



Fufeng Group Limited 阜豐集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 546)



2007
Interim Report



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CORPORATE INFORMATION

Executive Directors

Mr. Li Xuechun
Mr. Wang Longxiang
Mr. Wu Xindong
Mr. Yan Ruliang
Mr. Feng Zhenqua
Mr. Xu Guohua
Mr. Li Deheng
Ms. Li Hongyu
Mr. Gong Qingli

Independent non-executive Directors

Mr Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Liang Wenjun

Principal place of business in the PRC

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Principal place of business in Hong Kong

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Compliance adviser

Goldbond Capital (Asia) Limited

Legal advisers

Kirkpatrick & Lockhart Preston Gates Ellis

Independent auditor

PricewaterhouseCoopers

Branch share registrar

Tricor Investor Services Limited

Stock code

546

Website

www.fufeng-group.com

MANAGEMENT DISCUSSION AND ANALYSIS

Successful listing on Main Board of the Stock Exchange

On 8 February 2007 (the "Listing Date"), shares of the Company (the "Shares") were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Application money of approximately HK\$57.6 billion was received in relation to the initial public offer of the Shares, being part of the global offering of Shares (the "IPO") and interest income of approximately HK\$43 million was earned from such application money. An aggregate of 460,000,000 Shares (including Shares issued pursuant to the exercise of the over-allotment option) were issued during the IPO and the gross listing proceeds (the "Listing Proceeds") received from the IPO amounted to approximately HK\$1.03 billion. The Listing Proceeds has strengthened the Group's capital structure and has provided adequate funds to expand the Group's production capacity and to develop the Group's sales and marketing network. The listing also consolidated the Group's position for long-term development. In addition, the listing provides the Group with a platform for future fund raising.

Industry overview

The price fluctuation of corn kernel and certain corn-based biochemical products during the first half of 2007 affected the corn-based biochemical industry players in the People's Republic of China (the "PRC").

Following the soaring trend in 2006, the price of corn kernel in the market continued to increase in the first half of 2007. The expectation of high consumption of corn kernels for the production of ethanol, and the establishment of a large number of new corn-processing plants in the PRC since 2006 greatly increased the demand for corn kernel, leading to the increase in price of corn kernel. Since corn kernel is one of the major basic foods in the PRC, the government adopted certain administrative measures in December 2006 and April 2007 with an aim to control the production of ethanol from corn kernel and the expansion of corn-processing facilities, with an aim to control the use and price of corn kernel. The effect of the above-mentioned administrative measures is still under observation. Further, the increase in price of corn kernel was propelled by the shortage of pork in the PRC. In the second quarter of 2007, the supply of pork was seriously in shortage, attracting more people entering the industry, which increased the demand for corn-based animal feeds. As the demand for corn kernel was driven up, the price of corn kernel also increased.

The prices of glutamic acid and MSG went up to a high level in 2006, which attracted a number of competitors entering the market with a large number of new corn-processing plants in the PRC established in the first half of 2007. The prices of certain corn-processing products including glutamic acid and MSG dropped in the first half of 2007 due to the increase in supply of the products. This, together with the measures of the PRC government in June 2007 to curb the MSG production facilities of 30,000 metric tonnes ("MT") or below, may lead to the restructuring of the industry. The pace of restructuring, however, is still under observation.



Business review

Operation overview

First half of 2007 was one of the most challenging periods of the Company and its subsidiaries (the “Group”) since its establishment. Facing the keen market competition and the pressure from drastic increase in the price of raw materials, the Group has put enormous effort in sustaining its profitability while leveraging on the opportunity to expand its customer base to enlarge its market share in glutamic acid in the PRC.

The Group was successful in its strategy in maintaining its leading position in the industry by increasing the production capacity, which in turn enlarged its market share in the first half of 2007.

Following commencement of production of glutamic acid and MSG in Inner Mongolia Plant Phase I in late 2006 and in Junan Plant Phase II in early of first quarter 2007 respectively, the production capacity of major products of the Group were almost fully utilised in the first half of 2007. The inventory of the Group was kept at a healthy level with average inventory turnover of around 38 days.

The well recognition of the Group’s brand name and stable customer base provided a strong foundation to the Group to maintain its leading position in the market. The Group’s customer base for the six months ended 30 June 2007 was enlarged by 47% when compared with that of 2006. By increasing the sales volume of its major products following the increase in production capacity, the Group enlarged its market share over the first half of 2007.

The establishment of the Inner Mongolia Plant Phase I, which is strategically located in resources rich region (including corn kernel and coal), provided a stable supply of resources and reduced the cost of coal for the Group. The production of sweeteners was only in small scale due to the low selling price.

The Group was inevitably affected by the price fluctuation of corn kernel and its major products like glutamic acid and MSG. The increase in the cost of corn kernel and the decrease in average selling price (the “ASP”) of the Group’s products drove down the gross profit of the Group in the first half of 2007 as compared with that in 2006.

Sales

The sales volume of glutamic acid and MSG increased by 4.7% and 197.4% or approximately 3,900 MT and 28,300 MT respectively for the six months ended 30 June 2007 when compared with that in 2006. This represented the continuous support and recognition of the Group’s products by its customers following the Group’s expansion in production capacity in Inner Mongolia Plant Phase I and Junan Plant Phase II. The Group was able to maintain its leading market position and market share.

Production capacity

During the first half of 2007, the production capacity of the Group's major products were almost fully utilised. Following the commencement of operations in Inner Mongolia Plant Phase I in the late 2006 and the Junan Plant Phase II in early of first quarter 2007, the production capacity of glutamic acid and MSG increased by 75% and 200% respectively when compared with that of 2006. The actual production output of these two products were also increased by 41% and 140% respectively when compared with that of 2006. Xanthan gum also performed well during the first half of 2007. Following the increase in 100% production capacity since September 2006, the actual output of xanthan gum increased by 81% when compared with that of 2006.

The design production capacity, the actual production output and the utilisation rate of each of the Group's major products for the first half of 2007, together with the comparative figures in the first half of 2006 were summarised as follows:

Product	For the six months ended 30 June		Change (%)
	2007 (metric tonnes)	2006 (metric tonnes)	
Glutamic acid			
Annual design production capacity	140,000	80,000	75
Actual production output	138,243	97,760	41
Utilisation rate	99%	122%	
MSG			
Annual design production capacity	37,500	12,500	200
Actual production output	34,961	14,576	140
Utilisation rate	93%	117%	
Xanthan gum			
Annual design production capacity	4,000	2,000	100
Actual production output	3,818	2,113	81
Utilisation rate	95%	106%	
Fertiliser			
Annual design production capacity	245,000	145,000	69
Actual production output	188,756	135,264	39
Utilisation rate	77%	93%	

Note: The annual design production capacity is expressed on a pro-rata basis.

Financial review

Results

The profit attributable to shareholders of the Company for the six months ended 30 June 2007 was approximately RMB33 million which represents a decrease of approximately 71% or approximately RMB81 million as compared with that of 2006. The decrease is mainly due to the reduction in gross profit of the Group for the six months ended 30 June 2007.

Turnover

The turnover of the Group for the six months ended 30 June 2007 was approximately RMB1,119.1 million which represents a growth of approximately 37% or approximately RMB302.5 million as compared with that in 2006. The increase in turnover is analysed as follows:

Following the commencement of operations of the glutamic acid production facilities of Inner Mongolia Plant Phase I in late 2006 and the MSG production facilities of Junan Plant Phase II in the first quarter of 2007, the production capacity of these two major products increased significantly. With the continuous support and recognition from customers, the sales volume of glutamic acid and MSG increased by approximately 4.7% and 197.4% respectively for the six months ended 30 June 2007 when compared with that in 2006. The sales volume of xanthan gum also increased by approximately 12.9% during the period under review.

Set out below are the ASPs of the major products of the Group for the six months ended 30 June 2006 and 2007:

Product	For the six months ended 30 June		Change %
	2007 RMB/MT	2006 RMB/MT	
Glutamic acid	5,962	5,800	3
MSG	6,130	6,151	(1)
Xanthan gum	25,303	25,923	(2)
Fertilisers	433	582	(26)

The Group experienced a drop in ASP of its major products during the six months ended 30 June 2007. The Group had expected the ASP to drop in the first quarter of 2007 due to the increase in production capacity of Inner Mongolia Plant Phase I and Junan Plant Phase II since late 2006 and first quarter of 2007 respectively. Without following the similar trend in 2006, the ASP continued to drop in the second quarter of 2007. The directors of the Company (the "Director") believed that the drop was brought about by the unexpected increase in production capacity in the market.

Cost of sales

A. Corn kernel

Corn kernel remains the principal raw material in the production of the major products of the Group. For the six months ended 30 June 2007, corn kernel represented approximately 54% (2006: 50%) of the total production cost. Such increase reflects the effect of the increase in price of corn kernel.

The average cost of corn kernel included in the cost of production of the Group for the six months ended 30 June 2007 was RMB1,352 per MT, representing an increase of approximately 23.7% or approximately RMB259 per MT from the corresponding period in 2006.

B. Coal

Being another major raw material, the average cost of coal for the six months ended 30 June 2007 reduced by approximately 23% or approximately RMB74 per MT when compared to the average cost of coal for the year ended 31 December 2006. The reason for the reduction is mainly due to the commencement of Inner Mongolia Plant Phase I which was strategically located in coal rich region.

C. Other costs

Other costs included in the cost of sales remain relatively stable during the first half of 2007.

Gross profit

Set out below are the gross profits of the major products of the Group for the six months ended 30 June 2006 and 2007:

	2007		2006	
	RMB'000	%	RMB'000	%
Glutamic acid	58,384	11.1	117,539	23.9
MSG	24,683	9.4	13,985	15.9
Xanthan gum	20,219	35.5	18,109	35.0
Fertilisers	8,106	10.0	20,369	24.7

The gross profit of the Group's major products for the six months ended 30 June 2007 reduced significantly when compared with that of 2006 due to the increase in the price of corn kernel as discussed above.

Other income

Other income included interest income of HK\$43 million earned from the application money in IPO and the RMB6 million from the sales of waste materials.



Selling and marketing expenses

The selling and marketing expenses of the Company for the six months ended 30 June 2007 was RMB50 million which represents an increase of approximately 58% or approximately RMB19 million as compared with that of 2006. The increase is mainly due to the Group bearing the cost of transportation for the customers in order to promote sales in Inner Mongolia Plant Phase I.

Administrative expenses

The administrative expenses of the Group for the six months ended 30 June 2007 was approximately RMB54 million which represents an increase of approximately 226% or approximately RMB37 million as compared with that of 2006. The increase are mainly due to the following reasons: i) the commencement of operations of Inner Mongolia Plant Phase I which accounted for approximately RMB11 million of the administrative expenses; ii) the amortization on pre-IPO share options values which accounted for approximately RMB11 million (please refer to paragraph headed "Share option scheme" under "Other information" section below for further details); iii) the increase of administrative expenses in Junan Plant by approximately RMB11 million due to the increase in salaries of the management and the depreciation charges during the renovation of the Junan Plant Phase I.

Other operating expenses

Other operating expenses of the Group for the six months ended 30 June 2007 was increased by approximately RMB15 million when compared with that of 2006. The increase is mainly due to the exchange loss which is further discussed in the paragraph headed "Exchange difference" below.

Financing and finance cost

Borrowing as at 30 June 2007 was reduced when compared with that as at 31 December 2006 mainly due to the repayment of loan in the principal amount of US\$40 million borrowed by the Company from ABN AMRO Bank N.V. Beijing Branch pursuant to a facility agreement dated 24 July 2006 utilising the Listing Proceeds (the "ABN Loan").

The finance costs of the Group for the six months ended 30 June 2007 increased by approximately RMB10 million when compared with that of 2006. The increase is mainly due to the increase in interest expenses of approximately RMB15 million, which is off-set by an exchange gain of approximately RMB8 million.

The major reasons for the increase in interest expenses are: i) increase in borrowings during the six months ended 30 June 2007; and ii) the amortization of approximately RMB7 million loan expenses in relation to the ABN Loan.

The exchange gain of approximately RMB8 million is further discussed in the paragraph headed "Exchange difference" below.

Exchange difference

During the six months ended 30 June 2007, RMB appreciated by approximately 3% as compared with the HK\$. The appreciation of RMB led to a net exchange loss of approximately RMB7 million on the Group's assets and liabilities denominated in HK\$, being mainly the Listing Proceeds. In order to minimise the effect of exchange rate risk, the Listing Proceeds were placed in Hong Kong-dollar fixed deposits before translating into RMB, which earned approximately RMB6 million interest income for the six months ended 30 June 2007.

Looking forward

For the second half of 2007, the Group expects that the price of corn kernel will likely maintain at a high level in the third quarter and might decrease slightly in the fourth quarter due to the harvest of new corn. The Group believes that the market consolidation will continue with the market environment remains competitive. The slight increase in the price of glutamic acid after 30 June 2007 as compared with that of June 2007 shows that there is a possible sign of market consolidation. The Group would like to see the stabilised/decreasing trend in the price of corn kernel and the increasing trend in the selling price of major products of the Group as soon as possible. Being the leader in the glutamic acid and MSG markets in the PRC, the Group is confident to capture more market share in the market consolidation, leveraging on its scalable production capacity and extensive customer base.

The almost fully utilised production capacity and increase in sales volume after the expansion of the production capacity confirmed the Group's expansion strategies. The xanthan gum production facilities in Inner Mongolia Plant Phase II are now under construction and are expected to commence operations in second half of 2007 or early 2008. Regarding the MSG production facilities in Baoji Plant, following the change in use of proceeds by reallocating 70,000MT production capacity of MSG, with investment cost of approximately HK\$120 million, originally planned for Inner Mongolia Plant Phase II to Baoji Plant, the negotiation with government authority in relation to the acquisition of land for such production facilities is close to finalisation and construction will commence immediately after that. The production of MSG in Baoji Plant is scheduled to commence in late 2007 or early 2008. The construction of MSG production facilities in Inner Mongolia Plant Phase II is scheduled to commence in late 2007 or early 2008. The Group will closely monitor the market situation and formulate the expansion plan in a prudent way.

The Group considers that other than the brand recognition, financial strength is another important factor in increasing the Group's competitiveness in view of the industry consolidation. The Group has established significant customer base, and has increased its market share during the first half of 2007. This provides a solid foundation for future sales growth and increase in cash-flow from operating activities in the future.

The Group will further acquire new customers and explore potentials with existing customers, as well as increasing its market share so as to generate continuous sales growth. Leveraging on the Group's advantages in capital base, brand recognition, scalable production capacity, management and distribution strengths, the Group will continue expand and strengthen its competitiveness, so as to consolidate the Group's leading position in the market and to create the greatest return to the Company's shareholders.



Liquidity and financial resources

The Group maintained a healthy liquidity position throughout the period under review. As at 30 June 2007, the Group's cash and cash equivalent and restricted bank deposits were RMB544 million (2006: RMB65 million) whereas current bank borrowings were approximately RMB271 million (2006: RMB415 million) and non-current bank borrowings were approximately RMB294 million (2006: RMB335 million).

Material acquisitions or disposal of subsidiaries and associated companies

The Group had no material acquisitions or disposal of subsidiaries or associated companies for the six months ended 30 June 2007.

Employees

As at 30 June 2007, the Group had approximately 1,300 employees. Employees' remuneration are paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses are paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share option schemes" under the "Other information" section below for the share options granted to certain Directors and employees of the Group before the IPO.

Charges on assets

As at 30 June 2007, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB265 million were pledged to certain banks to secure bank borrowings of RMB302 million of the Group.

Gearing ratio

As at 30 June 2007, the total assets of the Group amounted to approximately RMB2,780 million (2006: RMB1,924 million) whereas the bank borrowings amounted to RMB565 million (2006: RMB750 million). The gearing ratio was approximately 20% (2006: 39%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

During the six months ended 30 June 2007, most of the revenue and operating cost of the Group were denominated in RMB. The Listing Proceeds were denominated in HK\$ which is subject to foreign exchange risk before translating into RMB for the use stipulated in the prospectus of the Company dated 25 January 2007.

In order to minimise the foreign exchange risk on the appreciation of RMB (the base currency of the Group) during the six months ended 30 June 2007 on the one hand, and to maintain the liquidity of funds on the other hand, the Listing Proceeds were placed in Hong Kong-dollar fixed deposits before translating into RMB in order to earn a higher interest income.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June	
		2007 RMB'000 Unaudited	2006 RMB'000 Unaudited
Revenue	4	1,119,121	816,632
Cost of sales		(1,005,003)	(645,929)
Gross profit		114,118	170,703
Other income	5	60,605	6,597
Selling and marketing costs		(50,418)	(31,862)
Administrative expenses		(53,801)	(16,513)
Other operating expenses		(17,206)	(1,972)
Operating profit	6	53,298	126,953
Finance costs, net		(18,819)	(9,203)
Profit before income tax		34,479	117,750
Income tax expense	7	(1,672)	(3,519)
Profit attributable to shareholders		32,807	114,231
Basic earnings per share (in RMB cents)	8	2.07	9.52
Dividends	9	–	60,096

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2007 RMB'000 Unaudited	31 December 2006 RMB'000 Audited
Non-current assets			
Leasehold land payments	10	64,091	64,918
Property, plant and equipment	10	1,454,773	1,288,340
Deferred income tax assets		3,259	601
		1,522,123	1,353,859
Current assets			
Inventories		211,524	148,077
Trade and other receivables	11	502,876	357,814
Restricted bank deposits		21,500	23,500
Cash and cash equivalents		522,047	41,094
		1,257,947	570,485
Current liabilities			
Trade and other payables	12	752,346	610,573
Income tax payable		1,094	4,244
Current portion of deferred income		5,270	5,198
Borrowings	13	271,000	414,630
		1,029,710	1,034,645
Net current assets/(liabilities)		228,237	(464,160)
Total assets less current liabilities		1,750,360	889,699
Non-current liabilities			
Deferred income		25,648	27,599
Borrowings	13	294,400	335,000
Deferred income tax liabilities		898	707
		320,946	363,306
Net assets		1,429,414	526,393
Represented by:			
Share capital	14	1,356,821	401,698
Reserves			
– Proposed final dividend		–	96,114
– Others		72,593	28,581
Shareholders' equity		1,429,414	526,393

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Unaudited Attributable to equity holders of the Company		
		Share capital and share premium RMB'000	Other reserves RMB'000	Total RMB'000
Balance at 1 January 2006		–	346,006	346,006
Profit for the six months		–	114,231	114,231
Dividends relating to 2005 paid in January 2006	9	–	(60,096)	(60,096)
Balance at 30 June 2006		–	400,141	400,141
Balance at 1 January 2007		401,698	124,695	526,393
Profit for the six months		–	32,807	32,807
Proceeds from shares issued	14	955,123	–	955,123
Employees share option scheme:				
– value of employee services		–	11,205	11,205
Dividends relating to 2006 paid in June 2007	9	–	(96,114)	(96,114)
Balance at 30 June 2007		1,356,821	72,593	1,429,414

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2007 RMB'000 Unaudited	2006 RMB'000 Unaudited
Cash flows from operating activities		
Cash generated from operations	212,641	279,740
Interest paid	(34,931)	(9,018)
Income taxes paid	(7,290)	(2,951)
Net cash flows from operating activities	<u>170,420</u>	<u>267,771</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(406,554)	(371,310)
Payment for leasehold land	(120)	–
Interest received	49,099	179
Net cash used in investing activities	<u>(357,575)</u>	<u>(371,131)</u>
Cash flows from financing activities		
Cash received from capital contributions	955,123	–
Dividends paid to the then shareholders	(96,114)	(61,572)
Government grants received	4,009	3,290
Proceeds from bank and other borrowings	496,600	259,100
Repayments of bank and other borrowings	(679,603)	(126,629)
Net cash from financing activities	<u>680,015</u>	<u>74,189</u>
Net increase/ (decrease) in cash and cash equivalents	492,860	(29,171)
Cash and cash equivalents at beginning of the period	41,094	73,947
Exchange difference	(11,907)	–
Cash and cash equivalents end of the period	<u>522,047</u>	<u>44,776</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Fufeng Group Limited (the "Company"), was incorporated in the Cayman Islands on 15 June 2005 as an exempted company with limited liability. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") since 8 February 2007. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (together, "The Group") are principally engaged in the manufacture and sales of corn-based biochemical products.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim condensed financial report should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2006.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those described in the consolidated financial statements of the Group for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – Int 8	Scope of HKFRS 2 ³
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ⁵

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

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

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

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

⁵ Effective for annual periods beginning on or after 1 November 2006

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	HKFRS 2 Group and Treasury Share Transactions ²
HK(IFRIC) – Int 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

For the application of these standards or interpretations, the management is either assessing the impact of or considers that there will have no material impact on the results and the financial position of the Group.

4. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of corn-based biochemical products including glutamic acid, monosodium glutamate ("MSG"), fertilisers, xanthan gum, starch sweeteners and corn refined products. Turnover and revenue represents gross sales, less discounts, returns and intra-group sales and is analysed as follows:

	Six months ended 30 June	
	2007 RMB'000 Unaudited	2006 RMB'000 Unaudited
Glutamic acid	528,071	490,825
MSG	261,446	88,207
Corn refined products	172,323	103,404
Fertilisers	81,175	82,486
Xanthan gum	56,960	51,708
Starch sweeteners	19,146	2
	1,119,121	816,632

The Group is principally engaged in a single business segment. More than 90% of the Group's turnover and operating profit are earned within the PRC and all operating assets of the Group are located in the PRC. Therefore, no business segment or geographical segment is presented.

5. OTHER INCOME

	Six months ended 30 June	
	2007 RMB'000 Unaudited	2006 RMB'000 Unaudited
Interest income (a)	49,099	179
Amortization of deferred income	2,599	2,186
Sales of waste materials	5,617	3,867
Others	3,290	365
	60,605	6,597

- (a) For the six months ended 30 June 2007, interest income included RMB42,060,000 earned from the application money on IPO.

6. OPERATING PROFIT

The following items have been credited / charged to the operating profit during the interim period:

	Six months ended 30 June	
	2007 RMB'000 Unaudited	2006 RMB'000 Unaudited
Amortisation of deferred income	(2,599)	(2,186)
Amortisation of leasehold land payments	947	738
Depreciation of property, plant and equipment	53,688	24,131
Value on employee services for the share option scheme	11,205	–
Foreign exchange losses	15,488	1,043
Provision for impairment of inventories	790	–

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2007 RMB'000 Unaudited	2006 RMB'000 Unaudited
PRC enterprise income tax		
– Current	4,139	3,182
– Deferred	(2,467)	337
	<u>1,672</u>	<u>3,519</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands and is exempted from payment of the Cayman Islands income tax.

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit in Hong Kong for the six months ended 30 June 2007.

PRC EIT is calculated based on the effective tax rate on assessable profit of subsidiaries established in the PRC in accordance with PRC tax laws and regulations.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law change the corporate income tax rate for respective PRC subsidiaries of the Company, which are foreign invested enterprises, to 25% with effect from 1 January 2008. As a result of the new CIT Law, the carrying value of deferred tax liability has been added up by approximately RMB304,000 in the six-month period ended 30 June 2007.

8. EARNINGS PER SHARE

	Six months ended 30 June	
	2007 Unaudited	2006 Unaudited
Basic earning per share (in RMB) cents	<u>2.07</u>	<u>9.52</u>

Basic earnings per share for each of the six months ended 30 June 2007 and 2006 is calculated by dividing the profit for the period attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year adjusted for as if the shares issued by the Company for acquiring Acquest Honour Holdings Limited ("Acquest Honour") had been outstanding throughout the period.

The exercise of the share options under the Pre-IPO Share Option Scheme would not have material dilutive effect on the earnings per Share for the six months ended 30 June 2007 as the exercise price of share options equals the weighted average market price of the Shares. There was no potential dilutive share for the six months ended 30 June 2006.

9. DIVIDENDS

A 2006 final dividend of RMB5.79 cents per ordinary share, totalling RMB96,114,000 was paid in June 2007. It was disclosed as proposed final dividend for the year ended 2006.

Dividends paid during the six months ended 30 June 2006 represented dividends declared by Acquest Honour to its then shareholders before it became the subsidiary of the Company.

10. CAPITAL EXPENDITURE

	Leasehold land payments RMB'000 (Unaudited)	Property, plant and equipment RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2006			
Opening net book amount at 1 January 2006	55,733	510,957	566,690
Additions	–	324,358	324,358
Depreciation and amortisation	(738)	(24,131)	(24,869)
Closing net book amount at 30 June 2006	54,995	811,184	866,179
Six months ended 30 June 2007			
Opening net book amount at 1 January 2007	64,918	1,288,340	1,353,258
Additions	120	220,121	220,241
Depreciation and amortisation	(947)	(53,688)	(54,635)
Closing net book amount at 30 June 2007	64,091	1,454,773	1,518,864

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2007 RMB'000 Unaudited	31 December 2006 RMB'000 Audited
Accounts receivable (a)	55,871	82,783
Notes receivable (b)	414,770	244,190
Prepayments	20,347	21,803
Deposits and other receivables	11,888	9,038
	502,876	357,814

- (a) The aging analysis of the trade receivables was as follows:

	As at	
	30 June 2007 RMB'000 Unaudited	31 December 2006 RMB'000 Audited
Within 3 months	53,847	77,055
Over 3 months	2,024	5,728
	55,871	82,783

The Group sells its products to customers and received settlement either in cash or in form of bank acceptance notes upon delivery of goods. The bank acceptance notes are usually with maturity dates within six months. Major customers with good repayment history are normally offered credit terms for not more than three months.

- (b) As at 30 June 2007, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB344,536,000 (2006: RMB216,815,000) applied for negotiation with the Group's suppliers for settling the amounts payable to them.

12. TRADE AND OTHER PAYABLES

	As at	
	30 June 2007 RMB'000 Unaudited	31 December 2006 RMB'000 Audited
Accounts payable (a, c)	407,556	227,374
Notes payable (b)	32,000	27,249
Advances from customers	106,096	61,217
Payables for leasehold land, property, plant and equipment	164,214	255,724
Other payables and accruals	42,480	39,009
	752,346	610,573

- (a) The aging analysis of the trade payables was as follows:

	As at	
	30 June 2007 RMB'000 Unaudited	31 December 2006 RMB'000 Audited
Within 3 months	324,023	221,479
3 to 6 months	43,291	2,961
6 to 12 months	38,125	2,237
Over 1 year	2,117	697
	407,556	227,374

- (b) Notes payables were all bank acceptance notes with maturity dates within six months and aged less than six months.
- (c) As at 30 June 2007, notes receivables of RMB344,536,000 (2006: RMB216,815,000) were applied for negotiation with the Group's suppliers for settling the amounts payable to them.

13. BORROWINGS

	30 June 2007 RMB'000 Unaudited	As at 31 December 2006 RMB'000 Audited
Non-current	294,400	335,000
Current	271,000	414,630
	565,400	749,630

Movements in borrowings is analysed as follows:

	RMB'000 (Unaudited)
Six months ended 30 June 2006	
Opening amount as at 1 January 2006	250,410
New borrowings	259,100
Repayments of borrowings	(126,629)
Closing amount as at 30 June 2006	382,881
Six months ended 30 June 2007	
Opening amount as at 1 January 2007	749,630
New borrowings	496,600
Amortization of discount	6,702
Repayments of borrowings	(679,603)
Exchange differences	(7,929)
Closing amount as at 30 June 2007	565,400

Interest expenses on borrowings and loans for the six months ended 30 June 2007 was RMB18,819,000 (30 June 2006: RMB9,203,000).

14. SHARE CAPITAL

	Number of authorised shares '000 Unaudited	Number of issued and fully paid shares '000 Unaudited	Amount		
			Ordinary shares RMB'000 Unaudited	Share premium RMB'000 Unaudited	Total RMB'000 Unaudited
Opening balance at 1 January 2006 and at 30 June 2006	–	–	–	–	–
Opening balance at 1 January 2007	10,000,000	1,200,000	123,372	278,326	401,698
Increase of issued shares	–	460,000	45,662	909,461	955,123
At 30 June 2007	10,000,000	1,660,000	169,034	1,187,787	1,356,821

On 8 February 2007, 400,000,000 shares of HK\$0.10 each of the Company were listed on the Stock Exchange which were issued through a public offer in Hong Kong and an international placing with institutional and professional investors.

On 14 February 2007, additional 60,000,000 shares of HK\$0.10 each of the Company were listed on the Stock Exchange which were issued through exercising the over-allotment option by the underwriters in respect of the Listing.

15. CONTINGENT LIABILITIES – THE GROUP

As at 30 June 2007, the Group had no material contingent liabilities.

16. RELATED PARTY TRANSACTIONS

Key management compensation is set out below:

	Six months ended 30 June	
	2007 RMB'000 Unaudited	2006 RMB'000 Unaudited
Salaries and allowances	2,186	450
Pension costs-defined contribution plan	25	16
	2,211	466

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and executive officers.

17. APPROVAL ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The condensed consolidated interim financial information was reviewed by the audit committee of the Company and approved by the board of Directors on 17 August 2007 and 21 August 2007, respectively.

OTHER INFORMATION

Corporate governance

The Company is committed to establishing and ensuring a high standard of corporate governance practices which place emphasis on quality of the board, sound and efficient internal control and accountability as well as transparency to equity holders. The Directors are in the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) since the Listing Date to 30 June 2007.

The audit committee of the Company has reviewed the Group’s unaudited interim financial statements for the six months ended 30 June 2007.

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. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions during the period under review.

Purchase, redemption or sale of securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2007.

Share option scheme

The Company adopted two share option schemes on 10 January 2007, pursuant to which the Company is entitled to grant options prior to and after the IPO. Pursuant to the share option scheme of the Company adopted on 10 January 2007 in relation to the grant of options prior to the IPO (the “Pre-IPO Share Option Scheme”), the Company granted options to subscribe for an aggregate of 96,000,000 Shares on 10 January 2007 to certain Directors and eligible employees as below:

Directors and eligible employees	Date of grant	No. of Shares subject to option	Exercise price (HK\$)	Exercise period	Shares subject to outstanding option as at 30 June 2007
Mr. Wang Longxiang (executive Director)	10/1/2007	16,000,000	2.23	8/8/2009 – 7/8/2012	16,000,000
Centrepont Assets Management Limited (a company wholly-owned by Mr. Gong Qingli, an executive Director)	10/1/2007	16,000,000	2.23	8/8/2007 – 7/8/2011	16,000,000
Other eligible employees	10/1/2007	64,000,000	2.23	8/8/2009 – 7/8/2012	64,000,000

Interest of Directors and chief executive

The interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as at 30 June 2007, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position

Name of Director	Name of company	Capacity	Number and class of securities	Percentage of interests to total issued share capital (approximate)
Li Xuechun	The Company	Interests of controlled corporation (Note 1)	786,000,000 Shares	47.35%
Wang Longxiang	The Company	Beneficial interests (Note 2)	16,000,000 Shares	0.96%
Gong Qingli	The Company	Interests of controlled corporation (Note 3)	16,000,000 Shares	0.96%

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.
2. These Shares represent the Shares which might be allotted and issued to Mr. Wang Longxiang, an executive Director, upon the exercise in full of the option granted to him pursuant to the Pre-IPO Share Option Scheme.
3. These Shares represent the Shares which might be allotted and issued to Centerpoint Assets Management Limited, a company wholly and beneficially owned by Mr. Gong Qingli, an executive Director, upon the exercise in full of the option granted to Centerpoint Assets Management Limited pursuant to the Pre-IPO Share Option Scheme.

Interest of persons holding 5% or more interests

As at 30 June 2007, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position

Name of Director	Name of Group member	Capacity	Class and number of securities	Percentage of interests to total issued share capital (approximate)
Motivator Enterprises Limited (Note 1)	The Company	Beneficial interests	786,000,000 Shares	47.35%
Shi Guiling (Note 2)	The Company	Interests of spouse	786,000,000 Shares	47.35%
Ever Soar Enterprises Limited (Note 3)	The Company	Beneficial interests	205,680,000 Shares	12.39%

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.
2. Ms. Shi Guiling is the spouse of Mr. Li Xuechun. Accordingly, she is also deemed to be interested in the 786,000,000 Shares held by Motivator Enterprises Limited, which in turn is also deemed to be interested by Mr. Li Xuechun under the SFO.
3. Ever Soar Enterprises Limited is owned as to 25% by Mr. Wu Xindong, 15% by Mr. Yan Ruliang, 15% by Mr. Feng Zhenquan, 15% by Mr. Xu Guohua, 15% by Mr. Li Deheng (all of whom are executive Directors) and 15% by Mr. Guo Yingxi.