FUFENG

Group Limited 阜豐集團有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 546)

2010 Interim Report

CONTENTS

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

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BUSINESS AND FINANCIAL REVIEW

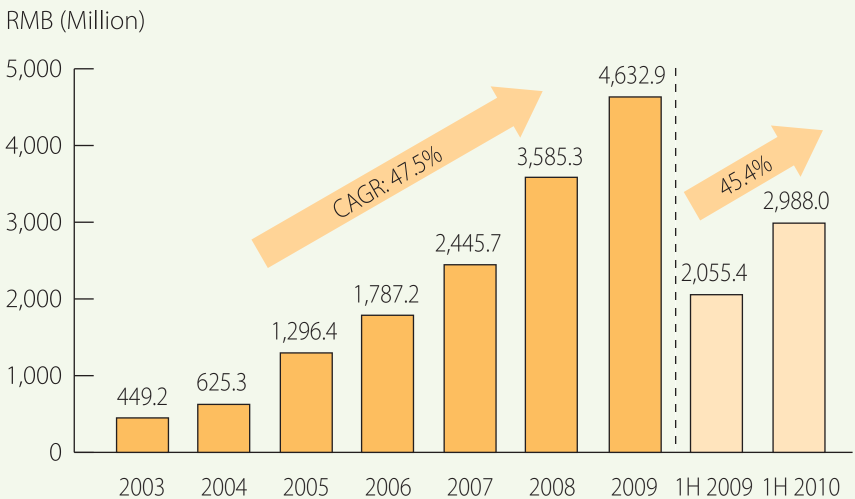
Overview

2009 was a fruitful year of Fufeng Group Limited. Going into 2010, the Group continues its business growth strategy entailing the expansion of its market shares, the diversification of its product range, the promotion of multi-brand and mulit-product strategy, as well as the strengthening of its research and development.

With its leading market position, the Group recorded the significant growth in the revenue and sales volume of MSG in the first half of 2010, which were increased by approximately 94.7% and approximately 79.1% compared with that of 2009 respectively. The Group has properly changed from a glutamic acid provider to a MSG provider in the MSG industry. Overall, the demand in the industry of MSG in the first half of 2010 was increased and has the stable development of the phenomenon. As for the industry of xanthan gum, there was a market demand downturn in early 2009 after the global financial crisis. However, the market has started recovery since the end of 2009. In the first half of 2010, there were significant growth in the revenue and the sales volume of xanthan gum, which were increased by approximately 105.2% and approximately 127.5% respectively than the same period in 2009.

Capitalising on the strong sales of MSG products and xanthan gum, the Group was able to maintain the growth momentum of 2009. For the six months ended 30 June 2010, the Group recorded an increase of approximately RMB932.6 million or 45.4% in revenue to approximately RMB2,988.0 million. The profit attributable to the Shareholders for the six months ended 30 June 2010 was approximately RMB460.1 million which represents an increase of approximately 30.0% as compared with that of the corresponding period of 2009. The significant increase was driven by the increase of sales volume as the increase in its production capacity and strengthening to expand its market share. The chart below illustrates the continuous growth of the Group's turnover in the past 7 years:

Trend of Revenue



The Group's gross profit increased from approximately RMB577.0 million in the first half of 2009 to approximately RMB742.1 million in the first half of 2010, a substantial increase of 28.6%. Though intense market competition and raw material costs increased sharply, the gross profit margin of MSG segment still maintained in 22.7% (1H 2009: 27.4%). It represented the Group leads the industry to adjust and successfully transfers the effect of the rising of raw material costs. On the other hand, base on the strategy to target the competitors and further costs reduction as the cost advantage in IM Plant, the gross profit margin of Xanthan gum segment was increased to 39.2% (1H 2009: 35.1%).

The Group has seized on this strong growth opportunity of MSG products which is led by the promotion of the domestic consumption demand in the PRC. The implementation has started from the production of glutamic acid extended to MSG products. In addition, the Group also expands the sales and distribution channels and strengthens the development of its own brand to grasp this rare opportunity in the flavouring consumer products market. For the MSG products, the Group has its the advantage of economic of scale, stable products quality and also continuously enhances the production lines. Through extensive coverage of sales and distribution network and Uo Fresh series products, the Group is fully demonstrating the new brand theme "Uo Fresh Life, Taste in Fufeng". The products are sold in over 2,000 supermarkets in the retail distribution channel in the PRC. The Group considers the result and feedback of its own new brand products to be very good. Since the implementation of the strategy "Multi-brands operation, Multi-products Management", the Group also has "Uo Fragrant" brand of corn oil, "Golden Fufeng" and "Ka Fei Dou" brands of fertilisers successively launched in the market.

In addition, the Company has successfully issued RMB820.0 million convertible bonds on 1 April 2010 and also the option bonds amounted to RMB205.0 million on 22 April 2010. The total issued convertible bonds amounted to RMB1,025 million with coupon rate of 4.5% p.a. They can be converted into the Company's shares at any time on or after 12 May 2010 up to the close of business on 22 March 2015 at an initial conversion price of HK$7.03 per Share, which represents a premium of approximately 20.0 per cent over the closing price of the Shares as of 25 March 2010. The Bonds saw strong participation from more than 40 International investors with significant demand coming from top tier outright and hedge fund accounts. The final book was over 2.5 times subscribed at the base deal size, a signal of the investor community's support for Fufeng's expansion plans and growth prospects. The fund raising from the bonds is mainly used for the Group development in near future.

Operational review of the Group

The prices of major raw materials increased significantly in the first half of 2010 due to the strong economic growth momentous in the PRC has been further extended from 2009. Though the prices of corn kernel, coal and other major raw materials were rising in the first half of 2010, the Group has benefited from its leading market position and further utilising of the expansion of production capacities in Baoji Plant and IM Plant to increase cost competitiveness. The ASP of the Group products are in line with the rising trend.

After a fruitful year of the Group in 2009, the business of the Group goes into a rapid growth from the beginning of 2010 as result of benefited from the increasing production capacities. The Group achieved yet another period of solid results in the first half of 2010, continuing its notable growth from 2009. 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**
	2010	2009	**%**
Turnover (RMB'000)	**2,987,974**	2,055,352	45.4
Gross profit (RMB'000)	**742,096**	576,979	28.6
Gross profit margin (%)	**24.8**	28.1	(3.3) ppts.

The 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 IM Plant. These are discussed in more details in the following sections.

Profit attributable to the Shareholders

	Six months ended 30 June		
	2010	2009	**Change**
	RMB'000	RMB'000	**%**
As reported	**460,070**	353,901	30.0

The profit attributable to the Shareholders increased significantly by over 30.0%, mainly due to the increase in sales volume as its market share expanded, the improvement in the operating environment and cost-efficiencies as mentioned above.

Segment highlights

The Group's products can be classified into two business segments, namely MSG segment and Xanthan gum segment. MSG segment includes MSG, chicken powder, corn oil, glutamic acid, 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 2010			Six months ended 30 June 2009			Increase/(Decrease)		
	MSG	**Xanthan gum**	**Group**	MSG	Xanthan gum	Group	MSG	Xanthan gum	Group
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	%	%	%
	Unaudited	**Unaudited**	**Unaudited**	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenue	**2,606,503**	**381,471**	**2,987,974**	1,869,413	185,939	2,055,352	39.4	105.2	45.4
Gross profit	**592,409**	**149,687**	**742,096**	511,666	65,313	576,979	15.8	129.2	28.6
Gross profit ratio	**22.7%**	**39.2%**	**24.8%**	27.4%	35.1%	28.1%	(4.7) ppts.	4.1ppts.	(3.3) ppts.
Segment results	**423,286**	**134,826**		364,567	51,499		16.1	161.8	
Segment net assets									
Assets	**4,109,815**	**761,356**		2,716,372	610,822		51.3	24.6	
Liabilities	**1,517,634**	**273,789**		1,086,004	337,136		39.7	(18.8)	
Net assets	**2,592,181**	**487,567**		1,630,368	273,686		59.0	78.1	

MSG segment

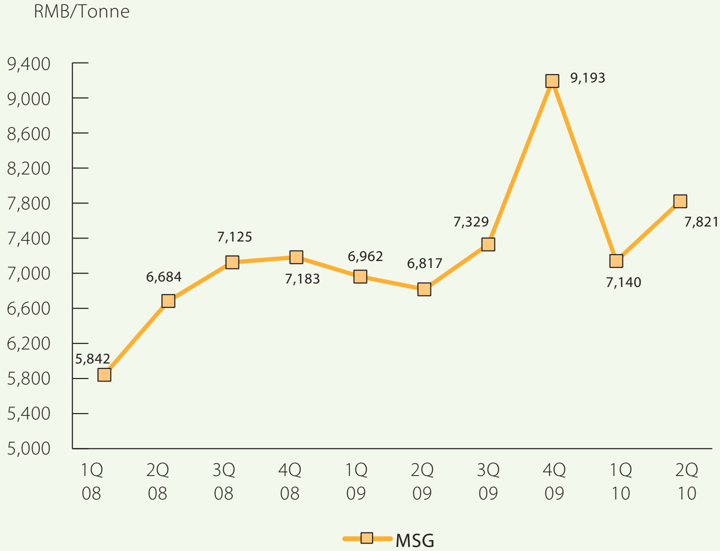
Revenue and ASP

Revenue generated from the MSG segment products increased to RMB2,606.5 million in the first half of 2010, representing an increase of RMB737.1 million or 39.4%, as compared with that in the corresponding period of 2009, which mainly attributed to the increase in sales volume and ASP of the MSG.

The table below sets out the revenue of the products in this segment for the six months ended 30 June 2010 and 2009:

	Six months ended 30 June		
Product	**2010**	2009	**Change**
	RMB'000	RMB'000	**%**
MSG	**1,762,926**	905,629	94.7
Glutamic acid	**96,687**	423,169	(77.2)
Fertilisers	**152,423**	186,986	(18.5)
Corn refined products	**362,837**	240,538	50.8
Starch sweeteners	**176,673**	94,870	86.2
Corn oil	**35,421**	6,041	486.3
Others	**19,536**	12,180	60.4
	2,606,503	1,869,413	39.4

Set out below is a chart showing the ASP of the Group's major product of MSG for each quarter from the first quarter of 2008 to the second quarter of 2010:



MSG

The MSG market in the PRC became increasingly concentrated. The Group has become one of the world's leaders in the MSG industry as it took advantage of the industry consolidation to further expand its market share.

After the unusual surge of the ASP of MSG in the fourth quarter of 2009, the MSG market has taken place a short period of adjustment at the beginning of 2010. Leveraging on its leading position, the Group led the market to return stable. The ASP of MSG has returned to a more reasonable level since the end of the first quarter of 2010.

The ASP of MSG increased from approximately RMB6,886 per tonne in the first half of 2009 to approximately RMB7,489 per tonne in the first half of 2010, representing an increase of about 8.8%; the turnover of MSG in the first half of 2010 increased substantially by approximately 94.7%. The main reasons are due to the increase in sales volume as its market share and production capacity increased.

Due to the strategy of focusing more on the MSG production and leveraging on its leading position in the market, as well as benefited from the strong domestic consumption market in the PRC, the Group increased its marketing effort to boost the sale of MSG so as to enlarge its market share in the first half of 2010. As such, the sales volume of MSG (in terms of tonne) increased to 235,405 tonnes which represents an increase of approximately 79.1% in the first half of 2010 from that of the corresponding six months period of 2009.

Towards the end of 2009, the Group has launched Uo series products, a new series under its Uo brand, which consists of two major categories of products including "Uo Fresh MSG" and "Uo Fresh chicken powder". The Uo series targets to capture the household market which benefits from the improved living standards in the PRC recently. The products have sold in over 2,000 supermarkets in the retail distribution channel in the PRC.

Moreover, the increase of domestic consumption demand supported the growth of MSG market in the PRC. The market demand continuously increased in the first half of 2010. The supply and demand of the MSG industry in the PRC is in a balancing stable status.

Glutamic acid

In pursuit of the Group's strategy of moving from glutamic acid to MSG, the sales volume of glutamic acid decreased substantially. The substantial part of the output of glutamic acid have been utilised in the production of MSG. The sales volume of glutamic acid dropped from 62,440 tonnes to 12,309 tonnes in the first half of 2010.

Fertilisers

The ASP of fertilisers has decreased since the third quarter of 2008. The ASP of fertilisers decreased from approximately RMB862 per tonne in the first half of 2009 to approximately RMB762 per tonne in the first half of 2010, representing a decrease of about 11.6%. It is in line with the price trend of the same nature products. Base on the different quality requirements of different customers and markets, the Group has developed two new fertilisers brands, including "Golden Fufeng" and "Ka Fei Dou". The strategy is mainly to enhance the effect of branding and the expansion of market share.

Corn refined products

In line with the increased in the ASP of corn kernels, the ASP of corn refined products increased compared with that of the same period of 2009. The revenue of corn refined products increased by about 50.8% for the six months ended 30 June 2010 when compared with that of 2009. The main reasons are due to the consumed volume of corn kernels and the ASP of corn refined products increased.

Starch sweeteners

Being affected by the shortage of sugar in the market, the ASP of starch sweeteners increased from approximately RMB1,830 per tonne in the first half of 2009 to approximately RMB2,763 per tonne in the first half of 2010, representing an increase of about 51.0%. The sales volume of starch sweeteners increased by 33.5% as a result of the increase in market recognition and market demand of the Group's products.

Others

During the period under review, the Group continuously developed its product range along its value chain to include corn oil and chicken powder. The sales amount of "Uo Fragrant" corn oil increased to RMB35.4 million in the first half of 2010, representing an increase of about 486.3%. The main reasons are due to the Group's strategy started to develop new consumer products and brand name of the Group in retail market and also as a result of the increase in market recognition and market demand of the Group's products.

Gross profit and Gross profit margin

The gross profit of this segment is set out below:

	Six months ended 30 June		
	2010	2009	**Change**
Gross profit (RMB'000)	**592,409**	511,666	15.8%
Gross profit margin (%)	**22.7**	27.4	(4.7) ppts.

The Group's MSG segment recorded a remarkable result in the first half of 2010, with the gross profit increased by 15.8% to RMB592.4 million as compared with that of the first half of 2009, and with the gross profit margin dropped by 4.7 percentage points to 22.7%. The gross profit margin decreased in the first quarter of 2010 due to raw materials price increased, and more importantly the global economic crisis in the first half of 2009 led the commodity prices to drop suddenly, as a result of the higher gross profit margin in the first half of 2009 compared to normal business environment. For the purpose of the expansion of market share and the additional production capacity can be well absorbed by the market, the group's marketing strategy was to slightly reduce the profit margin for increasing the market share. In addition, the Group led the industry to adjust and successfully transferred the effect of the rising of raw material costs. The gross profit margin has started upward in the second quarter of 2010. It represents that the Group has its leading market position and the pricing power to maintain the gross profit margin in a stable level during the first half of 2010.

Production costs

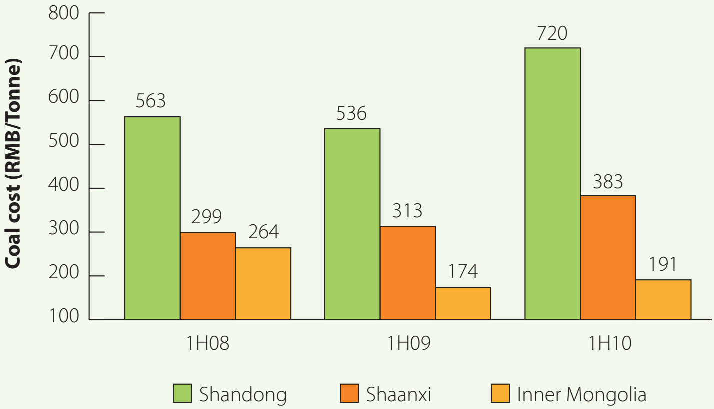
	Six months ended 30 June				
	2010		2009		**Change**
	RMB'000	**%**	RMB'000	%	**%**
Major raw materials/Energy					
• Corn kernels	**1,201,514**	**57.7**	725,309	54.1	65.7
• Coal	**227,667**	**10.9**	125,904	9.4	80.8
• Liquid ammonia	**195,301**	**9.4**	150,287	11.2	30.0
• Sulphuric acid	**20,257**	**1.0**	19,089	1.4	6.1
Depreciation	**92,686**	**4.5**	68,031	5.1	36.2
Employee benefits	**78,095**	**3.8**	58,604	4.4	33.3
Others	**265,658**	**12.7**	192,376	14.4	38.1
Total cost of production	**2,081,178**	**100.0**	1,339,600	100.0	55.4

Corn kernels

During the first half of 2010, corn kernels accounted for approximately 57.7% (1H 2009: 54.1%) of the total production cost of this segment. Due to the increase in market demand in the first half of 2010, the price of corn kernels has started to increase since the second half of 2009. The average cost of corn kernels in the first half of 2010 was approximately RMB1,699 per tonne, which represents an increase of approximately RMB415 per tonne or 32.3% from that of the corresponding period in 2009. The significant increase in total cost of corn kernels is mainly due to the increase in production volume of MSG as the production capacity of glutamic acid and MSG have increased since the end of 2009.

Coal

Coal accounted for approximately 10.9% (1H 2009: 9.4%) of total production cost in this segment in the first half of 2010. The average unit cost of coal in the first half of 2010 was approximately RMB293 per tonne, which represents an increase of approximately RMB46 per tonne or 18.6% from that of the first half of 2009. While in general the coal price increased in the first half of 2010 following the economic recovery and the rising commodity prices. Although the average unit cost of coal increased significantly, the percentage of coal cost in total production cost only increased by 1.5%. It was also due to the Group's substantial cost advantage and economic of scale from the increased production output in IM Plant. The chart below shows the coal cost at each plant:



Liquid ammonia

Liquid ammonia accounted for approximately 9.4% (1H 2009: 11.2%) of total production cost in this segment in the first half of 2010. Being affected by the increase of market demand as industrial demand recovery, the average unit cost of liquid ammonia in the first half of 2010 increased to approximately RMB2,329 per tonne, which represents a increase of approximately RMB129 per tonne or 5.9% from that of 2009. As the increasing percentage of the unit cost of liquid ammonia is lower than the other major material costs including corn kernels and coal, the percentage of liquid ammonia cost in total production cost decreased 1.8%.

Sulphuric acid

Sulphuric acid accounted for approximately 1.0% (1H 2009: 1.4%) of the total production cost in this segment in the first half of 2010. The average unit cost of sulphuric acid rebounded from the end of 2009. It was affected by the increase in market demand as the industrial market recovery. As compared with the average unit cost of sulphuric acid in first half of 2009, the average unit cost of sulphuric acid decreased to approximately RMB233 per tonne, which represents an decrease of approximately RMB8 per tonne or 3.3% from that of the first half of 2009.

Other production costs

The increase in cost of depreciation, employee benefits and other costs was mainly due to the newly increased production capacity of MSG in Baoji plant and IM plant, which completed and commenced by the end of 2009.

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:–

	Six months ended 30 June		
Product	**2010 Tonnes**	2009 Tonnes	Change %
MSG (Note B)			
Annual designed production capacity (Note A)	**270,000**	140,000	92.9
Actual production output	**234,976**	129,194	81.9
Utilisation rate	**87.0%**	92.3%	
Glutamic acid (Note C)			
Annual designed production capacity (Note A)	**230,000**	175,000	31.4
Actual production output	**207,048**	171,829	20.5
Utilisation rate	**90.0%**	98.2%	
Fertilisers			
Annual designed production capacity (Note A)	**280,000**	230,000	21.7
Actual production output	**228,516**	216,296	5.6
Utilisation rate	**81.6%**	94.0%	
Starch sweeteners			
Annual designed production capacity (Note A)	**60,000**	50,000	20.0
Actual production output	**64,370**	43,115	49.3
Utilisation rate	**107.3%**	86.2%	

Note:

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

B. The significant increase in production capacity of MSG was mainly due to the completion of the construction of a new MSG production line of 150,000 tonnes per year in the IM Plant, which commenced production in November 2009. In addition, the re-engineering project of the MSG production process in Baoji Plant and IM Plant were completed by the end of 2009, which would enhance the production capacity of MSG of the Group by 110,000 tonnes per year.

C. The significant increase in production capacity of glutamic acid was mainly due to the completion of the construction of a new glutamic acid production line of 70,000 tonnes per year at the end of 2009. In addition, the re-engineering of the glutamic acid production process was completed by the end of 2009 which enhanced the production capacity of glutamic acid of the Group by 40,000 tonnes per year.

Refer to the table above, the utilisation of the Group's production facilities in the first half of 2010 slightly dropped. It was due to the newly built production capacity at the end of 2009 is progressing to be fully utilised, which has been gradually absorbed by the market. The utilisation rate of each products have been over 80% to 90%. It represented the proportion of the market share of the Group continuously increased in the MSG industry.

Xanthan gum segment

Operation results

The revenue generated from the sales of xanthan gum increased to approximately RMB381.5 million in the first half of 2010, representing an increase of approximately RMB195.6 million or 105.2%, as compared with that in the corresponding period of 2009. Such significant increase was mainly due to the global economic recovery started from the end of 2009. Although the slightly drop in ASP of xanthan gum as price competition, the increase in sales volume of xanthan gum was significant. It is a result of strengthening the promotion in the global market and represents the Group's products becoming more acceptable by the market. The market share of the Group has been continuously expanded in the global market.

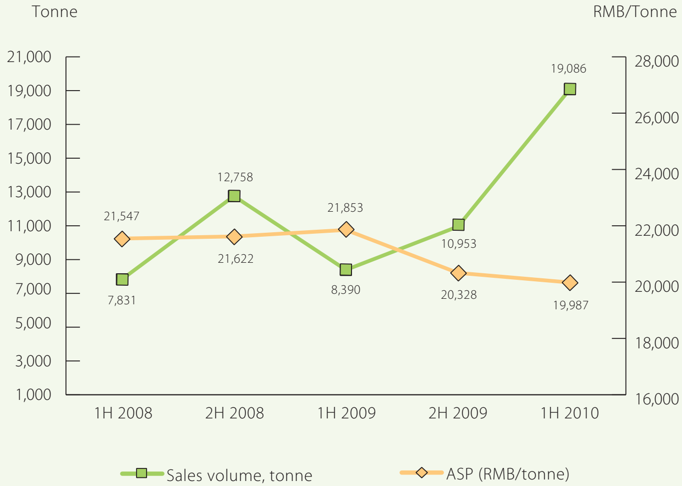
The table below set out the sales amount, ASP, gross profit, gross profit ratio and utilisation rate of xanthan gum for the six months ended 30 June 2010 and 2009:

	Six months ended 30 June		**Change**
	2010	2009	**%**
Sales amount (RMB'000)	**381,471**	185,939	105.2
ASP (RMB/tonne)	**19,987**	21,853	(8.5)
Gross profit (RMB'000)	**149,687**	65,313	129.2
Gross profit margin (%)	**39.2**	35.1	4.1 ppts.
Annual designed production capacity (tonnes) (Note)	**16,000**	16,000	–
Actual production output (tonnes)	**13,344**	14,436	(7.6)
Utilisation rate	**83.4%**	90.2%	(6.8)ppts.

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

Sales and ASP

Sales Volume vs. ASP of Xanthan Gum



The global economic recovery and increasing market demand of xanthan gum were the main reason for the increase in sales of xanthan gum. The ASP of xanthan gum decreased slightly from about RMB21,853 per tonnes in the first half of 2009 to about RMB19,987 per tonnes in the first half of 2010, representing an decrease of 8.5%. The sales amount of xanthan gum increased by approximately 105.2% in the first half of 2010 from that of 2009 as the sale volume of xanthan gum increased by 127.5%. During the first half of 2010, the overseas sales of xanthan gum contributed 88% (1H 2009: 86%) to the total sales of xanthan gum.

During the period, the Group has seen the positive impact of the global economic growth and the demand from the oil industry continuously increased. In addition with the outstanding effort of the sales teams, the sales of xanthan gum increased significantly. The Group expected that the business environment will continue to grow in the near future. The Group managed to record growth in both sales amount and ASP. The market has started in the position to absorb its increased production capacity since the first half of 2010.

Gross profit and gross profit margin

The gross profit of xanthan gum segment increased from about RMB65.3 million in the first half of 2009 to about RMB149.7 million in the first half of 2010, representing an increase of about RMB84.4 million or 129.2%. As the Group has implemented the strategy to strengthen its competitiveness as the goal and further costs reduction as the cost advantage in IM Plant, the gross profit margin of Xanthan gum segment is 39.2% (1H2009: 35.1%). The gross profit margin of the Xanthan gum segment was maintained at a high level with an increase of 4.1 percentage points in the first half of 2010. Such increase was mainly due to the significant cost advantage in IM Plant. Although the increase in the average unit cost of major raw materials since the fourth quarter of 2009, the average production cost of xanthan gum in IM Plant in the first half of 2010 continued to decrease as benefited from economic of sales after the expansion in IM Plant.

Production costs

	Six months ended 30 June				
	2010		2009		**Change**
	RMB'000	**%**	RMB'000	%	**%**
Major raw materials/Energy					
• Coal	**57,908**	**35.0**	58,969	35.5	(1.8)
• Corn kernels	**45,299**	**27.4**	37,477	22.6	20.9
• Starch	**8,891**	**5.4**	10,351	6.2	(14.1)
• Soy bean/Soy bean starch	**10,001**	**6.0**	11,821	7.1	(15.4)
Depreciation	**17,290**	**10.5**	17,447	10.5	(0.9)
Employee benefit	**14,575**	**8.8**	12,546	7.6	16.2
Others	**11,321**	**6.9**	17,510	10.5	(35.3)
Total cost of production	**165,285**	**100.0**	166,121	100.0	(0.5)

Coal

During the first half of 2010, coal accounted for approximately 35.0% (1H 2009: 35.5%) of the total production cost of this segment. The Group took full advantage of the relatively low coal cost in IM plant. The average unit cost of coal in the first half of 2010 was approximately RMB242 per tonne, which represents an increase of approximately RMB21 per tonne or 9.5% from that of the first half of 2009.

Corn kernels/Starch

During the first half of 2010, corn kernels and starch represented approximately 32.8% (1H 2009: 28.8%) of the total production cost of this segment. The increase in proportion was mainly due to the larger increasing percentage of the cost price of corn kernels and starch. The corn kernels price and starch price increased from approximately RMB1,290 per tonne and approximately RMB1,685 per tonne respectively in the first half of 2009 to approximately RMB1,658 per tonne and approximately RMB2,259 per tonne respectively in the first half of 2010, representing an increase of 28.5% and 34.1% respectively.

Soy bean/Soy bean starch

During the first half of 2010, soy bean accounted for approximately 6.0% (1H 2009: 7.1%) of the total production cost of this segment. Although the average unit cost of soy bean price increased from approximately RMB3,431 per tonne in the first half of 2009 to approximately RMB3,754 per tonne in the first half of 2010, representing an increase of 9.4%, the proportion of the total production cost decreased as the increased percentage of the average unit cost of soy bean is lower than that of corn kernels and starch.

Other production costs

Depreciation in the first half of 2010 was similar to the corresponding period of 2009 mainly due to the production capacity of xanthan gum in IM plant has been operated since the beginning of 2009.

Other financial information

Selling and marketing expenses

The substantial increase in selling and marketing expenses was mainly due to the increase in the transportation costs in line with the increase in the revenue. Moreover, the advertising and promotion expenses increased for strengthening the Group's brand name during the period.

Administrative expenses

Administrative expenses increased by approximately RMB49.7 million or 57.3% for the six months ended of 30 June 2010. The increase was mainly due to the research and development related expenses increased as more research and development projects have been initiated since 2009. In addition, the other reasons were the increase in administrative staffs and management salary and the increase in the expense in relation to the amortisation of share option under for the Pre-IPO and Post-IPO Share Option Schemes.

Finance costs

The Company issued the convertible bonds with an aggregate principal amount to RMB1,025 million in April 2010. The coupon interest of the convertible bonds is 4.5% p.a.

The finance costs of the Group for the six months ended 30 June 2010 increased by approximately RMB14.9 million or about 109.7% when compared with that of 2009. As at 30 June 2010, the total borrowings included the balance of convertible bonds and the bank borrowings. The bank borrowing amounted to approximately RMB438 million, which represents a decrease of approximately RMB160 million or about 26.8% as compared with that of 2009. The main reason for the increase in interest expenses was due to the new issue of the convertible bonds during the first six months period of 2010.

Outlook for second half of 2010

Following the fruitful year of the Group in 2009, the economy and market demand in the PRC has continuously grown in the first half of 2010. The global market is expected to grow steadily in the second half of 2010.

The Group will continue to develop new industrial customers and distribution network in the retail market. Moreover, the Group will enhance the branding and marketing of more diversified products such as Uo Fresh series of MSG, chicken powder, Uo Fragrant corn oil and fertilisers.

MSG Segment

In recent years, the economic growth of the PRC sustained in the retail market. It brings a huge business opportunity to the Group. The Group expected the MSG demand will continue its steady growth as the increase of domestic consumption demand in the PRC. The Group will grasp this opportunity to expand its market share based on its cost advantages and pricing power.

Looking ahead, its leading market position, established brand names, and the substantial cost advantage in IM Plant provided the Group in the best position benefited from future economic growth in the PRC, which is increasingly driven by the domestic consumption market. The Group will continue to built up brand products of Uo Fresh Series through extensive coverage of sales and distribution network. At the same time, the Group also actively maintains the existing industrial customers. The Group expects the whole business in the MSG industry will stably increase and the gross profit margin of the MSG segment can be maintained at a stable level in the second half of 2010.

Xanthan gum segment

As the global economy recovery started at the end of 2009, the market demand of xanthan gum continues to increase. The sales of xanthan gum has rapidly increased in the first half of 2010. The Group will continuously expand its market share in the second half of 2010. As there is still room for further development of this segment, which brings a higher profit margin to the Group, the Group will pay more attention to develop the business of this segment. Moreover, the completion of the construction of a new production line with 12,000 tonnes of xanthan gum production capacity in IM Plant in the first half of 2010 will further strengthen the cost advantage of Fufeng's xanthan gum business. It will contribute more revenue to the Group in the near future.

Future plan and recent development

New production plant in Northeast China

The construction of the new production plant in the transition of Inner Mongolia Autonomous Region and Heilongjiang Province is in progress. The commercial production is expected to commence in the second half of 2011. The project comprises production lines with a new production capacity of 200,000 tonnes of MSG, 160,000 tonnes of glutamic acid, 200,000 tonnes of fertilisers and 100,000 tonnes of synthetic ammonia running on a well-supported workflow, ranging from corn kernel processing to thermal power generating, chemical materials supply systems and a self-owned railway. The project is well equipped to take advantage of the abundant corn supplies and the rich coal mines surrounding the area. Considering all these favorable conditions for the highly vertical integration of MSG production facility, the production costs will be reduced.

New production lines of threonine and synthetic ammonia in IM Plant

Threonine is an essential amino acid which maintains body protein balance and promotes the growth of living. Threonine is mainly used for medicine, food fortifier and feed additives. The demand of threonine has significantly grown as feed additives.

The Group has completed the construction of a new production line with 5,000 tonnes of threonine production capacity in IM Plant. Mass production has started in the second half of 2010. Base on the existing 5,000 tonnes production capacity of threonine in IM Plant, the Group will start to construct another new 5,000 tonnes production capacity of threonine in IM Plant. The production process of threonine products is highly dependent on the power supply and corn. The Group will rely on abundant coal resources in Inner Mongolia to develop threonine. The construction process of this new production line will start in the second half of 2010, which is expected to commence production in the first half of 2011.

Moreover, the new construction of 80,000 tonnes of synthetic ammonia production capacity is in progress on schedule. The project is expected to commence production at the end of 2010.

Further expansion of sales network and marketing efforts

The Group has strongly promoted its brand name in the market to enhance the popularity of the enterprise and its products in the market as well as extending to the retail end-users. In the near future, the Group plans to increase the budget of advertising to join large exhibitions for promotion activities for end users and through media advertising in different communication channels such as print media and internet to strengthen the brand name and the product image in the retail market.

Market diversification is another key strategy that the Group purses. For the brand products including MSG, chicken powder, corn coil and fertilisers, the Group targets to develop new household market and strengthen its leadership in the MSG market in the PRC, in order to further increase the revenue through extensive coverage of its sales and distribution network into new areas, to deepen the penetration of the existing established domestic as well as international sales networks.

Apart from establishing a leading position in the domestic market by building up a nationwide marketing network, the Group has also set up regional sales centres and logistic centres in order to provide market-oriented customer services. The Group will actively expand the international market, with preliminarily plans to establish operation offices in the Middle East, North America and Europe to strengthen its xanthan gum and MSG export business.

Developing new products

Leveraging on its strong foundation, innovation and research and development capabilities, the Group believes that it will be able to sustain its competitiveness in the Xanthan gum and MSG market in the PRC. As part of our development strategy to satisfy the needs of high-end quality products, the Group will continue to develop new brands and products.

In 2010, the Group will concentrate on developing a series of new branched chain amino acid products and biomass based polymer products in order to enhance the Group's product mix and future growth driver. Upon the successful building of these new products, the Group would be able to diversify its revenue generations in future.

Liquidity and financial resources

The Group maintained a healthy liquidity position throughout the period under review. As at 30 June 2010, the Group's cash and cash equivalent and restricted bank deposits were approximately RMB1,104.6 million (2009: RMB369.0 million) whereas current bank borrowings were approximately RMB388 million (2009: RMB418 million) and non-current bank borrowings and balance of convertible bonds were approximately RMB50 million and approximately RMB977.0million respectively (2009: RMB180 million and nil).

Convertible bonds

The Company has issued RMB820.0 million convertible bonds on 1 April 2010 and also the option bonds amount to RMB205.0 million on 22 April 2010. Total issued convertible bonds are amounted to RMB1,025 million for funding capital expenditure in connection with the expansion of its operations and financing possible acquisitions should be suitable opportunity arise in the future and for general corporate and working capital purpose. The Bonds' coupon rate is 4.5% p.a. They can be converted into the Company's shares at any time on or after 12 May 2010 up to the close of business on 22 March 2015 at an initial conversion price of HK$7.03 per Share, which represents a premium of approximately 20.0 per cent over the closing price of the Shares as of 25 March 2015. Based on the initial Conversion price of HK$7.03 and assuming full conversion of the Bonds at the initial Conversion price, the Bonds will convertible into 165,742,524 Shares, representing approximately 9.98% of the existing issued share capital of the Company and approximately 9.08% of the issued share capital of the Company, as enlarged.

Material acquisition or disposal of subsidiary and associated company

During the period, the Group had no other material acquisition or disposal of the subsidiaries or associated companies for the six months ended 30 June 2010.

Employees

As at 30 June 2010, the Group had approximately 2,600 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 and after the IPO.

Charges on assets

As at 30 June 2010, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB115.6 million were pledged to certain banks to secure bank borrowings of RMB110 million of the Group.

Gearing ratio

The group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the condensed consolidated balance sheet) less cash and cash equivalents. As at 30 June 2010, the total equity of the Group amount to approximately RMB2,678.9 million (2009: RMB1,954.2 million) whereas the net debt amounted to RMB328.3 million (2009:RMB213.3 million). The gearing ratio was approximately 12.3% (2009: 10.9%).

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 HK11 cents per share (1H 2009: HK10 cents), payable on or before 15 October 2010 to the shareholders whose names appear on the register of members of the Company on 30 September 2010.

Closure of register of members

The register of members of the Company will be closed from Monday, 27 September 2010 to Thursday, 30 September 2010 (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 Friday, 24 September 2010.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2010 RMB'000 Unaudited	31 December 2009 RMB'000 Audited
ASSETS			
Non-current assets			
Leasehold land payments	5	**168,226**	140,160
Property, plant and equipment	5	**2,879,483**	2,507,897
Deferred income tax assets		**1,531**	5,162
		3,049,240	2,653,219
Current assets			
Inventories		**555,536**	551,028
Trade and other receivables	6	**302,910**	173,263
Notes receivable	7	**449,580**	514,519
Short-term bank deposits		**17,980**	26,310
Cash and cash equivalents		**1,086,637**	342,682
		2,412,643	1,607,802
Total assets		**5,461,883**	4,261,021
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	8	**169,034**	169,034
Share premium			
– Proposed interim dividend		**159,775**	–
– Proposed final dividend		**–**	219,240
– Others		**406,425**	566,200
Other reserves		**(126,717)**	(171,080)
Retained earnings		**2,070,387**	1,610,317
Total equity		**2,678,904**	2,393,711

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	Note	30 June 2010 RMB'000 Unaudited	31 December 2009 RMB'000 Audited
LIABILITIES			
Non-current liabilities			
Deferred income		**113,286**	90,880
Borrowings	9	**1,026,977**	180,000
Deferred income tax liabilities		**24,595**	24,221
		1,164,858	295,101
Current liabilities			
Trade, other payables and accruals	10	**1,224,767**	1,140,475
Current income tax liabilities		**5,354**	13,734
Borrowings	9	**388,000**	418,000
		1,618,121	1,572,209
Total liabilities		**2,782,979**	1,867,310
Total equity and liabilities		**5,461,883**	4,261,021
Net current assets		**794,522**	35,593
Total assets less current liabilities		**3,843,762**	2,688,812

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June **2010** **RMB'000** **Unaudited**	 2009 RMB'000 Unaudited
Revenue	4	**2,987,974**	2,055,352
Cost of sales	12	**(2,245,878)**	(1,478,373)
Gross profit		**742,096**	576,979
Other income	11	**63,102**	24,152
Selling and marketing costs	12	**(121,950)**	(96,107)
Administrative expenses	12	**(136,330)**	(86,652)
Other operating expenses	12	**(5,748)**	(17,067)
Finance costs		**(28,401)**	(13,543)
Profit before income tax		**512,769**	387,762
Income tax expense	13	**(52,699)**	(33,861)
Profit for the period attributable to the Shareholders		**460,070**	353,901
Earnings per share for profit attributable to the Shareholders during the period (expressed in RMB cent per share)			
– basic	14	**27.72**	21.32
– diluted	14	**26.20**	21.32
Dividends	15	**159,775**	146,412

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	Unaudited	Unaudited
Profit for the period	**460,070**	353,901
Other comprehensive income for the period	**–**	–
Total comprehensive income for the period	**460,070**	353,901
Total comprehensive income attributable to the Shareholders	**460,070**	353,901

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Attributable to the Shareholders				
	Share capital RMB'000	**Share premium** RMB'000	**Other reserves** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
Balance at 1 January 2009	169,034	1,078,144	(247,904)	742,240	1,741,514
Total comprehensive income 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
Balance at 1 January 2010	169,034	785,440	(171,080)	1,610,317	2,393,711
Total comprehensive income for the six months	–	–	–	460,070	460,070
Employees share option scheme:					
– value of employee services	–	–	7,510	–	7,510
Dividends paid	–	(219,240)	–	–	(219,240)
Convertible bonds					
– equity component	–	–	36,853	–	36,853
Balance at 30 June 2010	169,034	566,200	(126,717)	2,070,387	2,678,904

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	Unaudited	Unaudited
Cash flows from operating activities		
Cash generated from operations	**636,084**	583,704
Interest paid	**(14,660)**	(13,543)
Income taxes paid	**(26,106)**	(7,455)
Net cash flows generated from operating activities	**595,318**	562,706
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	**–**	(26,621)
Purchases of property, plant and equipment	**(500,869)**	(254,813)
Purchases of leasehold land payments	**(40,391)**	(7,000)
Proceeds from disposal of property, plant and equipment	**17,880**	–
Proceeds from disposal of leasehold land payments	**12,790**	–
Interest received	**1,196**	821
Net cash used in investing activities	**(509,394)**	(287,613)
Cash flows from financing activities		
Dividends paid to the Company's shareholders	**(219,240)**	(146,293)
Government grants received	**25,650**	21,148
Proceeds from issuance of convertible bonds	**1,011,621**	–
Proceeds from bank borrowings	**80,000**	298,000
Repayments of bank borrowings	**(240,000)**	(388,000)
Net cash generated from/(used in) financing activities	**658,031**	(215,145)
Net increase in cash and cash equivalents	**743,955**	59,948
Cash and cash equivalents at beginning of the period	**342,682**	224,706
Cash and cash equivalents end of the period	**1,086,637**	284,654

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is mainly engaged in the manufacture and sales of fermentation-based food additive and biochemical products and starch-based products. The Group has manufacturing plants in Shandong Province, Shaanxi Province and Inner Mongolia Autonomous Region of the People's Republic of China (the "PRC") and sells mainly to customers located in the PRC.

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 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.

These condensed consolidated interim financial information are presented in RMB, unless otherwise stated.

Key Events

In March and April 2010, the Company issued convertible bonds of RMB1,025,000,000 in total for funding capital expenditure in connection with the expansion of its operations and financing possible acquisitions should be suitable opportunity arise in the future and for general corporate and working capital purpose. Further details are given in Note 9.

Moreover, the Group has incorporated a new wholly owned subsidiary, named as Hulunbeier Northeast Fufeng Biotechnologies Co., Ltd. ("Northeast Fufeng") which is incorporated in the PRC. The existing register share capital of Northeast Fufeng is RMB300 million. This subsidiary is mainly for the new establishment of Hulunbeier Northeast new plant. The new plant is in the progress of construction. The Group expected the construction will be completed in the first half of 2011.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements information for the year ended 31 December 2009 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 2009, 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, new interpretations and amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Group.

HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners'
HKFRS 1 (Amendment), 'Additional exemptions for first-time adopters'
HKAS 39 (Amendment), 'Eligible hedged items'
HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction'

First improvements to HKFRS (2008) were issued in May 2008 by the IASB and October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations".

Second improvements to HKFRS (2009) were issued in April 2009 by IASB and May 2009 by the HKICPA.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

HKFRS 9, 'Financial instruments'[1]
HKAS 24 (Revised) 'Related party disclosures'[2]
Amendment to HKAS 32[4]
Amendments to HK(IFRIC) Int-14 'Prepayments of a minimum funding requirement'[2]
HK(IFRIC) –Int 19, 'Extinguishing financial liabilities with equity instruments'[3]
Amendment to HKFRS 1[3]

Third improvements to HKFRS (2010) were issued in May 2010 by the HKICPA.

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2011
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 February 2010

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 chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The Board has determined the operating segments based on these reports.

The Board considers the business from a product perspective. Management assesses the performance of MSG and xanthan gum. The chief operating decision-maker assesses the performance of the operating segments based on a measure of segment profit or loss.

The Group's operations are mainly organised under the following business segments:

Manufacturing and sale of:

- MSG, including MSG, glutamic acid, corn refined products, fertilisers, starch sweeteners, corn oil, chicken powder, threonine, branched chain amino acid products, pharmaceuticals and bricks;
- Xanthan gum

Approximately 90% of the Group's revenue and business activities are conducted in the PRC.

The Board assesses the performance of the business segments based on profit before income tax without allocation of finance costs, which is consistent with that in the financial statements.

The revenue of the Group for the years ended 30 June 2010 and 2009 are set out as following:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	Unaudited	Unaudited
MSG	**1,762,926**	905,629
Glutamic acid	**96,687**	423,169
Fertilisers	**152,423**	186,986
Corn refined products	**362,837**	240,538
Xanthan gum	**381,471**	185,939
Starch sweeteners	**176,673**	94,870
Corn oil	**35,421**	6,041
Others	**19,536**	12,180
	2,987,974	2,055,352

The segment results for the six months ended 30 June 2010 are as follows:

	MSG	**Xanthan gum**	**Unallocated**	**Group**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Revenue	**2,606,503**	**381,471**	**–**	**2,987,974**
Segment results	**423,286**	**134,826**	**(16,942)**	**541,170**
Finance costs				**(28,401)**
Profit before income tax				**512,769**
Income tax expenses				**(52,699)**
Profit for the period				**460,070**

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

Depreciation	99,939	17,427	617	117,983
Amortisation of leasehold land payments	1,212	116	43	1,371
Reversal of write-down of inventories	(207)	–	–	(207)
Loss on disposal of leasehold land prepayments and property, plant and equipment	228	–	–	228
Capital expenditure	500,997	48,870	39	549,906

The segment assets and liabilities at 30 June 2010 are as follows:

	MSG RMB'000 Unaudited	**Xanthan gum RMB'000 Unaudited**	**Unallocated RMB'000 Unaudited**	**Group RMB'000 Unaudited**
Total assets	**4,109,815**	**761,356**	**590,712**	**5,461,883**
Total liabilities	**1,517,634**	**273,789**	**991,556**	**2,782,979**

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

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

	MSG	Xanthan gum	Unallocated	Group
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
Capital expenditure	154,088	13,708	20,623	188,419

The segment assets and liabilities at 30 June 2009 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Total assets	2,716,372	610,822	51,927	3,379,121
Total liabilities	1,086,004	337,136	1,800	1,424,940

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 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
Six months ended 30 June 2010			
Opening net book amount at 1 January 2010	140,160	2,507,897	2,648,057
Additions	40,391	509,515	549,906
Disposals	(16,558)	(34,293)	(50,851)
Depreciation and amortisation	(1,371)	(117,983)	(119,354)
Depreciation disposal	5,604	14,347	19,951
Closing net book amount at 30 June 2010	168,226	2,879,483	3,047,709

6. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2010 RMB'000 Unaudited	31 December 2009 RMB'000 Audited
Trade receivable (a)	**177,656**	79,007
Less: provision for impairment of receivables	**(4,933)**	(4,527)
Trade receivable, net	**172,723**	74,480
Prepayments for raw materials	**62,545**	30,265
Deposits and others	**46,250**	30,605
Value Added Tax recoverable	**21,392**	37,913
	302,910	173,263

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

	As at	
	30 June 2010 RMB'000 Unaudited	31 December 2009 RMB'000 Audited
Within 3 months	**136,704**	69,727
3 – 12 months	**33,740**	3,537
Over 12 months	**7,212**	5,743
	177,656	79,007

The Group sells its products to customers and received settlement either in cash or in form of bank acceptance notes (note 7) 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.

7. NOTES RECEIVABLE

As at 30 June 2010, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB441,810,000 (2009: RMB499,831,000) applied for settling the amounts payable to the Group's suppliers.

8. SHARE CAPITAL

			Amount		
	Number of authorised shares '000 Unaudited	**Number of issued and fully paid shares** '000 Unaudited	**Ordinary shares** RMB'000 Unaudited	**Share premium** RMB'000 Unaudited	**Total** RMB'000 Unaudited
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
Opening balance at 1 January 2010	10,000,000	1,660,000	169,034	785,440	954,474
Dividends paid	–	–	–	(219,240)	(219,240)
At 30 June 2010	10,000,000	1,660,000	169,034	566,200	735,234

9. BORROWINGS

	As at 30 June 2010 RMB'000 Unaudited	As at 31 December 2009 RMB'000 Audited
Non-current	**1,026,977**	180,000
Current	**388,000**	418,000
	1,414,977	598,000

Movements in borrowings is analysed as follows:

	RMB'000 (Unaudited)
Six months ended 30 June 2009	
Opening amount as at 1 January 2009	588,000
New borrowings	298,000
Repayments of borrowings	(388,000)
Closing amount as at 30 June 2009	498,000
Six months ended 30 June 2010	
Opening amount as at 1 January 2010	598,000
New borrowings	80,000
Repayments of borrowings	(240,000)
Convertible bonds – liability component	976,977
Closing amount as at 30 June 2010	1,414,977

The Group issued ten thousand two hundred fifty 4.5% convertible bonds at a total nominal value of RMB1,025,000,000 on 25 March 2010. The bonds mature five years from the issue date at their nominal value of RMB1,025,000,000 or can be converted into shares at the holder's option at the rate of HK$7.03 per share. The value of the liability component (RMB974,768,000) and the equity conversion component (RMB36,853,000), net of transaction cost of RMB25,679,000, were determined at issuance of the bond. The fair value of the liability component included in long-term borrowings was calculated using a market interest rate for an equivalent non-convertible bond. The liability component is subsequently states at amortised cost until extinguished on conversion or maturity of the bond.

Interest expenses on borrowings and loans for the six months ended 30 June 2010 was RMB28,401,000 (30 June 2009: RMB13,543,000).

10. TRADE ,OTHER PAYABLES AND ACCRUALS

	As at 30 June 2010 RMB'000 Unaudited	As at 31 December 2009 RMB'000 Audited
Trade payable (a)	**497,204**	493,092
Advances from customers	**152,080**	111,330
Payables for leasehold land, property, plant and equipment	**439,637**	430,991
Salaries, wages and staff welfares payables	**55,332**	52,303
Other payables and accruals	**80,514**	52,759
	1,224,767	1,140,475

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

	As at 30 June 2010 RMB'000 Unaudited	As at 31 December 2009 RMB'000 Audited
Within 3 months	**469,651**	465,313
3 to 6 months	**6,922**	11,644
6 to 12 months	**7,934**	4,751
Over 12 months	**12,697**	11,384
	497,204	493,092

As at 30 June 2010, notes receivables of RMB441,810,000 (2009: RMB499,831,000) were applied for settling the amounts payable to the Group's suppliers.

11. OTHER INCOME

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	Unaudited	Unaudited
Interest income	**1,196**	821
Amortisation of deferred income	**11,732**	10,578
Sales of waste materials	**22,192**	11,912
Subsidy income due to purchase of grains allocated by the government	**25,000**	–
Others	**2,982**	841
	63,102	24,152

12. EXPENSES BY NATURE

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	Unaudited	Unaudited
Amortisation of leasehold land payments	**1,371**	1,493
Depreciation of property, plant and equipment	**117,983**	93,715
Value on employee services for the share option schemes	**7,510**	5,059
Foreign exchange losses	**3,777**	949
Reversal of write-down of inventories	**(207)**	(1,554)

13. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	Unaudited	Unaudited
Current income tax		
– PRC enterprise income tax ("EIT")	**48,695**	31,159
Deferred income tax	**4,004**	2,702
	52,699	33,861

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 2010 and 2009.

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.

14. EARNINGS PER SHARE

Earnings per share attributable to the Shareholders are as follows:

	Six months ended 30 June	
	2010	2009
	Unaudited	Unaudited
Earnings per share for profit attributable to the Shareholders (RMB cents per Share)		
– basic	**27.72**	21.32
– diluted	**26.20**	21.32

15. DIVIDENDS

A 2009 final dividend of HK15 cents (equivalent to RMB13.21 cents) per Share, totalling HK$249,000,000 (equivalent to RMB219,240,000) was paid in May 2010.

In addition, an interim dividend of HK11 cents (equivalent to RMB9.63 cents) (2009: HK10 cents (equivalent to RMB8.82 cents)) per Share was declared by the Board on 16 August 2010. It is payable on or before 15 October 2010 to Shareholders who are on the register at 30 September 2010. This interim dividend, amounting to HK$182,600,000 (equivalent to RMB159,775,000), has not been recognised as liability in this interim financial information. It will be reflected as an appropriation of share premium for the year ending 31 December 2010.

16. CONTINGENT LIABILITIES

As at 30 June 2010 and 2009, the Group had no material contingent liabilities.

17. RELATED PARTY TRANSACTIONS

Key management compensation is set out below:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	Unaudited	Unaudited
Salaries and allowances	**4,640**	3,515
Pension costs-defined contribution plan	**205**	212
Share options granted	**1,623**	2,555
	6,468	6,282

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. APPROVAL ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The condensed consolidated interim financial information was reviewed by the audit committee of the Company and approved by the board of Directors on 12 August 2010 and 16 August 2010, respectively.

19. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Details of the interim dividend proposed are given in Note 15.

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 2010.

The audit committee of the Company has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2010.

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 2010.

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 period ended 30 June 2010 are as follows:

	Number of share options					
Directors and eligible employees	**At 1 January 2010**	**Lapsed during the period**	**At 30 June 2010**	**Date of grant**	**Exercise price (HK$)**	**Exercise period**
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
	81,440,000	–	81,440,000			

The total fair value, which was determined by using Black-Scholes option price model, of the options granted under the Pre-IPO Share Option Scheme as at the grant date is approximately RMB44,506,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted under the Pre-IPO Share Option Scheme
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	3%
Risk free rate	3.59%

The average share price of HK$1.98 was estimated by the management at the grant date.

According to the Post-IPO Share Option Scheme, the Company granted options to subscribe for an aggregate of 64,110,000 Shares on 14 July 2009 to certain Director and eligible employees. Details of the share options granted and outstanding under the Post-IPO Share Option Scheme during the period ended 30 June 2010 are as follows:

	Number of share options					
Director and eligible employees	**At 1 January 2010**	**Lapsed during the period**	**At 30 June 2010**	**Date of grant**	**Exercise price (HK$)**	**Exercise period**
Eligible employees	62,360,000	(7,450,000)	54,910,000	14/7/2009	3.00	14/1/2012 – 13/1/2015

The total fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options granted under the Post-IPO Share Option Scheme as at the grant date is approximately RMB55,134,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted under the Post-IPO Share Option Scheme
Average share price	HK$2.81
Exercise price	HK$3.00
Expected life of options	3.0-5.0 years
Expected volatility	46.04-51.34%
Expected dividend yield	3.56%
Risk free rate	1.032-1.745%

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 2010, 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 2010, 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 2010, 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	185,112,000 Shares	11.15%

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 15% by Mr. Feng Zhenquan, 15% by Mr. Xu Guohua, 15% by Mr. Li Deheng (all of whom are executive Directors), 25% by Mr. Wu Xindong (a former executive director who resigned with effect from 9 March 2010), 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 2010, 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
HKAS	the Hong Kong Accounting Standard
HKFRS	The Hong Kong Financial Reporting Standards
HKICPA	the Hong Kong Institute of Certified Public Accountants
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
Pre-IPO Share Option Scheme	the share option scheme adopted by the Company on 10 January 2007 for granting the share options to certain Directors and employees of the Company before IPO
Post-IPO Share Option Scheme	the share option scheme adopted by the Company on 10 January 2007 for granting the share options to certain Directors and employees of the Company after IPO
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
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