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# CHINA CORN OIL COMPANY LIMITED
# 中國玉米油股份有限公司

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock code: 1006)**

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

### FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2010, the Group recorded revenue of approximately RMB629 million, representing a growth of approximately 22.7% over the revenue of approximately RMB513 million for the six months ended 30 June 2009. The increase in revenue of the Group was mainly the combined result of: (i) the increase in the sales of corn oil under our brand by approximately RMB48.0 million or 75.2%; (ii) the increase in the sales of other oils by approximately RMB17.0 million or 105.8%; and (iii) the increase in the sales of corn meals by approximately RMB57.9 million or 97.5%.

- The gross profit margin for the six months ended 30 June 2010 was approximately 12.5% (30 June 2009: 12.6%), of which gross profit margins for the sales of (1) non-branded corn oil in bulk, (2) corn oil under our brand, (3) corn meal and (4) other oils was approximately 7.2%, 33.0%, 2.9% and 36.0% respectively (30 June 2009: 14.1%, 15.9%, 0.1% and 10.9% respectively).

- The increase in gross profit margin of corn oil under our brand was mainly due to: (i) the Group directly sold most of its own brand products to supermarkets and retailers in the first half of 2010; and (ii) the Group could control and stabilize the selling price of its own brand corn oils despite the generally downward trend of the market price of corn oil since February 2010.

- The drop in the gross profit margin of non-branded corn oil was mainly due to: (i) the market prices of corn embryo and crude corn oil dropped since February 2010 at a slower pace and magnitude than that of non-branded corn oil for the six months ended 30 June 2010; and (ii) the Group had procured a significant amount of raw materials by 2009 year end at high market prices which resulted in a higher cost of sales of non-branded corn oil incurred by the Group in the first quarter of 2010. During July to August 2010, due to the strong rebound in the selling prices of our non-branded corn oil products in August 2010, the relatively smaller increment in the cost of corn embryos and crude corn oil in the same period and coupled with the Group's better control of raw materials cost, the Group's gross profit margin for non-branded corn oil products has improved.

- The Group's profit attributable to owners of the Company decreased by approximately 17.2% from RMB53.6 million for the six months ended 30 June 2009 to approximately RMB44.4 million for the six months ended 30 June 2010, which included: (1) the share based payment expenses for share options granted in May 2010 to Directors and employees of the Group of approximately RMB3.7 million; (2) the additional legal and professional fees as a result of the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited on 18 December 2009 ("HK IPO") of approximately RMB0.9 million; and (3) the exchange loss that arised on the proceeds from HK IPO of approximately RMB0.8 million. Should these items were excluded, the Group's profit attributable to owners of the Company would have been approximately RMB49.8 million (30 June 2009: RMB53.6 million) ("Adjusted Profits"), representing a decrease of approximately 7.1%.

- The decrease in Adjusted Profits by approximately RMB3.8 million to approximately RMB49.8 million for the six months ended 30 June 2010 was mainly attributable to, among others, the increase in selling and distribution expenses which mainly represented the Group's investments on advertising and marketing campaign and the expansion of sales and distribution networks, which had shown the Group's effort to put a higher focus towards the sales segment of corn oil under our brand in view of its strong performance for the period under review.

- During the period under review, the Group has applied significant resources in (1) marketing its brand image and recognition; and (2) enhancing and expanding its marketing and distribution network. In the first half of 2010, various marketing and advertising campaigns were launched in the media via advertising agencies to enhance the brand awareness of 長壽花 (Longevity Flower). In addition, the Group continues to expand its wholesale distribution and retailer network to more cities with potential consumer market in the PRC in the first half of 2010. Eight new representative offices were set up in Tianjin, Shanghai, Taiyuan, Shenyang, Chengdu, Xiamen, Heifei and Nanning for the six months ended 30 June 2010.

- The investments on marketing the brand image of 長壽花 (Longevity Flower) and enhancing the marketing and distribution network had shown the Group's effort to put a higher focus towards the sales segment of corn oil under our brand in view of its strong performance for the period under review.

## INTERIM RESULTS

The board of directors (the "Directors") of China Corn Oil Company Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 together with the relevant comparative figures.

## CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2010

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | **(unaudited)** | (audited) |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| **Revenue** | *5* | **629,230** | 512,901 |
| Cost of sales | | **(550,396)** | (448,313) |
| **Gross profit** | | **78,834** | 64,588 |
| Other income | *5* | **9,135** | 6,076 |
| Selling and distribution expenses | | **(22,625)** | (4,751) |
| Administrative expenses | | **(12,108)** | (3,583) |
| Other operating expenses | | **(394)** | (100) |
| **Profit from operations** | | **52,842** | 62,230 |
| Finance costs | *6* | **(1,162)** | (928) |
| **Profit before income tax** | *7* | **51,680** | 61,302 |
| Income tax expense | *8* | **(7,247)** | (7,663) |
| **Profit for the period** | | **44,433** | 53,639 |
| | | ***RMB cents*** | *RMB cents* |
| **Earnings per share for profit attributable to the owners of the Company during the period** | *9* | | |
| – Basic | | **8.443** | 16.504 |
| – Diluted | | **8.435** | N/A |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2010

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (audited) |
| | ***RMB'000*** | *RMB'000* |
| **Profit for the period** | **44,433** | 53,639 |
| **Other comprehensive loss** | | |
| Exchange loss on translation of financial statements of foreign operations | **(672)** | – |
| **Other comprehensive income for the period, net of tax** | **(672)** | – |
| **Total comprehensive income for the period attributable to owners of the Company** | **43,761** | 53,639 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
AS AT 30 JUNE 2010

| | Notes | 30 June 2010 (unaudited) RMB'000 | 31 December 2009 (audited) RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **315,026** | 225,119 |
| Land use rights | | **35,063** | 35,419 |
| Deposits paid for acquisition of property, plant and equipment and land use rights | | **58,737** | – |
| | | **408,826** | 260,538 |
| **Current assets** | | | |
| Inventories | | **148,356** | 101,195 |
| Trade and notes receivables | *11* | **100,819** | 55,019 |
| Prepayments, deposits and other receivables | | **180,957** | 76,040 |
| Amounts due from related parties | | **304** | 10,795 |
| Cash and bank balances | | **352,204** | 638,843 |
| | | **782,640** | 881,892 |
| **Current liabilities** | | | |
| Trade payables | *12* | **15,944** | 7,160 |
| Accrued liabilities, other payables and deposits received | | **42,589** | 53,098 |
| Amounts due to related parties | | **6,967** | 2,826 |
| Interest-bearing bank borrowing | | **50,000** | 50,000 |
| Tax payables | | **3,033** | 3,879 |
| | | **118,533** | 116,963 |
| **Net current assets** | | **664,107** | 764,929 |
| **Net assets/Total assets less current liabilities** | | **1,072,933** | 1,025,467 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **46,340** | 46,340 |
| Reserves | | **1,026,593** | 979,127 |
| **Total equity** | | **1,072,933** | 1,025,467 |

*Notes:*

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands on 9 September 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Group is located at Handian Industrial Park, Zouping County, Shandong, the People's Republic of China (the "PRC"). The Company's shares have been listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "HKEX") since 18 December 2009.

The principal activity of the Group is the production and sale of edible oil.

The interim financial report was approved and authorised for issue by the board of directors on 25 August 2010.

## 2. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2010 has been prepared in accordance with International Accounting Standard ("IAS") 34, Interim financial reporting, issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2009, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") (which collective term includes all applicable individual International Financial Reporting Standards and Interpretations as approved by the IASB, and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB).

The interim financial information is unaudited, but has been reviewed by Grant Thornton in accordance with International Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the International Auditing and Assurance Standards Board.

The interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The interim financial information has been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2009, except for the adoption of the following standards as of 1 January 2010:

- IFRS 3 Business Combinations (Revised 2008)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008)
- Improvements to IFRSs 2009

Significant effects on the current period or prior periods arising from the first-time adoption of these new requirements are described below.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of the interim financial information.

### 3.1 Adoption of IFRS 3 Business Combination (Revised 2008)

The revised standard ("IFRS 3R") introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in IFRS 3R that had an impact on the Group's accounting policies are as follows:

- Acquisition-related costs of the combination will be recorded as an expense in the income statement. Previously, these costs would have been accounted for as part of the cost of the acquisition.

- The assets acquired and liabilities assumed will generally measured at their acquisition-date fair values unless IFRS 3R provides an exception and provides specific measurement rules.

- Any contingent consideration will be measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes will generally recognised in profit or loss. Previously, contingent considerations would have been recognised at the acquisition date only if its payment was probable.

IFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. For the six months ended 30 June 2010, the Group does not have any business combination. Therefore, the Group changed its accounting policies on the adoption of IFRS 3R but this change did not have an impact in the current period financial position and performance.

### 3.2 Adoption of IAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The adoption of IFRS 3R required that the revised IAS 27 ("IAS 27R") is adopted at the same time. IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary. Similar to IFRS 3R, the adoption of IAS 27R is applied prospectively. The Group did not have non-controlling interests in the current period and did not dispose of any of its equity interests in its subsidiaries. Therefore, the Group changed its accounting policies on the adoption of IAS 27R but this change did not have an impact in the current period financial position and performance.

### 3.3 Adoption of Improvements to IFRSs 2009 (issued in April 2009)

The Improvements to IFRSs 2009 ("2009 Improvements") made several minor amendments to IFRSs. The amendment relevant to the Group relates to IAS 17 Leases. The amendment requires that leases of land are classified as finance or operating applying the general principles of IAS 17. Prior to this amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

## 4. SEGMENT INFORMATION

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance.

The business components in the internal reporting to the executive directors are determined following the Group's major products and service lines which are production and sale of (i) Corn oils, including non-branded corn oil and own brand corn oil; (ii) Other oils, mainly refined edible sunflower seed oil, refined edible olive oil, refined edible cotton seed oil; and (iii) Corn meal.

For the purposes of assessing segment performance and allocating resources between segments, the directors assess segment profit or loss by gross profit or loss as measured in IFRS financial statements. There have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

Information regarding the Group's reportable segments as provided to the Group's executive directors is set out below:

| | **Six months ended 30 June 2010** | | | | |
|---|---|---|---|---|---|
| | **Corn oil** | | | | |
| | **Non-branded corn oil** | **Own brand corn oil** | **Other oils** | **Corn meal** | **Group** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| | **(unaudited)** | **(unaudited)** | **(unaudited)** | **(unaudited)** | **(unaudited)** |
| Revenue from external customers | **366,991** | **111,934** | **33,094** | **117,211** | **629,230** |
| **Reportable segment revenue** | **366,991** | **111,934** | **33,094** | **117,211** | **629,230** |
| **Reportable segment profit** | **26,528** | **36,964** | **11,919** | **3,423** | **78,834** |

| | Six months ended 30 June 2009 | | | | |
|---|---|---|---|---|---|
| | Corn oil | | | | |
| | Non-branded corn oil | Own brand corn oil | Other oils | Corn meal | Group |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (audited) | (audited) | (audited) | (audited) | (audited) |
| Revenue from external customers | 373,568 | 63,889 | 16,084 | 59,360 | 512,901 |
| **Reportable segment revenue** | 373,568 | 63,889 | 16,084 | 59,360 | 512,901 |
| **Reportable segment profit** | 52,585 | 10,188 | 1,753 | 62 | 64,588 |

A reconciliation between the reportable segment profit and the Group's profit before income tax is set out below:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (audited) |
| | ***RMB'000*** | *RMB'000* |
| Reportable segment profit | **78,834** | 64,588 |
| Other income | **9,135** | 6,076 |
| Selling and distribution expenses | **(22,625)** | (4,751) |
| Administrative expenses | **(12,108)** | (3,583) |
| Other operating expenses | **(394)** | (100) |
| Finance costs | **(1,162)** | (928) |
| Profit before income tax | **51,680** | 61,302 |

## 5. REVENUE AND OTHER INCOME

Revenue from the Group's principal activities, which is also the Group's turnover, represented the net invoiced value of goods sold, net of allowances for returns, trade discounts and value-added tax. An analysis of the Group's revenue and other income is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (audited) |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Sales of goods | **629,230** | 512,901 |
| **Other income** | | |
| Interest income on bank balances stated at amortised cost | **169** | 37 |
| Sales of scrap materials | **7,707** | 4,794 |
| Compensation income from sundry creditors | **–** | 950 |
| Others | **1,259** | 295 |
| | **9,135** | 6,076 |

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (audited) |
| | ***RMB'000*** | *RMB'000* |
| Interest charges on financial liabilities stated at amortised cost: | | |
| Bank and other borrowings – wholly repayable within five years | **1,160** | 925 |
| Other interest expenses | **2** | 3 |
| | **1,162** | 928 |

## 7. PROFIT BEFORE INCOME TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (audited) |
| | ***RMB'000*** | *RMB'000* |
| Depreciation | **11,492** | 11,231 |
| Operating lease charges on: | | |
| – Rental premises | **–** | 30 |
| – Land lease payments | **356** | 80 |
| Reversal of written down of inventories to net realisable value *(Note)* | **–** | (3,115) |
| Staff costs (including directors' remuneration) | | |
| – Wages, salaries and bonus | **9,662** | 3,889 |
| – Contribution to defined contribution pension plan | **512** | 222 |
| – Share-based payment expenses | **3,705** | – |
| Total staff costs | **13,879** | 4,111 |
| Net foreign exchange loss | **962** | 24 |

*Note:* The Group reversed RMB3,115,000 of inventories previously written down during the six month ended 30 June 2009. The Group has sold all of the goods to unrelated third parties at prices higher than the original costs.

## 8. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (audited) |
| | ***RMB'000*** | *RMB'000* |
| Current tax | | |
| – Provision for PRC income tax | **7,247** | 7,663 |

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any taxation under the jurisdiction of Cayman Islands and BVI during the periods.

Shandong Sanxing Corn Industry Technology Company Limited ("Corn Industry") was approved as a foreign invested enterprise in 2007. Pursuant to an approval document on certain tax preferential policies titled "Guo Shui Han (2007) No. 41" issued by the Bureau of State Tax of Zouping County, Shandong Province (山東省鄒平縣國家稅務局鄒國稅函(2007)41號文), Corn Industry is entitled for exemption of PRC enterprise income tax ("EIT") for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a three-year 50% tax deduction. The year ended 31 December 2007 was Corn Industry's first profit-making year and was the first year of its tax holiday. For the years ended 31 December 2009 and 2010, Corn Industry is subject to EIT tax rate of 12.5%.

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB44,433,000 (six months ended 30 June 2009: RMB53,639,000) and the weighted average number of ordinary shares of 526,250,000 (six months ended 30 June 2009: 325,000,000) in issue during the period.

The weighted average number of shares of 325,000,000 ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2009 comprising:

(i) the 1 share of the Company allotted and issued at nil paid on 9 September 2009; and

(ii) the 324,999,999 shares issued as consideration for the acquisition of a subsidiary.

The calculation of diluted earnings per share for the six months ended 30 June 2010 is based on the profit attributable to owners of the Company of RMB44,433,000 and the weighted average number of ordinary shares of 526,791,000 outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average number of ordinary shares of 526,250,000 in issue during the year as used in calculation of basic earnings per share plus the number of ordinary shares of 541,000 deemed to be issued at no consideration as if all the Company's shares options had been exercised.

Amount of diluted earnings per share for the six months ended 30 June 2009 has not been disclosed as no potential ordinary shares existed during the period.

## 10. INTERIM DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

## 11. TRADE AND NOTES RECEIVABLES

| | **30 June 2010 (unaudited)** *RMB'000* | 31 December 2009 (audited) *RMB'000* |
|---|---|---|
| Trade receivables | **31,422** | 47,517 |
| Notes receivables | **69,397** | 7,502 |
| | **100,819** | 55,019 |

The ageing analysis of trade and note receivables as at the reporting date based on the invoice date, net of impairment, is as follows:

| | **30 June 2010 (unaudited)** *RMB'000* | 31 December 2009 (audited) *RMB'000* |
|---|---|---|
| Within 60 days | **98,039** | 47,671 |
| 61 – 90 days | **1,838** | 2,031 |
| 91 – 180 days | **942** | 4,764 |
| 181 – 365 days | **–** | 553 |
| | **100,819** | 55,019 |

Trade receivables are non-interest bearing. No credit terms are granted to domestic customers, except for those customers with long business relationship with the Group and have no default payment history, where the credit terms are no more than 60 days. All overseas customers are usually given 60 days credit terms.

## 12. TRADE PAYABLES

Trade payables are non-interest bearing and are normally settled on 30 days terms.

The ageing analysis of trade payables as at the reporting date is as follows:

| | **30 June 2010 (unaudited)** *RMB'000* | 31 December 2009 (audited) *RMB'000* |
|---|---|---|
| Within 30 days | **9,810** | 2,395 |
| 31-60 days | **2,354** | 1,865 |
| 61-90 days | **1,273** | 864 |
| 91-180 days | **1,498** | 1,095 |
| 181-365 days | **381** | 483 |
| Over 365 days | **628** | 458 |
| | **15,944** | 7,160 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is principally engaged in the manufacture of edible corn oil products for (1) domestic sales under the brand 長壽花 (Longevity Flower) in the PRC consumer market; and (2) domestic or export bulk sales mainly to other companies engaging in the sale of edible corn oil under their own brands.

During the period under review, the Group has applied significant resources in (1) marketing its brand image and recognition; and (2) enhancing and expanding its marketing and distribution network. In the first half of 2010, various marketing and advertising campaigns were launched in the media via advertising agencies to enhance the brand awareness of 長壽花 (Longevity Flower). In addition, the Group continues to expand its wholesale distribution and retailer network to more cities with potential consumer market in the PRC in the first half of 2010. Eight new representative offices were set up in Tianjin, Shanghai, Taiyuan, Shenyang, Chengdu, Xiamen, Heifei and Nanning for the six months ended 30 June 2010. As at 30 June 2010, the Group had a distribution network of approximately 153 wholesale distributors (31 December 2009: 60), approximately 48 retailers (31 December 2009: 36) and 15 sales representative offices (31 December 2009: 7) covering 27 (31 December 2009: 20) provinces and/or administrative municipalities in the PRC. These investments on marketing the brand image of 長壽花 (Longevity Flower) and enhancing the marketing and distribution network had shown the Group's effort to put a higher focus towards the sales segment of corn oil under our brand in view of its strong performance for the period under review. For the six months ended 30 June 2010, the Group's sales of corn oil under our brand increased by approximately 75.2% whereas the gross profit generated from the sales of corn oil under our brand increased by approximately 262.8% compared to the corresponding period in 2009.

In early 2010, the Group commenced the construction of a new production plant located next to the existing production plant of the Group for the refinement process ("New Refinement Plant") in anticipation of the growing demand for its edible oil products. The construction of the New Refinement Plant was completed in the first half of 2010 and the installation and inspection of the refinement production line and machinery is expected to be completed in September 2010. Upon full operation of such new refinement production line which is expected to be in the fourth quarter of 2010, an additional annual production capacity of 100,000 tonnes of corn and other oils will be added and the Group's total annual production capacity for the refinement process will be increased to 282,000 tonnes of corn and other oils.

In addition, the Group is expanding its squeezing production capacity by the construction of two new squeezing production plants in Inner Mongolia ("New Mongolia Squeezing Plant") and Liaoning ("New Liaoning Squeezing Plant"). The Directors consider that the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant can enable the Group to: (1) enhance its ability to obtain crude corn oil for its refinement process via its squeezing production, which can lessen the Group's reliance on sourcing crude corn oil via external purchase and become less vulnerable to price fluctuations in crude corn oil; (2) have more direct access to procure corn embryos in Inner Mongolia and Liaoning due to the rich supply of corn embryos in these regions. As such, the Group can have better control of its purchase cost of corn embryos. The New Mongolia Squeezing Plant and the New Liaoning

Squeezing Plant will each house an additional production line for the Group's squeezing production process and is expected, upon full operation, to in aggregate add additional annual production capacity of 200,000 tonnes (100,000 tonnes each) of corn and other oils for the squeezing process. In May 2010, contracts were entered into by the Group with the local governments in Inner Mongolia and Liaoning for the acquisition of two pieces of lands in Inner Mongolia and Liaoning respectively that will be used for the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant. Constructions of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant are expected to commence during the third to fourth quarter of 2010 and are expected to be completed during the first to second quarter of 2011. Upon full operation of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant, the Group's total annual production capacity for the squeezing process will be increased to 300,000 tonnes of corn and other oils.

## FINANCIAL REVIEW

For the six months ended 30 June 2010, the Group recorded revenue of approximately RMB629 million, representing a growth of approximately 22.7% over the revenue of approximately RMB513 million for the six months ended 30 June 2009. For the six months ended 30 June 2010, the sales of (1) corn oil under our brand, (2) non-branded corn oil in bulk, (3) corn meal and (4) other oils amounted to approximately RMB112 million, RMB367 million, RMB117 million and RMB33 million (six months ended 30 June 2009: approximately RMB64 million, RMB374 million, RMB59 million and RMB16 million) respectively and accounted for approximately 17.8%, 58.3%, 18.6% and 5.3% (six months ended 30 June 2009: 12.5%, 72.8%, 11.6% and 3.1%) respectively of the Group's total revenue. Sales of corn oil under our brand were all made in the PRC whilst the sales of the other products of the Group were made both in the PRC and overseas. Revenue from the PRC and overseas countries accounted for approximately 97% and 3% (six months ended 30 June 2009: 99% and 1%) respectively of the Group's total sales for the six months ended 30 June 2010.

**Revenue and Gross Profit**

The following tables set forth the breakdown of revenue and gross profit margin by product categories:

| | **Six months ended 30 June 2010** | | Six months ended 30 June 2009 | |
|---|---|---|---|---|
| | ***RMB'000*** | *%* | *RMB'000* | *%* |
| **Revenue** | | | | |
| Corn oil | | | | |
| – Corn oil under our brands | **111,934** | **17.8%** | 63,889 | 12.5% |
| – Non-branded corn oil | **366,991** | **58.3%** | 373,568 | 72.8% |
| Corn meal | **117,211** | **18.6%** | 59,360 | 11.6% |
| Other oils | **33,094** | **5.3%** | 16,084 | 3.1% |
| | **629,230** | **100%** | 512,901 | 100% |
| **Gross profit** | | | | |
| Corn oil | | | | |
| – Corn oil under our brands | **36,964** | **46.9%** | 10,188 | 15.8% |
| – Non-branded corn oil | **26,528** | **33.7%** | 52,585 | 81.4% |
| Corn meal | **3,423** | **4.3%** | 62 | 0.1% |
| Other oils | **11,919** | **15.1%** | 1,753 | 2.7% |
| | **78,834** | **100%** | 64,588 | 100% |
| **Gross profit ratio** | | | | |
| Corn oil | | | | |
| – Corn oil under our brands | | **33.0%** | | 15.9% |
| – Non-branded corn oil | | **7.2%** | | 14.1% |
| Corn meal | | **2.9%** | | 0.1% |
| Other oils | | **36.0%** | | 10.9% |
| Overall | | **12.5%** | | 12.6% |

**Fluctuations of the average selling prices of corn oil products**

The following tables sets forth the fluctuations of the average selling prices of the Group's corn oil products:

| | **Six months ended 30 June 2010** | Six months ended 31 December 2009 | Six months ended 30 June 2009 |
|---|---|---|---|
| **Quantities sold (tonnes)** | | | |
| Corn oil under our brands | **9,932** | 12,956 | 8,565 |
| Non-branded corn oil | **53,056** | 52,319 | 57,227 |
| **Average selling price (RMB/tonne)** | | | |
| Corn oil under our brands | **11,270** | 9,658 | 7,460 |
| Non-branded corn oil | **6,917** | 6,805 | 6,528 |
| **Percentage increase of average selling price** | | | |
| Corn oil under our brands | **16.7%** | 29.5% | |
| Non-branded corn oil | **1.6%** | 4.2% | |
| **Average unit cost of sales (RMB/tonne)** | | | |
| Corn oil under our brands | **7,548** | 6,948 | 6,270 |
| Non-branded corn oil | **6,417** | 6,048 | 5,609 |
| **Percentage increase of average unit cost of sales** | | | |
| Corn oil under our brands | **8.6%** | 10.8% | |
| Non-branded corn oil | **6.1%** | 7.8% | |

**Monthly average future price of soybean oil as quoted by Dalian Commodity Exchange**

| | **August 2010*** | **July 2010** | **Six months ended 30 June 2010** | Six months ended 31 December 2009 | Six months ended 30 June 2009 |
|---|---|---|---|---|---|
| Monthly average future price of soybean oil (RMB/tonne) | **7,516** | **7,179** | **7,290** | 7,048 | 6,819 |
| Percentage increase/(decrease) of average future price of soybean oil | **4.7%** | **(1.5%)** | **3.4%** | 3.4% | |

* *up to the date of this announcement*

**Fluctuation in the market prices of corn oil**

The fluctuation in our corn oil products generally depends on, among others, the fluctuation in the future price of soybean oil which as a general market practice, is used as reference for determining the selling prices of our non-branded corn oil products. The monthly average future price of soybean oil and the average selling price of the Group's non-branded corn oil were both in general upward trends for the year ended 31 December 2009, with prices peaked in December 2009 and January 2010. The monthly average future price of soybean oil and the average selling price of non-branded corn oil started to drop significantly since February 2010 and was in a general downward trend towards the end of June 2010, yet the average future price of soybean oil and selling prices of non-branded corn oil for the six months ended 30 June 2010 still remained higher than that for the first half and second half of 2009. The average future price of soybean oil and the selling prices of non-branded corn oil rebounded in August 2011 to a level that is higher than the average prices for the six months ended 30 June 2010.

**Fluctuation in revenue**

The increase in revenue of the Group from approximately RMB512.9 million for the six months ended 30 June 2009 to approximately RMB629.2 million for the six months ended 30 June 2010 by approximately RMB116.3 million or 22.7% was mainly the combined result of: (i) the increase in the sales of corn oil under our brand by approximately RMB48.0 million or 75.2%; (ii) the increase in the sales of other oils by approximately RMB17.0 million or 105.8%; and (iii) the increase in the sales of corn meals by approximately RMB57.9 million or 97.5%.

The sales volume of corn oil under our brand for the period increased significantly by approximately 16.0% compared to the first half of 2009 which was mainly due to the marketing and distribution efforts of the Group. This increase in the sales volume, together with the significant increase in the average selling price of corn oil under our brand by approximately 51% from RMB7,460 per tonne for the six months ended 30 June 2009 to RMB11,270 per tonne for the six months ended 30 June 2010 resulted in the significant increase in the sales of corn oil under our brand.

The increase in the average selling price of corn oil under our brand is mainly due to:

(1) the increase in market price of corn oil which in general depends on the fluctuation in the future price of soybean oil. However, despite the generally downward trend of the market price of corn oil since February 2010, the Group's average selling prices of corn oil under our brand remained relatively stable compared to non-brand corn oil because of the Group's ability to maintain and stabilize the selling price of its branded corn oil products compared to the selling prices of non-branded corn oil that were determined for each sales order and followed more closely the market price trend of corn oil. As such, the average selling prices of corn oil under our brand for the six months ended 30 June 2010 increased in a much larger magnitude over the corresponding period in 2009 compared to that of non-branded corn oil; and

(2) the Group directly sold most of its own brand corn oil to supermarkets and retailers for the six months ended 30 June 2010, instead of selling via 鄒平三星油脂工業有限公司(Zouping Sanxing Grease Industry Company Limited) ("Sanxing Grease") through the Sales Arrangement (as defined below). For the six months ended 30 June 2009, the Group sold certain of its own brand corn oil to Sanxing Grease for on-sale to supermarkets and retailers ("Sales Arrangement"), pursuant to which the prices charged by the Group to Sanxing Grease were based on the on-sale market prices charged by Sanxing Grease, as adjusted downward for the expenses ("Sales Expenses") paid by Sanxing Grease in relation to its performance of the Sales Arrangement. Sales Expenses amounted to approximately RMB8.6 million for the six months ended 30 June 2009 which in turn adjusted downward the sales amount and the average selling price of corn oil under our brand for the same period.

The sales volume of non-branded corn oil in bulk for the period decreased slightly by approximately 7.3% compared to the first half of 2009, which was mainly due to the Group had placed stronger focus on the sales segment of own brand corn oil for the period under review in view of the strong performance of own brand corn oil and the drop of the market prices of non-branded corn oil since February 2010. This slight drop in the sales volume, after netting-off with the increase in the average selling price of non-branded corn oil by approximately 6% from RMB6,528 per tonne for the six months ended 30 June 2009 to RMB6,917 per tonne for the six months ended 30 June 2010 resulted in the slight decrease in the sales of non-branded corn oil. The increase in the average selling price of non-branded corn oil is mainly due to the increase in market price of corn oil which in general depends on the fluctuation in the future price of soybean oil.

The sales of other oils for the six months ended 30 June 2010 mainly comprised sunflower seed oil and olive oil. The increase in sales of other oils by approximately RMB17.0 million or 105.8% was mainly due to the significant increase in the sales of sunflower seed oil under our brand by approximately RMB9.0 million and olive oil under our brand by approximately RMB3.9 million as a result of the increase in retail sales demand and the marketing efforts of the Group. The sales of corn meals increased by approximately RMB57.9 million or 97.5% mainly due to the Group's increase in obtaining crude corn oil via squeezing production in proportion to purchasing crude corn oil for its refinement process as corn meal is a by-product of the Group's squeezing production.

**Fluctuations in gross profit and gross profit margin**

The gross profit for the six months ended 30 June 2010 was approximately RMB78.8 million (30 June 2009: RMB64.6 million) with gross profit margin of approximately 12.5% (30 June 2009: 12.6%), of which gross profit margins for the sales of (1) non-branded corn oil in bulk, (2) corn oil under our brand, (3) corn meal and (4) other oils was approximately 7.2%, 33.0%, 2.9% and 36.0% respectively (30 June 2009: 14.1%, 15.9%, 0.1% and 10.9% respectively).

The Group's gross profit margin of corn oil under our brand increased from 15.9% in the first half of 2009 to 33.0% in the first half of 2010 was mainly due to:

(i) the Group directly sold most of its own brand products to supermarkets and retailers in the first half of 2010 and accordingly, the Group's selling prices of corn oil under our brand was no longer adjusted downward for the Sales Expenses under the Sales Arrangement. For illustration purpose, if there was no Sales Arrangement for the six months ended 30 June 2009, the Group's revenue and gross profit generated from corn oil under our brand would have been increased by Sales Expenses of approximately RMB8.6 million and the gross profit margin for the six months ended 30 June 2009 would have been 26.0%; and

(ii) despite the generally downward trend of the market price of corn oil since February 2010, the Group could still manage to control and stabilize the selling price of its own brand corn oils. As such, the Group's average selling price of corn oil under our brand for the six months ended 30 June 2010 increased by approximately 51% over the corresponding period in 2009, which far outweigh the percentage increase of 20.4% for the average cost of sales of branded corn oil from RMB6,270 per tonne in the first half of 2009 to RMB7,548 per tonne in the first half of 2010. As a result of the above, the gross margin for corn oil under our brand increased from 15.9% for the six months ended 30 June 2009 to 33% for the six months ended 30 June 2009.

The drop in the Group's gross profit margin for the sales of non-branded corn oil was mainly caused by the fluctuations in the market price of non-branded corn oil and the market purchase prices of corn embryo and crude corn oil, the Group's main raw materials. The fluctuation of the Group's average purchase prices of corn embryo and crude corn oil were generally in line with the fluctuation of the average selling prices of our non-branded corn oil products as discussed above. However, since February 2010, facing with the continuous drop in the market prices of non-branded corn oil products, the suppliers of corn embryo and crude corn oil became more cautious in supplying corn embryo and crude corn oil. The reduced supply in turn resulted in the market prices of corn embryo and crude corn oil dropped since February 2010 at a slower pace and magnitude than that of non-branded corn oil for the six months ended 30 June 2010.

The Group's average selling price of non-branded corn oil for the six months ended 30 June 2010 increased by approximately 6.0% over the corresponding period in 2009. The Group's average cost of sales of non-branded corn oil for the six months ended 30 June 2010 was RMB6,417 per tonne, representing an increase of approximately 14.4% over the average cost of sales of non-branded corn oil of RMB5,609 per tonne for the corresponding period in 2009. The higher percentage increase in the average cost of sales of non-branded corn oil compared to the percentage increase in the average selling price of non-branded corn oil for the six months ended 30 June 2010 was mainly due to (i) the market prices of corn embryo and crude corn oil dropped at a slower pace and magnitude than that of the market prices of non-branded corn oil in the first half of 2010 as mentioned above; and (ii) the Group had procured a significant amount of raw materials by 2009 year end at high market prices with an aim to control the future costs of production because the costs of raw materials had rose significantly since November 2009. This resulted in a higher cost of sales of non-branded corn oil incurred by the Group in the first quarter of 2010. As a result of the above, the gross margin for non-branded corn oil decreased from 14.1% for the six months ended 30 June 2009 to 7.2% for the six months ended 30 June 2010. During July to August 2010, due to the strong rebound in the selling prices of our non-branded corn oil products in August 2010, the relatively smaller increment in the cost of corn embryos and crude corn oil in the same period and coupled with the Group's better control of raw materials cost, the Group's gross profit margin for non-branded corn oil products from 1 July 2010 up to the date of this announcement has improved.

The increase in the gross profit margin of other oils from 11% in the first half of 2009 to 36.0% in the first half of 2010 was mainly due to the change in the Group's sales mix by increasing the sales of sunflower seed oil and olive oil under our brand which had high gross profit margin.

**Cost of Sales**

The cost of sales includes costs of raw materials, labour and manufacturing overhead. Labour costs include wages and other compensation paid to production workers. Manufacturing overhead includes freight costs, depreciation and utilities expenses. The costs of raw materials constituted the largest component of total cost of sales and accounted for approximately 94% of the total costs of sales for the six months ended 30 June 2010 (30 June 2009: 98%).

**Other Income**

Other income of approximately RMB9.1 million (30 June 2009: approximately RMB6.1 million) comprised mainly sales of scrap materials of approximately RMB7.7 million (30 June 2009: approximately RMB4.8 million) and the forfeiture of deposit that was received from a customer in previous year of approximately RMB1.1 million (30 June 2009: nil). Deposit of RMB1.8 million was received by the Group from a customer in 2008 for a corn oil sales order placed. That customer subsequently failed to perform the sales order and the RMB1.8 million deposit had been held by the Group since after. In 2010, the customer agreed the Group to forfeit RMB1.1 million of the deposit as penalty. The increase in sales of scrap materials, the residual and scrap by-products of the Group's oil production, was due to the increase in production volume of the Group for the six months ended 30 June 2010 as compared to the corresponding period in 2009.

**Selling and distribution expenses**

Selling and distribution expenses of approximately RMB22.6 million (30 June 2009: RMB4.8 million) comprised mainly carriage and transportation charges of approximately RMB9.4 million (30 June 2009: RMB3.2 million), advertising expense of approximately RMB4.4 million (30 June 2009: RMB1.2 million), expenses of representative offices of approximately RMB3.2 million (30 June 2009: nil) and staff costs for sales staff of approximately RMB5.2 million (30 June 2009: RMB0.3 million).

The increase in selling and distribution expenses by approximately RMB17.8 million was partly due to the Group directly sold most of its own brand products to supermarkets and retailers in the first half of 2010 and the relevant Sales Expenses under the previous Sales Arrangement were thus directly borne by the Group. For illustration purpose, if there was no Sales Arrangement for the six months ended 30 June 2009, the Group's selling expense would have been increased by Sales Expenses of approximately RMB8.6 million and amounted to approximately RMB13.4 million ("Adjusted Selling Expenses"). The increase in the selling and distribution expenses for the six months ended 30 June 2010 over the Adjusted Selling Expenses for the six months ended 30 June 2009 by approximately RMB9.2 million was mainly due to: (1) the increase in expenditure on advertising campaign of approximately RMB3.1 million; (2) the increase in expenses by sales representative office and salary of sales staff by approximately RMB1.2 million and RMB2.6 million respectively as a result of the expansion of sales and distribution networks by setting up new sales representative offices and employment of more sales staff; and (3) the increase in transportation charges by approximately RMB4.6 million which is in line with the increase in the Group's sales for the period.

In order to enhance the brand awareness of 長壽花 (Longevity Flower) and the corporate image, the Group has entered into 12 major contracts with advertising agencies to launch various marketing and advertising campaigns in the first half of 2010. On the other hand, the Group has expanded its marketing and distribution network to more cities in PRC by setting up eight new representative offices in Tianjin, Shanghai, Taiyuan, Shenyang, Chengdu, Xiamen, Hefei and Nanning for the six months ended 30 June 2010. The management of the Group is confident that the investments by the Group on the brand advertising campaigns and the expansion of distribution network for the six months ended 30 June 2010 will result in improvement in sales performance in the future.

**Administrative Expenses**

Administrative expenses of approximately RMB12.1 million (30 June 2009: RMB3.6 million) comprised mainly: (i) share based payment expense for share options grant to staff in May 2010 of approximately RMB3.7 million (30 June 2009: nil); (ii) legal and professional fees of approximately RMB1.5 million (30 June 2009: RMB0.1 million); (iii) exchange loss of approximately RMB1.0 million (30 June 2009: RMB24,000); and (iv) staff costs for administrative staff of approximately RMB1.5 million (30 June 2009: RMB1.0 million).

In May 2010, options in aggregate of 25,000,000 shares ("Share Options") were granted to 6 executive Directors and 26 employees of the Group, the details of which were set out in the announcement of the Company dated 14 May 2010. The cost of the Share Options was measured by reference to the fair value at the date at which they are granted and would be recognised as share based payment expense over its vesting period from 2010 to 2012. The total share based payment expense of the Share Options is estimated to be approximately RMB39.1 million, of which approximately RMB18.2 million, RMB17.1 million and RMB3.8 million will be recognized for the two years ending 31 December 2011 and the six months ending 30 June 2012 respectively. The increase in legal and professional fees was mainly attributable to additional compliance costs and professional fees of approximately RMB0.9 million incurred after the Company's shares listing on the Main Board of The Stock Exchange of Hong Kong Limited on 18 December 2009 ("HK IPO"). The increase in exchange loss incurred for the six months ended 30 June 2010 was mainly due to exchange loss of approximately RMB0.8 million arised from the conversion of the initial public offering proceeds into Renminbi to be used for the Group's PRC operation.

**Profit Before Taxation and Profit Attributable to Shareholders**

The Group recorded profit before income tax of approximately RMB51.7 million for the six months ended 30 June 2010 (30 June 2009: RMB61.3 million), representing a decrease of approximately 15.7% compared to the corresponding period in 2009. The Group's profit attributable to owners of the Company decreased by approximately 17.2% from RMB53.6 million for the six months ended 30 June 2009 to approximately RMB44.4 million for the six months ended 30 June 2010, which included: (1) the share based payment expenses for share options granted in May 2010 to Directors and employees of the Group of approximately RMB3.7 million; (2) the additional legal and professional fees as a result of the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited on 18 December 2009 ("HK IPO") of approximately RMB0.9 million; and (3) the exchange loss that arised on the proceeds from HK IPO of approximately RMB0.8 million. Should these items were excluded, the Group's profit attributable to owners of the Company would have been approximately RMB49.8 million (30 June 2009: RMB53.6 million) ("Adjusted Profits"), representing a decrease of approximately 7.1%.

The decrease in Adjusted Profits by approximately RMB3.8 million to approximately RMB49.8 million for the six months ended 30 June 2010 was mainly attributable to, among others, the increase in selling and distribution expenses which mainly represented the Group's investments on advertising and marketing campaign and the expansion of sales and distribution networks, which had shown the Group's effort to put a higher focus towards the sales segment of corn oil under our brand in view of its strong performance for the period under review.

The net profit margin of the Group for the six months ended 30 June 2010 was approximately 7.1% (30 June 2009: 10.5%). The basic earnings per share attributable to owners of the Company amounted to approximately RMB8.443 cents for the six months ended 30 June 2010, as compared to approximately RMB16.504 cents for the six months ended 30 June 2009.

**Deposits paid for acquisition of property, plant and equipment and land use rights**

As at 30 June 2010, the deposits paid for acquisition of property, plant and equipment and land use rights was approximately RMB58.7 million (31 December 2009: nil). As mentioned under the "Business review" section, the Group has entered into contracts with the local governments in Inner Mongolia and Liaoning for the acquisition of two pieces of lands in Inner Mongolia and Liaoning respectively that will be used for the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant, and accordingly RMB42.5 million had been paid by the Group as deposit for the two pieces of lands pursuant to the land contracts. The remaining RMB16 million represented mainly deposit paid for the purchase of production equipment and machineries to be installed at the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant. It is currently expected that the acquisition of the two pieces of lands in Inner Mongolia and Liaoning will be completed no later than the end of 2010, whereas the installation and inspection of the production equipment and machineries is expected to be completed during the first to second quarter of 2011 after the completion of construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant.

**Trade and notes receivables**

As at 30 June 2010, trade and notes receivables was approximately RMB100.8 million (31 December 2009: RMB55.0 million) comprised of trade receivables of approximately RMB31.4 million (31 December 2009: RMB47.5 million) and note receivables of approximately RMB69.4 million (31 December 2009: RMB7.5 million). The decrease in trade receivables is mainly the result of strict repayment and credit control implemented by the Group in the first half of 2010. The significant increase in note receivables was due to the increase in settlement by customers via bank's notes (銀行承兑匯票). These bank's notes were backed by the issuing banks and usually have a maturity ranging from 3 to 6 months. The Group accepted the settlement by these certain customers via bank's notes because generally a more favorable selling price can be charged to these customers.

**Prepayments, deposits and other receivables**

As at 30 June 2010, prepayments, deposits and other receivables amounted to approximately RMB181 million (31 December 2009: RMB76 million) which mainly comprised deposits paid for the procurement of raw materials, prepayment paid for advertising expenses and other prepayments and receivable. The significant increase in deposits paid for procurement of raw material was mainly due to more raw materials purchased by the Group near the end of June 2010 to prepare for the commencement of operation at the New Refinement Plant. The increase in prepayment of advertising expenses was the result of several advertising contracts with contract periods of around 3 years in general entered into by the Group in the first half of 2010 to launch various marketing and advertising campaigns.

**FUTURE PLANS**

The Group aim to continue to be the leading edible corn oil manufacturer in the PRC and to develop 長壽花 (Longevity Flower) as a leading brand in the PRC edible corn oil consumer market so as to maximize the shareholders' value. The Company will continue to enhance brand image and recognition of 長壽花 (Longevity Flower) and continue to strengthen the marketing efforts in the PRC. The Company will continue to enhance the marketing and distribution network as well as to explore new business opportunities in the future, and continue to penetrate and to increase its market shares. Considering the strong sales growth and the high profit margin of the Group's sales of corn oil under our brand, the Group will continue to place a strong focus on this segment by investing on the marketing of the brand 長壽花 (Longevity Flower) and enhancing the marketing and distribution network. The Group is optimistic over the future performance of the segment of corn oil under our brand and that it will contribute for a higher proportion of the Group's overall result in the future. Overall, the Group is optimistic over the future performance of the Group's business.

In addition, as stated in the above paragraph, the Company has expanded its production capacity by the construction of the New Refinement Plant which is expected to commence operation in the fourth quarter of 2010. On the other hand, the Group is expanding its squeezing production capacity by the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant respectively and contracts were entered into by the Group with the local governments in Inner Mongolia and Liaoning for the acquisition of two pieces of lands in Inner Mongolia and Liaoning for construction of such squeezing plants. Upon full operation of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant, the Group's total annual production capacity for the squeezing process is estimated to be increased to 300,000 tonnes of corn and other oils. The Directors consider that the construction of the New Mongolia Squeezing Plant and the New Liaoning Squeezing Plant can enable the Group to: (1) enhance its ability to obtain crude corn oil for its refinement process via its squeezing production, which can lessen the Group's reliance on sourcing crude corn oil via market purchase and become less vulnerable to price fluctuations in crude corn oil; (2) have more direct access to procure corn embryos in Inner Mongolia and Liaoning due to the rich supply of Corn embryos in these regions. As such, the Group can have better control of its purchase cost of corn embryos.

The Company also intended to invest additional resources to strengthen the research and capacities and to improve the expertise and technical know-how in relation to product quality and production techniques of edible corn oil products.

## CAPITAL STRUCTURE

The Company's issued share capital as at 30 June 2010 is HK$52,625,000 divided into 526,250,000 shares of HK$0.1 each.

The Group's adopts a prudent treasury policy, and its gearing ratio (calculated as total borrowings divided by the amount of shareholders' equity) as at 30 June 2010 was 4.66% (2009: 4.88%). The current ratio (calculated as current assets divided by current liabilities) as at 30 June 2010 was 6.6 times (2009: 7.54 times). The Group continued to monitor stringent debt collection policy so as to minimize the risks of sales on credit and to ensure that funds are timely collected.

## LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2010, the Group's unsecured interest-bearing bank borrowings, which are repayable within one year, amounted to approximately RMB50,000,000 (31 December 2009: RMB50,000,000) with a fixed interest rate at 5.841% per annum as at 30 June 2010. The Group's cash and bank balances amounted to RMB352,204,000 (31 December 2009: RMB638,843,000).

## MATERIAL ACQUISITION AND DISPOSALS

The Group did not have any material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2010.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

Most transactions of the Group are settled in Renminbi ("RMB") since the operations of the Group are mainly carried out in the PRC, and the major subsidiaries of the Group are operating in a RMB environment and the functional currency of the major subsidiaries is RMB. The reporting currency of the Group is presented in RMB. The Group has exported the edible oil and refined oil products to the Middle East, Singapore and Malaysia and the transactions were settled in either United States Dollars or Euro. The Group's cash and bank deposits are predominantly denominated in RMB. The Company will pay dividends in Hong Kong Dollars if dividends are declared. The Directors are of the view that RMB is relatively stable against the other currencies and the Group will closely monitor the fluctuations in exchange rates, and that hedging by means of derivative instruments is therefore not necessary.

RMB is currently not a freely convertible currency. A portion of the Group's RMB revenue or profit may be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared.

## PLEDGE ON GROUP ASSETS

As at 30 June 2010, the Group had not pledged any of its assets to its bankers to secure banking facilities granted to the Group.

## CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

The Group has capital commitment in respect of properties, plant and equipment of approximately RMB9,300,000 (31 December 2009: RMB768,000) as at 30 June 2010. The Group has operating lease commitments of RMB13,000 in respect of properties as at 30 June 2010 (31 December 2009: RMB30,000).

## EMPLOYEE BENEFITS

As at 30 June 2010, the Group had a total of 1,210 employees (2009: 637). The significant increase in the number of employees of the Company was due to the business expansion of the Group.

Moreover, the share option scheme (the "Scheme") was adopted on 23 November 2009 to retain staff members who have made contributions to the success of the Group. On 14 May 2010, options in an aggregate of 25,000,000 shares were granted to 6 executive Directors and 26 employees of the Group. The Directors believe that the compensation packages offered by the Group to staff members are competitive in comparison with market standards and practices.

As required by the PRC regulations on social insurance, the Company participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Share Options of the Company held by the Directors under the Scheme, at no time during the six months ended 30 June 2010 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of shares in, or debt securities, including debentures, of the Company or any other body corporate.

## SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Company as at 30 June 2010.

## CONTINGENT LIABILITIES

As at 30 June 2010, the Group has no material contingent liabilities.

## INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2010.

## SEGMENTAL INFORMATION

Details of segmental information of the Group as at 30 June 2010 are set out in note 4 in the interim financial report.

## PURCHASE, REDEMPTION OR SALE 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 period.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules.

During the period ended 30 June 2010, the Company was in compliance with the code provisions set out in the CG Code except that code A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separated. The roles of chairman and chief executive officer were not separated as the Company has not appointed a chief executive officer and the roles and functions of the chief executive officer have been performed by all the executive Directors, including the Chairman, of the Company collectively.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the period ended 30 June 2010.

**AUDIT COMMITTEE**

The Company established an audit committee (the "Audit Committee") on 23 November 2009 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Group's financial reporting system and internal control procedures.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wang Aiguo (as Chairman), Mr. Wang Ruiyuan and Mr. Liu Shusong. The Audit Committee has reviewed the unaudited interim financial report of the Group for the period ended 30 June 2010.

On behalf of the Board
**China Corn Oil Company Limited**
**Wang Mingxing**
*Chairman*

Hong Kong, 25 August 2010

*As at the date of this announcement, the board of Directors of the Company consists of ten Directors, of which six are executive Directors, namely Mr. Wang Mingxing, Mr. Wang Mingfeng, Mr. Wang Mingliang, Mr. Wang Fuchang, Mr. Sun Guohui and Mr. Huang Da and one non-executive Director, namely Mr. Ke Shifeng and three independent non-executive Directors, namely Mr. Liu Shusong, Mr. Wang Ruiyuan and Mr. Wang Aiguo.*