                   | <u>137,093</u>                  |
|   | <u>510,556</u>                   | <u>669,245</u>                  |

- \* Various government grants have been received for the sale of certain government approved products and for investments in certain provinces in Mainland China, which are available for industries or locations in which the Company's subsidiaries operate. Pursuant to relevant notices issued by the Finance Bureau of the PRC for fuel ethanol producers, COFCO Bio-Energy (Zhaodong) Co., Ltd. and Guangxi COFCO Bio-Energy Co., Ltd. are entitled to a financial grant based on the quantity of fuel ethanol produced and sold. An amount of HK\$277,797,000 (30 June 2009: HK\$339,005,000) has been included in the government grants for the period. There are no unfulfilled conditions or contingencies relating to these grants.

#### 4. 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>2010</b>                             | 2009            |
|   | <i>HK\$'000</i>                         | <i>HK\$'000</i> |
|   | <b>(Unaudited)</b>                      | (Unaudited)     |
| Cost of inventories sold  | <b>20,754,005</b>                       | 16,908,009      |
| Realised fair value losses/(gains) of derivative financial instruments, net   | <b>(1,271,802)</b>                      | 722,430         |
| Unrealised fair value losses/(gains) of derivative financial instruments, net | <b>(385,908)</b>                        | 103,899         |
| Provision/(reversal of provision) against inventories                         | <b>87,305</b>                           | (5,215)         |
| Provision for loss on purchase commitments*                                   | <b>195,124</b>                          | 199,648         |
|   | <hr/>                                   | <hr/>           |
| Cost of sales   | <b>19,378,724</b>                       | 17,928,771      |
|   | <hr/>                                   | <hr/>           |
| Depreciation  | <b>347,504</b>                          | 318,831         |
| Amortisation of intangible assets   | <b>731</b>                              | 304             |
| Recognition of prepaid land premiums  | <b>14,008</b>                           | 7,565           |
| Employee benefit expenses (including directors' remuneration)                 | <b>480,820</b>                          | 364,533         |
| Loss on disposal of items of property, plant and equipment                    | <b>1,918</b>                            | 5,323           |
| Fair value losses/(gains) on foreign currency forward contracts, net          | <b>(568)</b>                            | 3,448           |
|   | <hr/>                                   | <hr/>           |

\* It is the Group's usual practice to enter into purchase contracts with delivery of raw materials at a specified future date. As at 30 June 2010, the Group had certain purchase commitments of raw materials (the "Purchase Contracts") on which the Group expects a loss as the unavoidable costs of meeting obligations under the Purchase Contracts will exceed the economic benefits expected to be received under it. The loss of HK\$195,124,000 (30 June 2009: HK\$199,648,000) is estimated by the Directors with reference to the expected selling price of the corresponding products, and a provision thereon has been made in the condensed consolidated interim financial information for the six months ended 30 June 2010. This provision is included in "other payables and accruals" on the face of the condensed consolidated statement of financial position. The Directors of the Company consider that these losses are resulted in the Group's ordinary course of business.

#### 5. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% (30 June 2009: 25%) on their respective taxable income.

|                                 | <b>For the six months ended 30 June</b> |                 |
|---------------------------------|---|-----------------|
|                                 | <b>2010</b>                             | 2009            |
|                                 | <i>HK\$'000</i>                         | <i>HK\$'000</i> |
|                                 | <b>(Unaudited)</b>                      | (Unaudited)     |
| Current – Hong Kong             |   |                 |
| Provision for the period        | <b>12,318</b>                           | 80,042          |
| Current – Mainland China        |   |                 |
| Provision for the period        | <b>159,312</b>                          | 180,464         |
| Underprovision in prior periods | <b>4,912</b>                            | 4,037           |
| Tax rebates                     | <b>-</b>                                | (2,604)         |
| Deferred tax                    | <b>199,289</b>                          | (9,121)         |
|                                 | <hr/>                                   | <hr/>           |
| Total tax charge for the period | <b>375,831</b>                          | 252,818         |
|                                 | <hr/>                                   | <hr/>           |

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

The calculation of the basic earnings per share amount for the period ended 30 June 2010 is based on the profit attributable to ordinary equity holders of the Company of HK\$1,324,349,000 (30 June 2009: HK\$1,031,930,000), and the weighted average number of 3,860,184,662 ordinary shares (30 June 2009: 3,687,122,350 ordinary shares) in issue during the period.

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

|  | <b>Number of shares<br/>for the six months ended 30 June</b> |                      |
|--|--|----------------------|
|  | <b>2010</b>  | 2009                 |
|  | <b>(Unaudited)</b>   | (Unaudited)          |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | <b>3,860,184,662</b>   | 3,687,122,350        |
| Weighted average number of ordinary shares:  |  |                      |
| Assumed issued at no consideration on deemed exercise of all share options outstanding during the period               | <u><b>12,487,220</b></u>                                     | <u>–</u>             |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation                          | <u><b>3,872,671,882</b></u>                                  | <u>3,687,122,350</u> |

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2009 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

## 7. DIVIDEND PER SHARE

On 25 August 2010, the Board declared an interim dividend of 6.6 HK cents (30 June 2009: 6.7 HK cents) per ordinary share, amounting to a total of HK\$266,526,600 (30 June 2009: HK\$258,474,700).

The amount of the interim dividend per ordinary share for the six months ended 30 June 2010 is calculated based on the number of issued ordinary shares as at 30 June 2010 and 178,000,000 ordinary shares newly issued to Wide Smart Holdings Limited, which was completed on 2 August 2010 (note 10).

The amount of the interim dividend per ordinary share for the six months ended 30 June 2009 is calculated based on the number of issued ordinary shares as at 30 June 2009.

## 8. ACCOUNTS AND BILLS RECEIVABLES

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

An aged analysis of the accounts and bills receivables (net of impairment) at the end of the reporting period, based on the invoice date and bill issued date, is as follows:

|                                 | <b>30 June<br/>2010<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2009<br>HK\$'000<br>(Audited) |
|---------------------------------|--|--|
| Outstanding balances with ages: |  |  |
| Within 3 months                 | 1,993,020  | 1,680,066                                    |
| 3 to 12 months                  | 452,655  | 240,535                                      |
| 1 to 2 years                    | 1,334  | 851  |
| Over 2 years                    | <u>20</u>  | <u>21</u>                                    |
|                                 | <b><u>2,447,029</u></b>                              | <b><u>1,921,473</u></b>                      |

## 9. ACCOUNTS AND BILLS PAYABLES

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

|                                 | <b>30 June<br/>2010<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2009<br>HK\$'000<br>(Audited) |
|---------------------------------|--|--|
| Outstanding balances with ages: |  |  |
| Within 3 months                 | 3,601,184  | 1,061,408                                    |
| 3 to 12 months                  | 209,821  | 201,031                                      |
| 1 to 2 years                    | 5,237  | 6,850  |
| Over 2 years                    | <u>4,172</u>   | <u>1,695</u>                                 |
|                                 | <b><u>3,820,414</u></b>                              | <b><u>1,270,984</u></b>                      |

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

## **10. REVIEW OF EVENTS AFTER THE REPORTING PERIOD**

On 21 July 2010, the Company entered into the following agreements: (1) Wide Smart Holdings Limited (one of the substantial shareholders) placed 178,000,000 existing shares of the Company at HK\$8.75 per share to independent third parties and subscribed for the same amount of new issue of the Company's shares at HK\$8.75 per share; and (2) Glory River Holdings Limited ("Glory River") (a wholly-owned subsidiary of the Company) issued HK\$ Fixed Rate Guaranteed Convertible Bonds Due 2015 in an aggregate amount of HK\$3,875,000,000. The Company has unconditionally and irrevocably guaranteed the due payments of all sums to be payable by Glory River. The aggregate net proceeds of HK\$5,317,400,000 from the above transactions will be used for funding the Group's capital expenditure in connection with the expansion of production capacity, working capital and general corporate purposes. Such transactions were completed. The bonds have been listed and quoted on Singapore Exchange Securities Trading Limited with effect from 2 August 2010. The top-up placing of 178,000,000 new shares of the Company was also allotted on the same date. Please refer to the Company's announcements dated 22 July 2010 and 29 July 2010 for further details.

## MANAGEMENT DISCUSSION AND ANALYSIS

China Agri-Industries Holdings Limited (the “Company”) is China’s leading agribusiness and food processing company, engaging in the processing and sales of oilseeds, biofuel and biochemical products, rice, wheat and brewing materials. The Company is committed to providing customers with safe, nutritious and healthy food products that are reasonably priced.

### BUSINESS REVIEW

#### Oilseeds Processing Business

The Company is one of the largest bulk edible oil and oilseeds meal producers in China. It processes and sells mainly soybean oil, palm oil and rapeseed oil. The products processed by the Company include bulk edible oils, specialty oils and fats, small pack oil, oilseeds meal and other products. These products are sold primarily under the Fuzhanggui (福掌柜), Sihai (四海), Xiyingying (喜盈盈) and Guhua (谷花) brands.

The oilseeds processing business is the largest revenue contributor of the Company, accounting for 56.4% of total revenue and 69.7% of total operating profit for the first half of 2010. During the period, the segment’s revenue and operating profit were HK\$12,801.2 million and HK\$1,605.4 million, representing increases of 8.2% and 143.3%, respectively.

The prices of raw materials and products were relatively stable in the first half of 2010 compared with the corresponding period last year. Sales of products were under pressure for a number of reasons, such as a relatively higher inventory level of imported soybean and palm oil due to massive output of major soybean producing countries, a change in government policy relating to imports of soybean oil and rapeseeds, and sluggish domestic feeds market. Nevertheless, sales of edible oil grew thanks to an effective pricing strategy that meets the demand of its core customers and that ensures the seamless supply of products. The Company sold 930,000 metric tons of edible oil in the first half of this year, generating revenue of HK\$6,839.4 million, an increase of 8.4% year on year. Of the edible oil sold, soybean oil accounted for 400,000 metric tons and reported a 50.0% growth in revenue over the corresponding period last year; palm oil accounted for 250,000 metric tons and reported 6.8% growth in revenue year on year. During the period, the Company sold 1,680,000 metric tons of oilseeds meal and feeds with revenue of HK\$5,259.0 million, down 1.2% year on year.

To ensure the stability of raw material supply, the Company closely monitored market trends and procured raw materials in bulk for reserves. It also judiciously entered into hedging arrangements for raw materials and the related products, which sought to manage the inherent risks associated with the price volatility of raw materials and the related products, and in turn enhanced the competitiveness of the Company.

The Company developed a new strong-flavoured soybean oil catering to market needs. The oil could be mixed with other types of oils to create different products. With good nutrition values and flavour, it has strong market potential for uses in Chinese cuisines. Pre-marketing of the new product is underway and it will be launched at an appropriate time. At the same time, the Company has stepped up its marketing efforts to raise awareness of its medium pack edible oil under the Fuzhanggui (福掌柜) brand to meet demand from the food and restaurant industry. The efforts have so far yielded encouraging results. In addition, the Company continued to optimise its product mix based on actual needs so as to satisfy the different requirements of customers and create a win-win situation.

The Company continued to improve its strategic planning and boost its production capacity, with a view to solidify its industry leadership. Construction of four new rapeseed processing plants in Anhui, Hubei and Chongqing were approved in the first half of this year. Upon completion of these new plants, crushing and refining capacities will be increased by 900,000 metric tons and 600,000 metric tons, respectively. In addition to the other projects under construction in Shandong, Jiangxi, Guangxi and Tianjin, all eight new processing plants will increase the Company's crushing and refining capacities by 4,800,000 metric tons and 1,680,000 metric tons respectively. The new plants will begin to commence operation one after the other between the end of 2010 and 2011.

As at the end of June 2010, the Company had a total of seven processing plants in Shandong, Jiangsu, Guangdong and Hubei, with aggregate crushing and refining capacities of 5,580,000 metric tons and 1,830,000 metric tons respectively.

Looking ahead, the Company will continue to expand its business scale and optimise its strategic planning. It will closely monitor and manage the progress of the new plants construction to ensure they can all commence production as scheduled. As for sourcing, the Company will increase its control over raw materials procurement, ensure stable supply of raw materials, and manage risks associated with price volatility in raw materials through effective hedging. In addition, the Company will step up its marketing efforts, optimise sales channels, raise customer service standards, and enhance the marketing of new products. The Company will also seek to boost its share of the medium pack products market and further develop its brands. These measures will go toward enhancing the Company's overall market share and leadership.

### **Biofuel and Biochemical Business**

For the first half of 2010, the Company's biofuel and biochemical businesses reported revenues and operating profit of HK\$4,979.9 million and HK\$492.4 million respectively, representing surges of 55.7% and 63.9% over the corresponding period last year.

#### *Biofuel Business*

The Company is one of China's major fuel ethanol producers. It operates the business through two subsidiaries, namely COFCO Bio-Energy (Zhaodong) Co., Ltd. and Guangxi COFCO Bio-Energy Co., Ltd.

Currently, the price of fuel ethanol in China is pegged to the ex-factory price of No. 90 gasoline, which is determined by the National Development and Reform Commission (the "NDRC"). The NDRC has raised the price of gasoline several times since the second half of 2009, resulting in a substantial increase in the ex-factory price of fuel ethanol compared to a year earlier. During the period, revenue from the biofuel business rose 19.8% to HK\$2,076.3 million from the corresponding period last year. In particular, fuel ethanol sales reached 190,000 metric tons, translating to a 33.8% growth in revenue year on year; sales of crude corn oil and corn DDGS amounted to 200,000 metric tons, representing a 24.1% increase in revenue.

During the period, the Company continued to enhance its operational efficiency and to lower cost with a more streamlined production process. Through better communications with PetroChina and Sinopec, the Company was able to play a proactive role in supporting the oil companies' business development. And by assisting the State Administration for Industry and Commerce in market regulatory work, sales of fuel ethanol rose. In keeping with the growing economy, gasoline consumption rose sharply, which led to a steady growth in both the sales volume and revenue of fuel ethanol.

As at the end of June 2010, the Company operated two plants, one each in Guangxi and Heilongjiang. The plants have a combined capacity of 600,000 metric tons of fuel ethanol, consumable ethanol and anhydrous ethanol. Of which, fuel ethanol alone accounts for 380,000 metric tons.

Looking ahead, the Company will seek to strengthen cost control and provide customers with better quality consumable ethanol using more advanced technology. It will also strive to ensure food safety while managing to meet the customer's ever-increasing standards for food quality.

### *Biochemical Business*

The Company's biochemical business is primarily engaged in corn processing. Products include corn starch, sweeteners and feed ingredients.

Prices of corn surged in the first half of 2010, but the growth was outstripped by an increase in the selling prices of corn products thanks to robust market demand. The Company took the opportunity to sell more products and to strengthen its relationship with core customers by ensuring product supply remained stable. As a result, the business reported growth in both sales and revenue. During the period, revenue from biochemical business rose 98.1% to HK\$2,903.6 million from the corresponding period last year. Corn starch sales reached 620,000 metric tons, contributing to a 76.4% growth in revenue. Sales of sweeteners amounted to 150,000 metric tons representing a 177.3% increase in revenue year on year.

In 2010, the Company continued to be the official fructose syrup supplier for all seven Coca-Cola and Pepsi Cola bottlers in the northeastern part of China. The Company has also entered into long-term procurement contracts and established strategic partnerships with high-end customers such as China Resources Snow Breweries and InBev to ensure a stable supply of products. In the area of research and development, the Company continued to develop and launch value-added products catering to customers' needs, which in turn boosted profitability. Trial production of isomaltooligosaccharide has been successful. The new product is expected to be officially launched by the end of this year.

As of the end of June 2010, the Company operated a total of four plants in Jilin and Shanghai, with a processing capacity of 1,850,000 metric tons for corn, a production capacity of 450,000 metric tons for sweeteners. The Company's projects under construction in Heilongjiang and Hebei are scheduled to be ready for use by 2011, offering a combined processing capacity of 1,200,000 metric tons of corn.

Looking ahead, the Company will strengthen its control over raw materials by promoting quality seedling production and broadening raw material base. Moreover, it will optimise product mix, raise the management standards at existing plants and ensure the new projects can all commence production on schedule. The Company will place greater emphasis on brand-building and provide customers with excellent services while ensuring the quality of products.

### **Rice Trading and Processing Business**

The Company is the largest rice exporter in China and a leading domestic supplier of packaged rice, engaging primarily in the processing and trading of white and parboiled rice. The Company exports white rice to traditional markets such as Japan, Korea, Hong Kong and Macau and parboiled rice to countries in the Middle East, Eastern Europe, Africa, Middle Asia and Americas. Domestically, the Company sells rice under the Fortune (福臨門) and Five Lakes (五湖) brands.

Revenue and operating profit of the rice trading and processing business were HK\$2,122.1 million and HK\$80.5 million for the first half of 2010 respectively, representing decreases of 2.4% and 65.4% over the corresponding period last year.

International demand for rice was relatively sluggish in the first half of 2010 due to massive output from rice producing countries like Vietnam, and Thailand, as well as surplus inventories in traditional rice importers such as Middle Asia, the Middle East and South Africa, resulting in a decline in the Company's exports and average selling price. Nevertheless, the Company was able to solidify its leadership and enhance its share of the business in core markets including Japan, Korea, Hong Kong and Macau, thanks to its strong business acumen and an effective pricing strategy. The Company exported 210,000 metric tons of rice in the first half of the year, generating revenue of HK\$985.3 million, a decrease of 37.6% year on year.

China's export quota of rice in the first half of the year was lower compared to the corresponding period last year due to changes in government policies. Nevertheless, the Company received a quota of 340,000 metric tons, representing 81.6% of the total. As a result, the Company's premier position as a main Chinese rice exporter is maintained.

Domestically, the Company stepped up its rice business development efforts and accelerated penetration in key markets with the setting up of 16 sales offices as of the end of the interim period. The Company's sales network now covers 30,000 points of sales such as hypermarket, supermarket and food store in 240 key cities. Moreover, the Company continued to maintain close partnerships with major supermarket chains such as Walmart, Carrefour and Metro, which helped boost sales volume and revenue significantly. During the period under review, the Company sold 230,000 metric tons of rice domestically, generating revenue of HK\$925.3 million, an increase of 89.3% year on year.

To raise the profile and market share of its products, the Company took initiatives to build a key distribution network for its mid-to-high-end brands such as Fortune (福臨門) and Five Lakes (五湖), and has actively expanded its customer base by strategically co-operating with large-scaled international catering chains such as YUM!.

During the period, the Company actively optimised its raw materials procurement plans and strengthened risk management to ensure the quality of grains. Using a mixture of measures such as contract farming, direct sourcing, trading, reserve rotation and government reserve auction, the Company has been able to broaden its sourcing channels, effectively alleviating the pressures of increasing grain prices.

As at the end of June 2010, the Company operated three rice processing plants, one each in Liaoning, Jiangxi and Jiangsu, with a total production capacity of 530,000 metric tons.

The Company will further refine its strategic planning, expand capacity expansion and grow market share, with a view to become one of China's largest rice processing enterprises. At present, the Company is constructing a total of five new rice processing plants in major paddy rice-growing regions such as Heilongjiang, Jilin, Liaoning and Ningxia. Upon completion, the new plants will add to the Company's rice processing capacity 740,000 metric tons and are expected to commence operation one after the other between the end of 2010 and 2011.

Looking ahead, higher rice prices and the expansion into China's market by domestic and foreign food companies are likely to drive further consolidation in the rice industry. On one end of the market, rice products are likely to be increasingly traded. On the other end of the market, a growing emphasis will be placed on brands. In view of this, the Company will step up its efforts to build a business model that covers the entire value chain. By refining its procurement system and tightening control over raw materials sourcing, the Company will actively develop its domestic business and branded retail business to propel further growth in upstream and downstream businesses and reinforce its market leadership in China.

### **Wheat Processing Business**

The Company is one of the largest wheat processors in China engaging in the sales of general purpose flour, customised flour as well as other flour products such as noodles and breads under the Fortune (福臨門) and Xiangxue (香雪) brands.

Revenue and operating profit from the wheat processing business for the first half of 2010 amounted to HK\$1,965.4 million and HK\$53.4 million respectively, representing an increase of 17.9% and a decrease of 13.6% over the corresponding period last year.

During the first half of the year, price increases in flour and flour products lagged behind that of raw materials, which rose continuously to a greater extent. With product price hikes outstripped by those of raw materials and with keen competition in the industry, operating profit was down from the corresponding period last year despite the increase in revenue.

In spite of the difficult operating environment, the Company pushed ahead with its "integrated operation and professional management" strategy regarding sourcing and sales. For sourcing, the Company implemented contract farming and strategic procurement to secure wheat supply in major growing regions and lock in prices. As for sales, the Company continued to improve its product and customer mix to minimise any adverse impact on its business led by unfavourable market conditions. Leveraging its competitive advantages in technology research and development, the Company provided large-scaled food enterprises with a wide range of comprehensive sourcing solutions. In the first half of the year, the Company sold 550,000 metric tons of flour, generating revenue of HK\$1,527.4 million, an increase of 12.1% year on year. Of the flour sold, general purpose flour and customised flour accounted for 170,000 metric tons and 380,000 metric tons, respectively, representing a drop of 4.9% and a growth of 20.8% in revenue, correspondingly.

As at the end of June 2010, the Company operated a total of 11 plants in Hebei, Henan, Jiangsu, Liaoning, Fujian, Shandong and Beijing with aggregate processing capacities of 2,010,000 metric tons for wheat, around 70,000 metric tons for dried noodles and around 2,000 metric tons for bakery products.

Looking ahead, the Company will seek to grow its production capacity steadily to strengthen its industry leading position. It will offer the Company greater control over procurement and costs of raw materials, which is in line with its strategic planning. The Company will also maximise its product and customer mix to make products even more competitive.

## **Brewing Materials Business**

The Company is a leading supplier of brewing materials in China engaging in the production and sales of malt. Its malt production plant, which is the largest in China, is equipped with technologically advanced facilities for the production of top quality products for sales to mainly domestic buyers and Southeast Asian countries.

During the period, revenue from the brewing materials business was HK\$818.0 million, representing an increase of 10.1% over the corresponding period last year. Segment operating profit was HK\$126.2 million, representing a major turnaround from an operating loss of HK\$3.5 million at the same period last year.

During the first half of 2010, prices of malting barley in the international market dropped significantly over the corresponding period last year, stimulating market demand for malt. The Company seized the opportunity to sell more malt, resulting in higher sales and revenue. During the period, the Company sold 250,000 metric tons of malt, generating revenue of HK\$794.0 million, an increase of 8.7% over the corresponding period last year. Of the malt sold, domestic sales accounted for 190,000 metric tons, representing a growth of 8.8% year on year; exports accounted for 60,000 metric tons, an increase of 8.6% year on year.

During the period, the Company enhanced its operation with better management. Proactive measures were taken to help clear pricey inventories from 2009. At the same time, the Company took advantage of lower prices to stock up on raw materials and sold products opportunistically. As a result, operating profit was up significantly from the corresponding period last year.

As for sales, the Company focused on network expansion and relationship building with core customers while developing new markets. The measures helped lift the Company's market share from the corresponding period last year. In the area of research and development, the Company's continued efforts in product and technology innovations have resulted in specialized malt products which not only meet market needs but also have broadened the Company's revenue stream.

At the end of June 2010, the Company has two malt plants, one each in the provinces of Liaoning and Jiangsu, with an aggregate production capacity of 660,000 metric tons. In addition, the Company is constructing a plant with a production capacity of 80,000 metric tons in Inner Mongolia, to be completed by the end of 2010.

Looking ahead, in view of China's enormous market potential and of positive development in the brewing materials industry, the Company will seek to strengthen its control over raw materials, optimise its product mix, improve its competitiveness to continue to provide customers with products that are safe, nutritious, healthy and reasonably priced, as well as quality and timely services.

## FINANCIAL REVIEW

### The Group's Results for the Period

The economy of China continues to maintain its growth edge since the beginning of 2010 and the overall performance of national economy remained satisfactory, its development is getting more stable. Given the downstream businesses of the Group gradually picking up their demands, the sales of products was facilitated which in turn made the selling prices of our major products go up over the corresponding period of last year. For the six months ended 30 June 2010, the Group recorded a growth in revenue of 15.6%, up from HK\$19,616.6 million in the corresponding period of 2009 to HK\$22,686.5 million during the period. The oilseeds processing unit remained as the largest revenue contributor to our Group among the five segments, which accounting for 56.4% and 69.7% of the Group's total revenue and segment results during the period, as compared to 60.3% and 54.8% over the corresponding period of last year, respectively. During the period, the Company adjusted its product sales strategy to facilitate extension of food chain and enhance the synergy. In addition, through the effective hedging policy and marketing strategy, the Group was able to mitigate the adverse impact of prices increment in raw materials. In particular, significant improvement was attained for the oilseeds processing business, biofuel and biochemical business and brewing materials business. Accordingly, the Group's profit attributable to the owners of the Company reached HK\$1,324.3 million, an increase of HK\$292.4 million from HK\$1,031.9 million in the corresponding period of 2009, and the basic earnings per share rose to 34.3 HK cents from 28.0 HK cents over the same period in last year.

Finance costs increased by 23.2% to HK\$145.2 million during the period, which was mainly attributable to the new loans raised to meet the requirement of working capital. Nonetheless, the rise of finance costs lagged behind the loans increment due to the benefit of a low interest rate environment during the period.

Income tax expense was up 48.7% over the corresponding period of last year to HK\$375.8 million (six months ended 30 June 2009: HK\$252.8 million) which was mainly due to improvement in profit as a result of enhancement of profitability.

### Segment Results

For the six months ended 30 June 2010, revenue from the oilseeds processing business amounted to HK\$12,801.2 million, representing an increase of 8.2% over the same period of last year under the rebound of oilseeds product prices and considerable increase in sales volume of soybean oil. As the impact of the financial crisis faded, the prices of oilseeds products were picked up, in which 15.4% and 14.3% of growth in selling prices of soybean oil and palm oil were recorded. In the wake of the positive sentiment in the market, the sales volume of soybean oil jumped 30.0%, while the sales of soybean meal dropped because of the unfavourable conditions of livestock industry. Profit margin was improved through enhanced operational management and effective hedging policy. For the six months ended 30 June 2010, the gross margin of the oilseeds processing business was 14.9% (six months ended 30 June 2009: 5.9%). As our oilseeds processing business strives to fortify and enhance its leading position in the industry, coupled with active capacity expansion, the sales volume of oilseeds products is expected to uplift steadily.

For the six months ended 30 June 2010, revenue from the biofuel and biochemical business amounted to HK\$4,979.9 million, representing a significant increase of 55.7% over HK\$3,198.9 million in the corresponding period last year. The financial crisis had demonstrated its effects to a larger extent last year. While the economic recovery has driven up significant improvement in prices and sales volumes of our major products which fueled the revenue growth this year. As for biofuel business, under the effect of upsurge of international oil price, the selling price of fuel ethanol rose 27.5% over the corresponding period of last year. Regarding biochemical business, the prices of starch and sweeteners surged 36.2% and 29.1% respectively and the sales volumes of which jumped over the same period of last year, in turn provoking the growth of revenue. In spite of a rise in raw materials price, the profit margin during the period increased to 14.8% from 9.7% in the corresponding period last year, which was mainly attributable to the increasing demand of starch and sweeteners and the successful transfer of cost increments to customers.

Regarding the rice trading and processing business, a slight drop was recorded for its sales revenue to HK\$2,122.1 million during the period from HK\$2,173.4 million, which was mainly attributable to the growth of domestic sales business offset by the dip in revenue from export sales business. The Group remained as the largest rice exporter in China. However, the export sales volume dropped by 37.3% during the period due to weak demand of rice from the international markets and relatively large increase in domestic raw materials costs. Nevertheless, domestic sales sustained a rapid growth and increased by 56.9% to 230,000 metric tons during the period as compared with 150,000 metric tons over the corresponding period of last year as a result of our efforts in marketing activities and promotions, expansion of domestic market share and strong development of sales channels. In the meantime, revenue from domestic sales business climbed up 89.3% to HK\$925.3 million. During the period, profit margin decreased to 14.2% with the drop in export sales proportion but increase in domestic sales proportion.

Sales revenue of HK\$818.0 million was materialised for the brewing materials business for the six months ended 30 June 2010, representing an increase of 10.1% over the same period last year. The surge in revenue was arising from the dramatic increase in sales volume of malt by 21.6% during the period as compared with the corresponding period in last year. Timely procurement was made by the Group during the period with an accurate judgement of the market trend. As a result, the drop in costs of raw material outweighed the drop in product selling prices, leading a surge in profit margin of the brewing materials business to 23.7%, which represents an increase of 18.4 percentage points over the corresponding period of last year. The Group will continue to consolidate customers' network and strengthen marketing efforts in anticipation of enhancement of market share.

During the period, revenue from the wheat processing business rose 17.9% to HK\$1,965.4 million, which was mainly benefited from the increases of 5.1% and 6.6% in sales volume and selling price of flour, respectively. Given the relatively large upsurge of raw materials costs and the rise of product prices lagging behind the increasing raw materials cost, the profit margin dropped over the corresponding period of last year. During the period, the profit margin of the wheat processing business was 8.7%, as compared to 10.1% in the corresponding period last year. It is believed that the wheat processing business will continue to grow through capacity expansion, product mix optimisation and development of high-end products.

## **Material Acquisition**

On 26 January 2010, the Group completed the acquisition of the entire issued shares of COFCO (BVI) No.84 Limited from COFCO (Hong Kong) Limited at a consideration of HK\$154.8 million, whereby the Group acquired their wholly-owned subsidiary, COFCO (Jiangyin) Cereals, Oil & Warehouse Corporation Limited, as a multi-functional ancillary company. COFCO (Jiangyin) Cereals, Oil & Warehouse Corporation Limited is principally engaged in the provision of logistic services including storage and loading/uploading.

## **Liquidity and Financial Resources**

The Group adheres to a prudent financial management policy in the management of its financial affairs. Its liquidity and financial resources are closely monitored to ensure the cash inflows from operating activities together with undrawn banking facilities are sufficient to meet the demands for daily operational needs, loan repayments, capital expenditure and potential business expansion opportunities. During the period, the Group's operations were mainly financed by its own funds and bank loans.

The Group entered into the Financial Services Agreement and the Entrustment Loan Framework Agreement with COFCO Finance Company Limited through COFCO Agricultural Industries Management Services Company Limited (a subsidiary of the Company) in order to provide for more efficient employment of funds within the Group, reduce the external loans of the Group and better facilitate intra-Group settlement services. During the period, the Group could enhance the liquidity of cashflows and effectively monitor the cash management through this treasury platform.

On 21 July 2010, the Company entered into the following agreements: (1) Wide Smart Holdings Limited (one of the substantial shareholders) placed 178,000,000 existing shares of the Company at HK\$8.75 per share to independent third parties and subscribed for the same amount of new issue of the Company's shares at HK\$8.75 per share; and (2) Glory River Holdings Limited ("Glory River") (a wholly-owned subsidiary of the Company) issued HK\$ Fixed Rate Guaranteed Convertible Bonds Due 2015 in an aggregate amount of HK\$3,875,000,000. The Company has unconditionally and irrevocably guaranteed the due payments of all sums to be payable by Glory River. The respective net proceeds from the above share subscription and the bonds issue of HK\$1,524,700,000 and HK\$3,792,700,000 will be used for funding capital expenditure in connection with the expansion of production capacity, working capital and general corporate purposes. Such transactions were completed. The bonds have been listed and quoted on Singapore Exchange Securities Trading Limited with effect from 2 August 2010. The top-up placing of 178,000,000 new shares of the Company was also allotted on the same date. Please refer to the Company's announcements dated 22 July 2010 and 29 July 2010 for further details.

The Group uses commodity futures contracts to timely hedge its risks associated with price fluctuations in raw materials purchases or sales of the related products, as well as foreign currency forward contracts to hedge the exchange rate exposure between Hong Kong dollars, United States dollars and Renminbi.

## **Cash Position**

The Group continued to be in a strong financial position with available cash and bank deposits (including pledged deposits) amounting to HK\$5,029.5 million (31 December 2009: HK\$5,539.1 million) as at 30 June 2010. During the period, the net cash outflow from operations of approximately HK\$419.0 million (year ended 31 December 2009: net cash outflow of HK\$3,116.3 million) was recorded. These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

## Bank Loans and Other Borrowings

As at 30 June 2010, the total interest-bearing bank loans and other borrowings amounted to HK\$14,213.1 million (31 December 2009: HK\$12,829.3 million). The increment in the amount was mainly used for the operation and expansion of the Group. These loans are repayable within the following periods:

|  | <b>30 June<br/>2010</b><br><i>HK\$'million</i> | 31 December<br>2009<br><i>HK\$'million</i> |
|--|--|--|
| Within one year or on demand           | <b>13,168.9</b>                                | 11,712.9                                   |
| In the second year                     | <b>788.6</b>                                   | 855.2                                      |
| In the third to fifth years, inclusive | <b>255.6</b>                                   | 261.2                                      |
|  | <hr/> <b>14,213.1</b> <hr/>                    | <hr/> 12,829.3 <hr/>                       |

Among the Group's total bank loans and other borrowings, HK\$12,521.9 million or 88.1% (31 December 2009: HK\$11,118.1 million or 86.7%) are at fixed interest rates. As at 30 June 2010, the Group has pledged assets with an aggregate carrying value of HK\$114.3 million (31 December 2009: HK\$391.7 million) to secure bank loans and banking facilities of the Group. The Group had unutilised committed banking facilities totalling HK\$1,950.0 million (31 December 2009: HK\$1,950.0 million) as at 30 June 2010.

## Net Gearing Ratio and Liquidity Ratio

The net gearing ratios and liquidity ratios of the Group as at 30 June 2010 and 31 December 2009 are set out below:

|   | <b>30 June<br/>2010</b> | 31 December<br>2009 |
|---|-------------------------|---------------------|
| Net gearing ratio<br>(the ratio of net debt to shareholders' equity)    | <b>53.6%</b>            | 46.1%               |
| Liquidity ratio<br>(the ratio of current assets to current liabilities) | <b>1.35</b>             | 1.38                |

The net debt, representing the Group's interest-bearing bank loans and other borrowings less cash and cash equivalents and pledged deposits, amounted to HK\$9,183.6 million (31 December 2009: HK\$7,290.2 million) at 30 June 2010.

## Capital Expenditures

The total capital expenditures of the Group for the period ended 30 June 2010 were tabulated below:

|                             | <b>30 June<br/>2010</b> | 30 June<br>2009     |
|-----------------------------|-------------------------|---------------------|
|                             | <i>HK\$'million</i>     | <i>HK\$'million</i> |
| Business units:             |                         |                     |
| Oilseeds processing         | <b>672.3</b>            | 142.1               |
| Biofuel and biochemical     | <b>146.1</b>            | 176.9               |
| Rice trading and processing | <b>126.6</b>            | 70.1                |
| Wheat processing            | <b>45.3</b>             | 52.8                |
| Brewing materials           | <b>267.4</b>            | 70.2                |
| Corporate and others        | <b>8.2</b>              | 2.0                 |
|                             | <b><u>1,265.9</u></b>   | <b><u>514.1</u></b> |

## Capital Commitments

Capital commitments outstanding and not provided for in the condensed consolidated financial information of the Group as at 30 June 2010 amounted to HK\$9,309.6 million (31 December 2009: HK\$6,444.3 million). These commitments are to be financed by loans and working capital of the Group. A summary of the capital commitments is set out below:

|   | <b>30 June<br/>2010</b> | 31 December<br>2009   |
|---|-------------------------|-----------------------|
|   | <i>HK\$'million</i>     | <i>HK\$'million</i>   |
| Capital commitments in respect of property,<br>plant and equipment: |                         |                       |
| Authorised, but not contracted for                                  | <b>7,041.1</b>          | 5,442.9               |
| Contracted, but not provided for                                    | <b><u>2,268.5</u></b>   | <b><u>1,001.4</u></b> |
|   | <b><u>9,309.6</u></b>   | <b><u>6,444.3</u></b> |

## HUMAN RESOURCES

The Group employed 19,456 staff (31 December 2009: 16,485) at 30 June 2010:

|                                      | <b>30 June<br/>2010</b>   | 31 December<br>2009    |
|--------------------------------------|---------------------------|------------------------|
|                                      | <i>Number of staff</i>    | <i>Number of staff</i> |
| Biofuel and biochemical business     | <b>8,071</b>              | 7,910                  |
| Oilseeds processing business         | <b>5,363</b>              | 3,790                  |
| Rice trading and processing business | <b>2,237</b>              | 1,063                  |
| Wheat processing business            | <b>3,075</b>              | 3,095                  |
| Brewing materials business           | <b>614</b>                | 544                    |
| Corporate                            | <b>96</b>                 | 83                     |
|                                      | <hr/> <b>19,456</b> <hr/> | <hr/> 16,485 <hr/>     |

The Group's employees are remunerated according to job nature, individual performance and market trends with built-in merit components. Total remuneration (including directors' remuneration) for the six months ended 30 June 2010 amounted to approximately HK\$480.8 million (six months ended 30 June 2009: HK\$364.5 million).

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

## OUTLOOK

Building on our strong and sound financial position, the Group, facing fearlessly the uncertain economic environment, continues to make available to their customers one-stop services through capacity expansion, enhancement of self-owned brands and expansion of domestic and overseas markets, particularly in connection with "Rice, Wheat Flour and Oils" business development, with a view to fortifying its leading position as a fully integrated oil and grain enterprise.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2010.

### **INTERIM DIVIDEND**

On 25 August 2010, the Board resolved to declare the payment of an interim dividend of 6.6 HK cents per ordinary share for the six months ended 30 June 2010 (the “2010 Interim Dividend”) payable on 29 September 2010 to shareholders of the Company whose names appear on the register of members of the Company on 14 September 2010 (the “Record Date”).

The “Notice Regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management” was issued by the State Administration of Taxation of PRC on 22 April 2009 (the “Notice”). The implementation of the Notice commenced on 1 January 2008. Pursuant to the “Enterprise Income Tax Law of the People’s Republic of China” (the “Enterprise Income Tax Law”) and the “Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People’s Republic of China” (the “Implementation Rules”), both implemented in 2008, and the Notice, since the Company is a Chinese-controlled Offshore Incorporated Enterprises, the Company is likely to be regarded as a Chinese Resident Enterprise and, if so, it could be required under the Laws of PRC to withhold and pay Enterprise Income Tax for its non-resident enterprise shareholders to whom the Company pays the 2010 Interim Dividend. The withholding and payment obligation lies with the Company.

Pursuant to the Notice, the Enterprise Income Tax Law and the Implementation Rules, the Company is likely to be required to withhold 10% enterprise income tax when it distributes the 2010 Interim Dividend to its non-resident enterprise shareholders. In respect of all shareholders whose names appear on the Company’s register of members as at the Record Date who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organisations, which are all considered as non-resident enterprise shareholders), the Company will distribute the 2010 Interim Dividend after deducting enterprise income tax of 10%. The Company will not withhold and pay the income tax in respect of the 2010 Interim Dividend payable to any natural person shareholders whose names appear on the Company’s register of members on the Record Date.

If any resident enterprise (as defined in the Enterprise Income Tax Law) listed on the Company’s register of members which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, does not desire to have the Company withhold the said 10% enterprise income tax, it should lodge with Tricor Progressive Limited documents from its governing tax authority confirming that the Company is not required to withhold and pay enterprise income tax in respect of the dividend that it is entitled at or before 4:00 p.m. on 10 September 2010.

Investors should read the above carefully. If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the enterprise income tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government departments and adhere strictly to the information set out in the Company’s register of members on the Record Date. The Company assumes no liability whatsoever in respect of and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the shareholders or any disputes over the mechanism of withholding.

In the event that the Company is not regarded as a Chinese Resident Enterprise and hence no enterprise income tax should have been withheld, to the extent that such tax remains in the custody of the Company and so far as it is able to do so, the Company will procure an amount equal to such tax withheld in respect of the relevant shareholders to be paid to the relevant shareholders whose tax had been withheld. The Company would make a further announcement in such event.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed on Monday, 13 September 2010 and Tuesday, 14 September 2010, during which period no transfers of shares will be registered. In order to be qualified for entitlement to the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the share registrar and transfer office of the Company, Tricor Progressive Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Friday, 10 September 2010.

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied throughout the six months ended 30 June 2010 with all the applicable code provisions and, where appropriate, the applicable recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except for the absence of the Chairman of the Board at the annual general meeting of the Company held on 25 May 2010 due to another business commitment.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the principal standards of securities transactions for directors of the Company. The directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code during the six months ended 30 June 2010.

### **REVIEW OF INTERIM RESULTS**

The unaudited condensed consolidated interim financial information of the Company for the six months ended 30 June 2010 have been reviewed by the Audit Committee of the Company and our external auditors, Ernst & Young.

## **PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT**

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited and the Company (<http://www.chinaagri.com>). The 2010 interim report of the Company containing all the relevant information required by Appendix 16 to the Listing Rules will be published on the aforementioned websites and despatched to shareholders of the Company on or before 13 September 2010.

By Order of the Board  
**China Agri-Industries Holdings Limited**  
**NING Gaoning**  
Chairman

Hong Kong, 25 August 2010

*As at the date of this announcement, the Board comprises: Mr. NING Gaoning as chairman of the Board and non-executive director; 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.*

*This announcement has been issued in the English language with a separate Chinese language translation. If there is any conflict in the announcement between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.*