



For Immediate Release

**CHINA ESSENCE DELIVERS 60% NET PROFIT GROWTH FOR FY2008,  
PLANS FURTHER CAPACITY EXPANSION TO MEET INCREASING DEMAND**

**Summary Results**

RMB'000	Year ended 31.03.2008 (Unaudited)	Year ended 31.03.2007 (Audited)	↑ / (↓) %
Revenue	858,843	521,156	65
Gross profit	382,981	251,858	52
Operating profit	302,133	203,463	48
Profit before tax	278,531	194,607	43
Taxation	40,575	46,336	(12)
Profit attributable to equity holders	237,956	147,132	62
EPS <sup>1</sup> (RMB)	0.612	0.383	60
Cash and cash equivalents	483,997	508,555	(5)

- Revenue up 65% over FY2007 to RMB858.8 million
- Gross profit up 52% over FY2007 to RMB383.0 million
- Proposes final dividend of HK\$0.07 per share
- Plans further capacity expansion for potato starch, protein and fibre in Heilongjiang and Inner Mongolia

**Singapore, 26 May 2008** – China Essence Group Ltd. (“China Essence” or the “Company”), one of the largest, leading integrated potato-processing producers in the People’s Republic of China (“PRC”), is pleased to announce its full year financial results for the financial year ended 31 March 2008.

Revenue increased 65% over FY2007, from RMB521.2 million to RMB858.8 million, on the back of higher sales volumes. Gross profit grew 52% over FY2007 to reach RMB382.9 million, driven by robust demand for potato starch and higher average selling price (“ASP”). The Company has declared a final dividend of HK\$0.07 per share, which represents a dividend payout of 10.4% based on net profit.

<sup>1</sup> Based on the weighted average number of share capital of 388,927,542 ordinary shares

Volume and price of potato starch were key growth drivers for FY2008. Rising procurement orders from new and existing distributors drove volume while ASP grew about 33.8% over FY2007, mirroring the strong domestic demand for potato starch. Underpinning the demand is the anti-dumping regulations on potato starch manufactures from the European Union, which has been in force since February 2007.

Mr Zhao Libin, Chairman and CEO of China Essence said, “We are pleased to deliver a set of outstanding results for FY2008. We have successfully planned and delivered on our expansion plans for FY2008, thus contributing to our good performance for the year.”

“As demand for potato starch, modified starch and potato starch-based products continues to grow, we are pleased to announce fresh plans to strategically expand our operations to meet with this demand. We are also moving towards being a truly integrated potato-processing producer, with our suite of primary, downstream and by products.”

### **Operating and Financial Review**

- Sales of potato starch products increased by 158% over FY2007, from RMB211.8 million to RMB547.4 million. It accounted for 63.7% of the Group’s revenue in FY2008, from 40.6% in FY2007
- Overall gross profit margin dipped slightly over FY2007, from 48.3% to 44.6%, mainly caused by a change in product mix to lower-margin potato starch products, and increased cost of potatoes
- Cost of potatoes increased from last harvest season’s (August-November 2006) average of RMB320 per tonne to this harvest season’s (August-November 2007) average of RMB450 per tonne
- Operating expenses including selling and distribution expenses was RMB44.4 million for FY2008, compared to RMB24.8 million in FY2007. This increase is in line with the company’s increased business volume and a more aggressive marketing programme to build brand equity and market awareness of our Group’s products
- Similarly, administrative expenses for FY2008 increased 50% to RMB40.1 million, primarily due to the provision of Directors’ performance bonus of RMB11.5 million as well as higher costs incurred to support general business expansion
- Finance costs increased from RMB8.9 million in FY2007 to RMB23.6 million in FY2008, mainly due to the effective interest expenses of RMB20.5 million on the Company’s convertible bonds issued in December 2006
- Boosted by strong revenue growth, net profit attributable to shareholders grew 62% over FY2007, to RMB238.0 million for FY2008
- Cash and cash equivalents for FY2008 was RMB484.3 million, down from RMB508.6 million in FY2007. An expenditure of RMB361.5 million was incurred for the following:
  - Construction and acquisition of machinery and equipment for additional production lines at the Suiling, Heilongjiang plant and the new plant in Ahlihe, Inner Mongolia, each adding 40,000 tonnes per annum (“t.p.a.”) of potato starch production capacity, or a total of 80,000 t.p.a across both plants
  - Construction of potato protein and fibre production lines at the existing plant in Suiling, Heilongjiang, with a production capacity of 8,000 t.p.a and 80,000 t.p.a respectively
- Short-term bank borrowings increased by RMB60.0 million for FY2008, unsecured and raised for working capital purposes and granted for a period of six months

## **Company Outlook and Expansion Plans**

The Group is optimistic of its performance in FY2009, as it expects order momentum to remain strong for its core products such as potato starch, on the back of increased market penetration and a growing distributor network.

### **Potato starch**

To consolidate its position as a leading potato starch manufacturer in the PRC, China Essence intends to acquire two pieces of land in Fu Yu, Heilongjiang and Zhalantun, Inner Mongolia, to build new plants for potato starch production. These new facilities are expected to be operational in 2Q FY2010, will increase the Group's annual production capacity for potato starch from 180,000 t.p.a. to 260,000 t.p.a.

With these new facilities, China Essence will have five production plants spread across Northeast China – Daqing, Sui Ling, Fu Yu in Heilongjiang, and Ahlihe and Zhalantun in Inner Mongolia. This is in line with the Group's strategy of mitigating supply and environmental risks by locating production plants apart from each other, whilst taking advantage of the natural potato farming suitability of Northeast China.

### **Potato protein and fibre**

China Essence has also developed new products to complement its existing range and enhancing its integrated operations.

Construction of potato protein and fibre production lines at Sui Ling has progressed well. The Sui Ling plant has a current capacity of 8,000 t.p.a. of potato protein and 80,000 t.p.a of potato fibre and is expected to begin large-scale production in 3Q FY2009 upon arrival of the coming potato harvest season.

In addition, the Group eventually plans to double the annual production capacities of potato protein and fibre to reach a total of 16,000 tonnes for potato protein and 160,000 tonnes of potato fibre by September 2009 (2QFY2010). Installation of machinery for these additional capacities will take place from September 2008 through August 2009, in time for the following harvest season, August to November 2009. These additional capacities will be spread over the existing potato starch facilities in Daqing, Heilongjiang and Ahlihe, Inner Mongolia.

### **Research and development**

To further boost its research and development ("R&D") capabilities, the Group has set up a new R&D centre in Daqing to enhance the starch content of each potato and improve the yield of production of potato per unit of land. The Group will have a total of two R&D facilities devoted to potato and starch application research.

Mr Zhao said, "We would like to keep the momentum of growth and be well placed to benefit from the continued rising demand for potato starch and related products in the PRC. With our focus on production capacity and emphasis on research, we believe we will continue to maintain our position as one of the leading potato-processing producers in China."

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**About China Essence (Bloomberg: CESS SP)**

China Essence is a leading integrated producer of potato starch and potato starch-based products such as vermicelli, starch strips and five-grain noodles in the PRC. ISO-certified since 2004 and winner of numerous awards since its establishment in 2001, China Essence places strong emphasis on R&D and quality assurance to produce high quality products and increase its product range. These products can be used for various applications across numerous industries such as the textile, paper, adhesives, oil & mining, pharmaceutical and personal care and cosmetics industries.

Headquartered in Beijing, China Essence's manufacturing facilities are strategically located in Lindian, Daqing, and Sui Ling, all of which are in Heilongjiang, where there is an abundant supply of high quality potatoes. The Company currently operates 5 production facilities with a total of 18 production lines, 10 of which are for the manufacture of potato starch, 2 of which is for manufacture of modified starch products and the remainder, potato starch-based products. The annual production capacity for potato starch is 180,000 tonnes and that of potato starch-based products is 22,000 tonnes. The annual production capacity of modified starch products stands at 18,000 tonnes. The Company markets its products under its brand names "Bigang" (碧港) and "Dongbei" (东北) through its distributors' extensive network spanning 48 cities in 21 provinces and municipalities within the PRC.

In addition to potato starch and potato starch-based products, China Essence also produces by-products such as potato protein, targeted especially for the animal feed market as well as potato fibre, which is used as a high-grade animal feed.