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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 2018

FINANCIAL HIGHLIGHTS

- During the period under review, the Group's revenue from continuing operations increased 23.8% year-on-year to HK$48,320.2 million. It made a profit attributable to owners of the Company of HK$751.0 million, up 60.3% from HK$468.6 million a year earlier.

- Profit attributable to owners of the Company was HK$751.0 million for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$1,059.0 million). Basic earnings per share was 14.30 HK cents (six months ended 30 June 2017: 20.17 HK cents).

- The Board declared the payment of an interim dividend of 3.6 HK cents per share (six months ended 30 June 2017: 4.0 HK cents per share).

	For the six months ended 30 June			
	Unit	2018	2017 (Restated)	Change
Revenue	HK$'000	**48,320,171**	44,431,080	8.8%
- Continuing operations	HK$'000	**48,320,171**	39,020,109	23.8%
- Discontinued operation	HK$'000	**-**	5,410,971	-100.0%
Profit attributable to owners of the Company	HK$'000	**751,020**	1,059,020	-29.1%
- Continuing operations	HK$'000	**751,020**	468,645	60.3%
- Discontinued operation	HK$'000	**-**	590,375	-100.0%
Declared dividend per share				
- Interim	HK cents	**3.6**	4.0	-10.0%

INTERIM RESULTS

The Board of Directors (the "Board") of China Agri-Industries Holdings Limited (the "Company") presents the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		HK$'000	*HK$'000*
	Notes	**(Unaudited)**	(Unaudited)
			(Restated)
CONTINUING OPERATIONS			
Revenue		**48,320,171**	39,020,109
Cost of sales	*4*	**(43,950,729)**	(36,331,641)
Gross profit		**4,369,442**	2,688,468
Other income and gains	*3*	**252,614**	362,610
Selling and distribution expenses		**(2,229,971)**	(1,131,477)
Administrative expenses		**(961,305)**	(818,756)
Other expenses		**(246,086)**	(127,647)
Finance costs		**(302,699)**	(285,150)
Share of profits and losses of associates		**125,024**	43,544
PROFIT BEFORE TAX	*4*	**1,007,019**	731,592
Income tax expense	*5*	**(6,731)**	(132,994)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**1,000,288**	598,598
DISCONTINUED OPERATION			
PROFIT FOR THE PERIOD FROM A DISCONTINUED OPERATION	6	**-**	608,561
PROFIT FOR THE PERIOD		**1,000,288**	1,207,159
Profit for the period attributable to:			
Owners of the Company		**751,020**	1,059,020
Non-controlling interests		**249,268**	148,139
		1,000,288	1,207,159

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)
For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		HK$'000	*HK$'000*
	Notes	**(Unaudited)**	(Unaudited)
			(Restated)
EARNINGS PER SHARE	*7*		
From continuing and discontinued operations			
Basic		**14.30 HK cents**	20.17 HK cents
Diluted		**14.29 HK cents**	20.12 HK cents
From continuing operations			
Basic		**14.30 HK cents**	8.93 HK cents
Diluted		**14.29 HK cents**	8.90 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Restated)
PROFIT FOR THE PERIOD	**1,000,288**	1,207,159
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss		
Exchange difference on translation of foreign operations	**(223,997)**	862,571
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**776,291**	2,069,730
Total comprehensive income for the period attributable to:		
Owners of the Company	**564,098**	1,793,925
Non-controlling interests	**212,193**	275,805
	776,291	2,069,730

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	**30 June 2018** **_HK$'000_** **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**16,446,897**	16,752,112
Prepaid land premiums		**2,045,289**	2,037,602
Deposits for purchases of items of property, plant and equipment		**46,254**	34,817
Goodwill		**1,387,800**	1,382,735
Investments in associates		**2,199,787**	2,106,847
Equity instruments at fair value through other comprehensive income		**29,168**	-
Available-for-sale investments		**-**	30,536
Intangible assets		**626,596**	640,592
Deferred tax assets		**805,141**	568,236
Total non-current assets		**23,586,932**	23,553,477
CURRENT ASSETS			
Inventories		**24,084,124**	22,630,782
Accounts and bills receivables	*9*	**3,270,105**	3,138,320
Prepayments, deposits and other receivables		**5,235,367**	4,555,367
Other receivables due from Sinograin	*10*	**355,754**	520,425
Financial assets at fair value through profit or loss		**1,147,289**	-
Derivative financial instruments		**-**	376,607
Due from fellow subsidiaries		**3,527,911**	1,681,502
Due from related companies		**32,880**	30,016
Due from the ultimate holding company		**247,235**	41,294
Due from non-controlling shareholders of subsidiaries		**89,170**	5,873
Due from associates		**4,256**	215,049
Tax recoverable		**11,318**	16,208
Restricted cash at bank		**8,344**	-
Cash and cash equivalents		**10,817,579**	10,571,797
Total current assets		**48,831,332**	43,783,240

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2018

	Notes	**30 June 2018** *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
CURRENT LIABILITIES			
Accounts and bills payables	*11*	**4,198,714**	4,149,625
Other payables and accruals		**5,067,810**	6,261,660
Other financial liabilities		**9,157**	-
Derivative financial instruments		**-**	238,381
Contract liabilities		**2,108,450**	-
Interest-bearing bank and other borrowings		**23,597,668**	19,007,057
Bank borrowings due to ADBC	*10*	**356,560**	522,820
Due to fellow subsidiaries		**915,609**	631,906
Due to the ultimate holding company		**273,175**	280,817
Due to the immediate holding company		**560,395**	-
Due to the intermediate holding company		**76,241**	-
Due to related companies		**97,703**	6,612
Due to non-controlling shareholders of subsidiaries		**30,284**	31,014
Due to associates		**10,810**	23,816
Tax payable		**164,091**	552,985
Deferred income		**23,782**	29,951
Total current liabilities		**37,490,449**	31,736,644
NET CURRENT ASSETS		**11,340,883**	12,046,596
TOTAL ASSETS LESS CURRENT LIABILITIES		**34,927,815**	35,600,073
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**149,448**	174,181
Due to non-controlling shareholders of subsidiaries		**201,932**	202,644
Deferred income		**638,262**	648,400
Deferred tax liabilities		**314,425**	271,089
Other non-current liabilities		**42,393**	24,965
Total non-current liabilities		**1,346,460**	1,321,279
Net assets		**33,581,355**	34,278,794

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2018

	30 June 2018 *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
CAPITAL AND RESERVES		
Share capital	**9,796,250**	9,771,664
Reserves	**19,548,230**	20,083,548
Equity attributable to owners of the Company	**29,344,480**	29,855,212
Non-controlling interests	**4,236,875**	4,423,582
Total equity	**33,581,355**	34,278,794

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

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 ("HKICPA") and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The financial information relating to the year ended 31 December 2017 that is included in this preliminary announcement of interim results as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

1.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- extraction, refining and trading of edible oil and related products;
- processing and trading of rice;
- production and sale of flour products and related products; and
- processing and trading of malt.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

1.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the company satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Company and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

1.1.1 Key changes in accounting policies resulting from application of HKFRS 15 - continued

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

1.1.2 Summary of effects arising from initial application of HKFRS 15

The transition to HKFRS 15 does not have impact on the Group's retained profits at 1 January 2018.

As at 1 January 2018, advances from customers of HK$2,651,834,000 in respect of sales contracts previously included in other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

	Note	As reported	Adjustments	Amounts without application of HKFRS 15
		HK$'000	HK$'000	HK$'000
Current Liabilities				
Other payables and accruals		5,067,810	2,108,450	7,176,260
Contract liabilities		2,108,450	(2,108,450)	-

1.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

1.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments - continued

In addition, the Group applied the hedge accounting prospectively.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement.*

1.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application / initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments/receivables classified as FVTOCI

Subsequent changes in the carrying amounts for debt instruments/receivables classified as FVTOCI as a result of interest income calculated using the effective interest method, are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments/receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments/receivables had been measured at amortised cost. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

1.2.1 Key changes in accounting policies resulting from application of HKFRS 9 - continued

Equity instruments designated as FVTOCI

At the date of initial application / initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income and gains" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income and gains" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 1.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including accounts and bills receivables, deposits, other receivables, restricted cash at bank and amounts due from related parties). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivables. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

1.2.1 Key changes in accounting policies resulting from application of HKFRS 9 - continued

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts and bills receivables, other receivables and amount due from related companies where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 1.2.2.

1.2.1 Key changes in accounting policies resulting from application of HKFRS 9 - continued

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Hedge accounting

The Group has elected to adopt the new general hedge accounting in HKFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

1.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale HK$'000	Equity instruments at FVTOCI HK$'000	Amortised cost (previously classified as loans and receivables) HK$'000
Closing balance at 31 December 2017 – HKAS 39	30,536	-	-
Effect arising from initial application of HKFRS 9:			
Reclassification			
From available-for-sale	(30,536)	30,536	-
From loans and receivables	-	-	17,513,068
Opening balance at 1 January 2018	-	30,536	17,513,068

1.2.2 Summary of effects arising from initial application of HKFRS 9 - continued

(a) Available-for-sale ("AFS") investments

From AFS equity investments to FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as AFS, of which HK$30,536,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$30,536,000 were reclassified from AFS investments to equity instruments at FVTOCI, all of which related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of nil relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018.

(b) Derivative financial instruments

Derivatives are required to be classified as financial assets at FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to these instruments from the application of HKFRS 9.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for accounts and bill receivables. To measure the ECL, receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of bill receivables, deposits, other receivables, restricted cash at bank and amounts due from related parties, measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

No additional credit loss allowance is recognised against retained profits as at 1 January 2018.

(d) Hedge accounting

The Group applies the hedge accounting requirements of HKFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with HKAS 39 are regarded as continuing hedging relationship if all qualifying criteria under HKFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts. As such, the adoption of the hedge accounting requirements of HKFRS 9 had not resulted in adjustments to comparative figures.

1.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening balances in condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) *HK$'000*	HKFRS 15 *HK$'000*	HKFRS 9 *HK$'000*	1 January 2018 (Restated) *HK$'000*
Non-current Assets				
Equity instruments at fair value through other comprehensive income	-	-	30,536	30,536
Available-for-sale investments	30,536	-	(30,536)	-
Current Assets				
Financial assets at fair value through profit or loss	-	-	376,607	376,607
Derivative financial instruments	376,607	-	(376,607)	-
Current Liabilities				
Other payables and accruals	6,261,660	(2,651,834)	-	3,609,826
Other financial liabilities	-	-	238,381	238,381
Derivative financial instruments	238,381	-	(238,381)	-
Contract liabilities	-	2,651,834	-	2,651,834

2. OPERATING SEGMENT INFORMATION

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

(a) the oilseeds processing segment engages in the extraction, refining and trading of edible oil and related products;
(b) the rice processing and trading segment engages in the processing and trading of rice;
(c) the wheat processing segment engages in the production and sale of flour products and related products;
(d) the brewing materials segment engages in the processing and trading of malt; and
(e) the corporate and others segment comprises the Group's corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation, operating expenditure, cost rationalisation, and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that interest income, finance costs and share of profits and losses of associates are managed on a group basis and are not allocated to reportable operating segments.

Segment assets exclude deferred tax assets, tax recoverable, restricted cash at bank, cash and cash equivalents and investments in associates as these assets are managed on a group basis.

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

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

<u>Geographical information</u>
As the Group's major operations and customers are located in Mainland China, no further geographical segment information is provided.

The following tables present revenue and profit/(loss) information regarding the Group's operating segments for the six months ended 30 June 2018 and 2017.

Six months ended 30 June 2018

	Oilseeds processing	Rice processing and trading	Wheat processing	Brewing materials	Corporate and others	Eliminations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:							
Sales to external customers	33,224,213	7,438,250	5,971,440	1,289,372	396,896	-	48,320,171
Intersegment sales	33	49,941	7	4,950	36,192	(91,123)	-
Other income and gains	83,554	82,921	29,654	3,273	1,831	(24,019)	177,214
Segment results	643,950	394,936	104,033	(5,711)	(26,812)	(1,102)	1,109,294
Interest income							75,400
Finance costs							(302,699)
Share of profits and losses of associates							125,024
Profit before tax							1,007,019
Income tax expense							(6,731)
Profit for the period from continuing operations							1,000,288
Other segment information:							
Depreciation and amortisation	344,249	97,356	52,783	49,092	19,064	-	562,544
Capital expenditure	207,483	53,986	73,586	41,063	9,306	-	385,424
As at 30 June 2018							
Assets and liabilities							
Segment assets	39,592,598	10,577,127	4,740,226	3,232,942	15,778,470	(15,345,268)	58,576,095
Corporate and other unallocated assets							13,842,169
Total assets							72,418,264
Segment liabilities	18,966,208	5,539,302	2,735,232	796,540	1,921,163	(15,347,168)	14,611,277
Corporate and other unallocated liabilities							24,225,632
Total liabilities							38,836,909

Six months ended 30 June 2017 (Restated)

	Oilseeds processing *HK$'000* (Unaudited)	Rice processing and trading *HK$'000* (Unaudited)	Wheat processing *HK$'000* (Unaudited)	Brewing materials *HK$'000* (Unaudited)	Corporate and others *HK$'000* (Unaudited)	Eliminations *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue:							
Sales to external customers	24,612,661	6,283,136	4,140,212	1,231,853	2,752,247	-	39,020,109
Intersegment sales	170,387	416,936	393,582	3,790	105,457	(1,090,152)	-
Other income and gains	177,922	88,336	18,474	20,010	10,513	(8,804)	306,451
Segment results	432,350	277,408	69,443	179,761	(41,204)	(719)	917,039
Interest income							56,159
Finance costs							(285,150)
Share of profits and losses of associates							43,544
Profit before tax							731,592
Income tax expense							(132,994)
Profit for the period from continuing operations							598,598
Other segment information:							
Depreciation and amortisation	289,679	88,936	47,194	39,288	38,547	-	503,644
Capital expenditure	231,295	82,501	23,394	61,789	16,450	-	415,429
As at 31 December 2017							
Assets and liabilities							
Segment assets	34,768,729	11,702,091	4,177,850	3,449,082	13,971,548	(13,995,671)	54,073,629
Corporate and other unallocated assets							13,263,088
Total assets							67,336,717
Segment liabilities	17,173,425	5,685,821	2,067,629	802,578	1,318,829	(13,995,671)	13,052,611
Corporate and other unallocated liabilities							20,005,312
Total liabilities							33,057,923

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited) (Restated)
Other income		
Government grants*	**48,921**	36,902
Storage income from agency purchase (note 10)	**6,704**	10,558
Logistic service, storage income and rental income	**58,647**	64,019
Interest income	**75,400**	56,159
Others	**15,353**	28,465
	205,025	196,103
Gains		
Gains on disposal of raw materials, by-products and scrap items	**24,853**	13,145
Gain on foreign exchange, net	**-**	153,362
Others	**22,736**	-
	47,589	166,507
	252,614	362,610

* The government grants from continuing operations mainly related to discretionary awards granted by local governments to certain subsidiaries of the Group to award their contributions to the industry or to the local development. There are no unfulfilled conditions or contingencies relating to these grants.

4. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations has been arrived at after charging/(crediting) the following items:

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited) (Restated)
Cost of inventories sold or services provided	**43,170,395**	37,000,290
Realised and unrealised fair value gains of commodity futures contracts, net	**(576,133)**	(1,356,766)
Write-down of inventories to net realisable value	**497,082**	579,386
Provision for loss on non-cancellable purchase commitments^	**859,385**	108,731
Cost of sales	**43,950,729**	36,331,641
Depreciation	**522,783**	476,116
Amortisation of intangible assets	**13,365**	2,032
Recognition of prepaid land premiums	**26,396**	25,496
Employee benefit expenses (including directors' and chief executive's remuneration)	**1,254,872**	973,694
Loss on disposal of items of property, plant and equipment	**636**	4,021
Loss/(gain) on foreign exchange, net	**76,688**	(153,362)
Realised and unrealised fair value losses on foreign currency forward contracts, net	**34,337**	117,991

^ It is the Group's usual practice to enter into purchase commitments with delivery of raw materials at a specified future date. As at 30 June 2018, the Group had certain non-cancellable purchase commitments of raw materials (the "Purchase Contracts") on which the Group expects that the unavoidable costs of meeting obligations under the Purchase Contracts will exceed the economic benefits expected to be received under it. The expected loss of HK$859,385,000 (six months ended 30 June 2017: HK$108,731,000) is estimated with reference to the expected selling prices of the corresponding products, and a provision thereon has been made in the condensed consolidated statement of profit or loss for the six months ended 30 June 2018. The directors of the Company consider that these losses are resulted from the Group's ordinary course of business.

5. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Pursuant to the approvals issued by the State Administration of Taxation of the PRC in 2013, the Company and certain of its subsidiaries incorporated out of Mainland China are regarded as Chinese resident enterprises, and the relevant enterprise income tax policies of PRC are applicable to the Company and these subsidiaries commencing from 1 January 2013.

PRC corporate income tax ("CIT") represents tax charged on the estimated assessable profits arising from the enterprises operating in Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25%. However, one of the Group's subsidiaries is being approved by the relevant authorities as high-technology enterprise in Mainland China, and the relevant authorities have granted this subsidiary preferential CIT rate of 15%. Besides, the Group's certain subsidiaries are also granted income tax exemption on the profit generated from processing of certain agricultural products.

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Restated)
Current – Hong Kong		
Charge for the period	**(255)**	2,213
Current – Mainland China		
Charge for the period	**192,704**	113,400
Under-provision in prior periods	**16,214**	1,527
Deferred tax	**(201,932)**	15,854
Total tax charge for the period	**6,731**	132,994

6. DISCONTINUED OPERATION

On 23 October 2017, Full Extent Group Limited# ("Full Extent"), a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement and the loan assignment deed (the "Agreements") with COFCO Biochemical Investment Co., Ltd., a wholly-owned subsidiary of COFCO Corporation. Pursuant to the Agreements, Full Extent has agreed to dispose COFCO Biochemical Holdings Limited, COFCO Biofuel Holdings Limited and their subsidiaries (the "Biochemical and Biofuel Subsidiaries") at a total consideration of HK$8,579,341,000. Under the Agreements, Full Extent sold all its equity interests in the Biochemical and Biofuel Subsidiaries at a cash consideration of HK$5,219,226,000 and assigned the loans owed to it by the Biochemical and Biofuel Subsidiaries at a cash consideration of HK$3,360,115,000.

The disposal of the Biochemical and Biofuel Subsidiaries was approved by the independent shareholders of the Company on 15 December 2017 and the above transaction was completed on 27 December 2017. Following the completion of the disposal, the Biochemical and Biofuel Subsidiaries were classified as a discontinued operation, and the biochemical and biofuel segment is no longer included in the note for operating segment information.

The result of the Biochemical and Biofuel Subsidiaries for the six months ended 30 June 2017 are presented below:

	For the six months ended 30 June 2017 *HK$'000* (Unaudited)
Revenue	5,410,971
Cost of sales	(4,463,733)
Gross profit	947,238
Other income and gains	744,517
Expenses	(920,152)
Finance costs	(44,806)
Share of profits of associates	75,491
Profit before tax from discontinued operation	802,288
Income tax	(193,727)
Profit for the period from discontinued operation	608,561

Full Extent has changed its name to COFCO Grains Holdings Limited on 9 August 2018.

7. EARNINGS PER SHARE

From continuing operations and discontinued operation

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited) (Restated)
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculations		
From continuing operations	**751,020**	468,645
From discontinued operation	**-**	590,375
	751,020	1,059,020

Number of shares

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,251,722,325**	5,249,880,788
Effect of dilutive potential ordinary shares		
Share options	**3,830,353**	14,677,190
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,255,552,678**	5,264,557,978

8. DIVIDEND

On 29 August 2018, the Board declared an interim dividend of 3.6 HK cents (six months ended 30 June 2017: 4.0 HK cents) per ordinary share, amounting to a total of approximately HK$189,306,000 (six months ended 30 June 2017: HK$209,995,000).

The amount of the interim dividend per ordinary share for the six months ended 30 June 2018 was calculated based on the number of issued ordinary shares as at 30 June 2018.

9. ACCOUNTS AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by 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. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivables balances. Accounts and bills receivables are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively.

An aging analysis of the Group's accounts and bills receivables at the end of the reporting period, based on the invoice date and bill issue date, net of provision for impairment, is as follows:

	30 June 2018 *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
Within 3 months	**3,094,146**	2,996,961
3 to 12 months	**162,424**	140,110
1 to 2 years	**13,535**	1,249
	3,270,105	3,138,320

As part of the Company's credit risk management, the Company uses debtors' aging to assess the impairment for its customers in relation to its sales operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The estimated loss rate is considered insignificant at 30 June 2018.

The estimated loss rate is estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

10. AGENCY PURCHASE OF GRAINS

Pursuant to the Fagaidian [2013] No. 229, Guoliangtiao [2013] No. 265, Guoliangtiao [2014] No. 254 and Guoliangtiao [2015] No. 169 issued by certain China government authorities (the "Notices"), during the period from 30 November 2013 to 30 April 2014, the period from 30 November 2014 to 30 April 2015 and the period from 1 November 2015 to 30 April 2016 (the "Designated Grain Purchase Periods"), certain subsidiaries (the "Entrusted Subsidiaries") of biochemical and biofuel business and rice processing and trading business entered into agency purchase agreements (the "Agency Purchase Agreements") with branch companies of China Grain Reserves Corporation ("Sinograin"), which is a state-owned enterprise, and local grain authorities of State Administration of Grain to purchase certain quantities of grains from farmers as agent of Sinograin at prices fixed in the Agency Purchase Agreements during the Designated Grain Purchase Periods. According to the Notices and Agency Purchase Agreements, (a) the grains purchased are national grains reserve and should be stored in separate warehouses of the Entrusted Subsidiaries and Sinograin is obliged to pay the Entrusted Subsidiaries with custody fees; (b) the funds for purchase of grains would be financed by Agricultural Development Bank of China ("ADBC"), which is a bank incorporated to implement China government's agricultural policies, through bank loans lent to the Entrusted Subsidiaries; (c) the interest expenses related to these bank loans would be fully reimbursed by Sinograin to these Entrusted Subsidiaries once the related government subsidies were granted to Sinograin; and (d) the principal of the bank loans should be repaid to ADBC upon receipt of funds transferred from Sinograin when the grains are sold by Sinograin.

As at 30 June 2018, the balance owed by Sinograin to the Group and short term unsecured bank loans owed by the Group to ADBC as a result of the aforesaid arrangements amounted to HK$355,754,000 (31 December 2017: HK$520,425,000) and HK$356,560,000 (31 December 2017: HK$522,820,000), respectively. In view of the fact that the interest expenses to ADBC can be fully reimbursed by the related interest income from Sinograin, the interest expenses to ADBC and the related interest income from Sinograin were presented on a net basis in the condensed consolidated statement of profit or loss. The storage income arising from the aforesaid arrangements attributable to current period was HK$6,704,000 (six months ended 30 June 2017: HK$134,787,000), of which HK$6,704,000 (six months ended 30 June 2017: HK$10,558,000) was from continuing operations (Note 3), which is recorded as other income in the condensed consolidated statement of profit or loss.

11. ACCOUNTS AND BILLS PAYABLES

An aging analysis of the Group's accounts and bills payables at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
Within 3 months	**4,057,055**	4,000,236
3 to 12 months	**93,795**	135,863
1 to 2 years	**43,603**	11,077
Over 2 years	**4,261**	2,449
	4,198,714	4,149,625

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

12. COMPARATIVE AMOUNTS

The comparative figures in the condensed consolidated statement of profit or loss has been re-presented as if the Biochemical and Biofuel Subsidiaries had been discontinued at the beginning of the comparative period (Note 6).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Since 2018, the global economy growth faced more uncertainties led by more complex and volatile international environment. Developed economies have caused market volatility through their monetary and trade policies. Against this background, China has restructured its economy and upgraded industries while deepening reform and innovation. These policies have introduced new dynamism, supported domestic demand, and enhanced the stability and resilience of economy, promoting the economic development towards high-quality stage. In the agricultural processing industry, reforms on the supply side as well as evolving trends in consumption are providing support for the development of branded and large scale players. The leading processors leveraged their integrated and professional management system to cope with market fluctuation. The industry has maintained relatively satisfactory level of profitability.

The Company has watched the market closely, deploying its market research capabilities to capture market opportunities. Appropriate business strategies have enabled management to expand its market share and improve operational efficiency where necessary. Sales of major products, such as oilseed meals, vegetable oil, rice and flour saw further growth, maintaining high rate of overall capacity utilisation. To better address the evolution of consumer demand, the Company undertook R&D and innovation to optimise the product structure and mix. With the support of more marketing and promotion activities, the Company boosted the scale and reinforced market position of the branded business. Due to the completion of the disposal of the biochemical and biofuel business on 27 December 2017, the Company's total profit attributable to equity holders for current period declined comparing with HK$1,059.0 million for the same period of 2017. However, continuing operations as a whole reported growth in both of top-line and gross profit with total sales volume of 10.673 million metric tons. It contributed revenue of HK$48,320.2 million, a year-on-year increase of 23.8%, while profit attributable to the Company's equity holders increased 60.3% year-on-year to HK$751.0 million.

Oilseeds Processing Business

In the first half of 2018, international soybean price declined after the rise at the beginning of the period. Price fluctuation was intensified by the trade policy changes of China and the United States, as well as the weather factors in the main producing areas. Domestic soybean imports remained at a high level. Production capacity and utilisation rate of the industry have been stable, providing sufficient supply. The news of possible tariff hike on imported soybean from the United States pushed up the prices of edible oil and meals in China at some times, supporting the relatively satisfactory level of average profit margin for the industry.

As an industry leader, the Company's advanced integrated business model helped promoting the efficient coordination and stable operation. Against the more volatile market, the oilseeds processing business tracked price more closely and made good use of market intelligence to establish raw material inventory with appropriate sourcing pace, laying the foundation for better performance. Meanwhile, the Company made improvements in our multi-tiered management system, which enabled a robust increase of operational efficiency in regional sales and factory production. Leveraging our mature and stable downstream sales network which was considerably augmented by the acquisition of consumer-packaged oil business in 2017, the Company was able to adjust pace of sales to maintain margins. With sales measures like customised service, upgraded product mix and diversified marketing, the oilseeds processing business achieved further growth in sales volume beyond the high level of the same period last year. Capacity utilisation remained high level. As a result, fixed costs per unit were reduced, boosting business performance.

Market consumption of consumer-packaged edible oils has stabilised as blended cooking oil and soybean oil remain the dominant kinds. However, the sales volume of specialty edible oils has grown rapidly, gaining market share. The average selling price of retail edible oil has increased. As a major business growth driver, the Company has enhanced its online and offline multi-channel brand promotion to expose the "Fortune（福临门）" brand on TV, buildings, outdoor and other media. We continued to increase investing in marketing and promotion expenditures of the flagship product "Fortune Nutritious Cooking Oil（福临门营养家食用调和油）", and elevate its brand positioning and product mix. In June 2018, "Fortune Nutritious Cooking Oil（福临门营养家食用调和油）" and "Hometown Flavour Peanut Oil（家香味土榨花生油）" were honoured to be designated for the 18th Meeting of the Council of Heads of State of the Shanghai Cooperation Organisation. This recognition strengthened the image of premium "Fortune（福临门）" brand and reliable products quality. At the same time, a number of measures were undertaken to deepen our presence in sales channels. By reducing the number of stock keeping units (SKUs) and optimising distributers and customer management, the total sales volume of consumer-packaged edible oil products during the period under review increased by 16.7% year-on-year to 570,000 metric tons [1].

During the first half of the year, the oilseeds processing business sold 4.511 million metric tons of oilseed meals and 2.436 million metric tons of vegetable oil, 23.2% and 34.1% increases respectively from high base for the same period of last year. Revenue rose by 35.0% over the last corresponding period to HK$33,224.2 million. Gross profit margin ("GPM") was 7.2%. Operating profit was HK$644.0 million, a 48.9% increase year-on-year.

[1] China Agri completed the acquisition of relevant business on 14 September 2017. Comparative data for the same period of last year is the quantity of packaged edible oil sold by the business prior to the acquisition.

Rice Processing and Trading Business

In the first half of 2018, domestic paddy prices gradually returned to market levels as the government reduced its minimum purchase price, easing raw material cost pressure. As consumption matured, favouring consumer-packaged products as well as high quality varieties of rice, the product mix were improved. Average sales prices across the industry were higher, leading to greater profitability. The rice processing industry further developed towards large-scale production, integrated operation and brand marketing to better meet the consumers' demands, promoting capacity and market concentration.

During the period under review, the Company kept promoting the development of branded business. By adopting various publicity measures, including promotions at important festivals, rice culture education, CCTV programs advertisement and internet publicity, the rice processing and trading business enhanced brands' visibility and influence. During the holiday of Spring Festival, we held an offline themed promotion named "Taste Fine Rice and Flour, Taste Chinese New Year (舌尖上的好米麵，舌尖上的中國年) " and cooperated with Alipay to build brand loyalty with its wealth collecting game. Many e-commerce platform products were launched and customised in cooperation with famous IP including CCTV program "A Bite of China 3 (舌尖上的中国第三季) ", "Imperial Cuisine (御膳房) ", "the Emperor's Wish (朕的心意) " and "Journey Frog (旅行青蛙) ". For expanding distribution channels, the Company enhanced strategic cooperation with Carrefour and Wal-Mart for on-line business and engaged with new retail customers such as Hema Fresh and Bianlifeng. The market penetrations of consumer-packaged grain products were further deepened by the new cooperation with Petrochina's uSmile, Sinopec's Ejoy and professional catering companies. The branded business has maintained consistent growth with nearly 3,000 community activities and 100 road shows. Sales volume of consumer-packaged rice products increased by 6.5% year-on-year to 381,000 metric tons during the period under review, maintaining the leadership in its category among competing products for nine consecutive years (2009-2017) [2].

Domestic policy adjustment and declining prices of paddy were favourable for the export business. The Company adopted a sales model of "go abroad and bring home (走出去，請進來) ". By inviting our customers to visit the place of origin, factories and ports to evaluate product quality on-site, we built customer confidence and expanded our international presence. With the regular quality assurance meetings, innovative logistics and other supply chain management measures, we enhanced the product quality and efficient supply. Such efforts won recognition from overseas customers and resulted in substantial growth in export volume. The business growth remained solid as additional sales contributed by exports offset the declines of import business.

During the period under review, both of our branded and export business showed sustainable growth. Total product sales volume increased 20.0% year-on-year to 1.559 million metric tons. Revenue grew by 18.4% year-on-year to HK$7,438.3 million. Capacity utilisation reached a historic high as sales volume increased. GPM was 15.6%. Operating profit was HK$394.9 million, an increase of 42.4% over the same period of last year.

[2] Data source: China General Chamber of Commerce

Wheat Processing Business

During the period under review, the market-oriented reform in domestic wheat pricing policy advanced. Wheat market was pressured by abundant supply and declined procurement and auction prices. The sector increasingly recognised the quality wheat through price premium, leading to wider price gap comparing with common feedstock. With the changes in the supply structure of raw materials, the processors conducted two different kinds of strategies to achieve development. Some want to achieve economy of scale and low-cost production system by expanding volume. The other strategy is strengthening competitive advantages through regional market cultivation and differentiation. The industry average profitability improved gradually.

In order to support the future development and scale expansion, the wheat processing business improved geographic footprint to secure high-quality raw grain supplies and increase the number of distribution hubs. By establishing professional sales team, market feedback and service efficiency speeded up to provide better service for the special-purpose flour customers. Promotion measures like joint R&D with customers and dedicated service team worked well to enhance loyalty and attract new customers. Sales volume growth of flour products remained healthy.

For promoting consumer-packaged flour products, the wheat processing business participated in exhibitions, sponsored events and hosted product demonstrations to increase brand awareness. For enriching its product lines, the consumer-packaged business differentiated its strategies for packaged flour and packaged noodle products based on their different market environments. Mid- and high-end products with regional characteristics such as “Fortune Xinjiang Wheat Core Flour (福临门新疆麦芯粉)” and “Hetao Plain Flour (河套平原雪花粉)” are the frontrunners in our structural upgrading of flour products. The Company has also launched price competitive product, the “Miaohuijia (妙惠佳)” series of noodle to open new sales channel for sustainable expansion. With customer marketing activities such as “Xinjiang Good Flour (新疆好麵-亞克西)” and “Hetao Flour, Natural Gift (天賜河套-麵中貴族)”, we speeded up the development of branded business gradually.

During the period under review, the wheat processing business sold 1.311 million metric tons of flour products, a 18.2% increase over the high level for the same period of last year, and capacity utilisation remained at a high level. Sales volume of noodle products increased by 32.5% year-on-year to 70,000 metric tons. Total revenue was HK$5,971.4 million and GPM was 9.3%. Operating profit increased by 49.8% year-on-year to HK$104.0 million.

Brewing Materials Business

Globally, barley supply was tight due to low old crop inventory in the main production regions. Drought in the new harvest season affected production volume and quality, leading to increased barley prices and raw material costs. Product price remained stable against the backdrop of a flat downstream beer market. Profit margin was squeezed as it hardly offset the additional costs.

In order to ensure sales performance during the period, the brewing materials business executed a number of strategies. It reinforced multi-channel marketing to target key customers and established dedicated team to provide comprehensive services in areas including raw materials, technology and sales. The customers' loyalty was enhanced by differentiate solutions and services. By establishing and promoting the standardised quality management system, the business was able to monitor each business process such as products customisation, raw materials procurement, production and shipments, enhancing the quality control and competitiveness of product. With the support of mature management system and integrated supply chain, we improved the efficiency to cope with the challenge of high capacity utilisation. In the first half of 2018, the sales volume of malts was 364,000 metric tons with a year-on-year increase of 2.2%. Operating scale remained at a high level and reported revenue of HK$1,289.4 million.

As of the end of 2017, the Company operated three brewing materials plants in Liaoning, Jiangsu and Inner Mongolia with a total annual production capacity of 740,000 metric tons. The Liaoning and Jiangsu plants experienced operational stability due to their strategic coastal location and accessibility of import high-quality barley as raw material. Following the construction and launch of the plant in Inner Mongolia in 2010, its operating environment underwent fundamental changes. The production and quality of local barley continued to decline and was unable to satisfy usual business demand. Although the Company used various strategies including order-based planting, mixing of domestic and imported raw materials and business restructuring, it proved difficult to stop the losses and the negative impact on our overall performance. Moreover, additional investments to the plant is also required for continuing production under the stricter environmental policy. As part of the Group's ongoing policy to maximise divisional operating performance, the management decided to cease operation of the plant in order to prevent future losses. Accordingly, the brewing materials business reported an operating loss of HK$5.7 million in the first half of 2018 after making a provision of HK$128.5 million for impairment loss of the plant.

Outlook

Looking ahead to the second half of the year, China's economy is expected to maintain steady while mitigating risks and making structural adjustments. The evolution of consumption and trend to upgrading demand will continue to provide growth opportunities for the grains, oil and food markets. Supply-side reforms in the agricultural industry and the pricing mechanism reform for grain products create new growth opportunities for industry leaders' further expansion. Such companies can better cope with the business risks caused by the uncertainties of international trade and monetary policies. With the more concentrated market share and enhanced advantages, they will lead the industry to upgrade and develop.

The Company will continue to focus on branded business, relying on an effective supply chain to support the expansion of retail products and profitability. Given the high capacity utilisation level currently experienced, we will explore a reasonable path for future growth and sustainable development.

Management will continue to work diligently to strengthen professional operations and precision management to improve business judgment and responses to business challenges brought by market volatility and industry competition. With a very encouraging results from continuing operations for the first half year, we will endeavor to maintain the satisfactory performance for the whole year.

FINANCIAL REVIEW

Overview of Financial Results for the Six Months Ended 30 June 2018

Revenue from Continuing Operations

	For the six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Business units of continuing operations:		
Oilseeds processing	**33,224.2**	24,612.7
Rice processing and trading	**7,438.3**	6,283.1
Wheat processing	**5,971.4**	4,140.2
Brewing materials	**1,289.4**	1,231.9
Corporate and others	**396.9**	2,752.2
	48,320.2	39,020.1

For the six months ended 30 June 2018, the supply chains of each business unit operated in a highly efficient manner. Through the continuous effort of market development, sales volume of major products of the Group such as vegetable oil, oilseed meals, rice and flour grew year-on-year which drove the overall capacity utilisation rate to a high level. During the period, total revenue from continuing operations increased 23.8% to HK$48,320.2 million from a year earlier.

Gross Profit and Gross Profit Margin

During the period, the profitability of domestic agricultural processing industry relatively improved. The Group seized the market opportunity to continuously expand the scale and profit margins of core business such as oil, rice and flour. With the steady development of branded business, the relevant business operations maintained a good momentum which helped raising the Company's overall gross profit from continuing operations by 62.5% to HK$4,369.4 million. Gross profit margin up 2.1 percentage points year-on-year to 9.0%.

Selling and Distribution Expenses

During the period, selling and distribution expenses from continuing operations were HK$2,230.0 million (six months ended 30 June 2017: (restated) HK$1,131.5 million). It accounted for 4.6% of the Group's total revenue from continuing operations (six months ended 30 June 2017: (restated) 2.9%). The rise in expenses was mainly attributable to larger advertising and promotion costs as well as logistic expenses after the acquisition of consumer-packaged edible oil business by the Group in September 2017.

Administrative Expenses

For the six months ended 30 June 2018, administrative expenses from continuing operations rose 17.4% year-on-year to HK$961.3 million due to higher employees' compensation expenses for staff incentive as a result of better operation results.

Finance Costs

During the period, finance costs from continuing operations were HK$302.7 million (six months ended 30 June 2017: (restated) HK$285.2 million). Finance costs were slightly increased as compared with the same period last year. An analysis of the finance costs by category is as follows:

	For the six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Interest on:		
Bank loans	**274.2**	236.0
Loans from fellow subsidiaries	**29.4**	15.3
Loans from the ultimate holding company	**0.6**	34.5
Total interest expenses on financial liabilities not at fair value through profit or loss	**304.2**	285.8
Less: Interest capitalised	**(1.5)**	(0.6)
	302.7	285.2

Share of Profits and Losses of Associates

Benefited from improving operating environment and business growth of the associated companies of oilseeds processing business, the share of profits of associates surged 187.1% from a year earlier to HK$125.0 million during the period.

Profit Attributable to Owners of the Company

For the six months ended 30 June 2018, sales volume of the Group's major products grew year-on-year to a higher level through the continuous effort of market development. Driven by the active implementation of research and development on innovative products and the optimisation of products mix, the scale of branded business and gross profit of the products further increased. During the period, the profit attributable to owners of the Company were HK$751.0 million, representing a significant increase of 60.3% as compared with the profit from continuing operations from a year earlier period. However, the Group's profit attributable to owners of the Company for the current period declined 29.1% year-on-year due to the classification of biochemical and biofuel business as discontinued operation following the completion of the disposal of such business by the Company on 27 December 2017.

Interim Dividend

The Board has declared the payment of an interim dividend of 3.6 HK cents (six months ended 30 June 2017: 4.0 HK cents) per share for the six months ended 30 June 2018. This interim dividend will be payable on or around 31 October 2018 to shareholders whose names appear on the register of members of the Company on 14 September 2018.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

The Group did not have any significant investments held nor any material acquisitions and disposals of subsidiaries during the period.

Working Capital and Financial Policy

The Group closely monitors the liquidity of funding and the availability of financial resources to ensure that cash inflows generated from operating activities together with undrawn banking facilities are sufficient to meet the demands required for day-to-day operations, loan repayments, capital expenditure and potential business expansion opportunities. During the period, the Group's operations were financed primarily by the accumulated surplus and bank borrowings.

The Group adheres to a prudent and stable financial policy and commits to developing new external funding channels, strengthening fund-raising capability and ensuring liquidity of funding. Internally, the Group aims to raise turnover rate and generate more operating cash flows by reasonably managing the liquid funding on inventories and trade receivables as well as pursuing a centralised cash management on surplus funding. Besides, the Company has adjusted the debt structure and actively used hedging tools to avert foreign exchange risk exposure on the foreign debts.

The Group entered into the financial services agreement with COFCO Finance Co., Ltd. through COFCO Agri-Industries Management Co., Ltd. (a subsidiary of the Company) for the purpose of achieving more efficient deployment and application of funds within the Group so as to reduce the average borrowing costs and better facilitate intra-Group settlement services. During the period, the Group enhanced the liquidity of funds, reduced finance costs and effectively managed the use of funds through this treasury platform.

Cash and Bank Deposits

The cash and bank deposits (including restricted cash at bank) of the Group were HK$10,825.9 million as at 30 June 2018 (31 December 2017: HK$10,571.8 million). During the period, the Group recorded net cash outflows from operations of approximately HK$3,616.9 million (year ended 31 December 2017: net cash inflows of HK$695.8 million). These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

Bank Loans and Other Borrowings

The total interest-bearing bank loans and other borrowings amounted to HK$23,747.1 million (31 December 2017: HK$19,181.2 million) as at 30 June 2018. The borrowings were mainly used for the daily operation and business expansion of the Group. These loans are repayable within the following periods:

	30 June 2018	31 December 2017
	HK$ million	*HK$ million*
Within one year or on demand	**23,597.7**	19,007.0
In the second to fifth years, inclusive	**90.1**	108.4
Beyond five years	**59.3**	65.8
	23,747.1	19,181.2

The interest-bearing bank loans carried annual interest rates ranging between 1.76% and 4.90% (31 December 2017: between 1.53% and 4.90%). Other borrowings carried annual interest rates ranging between 1.08% and 4.35% (31 December 2017: between 1.08% and 4.35%). These interest-bearing bank loans and other borrowings were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 30 June 2018, the Group has pledged assets, including property, plant and equipment and land use rights, with an aggregate carrying value of HK$226.2 million (31 December 2017: HK$163.1 million) to secure bank loans and banking facilities of the Group.

The Group had no unutilised committed banking facilities as at 30 June 2018 and 31 December 2017. The Group will continue to obtain financing on an unsecured basis whenever possible and supplement such borrowings with secured financing.

Financial Ratios

The Group's financial ratios at 30 June 2018 and 31 December 2017 are set out below:

	30 June 2018	31 December 2017
Net gearing ratio (the ratio of net debts to equity attributable to owners of the Company)	**44.0%**	28.8%
Liquidity ratio (the ratio of current assets to current liabilities)	**1.30**	1.38
Quick ratio (the ratio of current assets less inventories to current liabilities)	**0.66**	0.67

Net debt represents the Group's total interest-bearing bank loans and other borrowings less cash and cash equivalents and restricted cash at bank. Therefore, net debt of the Group was HK$12,921.2 million at 30 June 2018 (31 December 2017: HK$8,609.4 million).

Capital Expenditures

The total capital expenditures of the Group's continuing operations for the period ended 30 June 2018 are tabulated below:

	For the six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Business units of continuing operations:		
Oilseeds processing	**207.5**	231.3
Rice processing and trading	**54.0**	82.5
Wheat processing	**73.6**	23.4
Brewing materials	**41.0**	61.8
Corporate and others	**9.3**	16.4
	385.4	415.4

Capital Commitments

Capital commitments contracted but not provided for in the Group's condensed consolidated interim financial information as at 30 June 2018 are set out below. These commitments are to be financed by loans and working capital of the Group.

	30 June 2018 *HK$ million*	31 December 2017 *HK$ million*
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	**768.8**	247.7

HUMAN RESOURCES

The Group employed 17,063 (31 December 2017: 18,307) staff as at 30 June 2018. The Group's employees are remunerated based on job nature, individual performance and market trends with built-in merit components. Total remuneration (including directors' and chief executive's remuneration) for the period ended 30 June 2018 amounted to approximately HK$1,254.9 million (six months ended 30 June 2017: (restated) HK$973.7 million). Employees in Hong Kong receive retirement benefits, mostly in form of a Mandatory Provident Fund entitlement, and a similar benefit scheme is offered to employees in Mainland China. Of the total remuneration, pension scheme contributions amounted to HK$98.9 million (six months ended 30 June 2017: (restated) HK$81.1 million) for the period.

The Company 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 that would encourage them to work towards enhancing the value of the Company and its shares. The share option scheme of the Company expired on 21 March 2017. As at 30 June 2018, there were approximately 98,292,000 outstanding share options granted, which are exercisable in accordance with the terms of the expired share option scheme.

Besides, the Group also encourages employee participation in continuing training programmes, seminars and e-learning courses, through which will enhance their career development and technical skills for tapping individual potentials.

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 Company's listed securities during the six months ended 30 June 2018.

INTERIM DIVIDEND

On 29 August 2018, the Board resolved to declare the payment of an interim dividend of 3.6 HK cents per ordinary share for the six months ended 30 June 2018 (the "2018 Interim Dividend") payable on or around 31 October 2018 to shareholders of the Company whose names appear on the register of members of the Company on 14 September 2018 (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 (the "SAT") on 22 April 2009 (the "Notice"). The implementation of the Notice commenced on 1 January 2008. In 2013, the Company received the SAT approvals which confirmed that (i) the Company is regarded as a Chinese Resident Enterprise; and (ii) relevant enterprise income tax policies shall be applicable to the Company starting from 1 January 2013. Pursuant to the Notice, 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, the Company is required under the laws of the PRC to withhold and pay Enterprise Income Tax for its non-resident enterprise shareholders to whom the Company pays the 2018 Interim Dividend. The withholding and payment obligation lies with the Company.

Pursuant to (i) the Notice, (ii) the Enterprise Income Tax Law and the Implementation Rules, and (iii) the SAT approvals, the Company is required to withhold 10% enterprise income tax when it distributes the 2018 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 2018 Interim Dividend after deducting enterprise income tax of 10%. The Company will not withhold and pay the income tax in respect of the 2018 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 before 4:30 p.m. on 13 September 2018.

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.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the 2018 Interim Dividend, the register of members of the Company will be closed on 14 September 2018. No transfers of shares will be registered on that date. In order to be qualified for entitlement to the 2018 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 13 September 2018.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2018, the Company has complied with all the code provisions and, where appropriate, the applicable recommended best practices set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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. Each of the directors of the Company have confirmed, following specific enquiry of all the directors 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 2018.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information of the Company for the six months ended 30 June 2018 has been reviewed by the Audit Committee of the Company.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the Company's website *(http://www.chinaagri.com)* and the website of The Stock Exchange of Hong Kong Limited. The 2018 interim report of the Company will be available on the aforementioned websites and despatched to shareholders of the Company before 30 September 2018.

By Order of the Board
China Agri-Industries Holdings Limited
DONG Wei
Chairman

Hong Kong, 29 August 2018

As at the date of this announcement, the Board comprises: Mr. DONG Wei as chairman of the Board and executive director; Mr. WANG Qingrong and Ms. YANG Hong as executive directors; Mr. JIA Peng and Mr. MENG Qingguo as non-executive directors; and Mr. LAM Wai Hon, Ambrose, Mr. Patrick Vincent VIZZONE and Mr. ONG Teck Chye 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.