



Fufeng Group Limited

阜豐集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 546)

Interim Report

2009





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CORPORATE INFORMATION

Executive Directors

Mr. Li Xuechun
Mr. Wang Longxiang
Mr. Wu Xindong
Mr. Feng Zhenquan
Mr. Xu Guohua
Mr. Li Deheng
Ms. Li Hongyu
Mr. Gong Qingli
Mr. Yan Ruliang (resigned on 15 May 2009)

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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East Zone of Beijing Economic-Technological
Development Area
Beijing
PRC

Principal place of business in Hong Kong

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178 Gloucester Road
Wanchai
Hong Kong

Investor Relations Consultant

Porda International (Finance) PR Group
Units 2009-2018, 20th Floor,
Shui On Centre,
6-8 Harbour Road,
Wanchai,
Hong Kong

Legal advisers

Kirkpatrick & Lockhart Preston Gates Ellis

Independent auditor

PricewaterhouseCoopers

Branch share registrar

Tricor Investor Services Limited

Stock code

546

ADRs Information

US Exchange: OTC
CUSIP: 35953H105
ADR: Ordinary shares 1:20

Website

www.fufeng-group.com



MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

The Group aims at becoming one of the leading corn-based biochemical products manufacturers in the world. The Group's overall growth strategy entails expansion of its production capacity, diversification of its product range, expansion of its sales network and strengthening its research and development capabilities.

For the first half of 2009, the Group continued strengthening its leading position in the MSG segment and xanthan gum markets with enhanced capacity and market coverage, as well as improved operational efficiency. Capitalising on the strong sales of MSG products and xanthan gum, the Group was able to sustain the growth momentum of 2008. For the six months ended 30 June 2009, the Group recorded a 26.1% increase in sales and 312.2% increase in profit attributable to Shareholders when compared with that of 2008. The significant increase was driven by an improved business environment which led to an overall increase in selling prices. Coupled with the increase in our production capacity, the Group's profit margin also improved. The Group's gross profit margin increased from 14.6% in the first half of 2008 to 28.1% for the first half of 2009, a substantial 13.5% improvement.

Market overview

MSG segment

MSG segment mainly includes the sales of glutamic acid, MSG, fertiliser, and other related products.

Despite the global financial crisis, the Group achieved a fruitful result for its MSG segment as the Group took advantage of industry consolidation. Since 2007, there has been a considerable number of closures of small and medium-sized glutamic acid and MSG manufacturers as a result of the surging raw material costs and oversupply of glutamic acid and MSG. The industry consolidation saw its end in 2008 and the selling prices of glutamic acid and MSG products have since been stabilised. According to our studies, the glutamic acid and MSG market in the PRC became increasingly concentrated and is now dominated by a few major players. The Group has become the world's leaders in the MSG industry as it took advantage of the industry consolidation to further expand its market share.

Xanthan gum segment

The global financial crisis and the falling oil price have affected the global market demand for xanthan gum during the first half of 2009. Nonetheless, the Group has grown to become one of the world's leaders in the xanthan gum industry as it continued to increase its production capacity and capture additional market share during the period under review.



Operational review of the Group

Despite the global financial crisis, the Group achieved yet another period of solid results in the first half of 2009, continuing its notable growth from 2008. Certain indicative operational figures of the Group are set out below:

Turnover/Gross profit/Gross profit margin of the Group

	Six months ended 30 June		Change %
	2009	2008	
Turnover (RMB'000)	2,055,352	1,630,399	26.1
Gross profit (RMB'000)	576,979	237,677	142.8
Gross profit margin (%)	28.1	14.6	13.5 pts.

The significant improvement in the performance of the Group is mainly due to the increase in sales volume and selling prices of certain products and the significant cost advantage achieved by our IM Plant. These are discussed in more details in the following sections.

Profit attributable to Shareholders

	Six months ended 30 June		Change %
	2009 RMB'000	2008 RMB'000	
As reported	353,901	85,864	312.2

The profit attributable to Shareholders increased significantly by over 312%, mainly due to the improvement in the operating environment and cost-efficiencies as mentioned above.

Segment Highlights

The Group's products are organised into two business segments, namely MSG segment and xanthan gum segment. MSG segment includes glutamic acid, MSG, fertilisers, and other related products while xanthan gum segment represents the production and sale of xanthan gum.

The table below highlights the operating results of the above segments:

	Six months ended 30 June 2009			Six months ended 30 June 2008			Increase/(Decrease)		
	Xanthan		Group	Xanthan		Group	Xanthan		Group
	MSG	gum		MSG	gum		MSG	gum	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%	%	%
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Revenue	1,869,413	185,939	2,055,352	1,461,659	168,740	1,630,399	27.9	10.2	26.1
Gross profit	511,666	65,313	576,979	180,441	57,236	237,677	183.6	14.1	142.8
Gross profit margin	27.4%	35.1%	28.1%	12.3%	33.9%	14.6%	15.1 ppts.	1.2 ppts.	13.5 ppts.
Segment results	364,567	51,499		74,028	50,559		392.5	1.9	
Segment net assets									
Assets	2,716,372	610,822		2,546,430	503,194		6.7	21.4	
Liabilities	1,086,004	337,136		1,199,322	395,096		(9.4)	(14.7)	
Net assets	1,630,368	273,686		1,347,108	108,098		21.0	153.2	

The sections below describe the performance of each segment in more details.

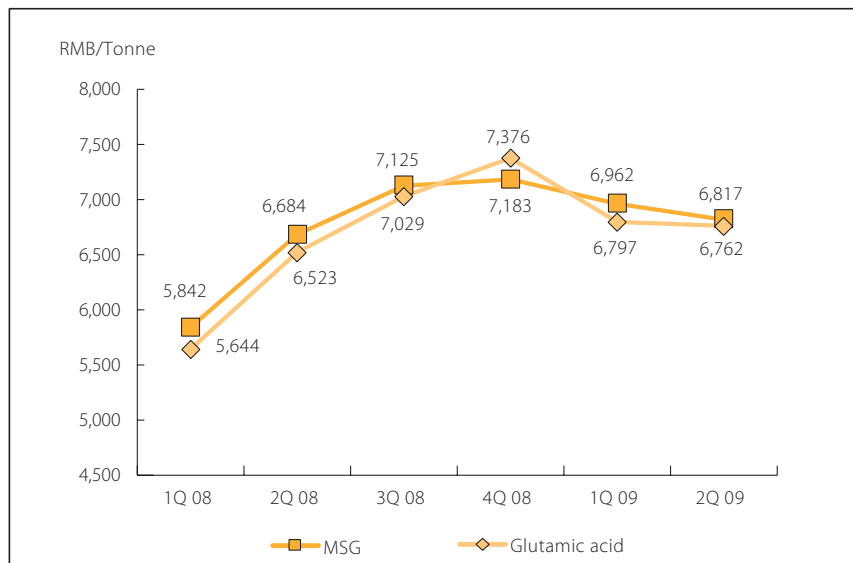
MSG Segment Sales and ASP

The table below sets out the sales amount of the products in this segment for the six months ended 30 June 2009 and 2008:

Product	Six months ended 30 June		Change %
	2009 RMB'000	2008 RMB'000	
Glutamic acid	423,169	619,455	(31.7)
MSG	905,629	298,755	203.1
Fertilisers	186,986	197,023	(5.1)
Corn refined products	240,538	272,669	(11.8)
Sweeteners	94,870	64,193	47.8
Others	18,221	9,564	90.5
	1,869,413	1,461,659	27.9



Set out below is a chart showing the ASP of the Group's major products of glutamic acid and MSG for each quarter from the first quarter of 2008 to the second quarter of 2009:



Glutamic acid

Since late 2007, there have been a number of closures of small and medium-sized glutamic acid manufacturers in the PRC resulting in further industry consolidation. With the industry consolidation reaching a steady state in 2008, the benefits of market consolidation began to realise in 2008. One of the most significant signs is that the ASP of our glutamic acid maintained at a high level in the first half of 2009. The ASP of our glutamic acid increased from approximately RMB6,048 per tonne in the first half of 2008 to approximately RMB6,777 per tonne in the first half of 2009, representing an increase of about 12.1%. The ASP of glutamic acid was lower than that of the second half of 2008, but has stabilised during the six months ended 30 June 2009 which was in line with the price trend of corn kernel. The Directors consider that, following the consolidation, the Group was in a better position to negotiate the price with its customers and therefore the Group had been able to transfer the increase in the cost of corn kernel to its customers.

As part of the Group's growth strategy of shifting from glutamic acid to MSG, the sales volume of glutamic acid decreased by approximately 39% to 62,440 tonnes. Sales of glutamic acid amounted to RMB423.2 million, representing a sharp decrease of 31.7% or RMB196.3 million. As larger amount of glutamic acid were consumed for the production of MSG internally, such decrease in sales of glutamic acid had been expected by the management as the Group moves downward the value chain to focus on higher margin products.



The Group has built up its leading position and will continue to strengthen its existing presence in the glutamic acid industry.

MSG

Following the same pattern and reasons as that of glutamic acid, the ASP of MSG increased from approximately RMB6,257 per tonne in the first half of 2008 to approximately RMB6,886 per tonne in the first half of 2009, representing an increase of about 10.1%.

In pursuit of the Group's strategy of moving from glutamic acid to MSG, the Group increased the production and hence the sales volume of MSG substantially, and has captured additional market share thereby successfully maintaining its leading position in the MSG industry. The turnover and sales volume of MSG increased substantially by approximately 203.1% and 175.3% respectively in the first half of 2009 from that of 2008. The significant increase was mainly due to the increase in production capacity by about 115.4% in first half of 2009 when compared with that of 2008 following the completion of the reengineering project of an existing production line in July 2008 and the construction of an MSG production line in November 2008 which was completely absorbed by the market.

Fertilisers

Following a continuing decrease in raw material costs since the second half of 2008 and the outbreak of the global financial crisis, the ASP of fertilisers has decreased since the third quarter of 2008. The ASP of fertilisers decreased from approximately RMB1,009 per tonne in the first half of 2008 to approximately RMB862 per tonne in the first half of 2009, representing a decrease of about 14.6%. However, the ASP of fertilisers gradually stabilised in the first half of 2009. The ASP of fertilisers increased from approximately RMB838 per tonne in the first quarter of 2009 to approximately RMB915 per tonne in the second quarter of 2009, representing an increase of 9.2%.

Corn refined products

In line with the fertilisers, the ASP of corn refined products decreased since the fourth quarter of 2008. The revenue of the corn refined products decreased by about 11.8% for the six months ended 30 June 2009 when compared with that in 2008.

Sweeteners

Being affected by the global financial crisis, the ASP of sweeteners decreased from approximately RMB1,965 per tonne in the first half of 2008 to approximately RMB1,830 per tonne in the first half of 2009, representing a decrease of about 6.9%. The sales volume of sweeteners increased by 61.5% as a result of the increase in market recognition of the Group's products and the Group's effort in promoting such products.

Others

During the period under review, the Group expanded its product range along its value chain to include corn oil. The addition of production capacity of 35,000 tonnes per year of corn oil in the Shandong Plant was completed in December 2008 and commenced the trial commercial production in May 2009.



In order to further optimise the product mix under this segment, the Group launched a compound seasonal product of chicken power during the period under review. The Group completed construction of production facilities of 10,000 tonnes annual production capacity of chicken powder in the Shandong Plant in December 2008, which commenced its trial commercial production in the first half of 2009.

Gross Profit and gross profit margin

Set out below the gross profit of this segment:

	Six months ended 30 June		Change
	2009	2008	
Gross profit (RMB'000)	511,666	180,441	183.6%
Gross profit margin (%)	27.4	12.3	15.1 ppts.

The Group's MSG segment recorded a remarkable result in the first half of 2009, with gross profit increasing by 183.6% to RMB512 million as compared with the first half of 2008, and with gross margin up by 15.1 ppts. to 27.4%. The gross profit margin was kept in higher level during the first half of 2009 as a result of the benefit of the market consolidation and the overall competition strengths of the Group.

Production cost

	Six months ended 30 June				Change
	2009		2008		
	RMB'000	%	RMB'000	%	%
Major raw materials/Energy					
• Corn kernels	726,382	54.2	656,647	51.5	10.6
• Liquid ammonia	150,287	11.2	152,610	12.0	(1.5)
• Sulphuric acid	19,089	1.4	126,338	9.9	(84.9)
• Coal	125,904	9.4	114,147	9.0	10.3
Depreciation	68,031	5.1	54,535	4.3	24.7
Employee benefit	58,604	4.4	46,982	3.7	24.7
Others	191,303	14.3	121,591	9.6	57.3
Total cost of production	1,339,600	100.0	1,272,850	100.0	5.2



Corn kernels

During the first half of 2009, corn kernels accounted for approximately 54.2% (1H 2008: 51.5%) of the total production cost of this segment. Due to the global collapse in commodity price, the price of corn kernels had started to decrease in the fourth quarter of 2008. The average cost of corn kernels for the first half of 2009 was approximately RMB1,284 per tonne, which represents a decrease of approximately RMB131 per tonne or 9.3% from that of 2008.

Liquid ammonia

Liquid ammonia accounted for approximately 11.2% (1H 2008: 12.0%) of total production cost in this segment in the first half of 2009. Being affected by the global decline of commodity prices and oversupply in the market, the average unit cost of liquid ammonia for the first half of 2009 dropped to approximately RMB2,200 per tonne, which represents a decrease of approximately RMB305 per tonne or 12.2% from that of 2008.

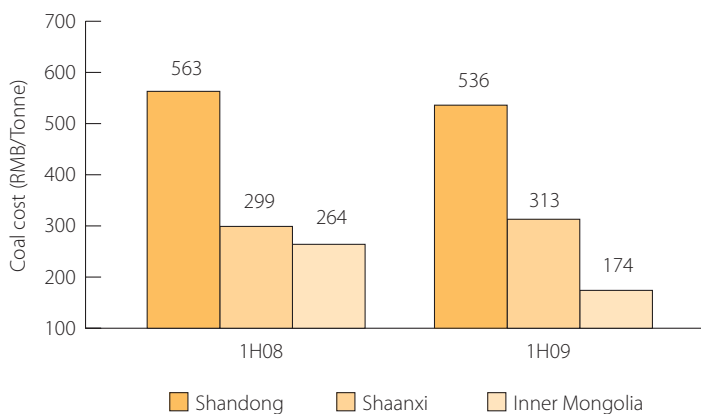
Sulphuric acid

Sulphuric acid accounted for approximately 1.4% (1H 2008: 9.9%) of total production cost in this segment in the first half of 2009. Like liquid ammonia, the average unit cost of sulphuric acid was affected by the global commodity price downturn and for the first half of 2009 the average unit cost of sulphuric acid was approximately RMB241 per tonne, which represents an hefty decrease of approximately RMB827 per tonne or 77.4% from that of 2008, which also explain for the significant decrease in its proportion of the total production cost in the MSG segment.



Coal

Coal accounted for approximately 9.4% (1H 2008: 9.0%) of total production cost in this segment in the first half of 2009. The average unit cost of coal for the first half of 2009 was approximately RMB247 per tonne, which represents a decrease of approximately RMB68 per tonne or 21.6% from that of 2008. While in general the coal price dropped in the first half of 2009 following the overall decline in commodity prices worldwide, such decrease was also due to the fact that the Group enjoyed substantial cost advantage and economies of scale from the increased production output of the IM Plant. The chart below shows the coal cost at each plant:



The increase in cost of depreciation, employee benefits and other costs was mainly due to the increased production capacity of MSG in the Baoji Plant and IM Plant.



Production

The annual designed production capacity, the actual production output and the utilisation rate of each of the major products for this segment were as follows:

Product	Six months ended 30 June		Change %
	2009 Tonnes	2008 Tonnes	
Glutamic acid (Note B)			
Annual designed production capacity	175,000	120,000	45.8
Actual production output	171,829	136,654	25.7
Utilisation rate	98.2%	113.9%	
MSG (Note C)			
Annual designed production capacity	140,000	65,000	115.4
Actual production output	129,194	52,925	144.1
Utilisation rate	92.3%	81.4%	
Fertilisers			
Annual designed production capacity	230,000	200,000	15.0
Actual production output	216,296	185,364	16.7
Utilisation rate	94.0%	92.7%	
Sweeteners			
Annual designed production capacity	50,000	50,000	–
Actual production output	43,115	37,571	14.8
Utilisation rate	86.2%	75.1%	

Note:

- A. All the annual designed production capacity is expressed on pro-rata basis.
- B. The significant increase in production capacity of glutamic acid was mainly due to the completion of the reengineering projects carried out in the Baoji Plant and the IM Plant in July and November 2008.
- C. The significant increase in production capacity of MSG was mainly due to the completion of the construction of a new MSG production line of 100,000 tonnes per year in the Baoji Plant in November 2008 and the reengineering project of MSG in IM Plant resulting in an additional production capacity of 25,000 tonnes per year in July 2008.



Xanthan Gum Segment

Operation results

The table below set out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the 6 months ended 30 June 2009 and 2008:

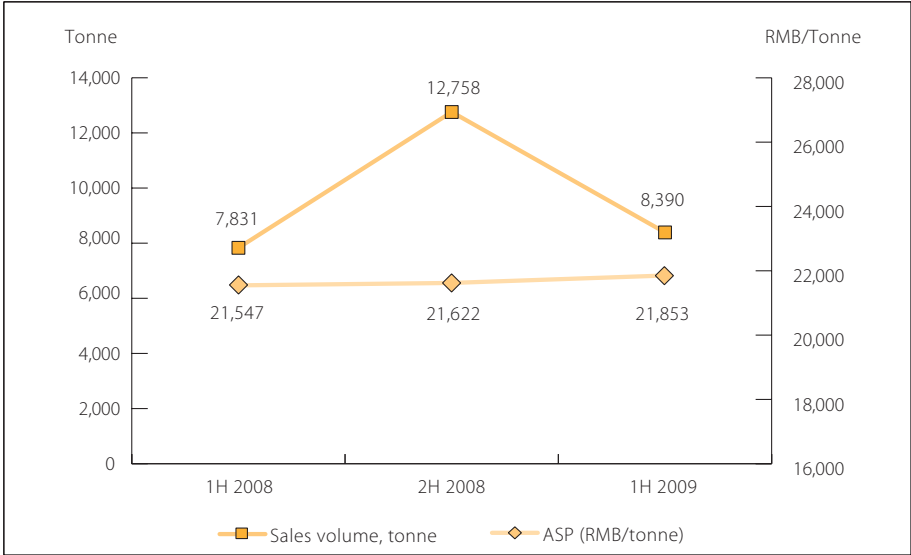
	Six months ended 30 June		Change %
	2009	2008	
Sales amount (RMB'000)	185,939	168,740	10.2
ASP (RMB/tonne)	21,853	21,547	1.4
Gross profit (RMB'000)	65,313	57,236	14.1
Gross profit margin (%)	35.1	33.9	1.2 pts.
Annual designed production capacity (tonnes)	16,000	9,000	77.8
Actual production output (tonnes)	14,436	9,805	47.2
Utilisation rate	90.2%	108.9%	

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

As the construction of 12,000 tonnes of xanthan gum production capacity in the IM Plant was completed in November 2008, the annual production capacity of xanthan gum, on a pro-rata basis, increased from 9,000 tonnes for the first half of 2008 to 16,000 tonnes for the same period in 2009.

Sales and ASP

Sales Volume vs. ASP of Xanthan Gum



The expansion of production capacity and the ASP of xanthan gum were the main reasons for the increase in sales of xanthan gum. The ASP of xanthan gum increased slightly from RMB21,547 per tonnes in the first half of 2008 to about RMB21,853 per tonnes in first half of 2009, representing an increase of 1.4%. The sales amount of xanthan gum increased by approximately 10.2% in the first half of 2009 from that of 2008. During the first half of 2009, overseas sales of xanthan gum contributed 86% (1H 2008: 80%) to the total sales of the xanthan gum.

During the period, we saw the negative impact of the global economic downturn and the drop in oil price on our xanthan gum business. Although we managed to record growth in both sales amount and ASP, the market was not yet in the position to fully absorb our increased production capacity during the first half of 2009.



Gross profit and gross profit margin

The gross profit of xanthan gum segment increased from about RMB57.2 million in the first half of 2008 to about RMB65.3 million in the first half of 2009, representing an increase of about RMB8.1 million or 14.1%. The gross profit margin of the xanthan gum segment was maintained at high level with an increase of 1.2 ppts. in the first half of 2009. Such increase was mainly due to the drop in the cost of major raw materials since the fourth quarter of 2008. While in general the price of raw materials has dropped in 2009 following the global economic downturn, the major factor for the drop of our raw material costs is that we enjoyed significant cost advantage in our IM Plant. The average production cost of xanthan gum in IM Plant in the first half of 2009 was more than 30% lower than that in the Shandong Plant. As such, the increase in production in our IM Plant in the first half of 2009 has brought down our coal price and hence the overall production costs.

Production costs

	Six months ended 30 June				Change %
	2009		2008		
	RMB'000	%	RMB'000	%	
Major raw materials/Energy					
• Corn kernels/Starch	46,751	28.1	35,718	26.4	30.9
• Soy bean	7,618	4.6	11,734	8.7	(35.1)
• Coal	50,945	30.7	55,282	40.9	(7.8)
Depreciation	17,447	10.5	12,061	8.9	44.7
Employee benefit	12,546	7.6	9,381	6.9	33.7
Others	30,814	18.5	11,003	8.2	180.1
Total cost of production	166,121	100.0	135,179	100.0	22.9

Corn kernels/Starch

During the first half of 2009, corn kernels/starch represented approximately 28.1% (1H 2008: 26.4%) of the total production cost of this segment. The corn kernels and starch price decreased from approximately RMB1,383 per tonne and RMB1,906 per tonne in the first half of 2008 to approximately RMB1,290 per tonne and RMB1,685 per tonne in the first half of 2009, representing a decrease of 6.7% and 11.6% respectively. The increase in the total cost of corn kernels/starch is mainly due to the increased production volume of xanthan gum as the production capacity of xanthan gum has increased since 2009.



Soy bean

During the first half of 2009, soy bean accounted for approximately 4.6% (1H 2008: 8.7%) of the total production cost of this segment. The decrease in proportion was mainly due to the decrease in soy bean price from approximately RMB4,577 per tonne in the first half of 2008 to approximately RMB3,444 per tonne in the first half of 2009, representing a decrease of 24.8%.

Coal

During the first half of 2009, coal accounted for approximately 30.7% (1H 2008: 40.9%) of the total production cost of this segment. The Group took full advantage of the relatively low coal cost in its IM Plant. The average unit cost of coal for the first half of 2009 was approximately RMB221 per tonne, which represents a decrease of approximately RMB103 per tonne or 31.8% from that of 2008.

The increase in cost of depreciation was mainly due to the increased production capacity of xanthan gum in IM Plant.

Other financial information

Selling and marketing expenses

The substantial increase in selling and marketing expenses was mainly due to the increase in advertisement expenses for strengthening the Group's brand name and the increase in sales during the review period.

Administrative expenses

The increase in administrative expenses was mainly due to the expansion of general operations in line with the increase in production capacity in both the Baoji Plant and IM Plant.

Finance cost

The finance costs of the Group for the six months ended 30 June 2009 decreased by approximately RMB8.8 million or about 39.5% when compared with that of 2008. As at 30 June 2009, the bank borrowing amounted to approximately RMB498 million, which represents a decrease of approximately RMB179 million or about 26.4% as compared with that of 2008. The major reason for the decrease in interest expenses is due to the decrease in average bank borrowing during the first six months period ended of 2009.



Outlook for second half of 2009

Following the global financial crisis and economic downturn in 2008, recently there were signs that the global economy might have bottomed in the first half of 2009. This, together with the effect of the bailout packages introduced by the PRC Government being gradually realised, make the Group be optimistic towards the business environment in the second half of 2009.

Following the drop in the fourth quarter of 2008 and the first quarter of 2009, the ASPs of glutamic acid and MSG began to go up in the second quarter of 2009, which is in line with the increase in the average costs of corn kernels. Being one of the leaders in the industry, the Group is confident that it is in the better position than its competitors to transfer the increase in corn kernel cost to the customers thereby maintaining its profit margin.

Following the 70,000 tonnes increase in MSG production capacity in our Baoji Plant, we aim at further expanding our business coverage. The Directors are confident that, for such further expanding business coverage, we should be able to utilise our technological know-how, established brand name and cost advantage. The Group will adopt a prudent and pragmatic approach when exploring such new markets. Specific attention will be given to the detailed set up of sales network, logistics arrangement and cost control.

To meet our mission to become the world's leading xanthan gum manufacturer, the Group will strive to add production capacity. The construction of additional capacity of 12,000 tonnes of xanthan gum in the IM Plant is expected to be completed and commence production by the end of 2009.

In addition, the Group noticed that oil production has picked up recently. Also, there are signs that the global economy has bottomed. The Directors therefore consider the future prospects of the Group's xanthan gum business to improve in the second half of 2009. The Directors consider that with the significant cost advantage of the IM Plant, plus the established market share, the Group is in the best position to compete in the future, and will continue to maintain its leading position in the global xanthan gum industry.

At the same time, the Group will continue its endeavors in the research and development of new products along the product chain so as to diversify its sources of income and with the aim of enhancing its profit margin.

Looking forward, the Group will adopt a steady development strategy in accordance with market changes, with the aim of strengthening its market presence in its strategic markets through capacity expansion, and enhancing operational efficiency and distribution network. As part of its future development strategies, the Group will continue to expand and strengthen its footholds in the MSG and xanthan gum markets. With its current leading market position and successful execution of the aforesaid strategies, the Group's growth prospects are set to be promising.



Future plan and recent development

The construction of the productions facilities for the 12,000 tonnes of xanthan gum, 5,000 tonnes of threonine and 1,000 tonnes of branched-chain amino acid have commenced in the first half of 2009 as scheduled, and is expected to complete by the end of this year.

The Group is in the process of expanding its production capacities of glutamic acid in Baoji Plant by 70,000 tonnes and that of fertiliser by 100,000 tonnes. Construction works of the new production facilities commenced in July 2009 and would be completed in February 2010. At the same time, the Group have also amended its MSG production expansion plan, the planned addition production capacity has been increased from the initial 100,000 tonnes to 150,000 tonnes in our IM Plant. Upon completion of the construction, the total production capacity of MSG in IM Plant will be increased to 250,000 tonnes per year. Construction of such production capacities is expected to complete by the end of 2009, and by then, the Group plans to switch all of its glutamic acid production in IM Plant to producing MSG internally. Third party sales of glutamic acid will be restricted to Baoji Plant only.

Liquidity and financial resources

The Group maintained a healthy liquidity position throughout the period under review. As at 30 June 2009, the Group's cash and cash equivalent and restricted bank deposits were RMB300 million (2008: RMB268 million) whereas current bank borrowings were approximately RMB198 million (2008: RMB276 million) and non-current bank borrowings were approximately RMB300 million (2008: RMB312 million).

Material acquisition or disposal of subsidiary and associated company

In April 2009, the Group acquired 100% of the share capital of Beijing Huijinhua Commercial Co., Ltd., to purchase the building and land use right, which is located in Beijing. The consideration amounted to RMB26.8 million.

Except for the above, the Group had no other material acquisition or disposal of the subsidiaries or associated companies for the six months ended 30 June 2009.

Employees

As at 30 June 2009, the Group had approximately 2,000 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 2009, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB123 million were pledged to certain banks to secure bank borrowings of RMB220 million of the Group.

Gearing ratio

As at 30 June 2009, the total assets of the Group amounted to approximately RMB3,379 million (2008: RMB3,262 million) whereas the bank borrowings amounted to RMB498 million (2008: RMB588 million). The gearing ratio was approximately 15% (2008: 18%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

The Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were however received for the export sales of products. Such proceeds were subject to foreign exchange risk before receiving and converting into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers.

American Depositary Receipt Facility

The Company has established a sponsored, unlisted American Depositary Receipt ("ADR") facility, which has become effective on 19 June 2009. The Depositary is the Bank of New York Mellon. Each of the ADRs represents 20 ordinary shares of the Company. In the forming of the facility adopted by the Company, the ADRs will be issued against ordinary shares trading on the Main Board of the Stock Exchange of Hong Kong Limited that have been deposited with a custodian bank under the facility. The ADRs will be traded in the U.S. in an over-the-counter market.

Dividend

The Board has resolved to pay an interim dividend of HK10 cents per share (1H 2008: nil), payable on or before 30 September 2009 to the shareholders whose names appear on the register of members of the Company on 9 September 2009.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 9 September 2009 to Thursday, 10 September 2009 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the interim period, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 8 September 2009.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2009 RMB'000 Unaudited	31 December 2008 RMB'000 Audited
ASSETS			
Non-current assets			
Leasehold land payments	5	141,644	132,334
Property, plant and equipment	5	2,023,864	1,954,845
Deferred income tax assets		5,655	423
		2,171,163	2,087,602
Current assets			
Inventories		326,435	356,288
Trade and other receivables	6	581,999	548,355
Current income tax recoverable		–	2,654
Short-term bank deposits		14,870	42,860
Cash and cash equivalents		284,654	224,706
		1,207,958	1,174,863
Total assets		3,379,121	3,262,465
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	7	169,034	169,034
Share premium			
– Proposed interim dividend		146,412	–
– Proposed final dividend		–	146,293
– Others		785,439	931,851
Other reserves		(242,845)	(247,904)
Retained earnings		1,096,141	742,240
Total equity		1,954,181	1,741,514



CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	Note	30 June 2009 RMB'000 Unaudited	31 December 2008 RMB'000 Audited
LIABILITIES			
Non-current liabilities			
Deferred income		51,846	27,798
Borrowings	8	300,000	312,000
Deferred income tax liabilities		18,862	10,928
		370,708	350,726
Current liabilities			
Trade, other payables and accruals	9	842,476	887,533
Current income tax liabilities		3,536	–
Current portion of deferred income		10,220	6,692
Borrowings	8	198,000	276,000
		1,054,232	1,170,225
Total liabilities		1,424,940	1,520,951
Total equity and liabilities		3,379,121	3,262,465
Net current assets		153,726	4,638
Total assets less current liabilities		2,324,889	2,092,240



CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June	
		2009 RMB'000 Unaudited	2008 RMB'000 Unaudited
Revenue	4	2,055,352	1,630,399
Cost of sales	11	(1,478,373)	(1,392,722)
Gross profit		576,979	237,677
Other income	10	24,152	27,822
Selling and marketing costs	11	(96,107)	(78,217)
Administrative expenses	11	(86,652)	(63,489)
Other operating expenses	11	(17,067)	(6,672)
Finance costs		(13,543)	(22,380)
Profit before income tax		387,762	94,741
Income tax expense	12	(33,861)	(8,877)
Profit for the period attributable to the Shareholders		353,901	85,864
Earnings per share for profit attributable to the Shareholders during the period (expressed in RMB cent per share)			
– basic and diluted	13	21.32	5.17
Dividends	14	146,412	–



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited				
	Attributable to equity holders of the Group				
	Share capital	Share premium	Other reserves	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Balance at 1 January 2008	169,034	1,091,673	(276,084)	464,193	1,448,816
Profit for the six months	–	–	–	85,864	85,864
Employees share option scheme:					
– value of employee services	–	–	7,009	–	7,009
Dividends paid	–	(13,529)	–	–	(13,529)
Balance at 30 June 2008	169,034	1,078,144	(269,075)	550,057	1,528,160
Balance at 1 January 2009	169,034	1,078,144	(247,904)	742,240	1,741,514
Profit for the six months	–	–	–	353,901	353,901
Employees share option scheme:					
– value of employee services	–	–	5,059	–	5,059
Dividends paid	–	(146,293)	–	–	(146,293)
Balance at 30 June 2009	169,034	931,851	(242,845)	1,096,141	1,954,181



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2009 RMB'000 Unaudited	2008 RMB'000 Unaudited
Cash flows from operating activities		
Cash generated from operations	583,704	132,419
Interest paid	(13,543)	(22,380)
Income taxes paid	(7,455)	(9,940)
	<u>562,706</u>	<u>100,099</u>
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	(26,621)	(3,202)
Purchases of property, plant and equipment	(254,813)	(97,098)
Purchases of leasehold land payments	(7,000)	(29,253)
Proceeds from disposal of property, plant and equipment	–	97
Interest received	821	1,074
	<u>(287,613)</u>	<u>(128,382)</u>
Cash flows from financing activities		
Dividends paid to the Company's shareholders	(146,293)	(13,529)
Government grants received	21,148	7,684
Proceeds from bank borrowings	298,000	509,300
Repayments of bank borrowings	(388,000)	(480,829)
	<u>(215,145)</u>	<u>22,626</u>
Net increase/(decrease) in cash and cash equivalents	59,948	(5,657)
Cash and cash equivalents at beginning of the period	<u>224,706</u>	<u>228,849</u>
Cash and cash equivalents end of the period	284,654	223,192



NOTES TO THE CONDENSED FINANCIALS 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 mainly engaged in the manufacture and sales of fermentation-based food additive and biochemical products and starch-based products.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2009 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 annual financial statements of the Group for the year ended 31 December 2008, which have been prepared in accordance with HKFRS.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but they are not expected to have a material impact on the Group's financial statements.

HKFRS 8, "Operating segments". HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The management assessed no change of the reportable segments presented for the period ended 30 June 2009.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the steering committee that makes strategic decisions.

HKAS 1 (Revised), 'Presentation of financial statements'

HKAS 23 (Revised), 'Borrowing costs'

HKAS 19 (Amendment), 'Employee benefits'

HKAS 23 (Amendment), 'Borrowing costs'

HKAS 28 (Amendment), 'Investments in associates'

HKAS 36 (Amendment), 'Impairment of assets'

HKAS 38 (Amendment), 'Intangible assets'

HKFRS 2 (Amendment), 'Share-based payment'



The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Group.

HKAS 32 (Amendment), 'Financial instruments: presentation'
HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement'
HKFRS 1 (Amendment), 'First time adoption of HKFRS' and
HKFRS 7 (Amendment), 'Financial instruments: Disclosures'
HK(IFRIC) – Int 13, 'Customer loyalty programmes'
HK(IFRIC) – Int 15, 'Agreements for the construction of real estate'
HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation'

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

HKFRS 3 (revised), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

HK(IFRIC) – Int 17 'Distributions of non-cash assets to owners'²
HK(IFRIC) – Int 18, 'Transfers of assets from customers'²

HKICPA's improvements to HKFRS published in May 2009:

HKFRS 2 Amendment 'Share-based payments'²
HKFRS 5 Amendment 'Non-current Assets held for sale and discontinued operations'¹
HKFRS 8 Amendment 'Operating segments'¹
HKAS 1 Amendment 'Presentation of financial statements'¹
HKAS 7 Amendment 'Statement of cash flows'¹
HKAS 17 Amendment 'Leases'¹
HKAS 36 Amendment 'Impairment of assets'¹
HKAS 38 Amendment 'Intangible assets'²

¹ Effective for annual periods beginning on or after 1 January 2010

² Effective for annual periods beginning on or after 1 July 2009

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, 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	
	2009	2008
	RMB'000	RMB'000
	Unaudited	Unaudited
Glutamic acid	423,169	619,455
MSG	905,629	298,755
Corn refined products	240,538	272,669
Fertilisers	186,986	197,023
Xanthan gum	185,939	168,740
Starch sweeteners	94,870	64,193
Others	18,221	9,564
	2,055,352	1,630,399

The chief operating decision-maker has been identified as the strategic steering committee. This committee reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The committee considers the business from a product perspective. From this perspective, the Group is organised into two main business segments: MSG (which includes the sales of glutamic acid, MSG, corn refined products, fertilisers, starch sweeteners, corn oil, chicken powder, pharmaceuticals and bricks) and xanthan gum. There are no significant sales or other transactions between the business segments.

The strategic steering committee assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA). This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as restructuring costs, legal expenses and impairments when the impairment is the result of an isolated, non-recurring event. Finance costs are not included in the result for each operating segment that is reviewed by the strategic steering committee. Other information provided, except as noted below, to the strategic steering committee is measured in a manner consistent with that in the financial statements.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to the strategic steering committee is measured in a manner consistent with that in the condensed consolidated interim statement of comprehensive income.



The segment results for the six months ended 30 June 2009 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Revenue	1,869,413	185,939	–	2,055,352
Segment results	364,567	51,499	(14,761)	401,305
Finance costs				(13,543)
Profit before income tax				387,762
Income tax expenses				(33,861)
Profit for the period				353,901

The segment results for the six months ended 30 June 2008 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Revenue	1,461,659	168,740	–	1,630,399
Segment results	74,028	50,559	(21,370)	103,217
Negative goodwill gained from acquisition				9,957
Waiver of payables due to debt restructuring for a newly acquired subsidiary				3,947
Finance costs				(22,380)
Profit before income tax				94,741
Income tax expenses				(8,877)
Profit for the period				85,864



Other segment items included in the income statement are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Period ended 30 June 2009				
Depreciation	75,926	17,510	279	93,715
Amortisation of leasehold land payments	1,379	114	–	1,493
Reversal of write-down of inventories	(1,554)	–	–	(1,554)
Impairment provision for property, plant and equipment	14,882	–	–	14,882
Period ended 30 June 2008				
Depreciation	63,742	12,111	882	76,735
Amortisation of leasehold land payments	865	114	–	979
Gain on disposals of property, plant and equipment	(4)	–	–	(4)

The segment assets and liabilities at 30 June 2009 and capital expenditure for the period then ended are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Assets	2,716,372	610,822	51,927	3,379,121
Liabilities	1,086,004	337,136	1,800	1,424,940
Capital expenditure	154,088	13,708	20,623	188,419

The segment assets and liabilities at 30 June 2008 and capital expenditure for the period then ended are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Assets	2,546,430	503,194	74,463	3,124,087
Liabilities	1,199,322	395,096	1,509	1,595,927
Capital expenditure	108,361	54,662	10	163,033



5. LEASEHOLD LAND PAYMENTS AND PROPERTY, PLANT AND EQUIPMENT

	Leasehold land payments RMB'000 (Unaudited)	Property, plant and equipment RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months ended 30 June 2008			
Opening net book amount at 1 January 2008	63,070	1,674,021	1,737,091
Additions	29,253	133,780	163,033
Acquisition of subsidiary	8,049	44,824	52,873
Disposal	-	(129)	(129)
Depreciation and amortisation	(979)	(76,735)	(77,714)
Depreciation disposal	-	36	36
Closing net book amount at 30 June 2008	99,393	1,775,797	1,875,190
Six months ended 30 June 2009			
Opening net book amount at 1 January 2009	132,334	1,954,845	2,087,179
Additions	7,000	160,798	167,798
Acquisition of subsidiary	3,803	16,818	20,621
Depreciation and amortisation	(1,493)	(93,715)	(95,208)
Impairment	-	(14,882)	(14,882)
Closing net book amount at 30 June 2009	141,644	2,023,864	2,165,508

6. TRADE AND OTHER RECEIVABLES

	30 June 2009 RMB'000 Unaudited	As at 31 December 2008 RMB'000 Audited
Trade receivables (a)	53,135	74,438
Less: provision for impairment of receivables	(4,635)	(4,622)
Trade receivables, net	48,500	69,816
Notes receivables (b)	505,460	449,736
Prepayments	15,627	13,473
Deposits and others	12,412	15,330
	581,999	548,355



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

	As at	
	30 June 2009 RMB'000 Unaudited	31 December 2008 RMB'000 Audited
Within 3 months	37,267	61,761
3 – 12 months	11,233	8,055
Over 12 months	4,635	4,622
	53,135	74,438

The Group sold its products to customers and received settlement either in cash or in form of bank acceptance notes (note (b)) 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 2009, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB434,145,000 (2008: RMB430,721,000) applied for settling the amounts payable to the Group's suppliers.

7. SHARE CAPITAL

	Number of authorised shares '000 Unaudited	Number of issued and fully paid shares '000 Unaudited	Amount		
			Share capital RMB'000 Unaudited	Share premium RMB'000 Unaudited	Total RMB'000 Unaudited
			Opening balance at 1 January 2008	10,000,000	1,660,000
Dividends paid	–	–	–	(13,529)	(13,529)
At 30 June 2008	10,000,000	1,660,000	169,034	1,078,144	1,247,178
Opening balance at 1 January 2009	10,000,000	1,660,000	169,034	1,078,144	1,247,178
Dividends paid	–	–	–	(146,293)	(146,293)
At 30 June 2009	10,000,000	1,660,000	169,034	931,851	1,100,885



8. BORROWINGS

	30 June 2009 RMB'000 Unaudited	As at 31 December 2008 RMB'000 Audited
Non-current	300,000	312,000
Current	198,000	276,000
	498,000	588,000

Movements in borrowings is analysed as follows:

	RMB'000 (Unaudited)
Six months ended 30 June 2008	
Opening amount as at 1 January 2008	630,000
New borrowings	509,300
Acquisition of subsidiary	18,329
Repayments of borrowings	(480,829)
	<u>676,800</u>
Closing amount as at 30 June 2008	
Six months ended 30 June 2009	
Opening amount as at 1 January 2009	588,000
New borrowings	298,000
Repayments of borrowings	(388,000)
	<u>498,000</u>
Closing amount as at 30 June 2009	

Interest expenses on borrowings for the six months ended 30 June 2009 was RMB13,543,000 (30 June 2008: RMB22,380,000).

9. TRADE ,OTHER PAYABLES AND ACCRUALS

	30 June 2009 RMB'000 Unaudited	As at 31 December 2008 RMB'000 Audited
Trade payables (a)	514,565	506,894
Advances from customers	112,606	91,675
Payables for leasehold land, property, plant and equipment	130,723	224,737
Other payables and accruals	84,582	64,227
	842,476	887,533



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

	As at	
	30 June 2009 RMB'000 Unaudited	31 December 2008 RMB'000 Audited
Within 3 months	488,273	480,613
3 to 6 months	9,072	12,144
6 to 12 months	2,409	3,123
Over 12 months	14,811	11,014
	514,565	506,894

As at 30 June 2009, notes receivables of RMB434,145,000 (2008: RMB430,721,000) were applied for settling the amounts payable to the Group's suppliers.

10. OTHER INCOME

	Six months ended 30 June	
	2009 RMB'000 Unaudited	2008 RMB'000 Unaudited
Interest income	821	1,074
Amortisation of deferred income	10,578	5,017
Sales of waste products	11,912	6,107
Negative goodwill gained from acquisition	–	9,957
Waiver of payables due to debt restructuring for a newly acquired subsidiary	–	3,947
Others	841	1,720
	24,152	27,822

11. EXPENSES BY NATURE

	Six months ended 30 June	
	2009 RMB'000 Unaudited	2008 RMB'000 Unaudited
Amortisation of leasehold land payments	1,493	979
Depreciation of property, plant and equipment	93,715	76,735
Value on employee services for the share option scheme	5,059	7,009
Foreign exchange losses	949	5,935
Reversal of write-down of inventories	(1,554)	–
	99,652	90,658



12. INCOME TAX EXPENSE

	Six months ended 30 June	
	2009 RMB'000 Unaudited	2008 RMB'000 Unaudited
Current income tax		
– PRC enterprise income tax ("EIT")	31,159	8,877
Deferred income tax	2,702	–
	33,861	8,877

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Law 3 of 1961, as consolidated and revised) 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 2009 and 2008.

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.

13. EARNINGS PER SHARE

(a) Basic

Basic earnings per Share for each of the six months ended 30 June 2009 and 2008 are 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.

	Six months ended 30 June	
	2009 Unaudited	2008 Unaudited
Basic earnings per Share (RMB cents per Share)	21.32	5.17

(b) Diluted

The diluted earnings per Share is the same as basic earnings per Share because the average market price of ordinary shares for the six months ended 2009 did not exceed the exercise prices of each tranche of the share options, hence the share options are anti-dilutive and are ignored in the calculation of the diluted earnings per Share.

14. DIVIDENDS

A 2008 final dividend of HK10 cents (equivalent to RMB8.81 cents) per Share, totalling HK\$166,000,000 (equivalent to RMB146,293,000) was paid in May 2009.

In addition, an interim dividend of HK10 cents (equivalent to RMB8.82 cents) (2008: nil) per Share was declared by the Board on 18 August 2009. It is payable on or before 30 September 2009 to Shareholders who are on the register at 9 September 2009. This interim dividend, amounting to HK\$166,000,000 (equivalent to RMB146,412,000), has not been recognised as a liability in this interim financial information. It will be reflected as an appropriation of share premium for the year ending 31 December 2009.



15. BUSINESS COMBINATION

On 25 January 2008, the Group acquired 100% of the share capital of Shenhua Pharmaceutical, a company which operates in the bio-chemical field by applying fermentation technology on its production. The acquired business contributed revenues of RMB20,241,000 and net profit of RMB3,324,000 to the Group for the period from 25 January 2008 to 31 December 2008. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged taking into account the fair value adjustments to property, plant and equipment and intangible assets which had been applied from 25 January 2008, together with the consequential tax effects. For the acquisition, the Group has a negative goodwill of RMB9,657,000 which represents the excess of fair value of net assets acquired over the purchases consideration.

There was no business combination for the period ended 30 June 2009.

16. CONTINGENT LIABILITIES

As at 30 June 2009 and 2008, the Group had no material contingent liabilities.

17. RELATED PARTY TRANSACTIONS

Key management compensation is set out below:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	Unaudited	Unaudited
Salaries and allowances	3,515	2,518
Pension costs-defined contribution plan	212	129
Share options granted	2,555	4,049
	6,282	6,696

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.

18. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Details of the interim dividend proposed are given in Note 14.

On 10 January 2007, a Post-IPO share option scheme was approved by the shareholders of the Company. On 14 July 2009, pursuant to the scheme, options to subscribe for an aggregate of 64,110,000 shares of the Company were granted to certain executive director, senior management and employees.

The consideration of each grantee for the grant of such option was HK\$1.00 and the subscription price for each share pursuant to the exercise of the option is HK\$3.00. Such options may be exercised within a period of three years from the expiry of two and a half years from the date of grant based on the terms of validity period of the share option identified in the offer letter.

19. 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 on 14 August 2009 and 18 August 2009, 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 Listing Rules since the Listing Date to 30 June 2009.

The audit committee of the Company has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2009.

Model code for securities transactions by Directors

The Company has adopted 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 2009.



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. According to 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. Details of the share options granted and outstanding under the Pre-IPO Share Option Scheme during the six months ended 30 June 2009 are as follows:

Directors and eligible employees	Number of share options			Date of grant	Exercise price (HK\$)	Exercise period
	At 1 January 2009	Lapsed during the period	At 30 June 2009			
Mr. Wang Longxiang (executive Director)	16,000,000	–	16,000,000	10/1/2007	2.23	8/8/2009 – 7/8/2012
Centrepoint Assets Management Limited (a company wholly-owned Mr. Gong Qingli, an executive Director)	16,000,000	–	16,000,000	10/1/2007	2.23	8/8/2007 – 7/8/2011
Other eligible employees	49,440,000	–	49,440,000	10/1/2007	2.23	8/8/2009 – 7/8/2012
	<u>81,440,000</u>	<u>–</u>	<u>81,440,000</u>			

Notes:

The following assumptions were used to calculate the fair values of share options:

Average share price	HK\$1.98
Exercise price	HK\$2.23
Expected life of options	4.6 – 5.6 years
Expected volatility	40%
Expected dividend yield	2.6%
Risk free rate	3.59%

The Binomial option pricing model requires the input of highly subjective assumptions.



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 SFO) as at 30 June 2009, 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.

Save as disclosed above, for the six months ended 30 June 2009, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



Interest of persons holding 5% or more interests

As at 30 June 2009, 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	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 (Note 3)	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. Feng Zhenquan, 15% by Mr. Xu Guohua, 15% by Mr. Li Deheng (all of whom are executive Directors), 15% by Mr. Yan Ruliang (a former executive director who resigned with effect from 15 May 2009) and 15% by Ms. Guo Yingxi.

Save as disclosed above, for the six months ended 30 June 2009, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.



GLOSSARY

ASP	Average selling price(s)
Baoji Plant	the production plant of the Group located in Baoji City, Shaanxi Province, the PRC
Board	the board of Directors
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Group	the Company and its subsidiaries
HKFRS	the Hong Kong Financial Reporting Standards
Hong Kong	the Hong Kong Special Administrative Region of the PRC
IM Plant	the production plant of the Group located in Inner Mongolia Autonomous Region, the PRC
IPO	Initial public offering of the Shares on 8 February 2007
Listing Date	8 February 2007, the date on which the Company was listed on the Stock Exchange
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
MSG	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application



PRC	the People's Republic of China, which for the purpose of this report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Post-IPO Share Option Scheme	the share option scheme of the Company adopted on 10 January 2007 in relation to the grant of options after the IPO
Pre-IPO Share Option Scheme	the share option scheme of the Company adopted on 10 January 2007 in relation to the grant of options prior to the IPO
SFO	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan Country), Shandong Province, the PRC
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Shenhua Pharmaceutical Co., Ltd), a company with limited liability established in Jiangsu Province of the PRC, and indirect wholly-owned subsidiary of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
RMB	Renminbi, the lawful currency of the PRC
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
US\$	United States dollars, the lawful currency of the United States of America
%	per cent