

CHINA AGRI-INDUSTRIES HOLDINGS LIMITED

中國糧油控股有限公司

A COFCO Company 中糧集團成員企業

Stock Code 股份代號：606



中糧
COFCO

自然之源 重塑你我

2008 INTERIM REPORT

中期業績報告



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Corporate Information

DIRECTORS

Chairman and Non-executive Director

NING Gaoning

Executive Directors

YU Xubo (*Managing Director*)

LU Jun

YUE Guojun

Non-executive Directors

CHI Jingtao

MA Wangjun

Independent Non-executive Directors

LAM Wai Hon, Ambrose

Victor YANG

Patrick Vincent VIZZONE

AUDIT COMMITTEE

LAM Wai Hon, Ambrose (*Chairman*)

Victor YANG

MA Wangjun

CHI Jingtao

Patrick Vincent VIZZONE

REMUNERATION COMMITTEE

CHI Jingtao (*Chairman*)

MA Wangjun

LAM Wai Hon, Ambrose

Victor YANG

Patrick Vincent VIZZONE

NOMINATION COMMITTEE

NING Gaoning (*Chairman*)

CHI Jingtao

LAM Wai Hon, Ambrose

Victor YANG

Patrick Vincent VIZZONE

QUALIFIED ACCOUNTANT

LI Wai Kwan

COMPANY SECRETARY

CHO Wing Han

AUDITORS

Ernst & Young

Certified Public Accountants

LEGAL ADVISOR

Herbert Smith LLP

COMPLIANCE ADVISOR

BOCOM International (Asia) Limited

RISK MANAGEMENT CONSULTANT

Protiviti Shanghai Co., Ltd.

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited

China Construction Bank Corporation

Bank of China Limited

Industrial and Commercial Bank of China (Asia) Limited

Rabobank International (Hong Kong Branch)

Bank of China (Hong Kong) Limited

JPMorgan Chase Bank, N.A.

REGISTERED OFFICE

33rd Floor

Top Glory Tower

262 Gloucester Road

Causeway Bay

Hong Kong

HEAD OFFICE

31st Floor

Top Glory Tower

262 Gloucester Road

Causeway Bay

Hong Kong

HONG KONG PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Progressive Limited

26/F, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

INVESTOR RELATIONS

Telephone: +852 2833 0606

Facsimile: +852 2833 0319

E-mail: ir@cahworld.com

COMPANY WEBSITE

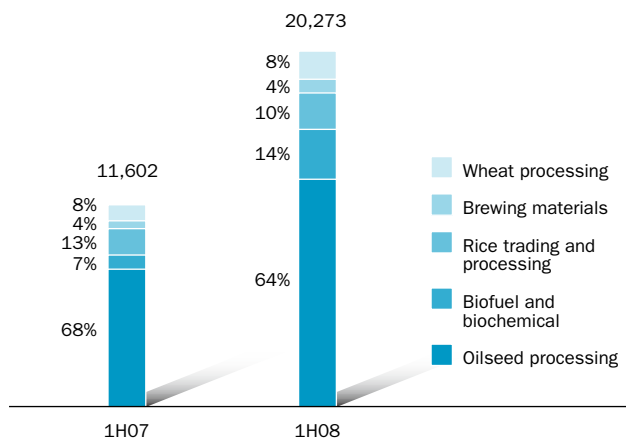
<http://www.cahworld.com>

Financial Highlights

- During the period under review, there was a 75% increase in revenue to HK\$20,273 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\$2,158 million, representing an increase of 234% compared with a year earlier. Operating margin improved from 5.6% to 10.6%.
- Profit attributable to equity holders of the Company surged by 174% over the corresponding period, reaching HK\$1,686 million. Basic earnings per share was HK46.9 cents.
- The Board of Directors does not recommend the payment of an interim dividend.

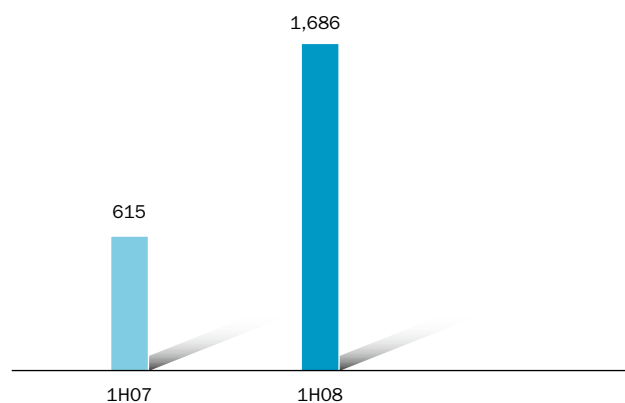
Revenue

(HK\$M)



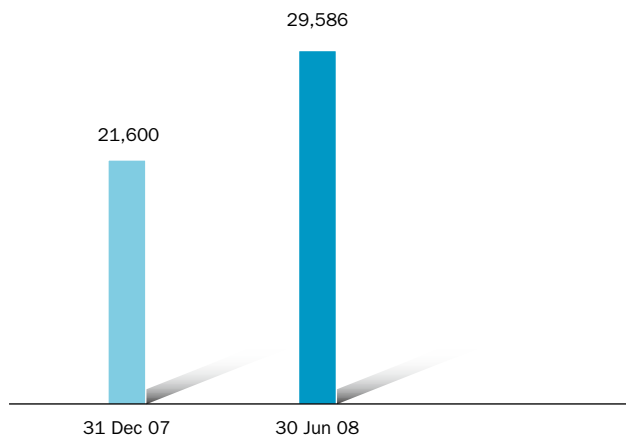
Profit Attributable to Equity Holders of the Company

(HK\$M)



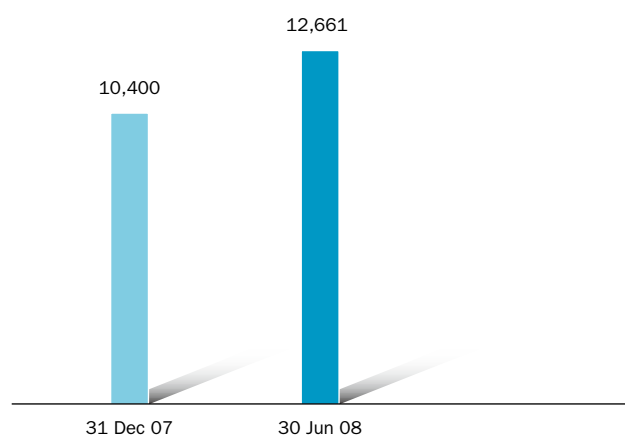
Total Asset

(HK\$M)



Equity Attributable to Equity Holders of the Company

(HK\$M)



Management Discussion and Analysis

China Agri-Industries Holdings Limited (the “Company”) is the leader in integrated agricultural products and food processing industry in China. We pledge to provide high quality products to our customers.

Oilseed processing business

The Company is one of the largest edible oil and oilseed meal producers 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, crude palm oil from Southeast Asia, and peanuts as well as a majority of rapeseeds from domestic farmers and grain traders. We sell and distribute edible oil and oilseed meal products primarily under the “四海” and “喜盈盈” brands.

Existing Production Capacity	Main Products	Ton'000
• Crushing Capacity		4,860
– Jingmen, Hubei	Rapeseed oil and meal	240
– Rizhao, Shandong	Soybean oil and meal	660
– Heze, Shandong	Soybean oil and meal	360
– Zhangjiagang, Jiangsu	Soybean oil and meal	3,600
• Refining Capacity		1,170
– Jingmen, Hubei	Rapeseed oil	120
– Zengcheng, Guangdong	Soybean oil and palm oil	120
– Rizhao, Shandong	Soybean oil and palm oil	240
– Heze, Shandong	Soybean oil and peanut oil	120
– Zhangjiagang, Jiangsu	Soybean oil and palm oil	570

The oilseed processing business remained our key revenue driver in the first half of 2008, thanks to robust demand and strong margins. Revenue increased by 68.5% year-on-year to HK\$ 13,129 million. Despite rising material costs, we have successfully managed to increase our product prices and migrated the cost pressure to our downstream customers.

Management Discussion and Analysis

As we sourced a substantial amount of our raw materials from overseas, we have adopted hedging strategies to manage risk from the volatile commodities prices, which allowed us to lock-in profit margin despite the fluctuating market environment. During the period, we reversed an unrealised hedging loss of HK\$381 million incurred in 2007 and booked an additional HK\$383 million of realised hedging gain. However, this total of HK\$764 million realised hedging gain was offset by the unrealised hedging loss of HK\$1,043 million made in the first half of 2008. This net loss effect of HK\$279 million depressed the gross profit margin growth, even though a strong gross margin of 11.5% was recorded for the period.

Products	1H08		1H07		Change	
	Volume Ton'000	Revenue HK\$ million	Volume Ton'000	Revenue HK\$ million	Volume	Revenue
Bulk edible oils	701	7,379	583	4,052	+20%	+82%
• Soybean oil	254	2,937	324	2,176	-22%	+35%
• Palm oil	158	1,570	119	672	+33%	+134%
• Peanut oil	8	143	15	181	-47%	-21%
• Rapeseed oil	57	687	15	109	+280%	+530%
• Others	224	2,042	110	914	+104%	+123%
Oilseed meals and feeds	1,509	5,316	1,512	3,135	0%	+70%
Others	-	434	-	644	-	-33%
Total		13,129		7,831		+68%

Going forward, we believe the demand for edible oil and oilseed meal will continue to grow substantially in accordance with the surging disposable income of the Chinese consumers. In fact, with higher living standard and personal income in China, consumers are pursuing a more nutritious and tasty diet that is high in protein content. Such rise in protein demand will boost demand for feeds required for livestock farming and demand for edible oil for cooking raw meats. As one of the leading market players, we are well positioned to capture this enormous opportunity.

Moreover, the change in lifestyle has also promoted the consumption of edible oil. Chinese are now dining out more and enjoying the convenience of fast food. As a result, restaurants and food manufacturers in China are consuming more edible oil than before, we believe this market trend will significantly contribute to our future growth.

The above have provided us with opportunities to expand our production capacity to achieve economies of scale. We are also seeking ways to enhance our raw material sourcing ability and will continue our conservative hedging policy to mitigate risk from volatile international and domestic commodities price movements. Since we are approaching operational full capacity, we have plans to increase over 50% of our production capacity by 2010 through new projects or existing capacity expansion. Additionally, we are actively looking for acquisition opportunities in the industry.

Management Discussion and Analysis

Biofuel and biochemical business

Biofuel

We are one of the major fuel ethanol producers in China. Our total annual production capacity has increased from 180,000 metric tons to 380,000 metric tons after the completion of our tapioca-based production line at Guangxi in late December 2007. This first and only non-grain production line in China started operation in March 2008. With the new plant capable of diversifying our raw material from corn to tapioca, we have further strengthened our position as a leading non-grain fuel ethanol producer in China.

Existing Production Capacity	Main Products	Ton'000
• Fuel Ethanol Capacity		380
– Zhaodong, Heilongjiang	Fuel ethanol	180
– Beihai, Guangxi	Fuel ethanol	200
• Consumable Ethanol Capacity		400
– Zhaodong, Heilongjiang	Consumable ethanol	400

With the government targeting to add 2 million metric tons of new fuel ethanol capacity nationwide by 2010 and mandating that all the new capacity must use non-grain feedstock, we believe the demand for fuel ethanol will further increase and the Company is well positioned to benefit from this opportunity. Our imminent fuel ethanol capacity will be produced from non-grain feedstock as raw material, while the operation of our existing fuel ethanol plant is not affected by the government's mandate.

Products	1H08		1H07		Change	
	Volume Ton'000	Revenue HK\$ million	Volume Ton'000	Revenue HK\$ million	Volume	Revenue
Fuel ethanol	140	665	75	295	+87%	+125%
Consumable ethanol	29	154	50	210	-42%	-27%
Anhydrous ethanol	47	263	17	73	+176%	+260%
Crude corn oil	29	272	9	52	+222%	+423%
DDGS feed	140	232	107	130	+31%	+78%
Total		1,586		760		+109%

The adoption of a flexible subsidy mechanism by the Ministry of Finance starting from late 2007 should allow us to achieve a stable profit margin. Since the government has not to date approved in writing the amount of subsidy it will grant to our production line in Guangxi, we have not recognized the government subsidy as income of fuel ethanol coming from our Guangxi production line in our financial results for the first half of 2008. We expect to receive the full year amount of government subsidy from our Guangxi production line in the second half of 2008.

As the price of fuel ethanol in China is pegged at 91.11% of the wholesale price of No. 90 gasoline, the price hike of RMB1,000 per metric ton of gasoline from June 2008 has effectively increased fuel ethanol price by RMB911 per metric ton. This upward price adjustment together with the expected receipt of the full year amount of government subsidy for our Guangxi production line will ensure that a stable profit margin for the full year 2008 will be achieved.

Management Discussion and Analysis

Biochemical

Our production lines at Yushu and Gongzhuling, Jilin province have a total annual corn processing capacity of 1.2 million metric tons with the key products consisting of corn starch, sweeteners (maltodextrin, fructose syrup and malt syrup), feed ingredients and crude corn oil. Having built a solid foundation for our biochemical business in the past few months, we are ready for future growth.

Existing Production Capacity	Main Products	Ton'000
• Biochem (Corn Processing Capacity)		1,200
– Gongzhuling, Jilin	Maltodextrin, fructose syrup, malt syrup, starch, crude corn oil, corn meal and feed	600
– Yushu, Jilin	Starch, crude corn oil, corn meal and feed	600

Products	1H08		1H07		Change	
	Volume Ton'000	Revenue HK\$ million	Volume Ton'000	Revenue HK\$ million	Volume	Revenue
Starch	323	691	–	–	–	–
Corn Meal and Feed	90	238	–	–	–	–
Others	–	252	–	7	–	+3,500%
Total		1,181		7		+16,771%

Brewing material business

We are a leading brewing material supplier in China primarily engage in the production and distribution of malt. Our customers consist of both domestic and overseas beer breweries such as Tsingtao, Yanjing, Budweiser, San Miguel, Snow, Kirin, Blue Ribbon and Asahi. Apart from domestic sales, we also export some of our products to countries in Southeast Asia and Russia.

Existing Production Capacity	Products	Ton'000
• Malt Processing Capacity		480
– Dalian, Liaoning	Malt	360
– Jiangyin Phase I, Jiangsu	Malt	120

As China has become the world's biggest beer consumer with an annual beer consumption of more than 30 million metric tons, the demand for high quality brewing materials from both domestic and overseas beer breweries increased drastically in the first half of 2008, which increased our revenue by 74% to HK\$907 million from HK\$521 million. Our export volume also increased substantially to 115,000 metric tons, constituting the growth of 156% during the period.

Management Discussion and Analysis

Products	1H08		1H07		Change	
	Volume Ton'000	Revenue HK\$ million	Volume Ton'000	Revenue HK\$ million	Volume	Revenue
Malt	198	896	155	508	+28%	+76%
Malting barley	–	–	0.4	1	–	–
Others	–	11	–	12	–	-8%
Total		907		521		+74%

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

Rice trading and processing business

We are China's largest rice exporter, primarily engaged in trading and processing of white and parboiled rice. 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, while we export parboiled rice to the Middle East, Africa, Eastern Europe, Central Asia and the Americas. Our parboiled rice processing facility is one of the largest in Asia in terms of production capacity. Parboiled rice, widely accepted as a healthy and natural food in the United States, Europe and the Middle East, is produced from long grain paddy from Southern China.

Existing Production Capacity	Products	Ton'000
• Rice Processing Capacity		325
– Nanchang, Jiangxi	Parboiled rice	220
– Zhangjiagang, Jiangsu	White rice	75
– Dalian, Liaoning	White rice	30

In spite of the cancellation of a tax rebate on rice export in late 2007 and the introduction of a grain export tax in early 2008, our revenue in this segment experienced strong growth, particularly due to our price increase which offset the additional tax expenses. With the reduction of export volume by a number of key rice exporting countries in the first half of 2008, the global price of rice surged rapidly in the past few months, increasing our revenue by 24.7% to HK\$1,933 million.

Products	1H08		1H07		Change	
	Volume Ton'000	Revenue HK\$ million	Volume Ton'000	Revenue HK\$ million	Volume	Revenue
Parboiled rice	56	188	92	210	-39%	-10%
White rice	456	1,745	490	1,351	-7%	+29%
Total		1,933		1,561		+24%

Management Discussion and Analysis

Besides exporting to overseas, we are in the process of developing the domestic market. Our sales offices in Nanjing, Shanghai and Xinjiang are targeting the Yangtze River Delta and Xinjiang Autonomous Region for our white rice and parboiled rice products. We are also planning to sell our own branded rice directly to the supermarkets in Hong Kong in the second half of 2008. We have acquired 30,000 metric tons of rice processing capacity at Dalian, Liaoning province and expect to expand further 100,000 metric tons of capacity.

Wheat processing business

Being one of the largest wheat processors in China, we focus on processing and distributing a broad range of flour and other flour products such as noodles. Our 1.5 million metric tons of total annual wheat processing capacity allows us to sell our products to customers including Danone, Nabisco, Tingyi and Hualong, as well as to hyper-markets and chain retailers like Carrefour, Wal-Mart and Holiland through our nationwide production and distribution network. We are also consolidating our several brands into one brand “香雪” in order to enhance our brand prominence.

Existing Production Capacity	Products	Ton'000
• Wheat Processing Capacity		1,511
– Qinhuangdao, Hebei	Flour and bran	340
– Puyang, Henan	Flour and bran	110
– Xiangxue, Shenyang	Flour and bran	180
– Dongda, Shenyang	Flour and bran	100
– Xiamen, Fujian	Flour and bran	71
– Dezhou, Shandong	Flour and bran	170
– Zhengzhou, Henan	Flour and bran	220
– Zhangjiagang, Jiangsu	Flour and bran	170
– Luohe, Henan	Flour and bran	150
• Dried Noodle Capacity		46.5
– Puyang, Henan	Dried noodle	18
– Xiangxue, Shenyang	Dried noodle	18
– Dezhou, Shandong	Dried noodle	4.5
– Zhengzhou, Henan	Dried noodle	6
• Bakery Capacity		3
– Beijing	Bread	3

Management Discussion and Analysis

In addition, we started to supply a variety of freshly baked bread and cakes to restaurants and shops such as Starbucks and 7-11 convenience stores in Beijing during the period. We also supplied all freshly baked bread for the opening and closing ceremonies of the Beijing Olympics 2008. Our strategy to enhance competitiveness and increase margins by adjusting product mix and migrating to high-end products has proven to be a success in the first half of 2008. Sales of freshly baked bread and cakes reached HK\$2.6 million during the period.

Products	1H08		1H07		Change	
	Volume Ton'000	Revenue HK\$ million	Volume Ton'000	Revenue HK\$ million	Volume	Revenue
Flour	514	1,223	380	774	+35%	+58%
Noodles	23	72	20	47	+15%	+53%
Others	-	246	-	153	-	+61%
Total		1,541		974		+58%

The flour industry in China is very fragmented with many small players. However, consumers' continuous quest for high quality flour and other flour products has accelerated industry consolidation, which allows us to further develop our high-end products with better margins and further strengthen our leading position in China.

Human resources

As at 30 June 2008, the Company and its subsidiaries (the "Group") employed 17,488 staff (2007: 13,528), of whom 5,755 (2007: 3,448) were employed in the oilseed processing business, 7,616 (2007: 7,249) in the biofuel and biochemical business, 937 (2007: 321) in the rice trading and processing business, 478 (2007: 392) in the brewing materials business and 2,625 (2007: 2,068) in the wheat processing business. The Group's employees are remunerated according to job nature, individual performance and market trends with built-in merit components. Total remuneration for the six months ended 30 June 2008 was approximately HK\$204 million (2007: approximately HK\$149 million).

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

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2008, there was a 75% increase in revenue to HK\$20,273 million (2007: HK\$11,602 million).

All the five major businesses experienced sales growth and oilseed processing unit remains the largest revenue and profit contributors to our Group.

Group Earnings

Operating profit of the Group for the first half of 2008 was HK\$2,158 million, represented an increase of 234% compared on a year-on-year basis. Operating margin improved from 5.6% to 10.6%.

Owing to the exceptional performance of oilseed processing business, their shares of operating profit rose noticeably. The oilseed processing business surpassed all other businesses and accounted for 73% of the total operating results of the Group. Brewing material business becomes the second largest operating profit contributor to our Group even though its share reduces to 10%. Despite the lack of once-off gain and soar in raw material costs, the performance of rice trading and processing business and wheat processing business are both improved respectively. It is because the increase in selling price for the former and change in business strategy for the latter. For the biofuel and biochemical business, since the government subsidy or approval has yet been received, the expected subsidy for the year 2008 will be booked in the second half if the related approval has been granted within the period.

Finance costs increased by 37.9% to HK\$199 million during the period, fuelled by the increase in PRC borrowings costs, and the rise in loan amount to finance working capital and new investment requirement.

Tax expenses soared by 1,059% because increase in operating activities and profits among different segments of our Group.

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 175.4% rise of this balance was mainly attributable to the better performance of associates in oilseed processing sector.

Group's Financial Position, Liquidity and Financial Resources

As at 30 June 2008, the total assets of the Group amounted to HK\$29,586 million (December 2007: HK\$21,600 million). The equity attributable to equity holders of the Company were HK\$12,661 million, a 21.7% rise from HK\$10,400 million as at 31 December 2007.

In terms of available financial resources as at 30 June 2008, the Group's total available cash and cash equivalents (including pledged deposits and liquid investments) was HK\$5,046 million and total bank loans and other borrowings was HK\$7,949 million. The Group is centralising 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.



Management Discussion and Analysis

As at 30 June 2008, the net gearing ratio for the group was 20%, based on net debt (total cash and cash equivalents minus total bank loans and other borrowings) of HK\$2,903 million and shareholders' equity of HK\$14,362 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 Expenditure, Commitments and Contingencies

During the six months ended 30 June 2008, the total capital expenditure was HK\$466 million, of which HK\$209 million (approximately 44.9%) was made by the biofuel and biochemical business, HK\$202 million (approximately 43.3%) was made by the brewing materials business, HK\$42 million (approximately 9%) was made by the oilseed processing business, HK\$7 million (approximately 1.5%) was made by the rice trading and processing business, HK\$6 million (approximately 1.3%) was made by the wheat processing business, and the rest is for corporate and others.

Up to 30 June 2008, the future capital expenditure for which the Group had contracted but not provided for and authorised but not contracted for amounted to approximately HK\$490 million. Other than the commitments under future contract for the sales of soybean and soybean meal, etc, the Group had no other material commitments and contingent liabilities.

Corporate Governance and Other Information

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

As at 30 June 2008, the interests and short positions of the directors in the shares of the Company (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO (including interests and short positions which they have taken or were deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register of members of the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to 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") (together, "Discloseable Interests") were as follows:

Interests in underlying shares of the Company

Name of director	Capacity	Number of share options held in long position	Number of underlying shares held	Approximate percentage of the issued share capital of the Company
Ning Gaoning	Beneficial owner	700,000	700,000	0.02%
Yu Xubo	Beneficial owner	700,000	700,000	0.02%
Lu Jun	Beneficial owner	650,000	650,000	0.02%
Yue Guojun	Beneficial owner	650,000	650,000	0.02%
Chi Jingtao	Beneficial owner	600,000	600,000	0.02%
Ma Wangjun	Beneficial owner	600,000	600,000	0.02%

Save as disclosed above, none of the directors, chief executives or their respective associates have any other Discloseable Interests in the Company.

Interests in underlying shares of associated corporation

Name of director	Name of associated corporation	Capacity	Number of share options of China Foods Limited held in long position (Notes)	Number of underlying shares held	Approximate percentage of the issued share capital of China Foods Limited
Ning Gaoning	China Foods Limited	Beneficial owner	880,000	880,000	0.03%

Notes:

- The options were granted on 27 September 2007 and the exercise price is HK\$4.952 per share.
- The exercise period of the options is ranging from 28 September 2009 to 27 September 2014.

Corporate Governance and Other Information

Save as disclosed above, none of the directors, chief executives or their respective associates had any other Discloseable Interests in the Company's associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, so far as was known to the directors, the following persons (other than the directors) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

Interest in underlying shares of the Company

Name of Shareholders	Capacity	Number of Shares held	Notes	Approximate percentage of the issued share capital of the Company
Wide Smart Holdings Limited ("Wide Smart")	Beneficial owner	1,922,550,331	(1)	53.50%
COFCO (BVI) No.108 Limited ("COFCO 108")	Beneficial owner	140,000,000	(1)	3.90%
COFCO (Hong Kong) Limited ("COFCO HK")	Beneficial owner Interest of controlled corporations	10,138,000 2,062,550,331	(1) (1) & (2)	0.28% 57.39%
COFCO Limited (中糧集團有限公司) (formerly known as China National Cereals, Oils & Foodstuffs Corporation (中國糧油食品(集團)有限公司)) ("COFCO")	Interest of controlled corporations	2,072,688,331	(1) & (3)	57.67%

Notes:

- (1) Long positions in the Shares.
- (2) COFCO HK is deemed to be interested in the 2,062,550,331 Shares in aggregate held by Wide Smart and COFCO 108 as COFCO HK is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart and COFCO 108.
- (3) COFCO is deemed to be interested in the 2,072,688,331 Shares in aggregate held by Wide Smart, COFCO 108 and COFCO HK as COFCO is entitled to control the exercise of or exercise one-third or more of the voting power at general meetings of Wide Smart, COFCO 108 and COFCO HK.

Save as disclosed above, the directors are not aware of any person as at 30 June 2008 who had an interest or short positions in the Shares and underlying shares of the Company which is required to be disclosed to the Company and the Stock Exchange under the provisions of part XV of the SFO, or as recorded in the register required to be kept by the Company under section 336 of the SFO.



Corporate Governance and Other Information

SHARE OPTION SCHEME

Details of the share option scheme and movements are set out in note 14 to the condensed consolidated interim financial statements.

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

During the six months ended 30 June 2008, 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 as set out in Appendix 10 of the Listing Rules as the principal standards of securities transactions for the directors of the Company. The directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2008.

CORPORATE GOVERNANCE

The Company recognizes the importance of corporate transparency and accountability. The Directors are committed in achieving a high standard of corporate governance practices and procedures and striving for a transparent and accountable management framework on enhancing the interests of shareholders. The corporate governance principles of the Company emphasis on upholding sound ethics and integrity in all aspects of its business, and on ensuring that affairs are conducted in accordance with the applicable laws and regulations.

The Company has complied throughout the six months ended 30 June 2008 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 of the Listing Rules except the absence of the Chairman of the Board at the annual general meeting of the Company held on 26 May 2008 due to business engagement.

The Board acknowledges that a properly designed internal control system is one of the key elements to monitor and safeguard the resources of the Group, to produce reliable financial report for shareholders of the Company, and to enhance better corporate governance and compliance in return reduces the possibility of significant errors and irregularities by timely detection.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 June 2008 have been reviewed by the Audit Committee of the Company and our external auditors, Ernst & Young Certified Public Accountants.

Corporate Governance and Other Information

INVESTOR RELATIONS

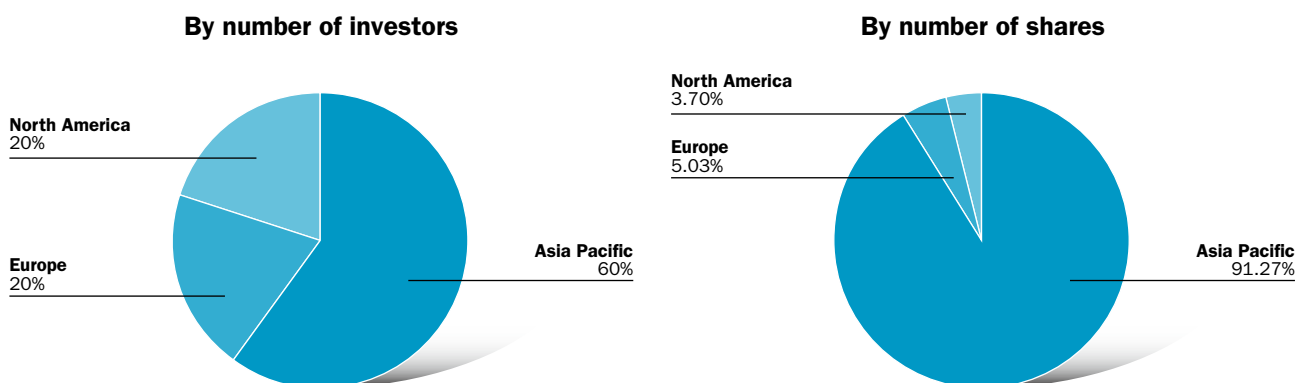
The management of the Company is committed to create shareholders' value, enhance corporate governance as well as establish market confidence through effective and accountable investor relations. We value market and professional opinions when developing our business plan that will fuel our growth and meet market expectations.

The Company discloses information in compliance with the securities regulations of the Stock Exchange, and publishes periodic reports and announcements to the public in accordance with relevant laws and regulations. Our primary focus is to ensure that information disclosure is timely, fair, accurate, truthful and complete, thereby enabling shareholders, investors as well as the public to make rational decisions that should result in the Company's securities trading at fair value over the long term.

The proactive dynamic communication approach has allowed the Investor Relations and Public Relations Department to achieve remarkable recognition by different professional parties in the past few months. The Company was accredited with "**Recognition Awards 2008 – The Best of Asia (China)**" by one of the region's most authoritative journals on Corporate Governance, *Corporate Governance Asia*, in May 2008. This reflects our commitment to maintain high standard of ethics, corporate governance, and effective accountability mechanisms in every aspect of business operations. We strive to deliver an effective board of directors, high level of transparency as well as prompt disclosure of relevant information to stakeholders.

We value market and professional opinions and take the initiative in establishing dialogue with the capital markets, financial communities as well as the public. With our determination to maximize our exposure, BNP Paribas and Morgan Stanley both initiated coverage on the Company in June 2008. For full list of analyst coverage, please visit our website at www.cahworld.com. We analyzed the Company's ownership structure on a regular basis to identify the mix of institutional and retail shareholders.

The geographical distribution of our top 20 investors is shown below:



In the second half of 2008, we are planning to organize investor relation corporate day for investors, analysts and financial media, as well as proactively participate in corporate day arranged by the financial communities.

Report on Review of Interim Financial Information



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

To the board of directors of China Agri-Industries Holdings Limited

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 18 to 40 which comprises the condensed consolidated balance sheet of China Agri-Industries Holdings Limited as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

Ernst & Young

Certified Public Accountants

Hong Kong

18 September 2008

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

For the six months ended 30 June

	Notes	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
REVENUE	4	20,272,766	11,601,630
Cost of sales	6	(17,778,587)	(10,603,596)
Gross profit		2,494,179	998,034
Other income and gains	4	586,514	387,141
Selling and distribution costs		(560,356)	(271,279)
Administrative expenses		(319,731)	(230,606)
Other expenses		(8,987)	(82,281)
Finance costs	5	(198,503)	(143,959)
Share of profits of associates		251,223	91,219
PROFIT BEFORE TAX	6	2,244,339	748,269
Tax	7	(302,630)	(26,107)
PROFIT FOR THE PERIOD		1,941,709	722,162
Attributable to:			
Equity holders of the Company		1,685,521	615,173
Minority interests		256,188	106,989
		1,941,709	722,162
DIVIDEND	8	–	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE COMPANY	9		
– Basic – For profit for the period		HK46.9 cents	HK19.0 cents
– Diluted – For profit for the period		HK46.9 cents	N/A

Condensed Consolidated Balance Sheet

30 June 2008

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	8,071,002	7,373,787
Prepaid land premiums		455,247	432,927
Deposits for purchases of items of property, plant and equipment		55,749	14,424
Goodwill		645,851	620,443
Interests in associates		1,725,736	1,401,404
Available-for-sale investments		9,302	8,880
Intangible assets		9,628	5,639
Deferred tax assets		259,474	105,146
Total non-current assets		11,231,989	9,962,650
CURRENT ASSETS			
Inventories		5,245,656	3,556,433
Accounts and bills receivables	11	1,639,140	1,546,664
Prepayments, deposits and other receivables		2,032,978	1,393,110
Derivative financial instruments		11,191	8,531
Due from fellow subsidiaries		2,921,714	1,236,427
Due from related companies		92,937	8,173
Due from the ultimate holding company		1,180,903	1,895
Due from associates		168,944	243,211
Due from minority shareholders of subsidiaries		501	–
Tax recoverable		13,879	34,213
Liquid investment	12	1,347,912	857,157
Pledged deposits		272,154	322,518
Cash and cash equivalents		3,425,936	2,429,486
Total current assets		18,353,845	11,637,818
CURRENT LIABILITIES			
Accounts and bills payables	13	1,511,945	1,447,637
Other payables and accruals		1,487,600	1,501,911
Deferred income		10,926	7,501
Derivative financial instruments		1,090,374	412,368
Interest-bearing bank and other borrowings		6,509,859	4,680,810
Due to fellow subsidiaries		391,164	208,862
Due to related companies		10,336	175
Due to the ultimate holding company		2,282,192	83,074
Due to associates		14,683	15,431
Due to minority shareholders of subsidiaries		10,722	920
Tax payable		198,395	96,412
Total current liabilities		13,518,196	8,455,101
NET CURRENT ASSETS		4,835,649	3,182,717
TOTAL ASSETS LESS CURRENT LIABILITIES		16,067,638	13,145,367

Condensed Consolidated Balance Sheet *(continued)*

30 June 2008

	Note	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		16,067,638	13,145,367
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		1,438,808	1,137,334
Due to minority shareholders of subsidiaries		123,950	119,312
Long term payable		9,473	14,264
Deferred income		100,792	100,687
Deferred tax liabilities		32,362	21,389
Total non-current liabilities		1,705,385	1,392,986
Net assets		14,362,253	11,752,381
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	14	359,391	359,391
Reserves		12,301,692	10,040,880
Minority interests		12,661,083	10,400,271
		1,701,170	1,352,110
Total equity		14,362,253	11,752,381

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

Attributable to equity holders of the Company

	Employee		Capital reserve	Reserve funds	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total equity	
	Issued capital	Share premium account								share-based compensation reserve
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
At 1 January 2008	359,391	2,746,299	6,647	4,754,699	178,070	685,694	1,669,471	10,400,271	1,352,110	11,752,381
Exchange realignment and total income and expense for the period recognised directly in equity	-	-	-	-	-	567,038	-	567,038	96,455	663,493
Profit for the period	-	-	-	-	-	-	1,685,521	1,685,521	256,188	1,941,709
Total income and expense for the period	-	-	-	-	-	567,038	1,685,521	2,252,559	352,643	2,605,202
Transfer from retained profits	-	-	-	-	56,848	-	(56,848)	-	-	-
Equity-settled share option arrangements	-	-	8,253	-	-	-	-	8,253	-	8,253
Dividends paid to minority shareholder	-	-	-	-	-	-	-	-	(3,583)	(3,583)
At 30 June 2008	359,391	2,746,299*	14,900*	4,754,699*	234,918*	1,252,732*	3,298,144*	12,661,083	1,701,170	14,362,253

* These reserve accounts comprise the consolidated reserves of HK\$12,301,692,000 (31 December 2007: HK\$10,040,880,000) in the consolidated balance sheet.

Condensed Consolidated Statement of Changes in Equity *(continued)*

For the six months ended 30 June 2008

Attributable to equity holders of the Company									
	Issued capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
Note	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2007	279,138	-	4,754,699	98,136	187,912	649,042	5,968,927	1,120,240	7,089,167
Exchange realignment and total income and expense for the period recognised directly in equity	-	-	-	-	203,234	-	203,234	35,650	238,884
Profit for the period	-	-	-	-	-	615,173	615,173	106,989	722,162
Total income and expense for the period	-	-	-	-	203,234	615,173	818,407	142,639	961,046
Issue of shares, net of share issue expenses	80,253	2,746,299	-	-	-	-	2,826,552	-	2,826,552
Transfer from retained profits	-	-	-	27,101	-	(27,101)	-	-	-
Contribution from a minority shareholder	-	-	-	-	-	-	-	3,111	3,111
Disposal of subsidiaries	16	-	-	-	-	-	-	(414)	(414)
At 30 June 2007	359,391	2,746,299	4,754,699	125,237	391,146	1,237,114	9,613,886	1,265,576	10,879,462

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	Note	For the six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		5,108	(174,882)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(411,865)	(680,594)
NET CASH INFLOW FROM FINANCING ACTIVITIES		1,758,741	3,198,683
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,351,984	2,343,207
Cash and cash equivalents at beginning of period		3,286,643	1,249,388
Effects of foreign exchange rate changes, net		135,221	39,990
CASH AND CASH EQUIVALENTS AT END OF PERIOD		4,773,848	3,632,585
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,934,411	1,422,270
Money market fund	12	1,347,912	1,344,121
Non-pledged time deposits with original maturity of less than three months when acquired		491,525	866,194
CASH AND CASH EQUIVALENTS AT END OF PERIOD		4,773,848	3,632,585

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

1. CORPORATE INFORMATION

China Agri-Industries Holdings Limited (the “Company”) is a limited liability company incorporated in Hong Kong. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at 33rd Floor, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

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

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

In the opinion of the directors, the ultimate holding company of the Company is COFCO Limited (“COFCO”), which is a state-owned enterprise registered in the People’s Republic of China (the “PRC”).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial information is prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) 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 information are the same as those used in the annual financial statements of the Group for the year ended 31 December 2007, except in relation to the following new 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:

HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

3. SEGMENT INFORMATION

Details of the business segments are summarised as follows:

- (a) the oilseed processing segment engages in the extraction, refining and trading of edible oil and related businesses;
- (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 businesses;
- (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.

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.

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

3. SEGMENT INFORMATION (continued)

The following tables present revenue and profit information regarding the Group's business segments for the six months ended 30 June 2008 and 2007, respectively.

Six months ended 30 June 2008

	Oilseed processing HK\$'000 (Unaudited)	Brewing materials HK\$'000 (Unaudited)	Rice trading and processing HK\$'000 (Unaudited)	Wheat processing HK\$'000 (Unaudited)	Biofuel and biochemical HK\$'000 (Unaudited)	Corporate and others HK\$'000 (Unaudited)	Eliminations HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue:								
Sales to external customers	13,129,141	907,072	1,932,862	1,539,207	2,764,484	-	-	20,272,766
Intersegment sales	-	-	-	1,828	2,610	-	(4,438)	-
Other revenue	297,704	44,593	(5,615)	12,381	181,901	22,952	(1,124)	552,792
Segment results	1,575,571	216,272	174,115	74,736	128,718	(11,515)	-	2,157,897
Interest income								33,722
Finance costs								(198,503)
Share of profits of associates	207,521	-	-	257	43,445	-	-	251,223
Profit before tax								2,244,339
Tax								(302,630)
Profit for the period								1,941,709
Assets and liabilities								
Segment assets	10,849,515	2,119,915	2,318,961	1,444,940	6,424,016	7,279,261	(6,547,953)	23,888,655
Interests in associates	1,301,642	-	-	59,055	365,039	-	-	1,725,736
Unallocated assets								3,971,443
Total assets								29,585,834
Segment liabilities	5,391,965	955,488	1,343,423	1,054,729	2,759,509	2,086,996	(6,547,953)	7,044,157
Unallocated liabilities								8,179,424
Total liabilities								15,223,581
Other segment information								
Depreciation	95,083	26,556	9,109	16,167	109,765	713	-	257,393
Impairment losses/(reversal of impairment losses) recognised in the condensed consolidated income statement	4,634	(433)	489	-	(2,203)	-	-	2,487
Capital expenditure	42,059	201,530	7,354	5,917	209,245	175	-	466,280

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2007

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

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

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:

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Other income		
Agency commission	30,640	1,315
Bank interest income*	33,722	156,620
Investment income from money market fund	21,654	13,072
Government grants**	190,201	121,859
Compensation income	19,485	–
Logistic service and storage income	19,086	5,461
Tax refunds	–	9,147
Others	15,105	6,544
	329,893	314,018
Gains		
Gain on disposal of by-products and scrap items	23,634	9,514
Net fair value gain on foreign currency forward contracts	36,074	–
Gain on foreign exchange, net	196,913	63,609
	256,621	73,123
	586,514	387,141

* 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.

** The Group has been applying certain government grants for a subsidiary in the biofuel and biochemical segment. Up to the date of this report, no written approval has been issued as the government grants amount is under verification process by the relevant government bureau. Accordingly, such government grants have not been recognised as income in the Group's interim financial statements. The directors estimate that such government grants for the six months ended 30 June 2008 will be approximate to HK\$129,000,000.

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

5. FINANCE COSTS

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Interest on:		
Bank loans wholly repayable within five years	199,419	143,516
Bank loans wholly repayable beyond five years	–	6,461
Loans from fellow subsidiaries	3,727	8,895
Total interest expense on financial liabilities not at fair value through profit or loss	203,146	158,872
Less: Interest capitalised	(6,291)	(14,913)
	196,855	143,959
Other finance costs:		
Net fair value loss on foreign currency forward contracts	1,648	–
	198,503	143,959

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Cost of inventories sold	17,434,111	10,629,261
Realised fair value gains of derivative instrument transactions not qualifying as hedges	(699,361)	(43,647)
Unrealised fair value losses of derivative instrument transactions not qualifying as hedges	1,043,837	14,220
Write-down of inventories to net realisable value	–	3,762
Cost of sales	17,778,587	10,603,596
Depreciation	257,393	159,393
Recognition of prepaid land premiums	5,617	4,933
Staff costs (including directors' remuneration)	203,965	148,566
Impairment of receivables	2,487	5,060
Impairment of items of property, plant and equipment*	–	58,941
Loss on disposal of items of property, plant and equipment	3,748	469
Loss on disposal of subsidiaries	–	1,917

* For the six months ended 30 June 2007, 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.

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: Nil) 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% (2007: 33%) on their respective taxable income.

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Current – Hong Kong		
Provision for the period	113,013	–
Current – Mainland China		
Provision for the period	363,938	118,345
Underprovision/(overprovision) in prior periods	258	(3,633)
Tax rebates	(40,714)	(72,648)
Deferred tax	(133,865)	(15,957)
Total tax charge for the period	302,630	26,107

8. DIVIDEND

The directors did not declare any interim dividend for the six months ended 30 June 2008 (2007:Nil).

9. 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 profit attributable to ordinary equity holders of the Company of HK\$1,685,521,000 (2007: HK\$615,173,000), and the weighted average number of 3,593,906,356 (2007: 3,238,428,953) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the profit attributable to ordinary equity holders of the Company of HK\$1,685,521,000, and the weighted average number of 3,596,907,181 ordinary shares in issue during the period. 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:

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (*continued*)

Weighted average number of ordinary shares for the six months ended 30 June 2008:

	Number of shares
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share	3,593,906,356
Weighted average number of ordinary shares: Assumed issued at no consideration on deemed exercise of all share options outstanding during the period	3,000,825
Weighted average number of ordinary shares used in the diluted earnings per share calculation	3,596,907,181

Diluted earnings per share for the period ended 30 June 2007 has not been presented as there were no dilutive potential ordinary shares in existence during that period.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group acquired items of property, plant and equipment with total cost of HK\$466,280,000 (2007: HK\$1,154,187,000), not including property, plant and equipment acquired through business combination.

Items of property, plant and equipment with a net book value of HK\$6,308,000 (2007: HK\$15,328,000) were disposed of by the Group during the six months ended 30 June 2008, resulted in a net loss on disposal of HK\$3,748,000 (2007: HK\$469,000).

11. ACCOUNTS AND BILLS RECEIVABLES

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

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

11. ACCOUNTS AND BILLS RECEIVABLES (continued)

An aged analysis of the accounts and bills receivables at the balance sheet date, based on the invoice date and bill issued date and net of impairment, is as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Outstanding balances with ages:		
Within 3 months	1,338,923	1,408,224
3 to 12 months	291,542	135,226
1 to 2 years	8,675	3,214
	1,639,140	1,546,664

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

12. LIQUID INVESTMENT

The liquid investment represents amount placed with a money market fund managed by a financial institution. The amount is highly liquid, readily convertible into a known amount of cash and is subject to an insignificant risk of changes in value. Such investment has a short maturity of one day when acquired, and forms an integral part of the Group's cash management.

13. ACCOUNTS AND BILLS PAYABLES

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

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Outstanding balances with ages:		
Within 3 months	1,204,740	1,324,436
3 to 12 months	305,091	121,711
1 to 2 years	1,436	963
Over 2 years	678	527
	1,511,945	1,447,637

Accounts and bills payables are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively. The carrying amounts of the accounts and bills payables approximate to their fair values.

Notes to the Condensed Consolidated Interim Financial Statements

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14. SHARE CAPITAL

Shares

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Authorised:		
4,000,000,000 ordinary shares of HK\$0.1 each	400,000	400,000
Issued and fully paid:		
3,593,906,356 ordinary shares of HK\$0.1 each	359,391	359,391

Share options

On 12 January 2007, the shareholders of the Company conditionally approved and adopted a share option scheme (the "Scheme") for the purpose of attract, retain and motivate directors and eligible participants to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company. Eligible participants include, but not limited to, any directors, (excluding independent non-executive directors), officers and employees of the Group, or any other person the board of directors (the "Board") may proposed. The Scheme became unconditional and effective upon listing of the shares of the Company on 21 March 2007 and, unless otherwise cancelled, amended or terminated in accordance with the Scheme, will remain in force for 10 years from 21 March 2007.

The maximum number of shares of the Company which may be issued upon exercise of all share options granted under the Scheme or any other share option scheme shall not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issued and to be issued on exercise of all share options granted and to be granted to each eligible participant in any 12-month period is limited to 1% of the shares in issue at the relevant time unless it is approved by shareholders in a general meeting of the Company.

Any grant of share options under the Scheme to a director, chief executive or substantial shareholders of the Company or any of their respective associates must be approved by independent non-executive directors. Any share options granted to a substantial shareholder of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by each grantee. The exercise period of the share options granted is determinable by the Board.

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

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

Notes to the Condensed Consolidated Interim Financial Statements

30 June 2008

14. SHARE CAPITAL (continued)

Share options (continued)

On 7 August 2007, a total of 27,600,000 share options were granted to certain directors and employees of the Group in respect of their services to the Group in the forthcoming year. These share options vest ranging from 7 August 2007 to 6 August 2011 and have an exercise price of HK\$4.666 per share and exercise periods ranging from 7 August 2009 to 6 August 2014. The price of the Company's shares at the date of grant was HK\$4.35 per share.

The following share options were outstanding under the Scheme during the period:

	Weighted average exercise price	Number of options
	HK\$ per share	'000
At 1 January 2008 and 30 June 2008	4.666	27,600

The vesting periods, exercise price and exercise periods of the share options outstanding as at 30 June 2008 are as follows:

Number of options granted to			Vesting period	Exercise price	
Directors	Employees	Total		per share	Exercise period
'000	'000	'000		HK\$	
1,300	7,900	9,200	7 Aug 2007 to 6 Aug 2009	4.666	7 Aug 2009 to 6 Aug 2014
1,300	7,900	9,200	7 Aug 2007 to 6 Aug 2010	4.666	7 Aug 2010 to 6 Aug 2014
1,300	7,900	9,200	7 Aug 2007 to 6 Aug 2011	4.666	7 Aug 2011 to 6 Aug 2014
3,900	23,700	27,600			

The fair value of the share options outstanding as at 30 June 2008 was approximately HK\$45,700,000 (HK\$1.656 each) of which the Company recognised a share option expense of HK\$8,253,000 during the period.

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15. BUSINESS COMBINATION

On 11 March 2008, the date of acquisition, the Group acquired the entire equity interest in Dalian Bainong Rice Processing Limited, which subsequently changed name to COFCO Dalian Rice Processing Limited, from independent third parties. COFCO Dalian Rice Processing Limited is engaged in the processing and sale of rice business.

The fair values of the identifiable assets and liabilities of COFCO Dalian Rice Processing Limited as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition	Carrying amount
	HK\$'000	HK\$'000
Property, plant and equipment	8,227	7,534
Inventories	31,763	31,763
Accounts and bills receivables	11,622	11,622
Prepayments, deposits and other receivables	311	311
Cash and bank balances	6,345	6,345
Accounts payable	(33,353)	(33,353)
Other payables and accruals	(13,622)	(13,622)
	11,293	10,600
Goodwill on acquisition	1,070	
	12,363	
Satisfied by:		
Cash	4,967	
Other payables and accruals	7,396	
	12,363	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	HK\$'000
Cash consideration	(4,967)
Cash and bank balances acquired	6,345
Net inflow of cash and cash equivalents in respect of the acquisition of the subsidiary	1,378

During the six months ended 30 June 2008, the subsidiary generated revenue and net profit of HK\$100,521,000 and HK\$9,758,000, respectively. Since the acquisition date, the subsidiary contributed HK\$91,584,000 to the Group's revenue and HK\$8,988,000 to the Group's consolidated profit for the period.

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16. DISPOSAL OF SUBSIDIARIES

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	1,348
Inventories	–	1,508
Accounts receivable	–	3,073
Prepayments, deposits and other receivables	–	1,284
Due from fellow subsidiaries	–	1,100
Due from associates	–	153
Cash and bank balances	–	3,523
Accounts payable	–	(1,176)
Other payables and accruals	–	(2,929)
Tax payable	–	(1,299)
Minority interests	–	(414)
	–	6,171
Loss on disposal of subsidiaries	–	(1,917)
	–	4,254
Satisfied by:		
Cash	–	4,254

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Cash consideration	–	4,254
Cash and bank balances disposed of	–	(3,523)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	731

Notes to the Condensed Consolidated Interim Financial Statements

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17. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

The Group had the following transactions with related parties during the period:

	Notes	For the six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Transactions with fellow subsidiaries:			
Sales of goods	(i)	3,831,569	1,217,167
Purchases of goods	(i)	567,085	85,214
Operating lease rental paid	(i)	14,662	1,345
Interest expense	(ii)	3,727	8,895
Brokerage fee paid	(i)	11,353	2,417
Transactions with the ultimate holding company:			
Purchases of raw materials	(i)	4,063,713	3,951
Agency income	(iii)	30,568	–
Logistic service and storage income	(i)	46,018	–
Transactions with associates:			
Sales of goods	(i)	120,085	91,370
Purchases of goods	(i)	48,300	40,631
Transactions with related companies #:			
Sales of goods	(i)	828,135	59,467
Purchases of goods	(i)	11,303	4,944,881
Transactions with minority shareholders of subsidiaries:			
Purchases of goods	(i)	999,363	–

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

Notes to the Condensed Consolidated Interim Financial Statements

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17. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes:

- (i) Except for the transactions with a fellow subsidiary of sales of goods of HK\$15,475,000 which was carried out at cost, other transactions were carried out with reference to the prevailing market prices or, where no market prices were available, at cost plus a percentage of profit mark-up.
- (ii) The interest expense arose from the loans from a fellow subsidiary, which were unsecured, bore interest at rates of LIBOR+0.446 per annum.
- (iii) The agency income arose from the agency service provided by the Group for acting as an agent to purchase soybean and crude oil on behalf of the ultimate holding company. The agency income is recognised based on 1% of the purchase price set by the ultimate holding company. Further details of the agency arrangement are set out in note 18 below.

(b) Transactions with ultimate holding company

During the current period, the Group borrowed certain soybean, rapeseeds and crude palm oil from the ultimate holding company, the market value of which amounts to approximately HK\$671,524,000. The Group will return these raw materials as and when requested by the ultimate holding company.

(c) Outstanding balances with related parties

Except for the following, the balances with the holding companies, fellow subsidiaries, related companies and minority shareholders of the Group's subsidiaries as at the balance sheet date are unsecured, interest-free and have no fixed terms of repayment:

- (1) the loans due to a fellow subsidiary of HK\$312,000,000 (31 December 2007: HK\$78,000,000), which bore interest at rate of LIBOR+0.446 per annum.
- (2) amounts due to minority shareholders of subsidiaries of HK\$123,950,000 (31 December 2007: HK\$119,312,000), which are financing in nature and are not repayable within one year from the balance sheet date.

The carrying amounts of balances with related parties approximate to their fair values.

(d) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Short term employee benefits	8,505	5,874
Post-employment benefits	143	118
Equity-settled share option expense	2,556	–
Total compensation paid to key management personnel	11,204	5,992

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18. CONTINGENT ASSETS

As disclosed in the Company's announcement dated 21 August 2008, on 1 February 2008, the Group entered into an agency agreement with COFCO pursuant to which the Group has been engaged in providing import agency services in respect of purchasing certain raw materials for COFCO. The agency fees under the agency agreement will be 1% of the total offered contract prices by COFCO of the goods purchased ("1% Agency Fees"), but subject to the agency fee adjustment. The agency fees will be subject to settlement to be made on 2 January 2009. 1% Agency Fees amounting to HK\$30,568,000 have been recognised as other income in the Group's income statement for the six months ended 30 June 2008. The temporary agency fee adjustment up to 30 June 2008 amounting to HK\$225,714,000 has not been recognised as it cannot be measured reliably until 2 January 2009.

19. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and steel barrels under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to eleven years and those for steel barrels for terms ranging from one to nine years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Within one year	12,513	18,311
In the second to fifth years, inclusive	9,574	15,562
After five years	819	748
	22,906	34,621

20. COMMITMENTS

(a) Capital commitments

In addition to the operating lease commitments detailed in note 19 above, the Group had the following capital commitments at the balance sheet date:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Capital commitments in respect of property, plant and equipment:		
Authorised, but not contracted for	55,578	215,240
Contracted, but not provided for	434,549	659,837
	490,127	875,077

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20. COMMITMENTS (continued)

(b) Other commitments

Commitments under commodity future contracts:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Sales of soybean meal	1,567,935	2,454,224
Sales of soybean	5,784,994	1,998,356
Sales of soybean oil	3,664,646	636,752
Sales of rapeseed oil	239,379	90,855
Sales of palm oil	736,520	–
Sales of wheat	–	4,838
	11,993,474	5,185,025
Purchases of soybean meal	673,505	–
Purchases of soybean	414,358	121,753
Purchases of corn	170,473	540,966
Purchases of wheat	1,017	–
	1,259,353	662,719

Commitments under foreign currency forward contracts:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Sales of United States dollars	1,459,236	304,032
Sales of Euro	12,004	–
Purchases of United States dollars	206,880	965,250

Other than disclosed above, the Group did not have any significant commitments or contingent liabilities as at the balance sheet date (31 December 2007: Nil).

21. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The condensed consolidated interim financial information was approved and authorised for issue by the board of directors on 18 September 2008.



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COFCO

自然之源 重塑你我

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

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

香港銅鑼灣
告士打道262號
鵬利中心31樓

Tel 電話 852 2833 0606
Fax 傳真 852 2833 0319

www.cahworld.com