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## Fufeng Group Limited 阜豐集團有限公司

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

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009**

#### **HIGHLIGHTS OF GROUP RESULTS**

- 2009 was indeed a fruitful year for the Group
- Both MSG business segment and Xanthan gum business segment achieved record high results
- Revenue increased by about 29.2% to about RMB4,632.9 million (2008: RMB3,585.3 million)
- Gross profit increased by about 117.2% to about RMB1,399.6 million (2008: RMB644.3 million) and gross profit margin for the Group increased to about 30.2% (2008: 18.0%). Such increase is due to gross profit margin of MSG segment and Xanthan gum segment increased to about 29.6% and 36.5% (2008: 15.6% and 34.4%) respectively for 2009
- Profit attributable to the Shareholders increased by about 215.0% to about RMB928.3 million (2008: RMB294.7 million)
- Earnings per share (Basic) was RMB55.92 cents (2008: RMB17.75 cents)
- Return on Equity increased to 38.8% (2008: 16.9%)
- Final dividend of HK15 cents (2008: HK10 cents) per share recommended by the Board
- The sum of paid interim dividend and proposed final dividend is HK25 cents per share

## ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group prepared under HKFRS for the year ended 31 December 2009, together with the comparative figures for the year ended 31 December 2008, as follows:

### Consolidated Income Statement

		Year ended 31 December	
		2009	2008
	Note	RMB'000	RMB'000
Revenue	2	<b>4,632,884</b>	3,585,343
Cost of sales		<b>(3,233,277)</b>	(2,941,011)
<b>Gross profit</b>		<b>1,399,607</b>	644,332
Other income		<b>63,908</b>	44,300
Selling and marketing expenses		<b>(215,715)</b>	(166,407)
Administrative expenses		<b>(194,910)</b>	(141,961)
Other operating expenses		<b>(4,042)</b>	(12,222)
<b>Operating profit</b>		<b>1,048,848</b>	368,042
Finance costs		<b>(25,251)</b>	(42,662)
<b>Profit before income tax</b>		<b>1,023,597</b>	325,380
Income tax expense	3	<b>(95,312)</b>	(30,674)
<b>Profit for the year and attributable to the Shareholders</b>		<b>928,285</b>	294,706
<b>Earnings per share for profit attributable to the Shareholders</b> during the year (expressed in RMB cent per share)			
– basic	4	<b>55.92</b>	17.75
– diluted	4	<b>55.88</b>	17.75
<b>Dividends</b>	5	<b>219,240</b>	146,293

## Consolidated Balance Sheet

		As at 31 December	
	Note	2009 RMB'000	2008 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land payments		140,160	132,334
Property, plant and equipment		2,507,897	1,954,845
Deferred income tax assets		5,162	423
		<b>2,653,219</b>	2,087,602
<b>Current assets</b>			
Inventories		551,028	356,288
Trade and other receivables	6	687,782	548,355
Current income tax recoverable		–	2,654
Short-term bank deposits		26,310	42,860
Cash and cash equivalents		342,682	224,706
		<b>1,607,802</b>	1,174,863
<b>Total assets</b>		<b>4,261,021</b>	3,262,465
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Shareholders</b>			
Share capital		169,034	169,034
Share premium			
– Proposed final dividend		219,240	146,293
– Others		566,200	931,851
Other reserves		(171,080)	(247,904)
Retained earnings		1,610,317	742,240
<b>Total equity</b>		<b>2,393,711</b>	1,741,514
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		90,880	27,798
Borrowings		180,000	312,000
Deferred income tax liabilities		24,221	10,928
		<b>295,101</b>	350,726
<b>Current liabilities</b>			
Trade, other payables and accruals	7	1,140,475	887,533
Current income tax liabilities		13,734	–
Current portion of deferred income		–	6,692
Borrowings		418,000	276,000
		<b>1,572,209</b>	1,170,225
<b>Total liabilities</b>		<b>1,867,310</b>	1,520,951
<b>Total equity and liabilities</b>		<b>4,261,021</b>	3,262,465
<b>Net current assets</b>		<b>35,593</b>	4,638
<b>Total assets less current liabilities</b>		<b>2,688,812</b>	2,092,240

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with HKFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. However there are no critical estimates or judgements considered by the management for the year ended 31 December 2009.

During the year, the Group has adopted the following new standards, amendments and interpretations.

#### (a) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRS as of 1 January 2009:

- HKFRS 7 "Financial Instruments – Disclosures" (amendment) – effective 1 January 2009.
- HKAS 1 (revised). "Presentation of financial statements" – effective 1 January 2009.
- HKFRS 2 (amendment), "Share-based payment" (effective 1 January 2009) deals with vesting conditions and cancellations.
- HKFRS 8, "Operating segments" (effective 1 January 2009). HKFRS 8 replaces HKAS 14, "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information".

#### (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HK(IFRIC) 17 "Distribution of non-cash assets to owners" (effective on or after 1 July 2009).
- HKAS 27 (revised), "Consolidated and separate financial statements", (effective from 1 July 2009).
- HKFRS 3 (revised), "Business combinations" (effective from 1 July 2009).
- HKAS 38 (amendment), "Intangible Assets" (effective from 1 July 2009).
- HKFRS 5 (amendment), "Measurement of non-current assets (or disposal groups) classified as held for sale".
- HKAS 1 (amendment), "Presentation of financial statements".
- HKFRS 2 (amendments), "group cash-settled share-based payment transactions" (effective from 1 January 2010).

## 2. 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, 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 31 December 2009 and 2008 are set out as following:

	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
MSG	<b>2,245,307</b>	1,004,381
Glutamic acid	<b>720,631</b>	1,053,298
Corn refined products	<b>557,523</b>	509,849
Xanthan gum	<b>408,124</b>	451,739
Fertilisers	<b>361,468</b>	380,097
Starch sweeteners	<b>245,168</b>	163,002
Others	<b>94,663</b>	22,977
	<b>4,632,884</b>	3,585,343

## 2. Segment information *(Continued)*

The segment information and capital expenditure for the year ended 31 December 2009 are as follows:

	MSG RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
<b>Revenue</b>	<b>4,224,760</b>	<b>408,124</b>	<b>–</b>	<b>4,632,884</b>
Segment results	934,166	136,014	(21,332)	1,048,848
Finance costs				(25,251)
<b>Profit before income tax</b>				<b>1,023,597</b>
Income tax expense <i>(Note 3)</i>				(95,312)
Profit for the year				928,285
<b>Other segment items included in the income statement</b>				
Depreciation	156,306	33,479	551	190,336
Amortisation of leasehold land payments	2,745	229	–	2,974
Reversal of write-down of inventories	(1,554)	–	–	(1,554)
Gain on disposal of property, plant and equipment	(2,925)	–	–	(2,925)
Capital expenditure	635,337	96,600	23,637	755,574

The segment assets and liabilities at 31 December 2009 are as follows:

	MSG RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
<b>Segment assets and liabilities</b>				
Total assets	3,530,535	689,624	40,862	4,261,021
Total liabilities	1,529,617	334,088	3,605	1,867,310

## 2. Segment information *(Continued)*

The segment information and capital expenditure for the year ended 31 December 2008 are as follows:

	MSG <i>RMB'000</i>	Xanthan gum <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
<b>Revenue</b>	3,133,604	451,739	–	3,585,343
Segment results	273,363	130,574	(49,499)	354,438
Negative goodwill gained from acquisition				9,657
Waiver of payables due to debt restructuring for a newly acquired subsidiary				3,947
Finance costs				(42,662)
<b>Profit before income tax</b>				325,380
Income tax expense <i>(Note 3)</i>				(30,674)
<b>Profit for the year</b>				294,706
<b>Other segment items included in the income statement</b>				
Depreciation	124,702	27,277	562	152,541
Amortisation of leasehold land payments	2,004	228	–	2,232
Write-down of inventories	1,338	–	–	1,338
Impairment provision for property, plant and equipment	2,008	–	–	2,008
Loss on disposal of property, plant and equipment	456	–	–	456
Capital expenditure	354,934	223,942	10	578,886

## 2. Segment information *(Continued)*

The segment assets and liabilities at 31 December 2008 are as follows:

	MSG <i>RMB'000</i>	Xanthan gum <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
<b>Segment assets and liabilities</b>				
Total assets	2,560,470	626,257	75,738	3,262,465
Total liabilities	1,111,634	406,634	2,683	1,520,951

The entity is domiciled in Mainland China. The result of its revenue from external customers in Mainland China is RMB4,141,402,000 (2008: RMB3,019,907,000) and the total of revenue from external customers from Hong Kong and other countries is RMB491,482,000 (2008: RMB565,436,000).

The total of non-current assets other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Mainland China is RMB2,648,003,000 (2008: RMB2,087,045,000), and the total of these non-current assets located in Hong Kong is RMB54,000 (2008: RMB134,000).

Revenues of approximately RMB375,304,000 (2008: RMB323,437,000) are derived from a single external customer. These revenues are attributable to the MSG segment.

## 3. Income tax expense

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Current income tax		
- PRC enterprise income tax ("EIT")	<b>80,397</b>	14,677
Deferred income tax	<b>14,915</b>	15,997
	<b>95,312</b>	30,674

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 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 years ended 31 December 2009 and 2008.

PRC EIT is calculated based on the applicable tax rates on assessable profits of subsidiaries established in the PRC in accordance with PRC tax laws and regulations.



#### 4. Earnings per share

##### (a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year.

	2009	2008
Profit attributable to the Shareholders (RMB'000)	<b>928,285</b>	294,706
Weighted average number of ordinary shares in issue (thousands)	<b>1,660,000</b>	1,660,000
Basic earnings per share (RMB cents per share)	<b>55.92</b>	17.75

##### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming the conversion of all dilutive potential ordinary shares. The Company's potentially dilutive ordinary shares comprised share options. The share options for 2008 are anti-dilutive and accordingly, the diluted earnings per share and basic earnings per share for 2008 are same.

	2009	2008
Profit attributable to the Shareholders (RMB'000)	<b>928,285</b>	294,706
Weighted average number of ordinary shares in issue (thousands)	<b>1,660,000</b>	1,660,000
Adjustments for share options (thousands)	<b>1,249</b>	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<b>1,661,249</b>	1,660,000
Diluted earnings per share (RMB cents per share)	<b>55.88</b>	17.75

#### 5. Dividends

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Interim, paid	<b>146,411</b>	–
Final, proposed	<b>219,240</b>	146,293

At a meeting held on 23 March 2010, the Board proposed a final dividend of HK\$249,000,000 (equivalent to RMB219,240,000) (2008: HK\$166,000,000 (equivalent to RMB146,293,000)), representing HK15 cents (equivalent to RMB13.21 cents) (2008: HK10 cents (equivalent to RMB8.81 cents)) per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2010.

## 6. Trade and other receivables

	<b>2009</b>	2008
	<b>RMB'000</b>	<i>RMB'000</i>
Trade receivables (a)	<b>79,007</b>	74,438
Less: provision for impairment of receivables (b)	<b>(4,527)</b>	(4,622)
Trade receivables, net	<b>74,480</b>	69,816
Notes receivables (c)	<b>514,519</b>	449,736
Prepayments for raw materials	<b>30,265</b>	13,473
Deposits and others	<b>30,605</b>	12,969
Value Added Tax recoverable	<b>37,913</b>	2,361
	<b>687,782</b>	548,355

(a) As at 31 December 2009 and 2008, the ageing analyses of trade receivables were as follows:

	<b>2009</b>	2008
	<b>RMB'000</b>	<i>RMB'000</i>
Within 3 months	<b>69,727</b>	61,761
3–12 months	<b>3,537</b>	8,055
Over 12 months	<b>5,743</b>	4,622
	<b>79,007</b>	74,438

The Group sold its products to customers and received settlement either in cash or in form of bank acceptance notes (Note (c)) 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.

As at 31 December 2009, trade receivables of RMB3,601,000 (2008: RMB3,507,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The directors considered that trade receivables that are less than twelve months past due are not impaired. The ageing analyses of these trade receivables were as follows:

	<b>2009</b>	2008
	<b>RMB'000</b>	<i>RMB'000</i>
Past due within 3 months	<b>1,167</b>	1,685
Past due in 3-12 months	<b>2,434</b>	1,822
	<b>3,601</b>	3,507

## 6. Trade and other receivables *(Continued)*

- (b) As of 31 December 2009, trade receivables of RMB4,527,000 (2008: RMB4,622,000) were impaired and fully provided for. The individually impaired receivables mainly relate to Shenhua Pharmaceutical. It was assessed that none of these receivables is expected to be recovered. The ageing of these receivables is as follows:

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Past due over 12 months	<b>4,527</b>	4,622

Movements on the Group's provision for impairment of trade receivables are as follows:

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
<b>As at 1 January</b>	<b>4,622</b>	–
Acquisition of a subsidiary	–	5,546
Reversal of amounts subsequently collected	<b>(95)</b>	(924)
<b>As at 31 December</b>	<b>4,527</b>	4,622

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the consolidated income statement.

- (c) As at 31 December 2009, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB499,831,000 (2008: RMB430,721,000) applied for settling the amounts payable to the Group's suppliers.
- (d) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

- (e) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
– RMB	<b>611,083</b>	484,807
– US\$	<b>75,582</b>	63,548
– EUR	<b>1,117</b>	–
	<b>687,782</b>	548,355

## 7. Trade, other payables and accruals

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Trade payables (a)	<b>493,092</b>	506,894
Advances from customers (b)	<b>111,330</b>	91,675
Payables for leasehold land, property, plant and equipment	<b>430,991</b>	224,737
Salaries, wages and staff welfares payables	<b>52,303</b>	38,260
Other payables and accruals	<b>52,759</b>	25,967
	<b>1,140,475</b>	887,533

(a) As at 31 December 2009 and 2008, the ageing analyses of trade payables were as follows:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Within 3 months	<b>465,313</b>	480,613
3 to 6 months	<b>11,644</b>	12,144
6 to 12 months	<b>4,751</b>	3,123
Over 12 months	<b>11,384</b>	11,014
	<b>493,092</b>	506,894

As at 31 December 2009, notes receivables of RMB499,831,000 (2008: RMB430,721,000) were applied for settling the amounts payable to the Group's suppliers.

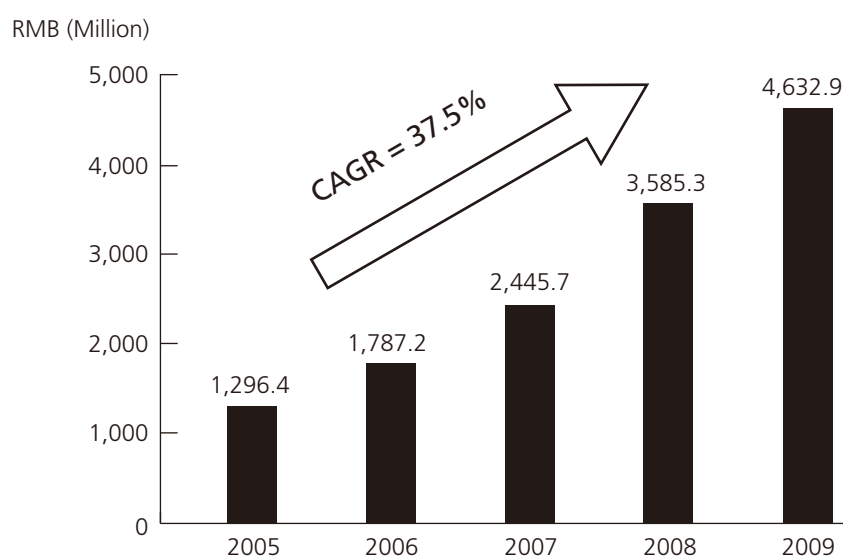
- (b) Advances from customers represented cash advances received from customers for purchase of the Group's products and would be applied for settlement when sales were incurred.
- (c) Trade and other payables are unsecured and interest-free. The carrying amounts of trade and other payables approximate their fair values.

## Management Discussion and Analysis

### Overview

The Group is a leading corn-based biochemical products manufacturer in the PRC and aims at becoming the leading corn-based biochemical products manufacturer in the world. Currently, the Group principally operates in two business segments which are MSG segment and Xanthan gum segment. The Group's overall growth strategy entails the expansion of its market shares, the diversification of its product range, the broadening of its sales network and the strengthening of its research and development capabilities.

The Group recorded an increase of approximately RMB1,047.6 million or 29.2% in turnover to RMB4,632.9 million for the year 2009, as compared with that in the year 2008. The table below illustrates the continuous growth of the Group's turnover in the past 5 years:



Gross profit of the Group increased substantially from approximately RMB644.3 million in 2008 to approximately RMB1,399.6 million in 2009. Owing to the increase in ASP and sales volume of most of the Group's products resulted from the improved of business environment, overall gross profit margin improved significantly to 30.2% in 2009, representing a 12.2 percentage points increase from 18.0% in 2008.

Profit attributable to the Shareholders in 2009 was approximately RMB928.3 million, representing an increase of approximately RMB633.6 million or 215.0% as compared with that of 2008.

2009 was a fruitful year for the Group as it continued its success in 2008 and further made a big leap in its operating and financial results. The Group attributed the improved performance to the following factors:

- the Group's ability to sustain the growth momentum built up in 2008 and further strengthen its leading position in the MSG and xanthan gum markets with enhanced capacities and market coverage, as well as improved operational efficiencies;
- the improved business environment in the MSG industry driven by the strong domestic consumption market in the PRC, resulted in the increase in ASP and profit margin;
- the Group continued to enjoy significant raw material cost advantages at both Baoji Plant and IM Plant.

## Segmental Review

The Group's products can be classified into two business segments, namely MSG segment and Xanthan gum segment. The MSG segment which includes MSG, glutamic acid, fertilisers, and other related products while the Xanthan gum segment represents the production and sale of xanthan gum. Key financials of these two segments in 2009 together with comparative figures in 2008 are set out in the following table:

	2009			2008			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	%	%	%
<b>Revenue</b>	<b>4,224,760</b>	<b>408,124</b>	<b>4,632,884</b>	3,133,604	451,739	3,585,343	34.8	(9.7)	29.2
<b>Gross profit</b>	<b>1,250,764</b>	<b>148,843</b>	<b>1,399,607</b>	488,936	155,396	644,332	155.8	(4.2)	117.2
<b>Gross profit margin</b>	<b>29.6%</b>	<b>36.5%</b>	<b>30.2%</b>	15.6%	34.4%	18.0%	14.0 ppts.	2.1 ppts.	12.2 ppts.
<b>Segment result</b>	<b>934,166</b>	<b>136,014</b>		273,363	130,574		241.7	4.2	
<b>Segment net assets</b>									
Assets	<b>3,530,535</b>	<b>689,624</b>		2,560,470	626,257		37.9	10.1	
Liabilities	<b>1,529,617</b>	<b>334,088</b>		1,111,634	406,634		37.6	(17.8)	
Net assets	<b>2,000,918</b>	<b>355,536</b>		1,448,836	219,623		38.1	61.9	

## MSG segment review

### Business review

The MSG and glutamic acid market in the PRC became increasingly concentrated and is now dominated by a few major players. The Group has become one of the world's leaders in the MSG industry as it played a significant role in the industry consolidation process further expanding its market share. The industry also benefited from favorable macro environment with national policy shifted to boost internal consumption in the year.

When compared with 2008, the business environment of MSG industry further improved in 2009. After a phase of industry consolidation in 2008, the selling prices of MSG and glutamic acid products have been increasing continuously, most evidently in the fourth quarter of 2009. However, it is the opinion of the Directors that the sharp surge in the ASP of MSG and glutamic acid products in the fourth quarter of 2009 was unusual, and the ASP of MSG and glutamic acid products have returned to a reasonable level in the beginning of 2010.

Total production capacity of the Group's MSG increased from 171,667 tonnes in 2008 to 305,000 tonnes in 2009. Total production capacity of the Group's glutamic acid increased from 275,000 tonnes to 350,000 tonnes in 2009. Sales volume of glutamic acid decreased from 162,708 tonnes to 100,993 while sales volume of MSG nearly doubled, increased from 146,185 tonnes in 2008 to 292,369 tonnes in 2009. It is the strategy of the Group to expand its product offerings along the value chain towards the end-user market by migrating from a glutamic acid-focused to a more MSG-focused product portfolio. As a result, the Group significantly reduced external sales of glutamic acid while boosted the domestic consumption of glutamic acid to produce MSG in 2009.

The Group has also benefited from the full-year impact of cost reduction through the migration of part of its glutamic acid and MSG production facilities from the Shandong Plant to the Baoji Plant and IM Plant in 2008.

As for fertilisers, the selling price was still in a downward trend in 2009 following the price drop since the fourth quarter of 2008, which was in line with the market trend.

The ASPs of sweeteners and corn refined products increased in 2009, which was in line with the increase in the market price of cane sugar and the increase in demand from the breeding industry.

Following the recovery of commodity prices globally, the corn kernels average price saw a 25.8% increase from the first quarter to the fourth quarter in 2009. Owing to the market leading position, the Group in general was able to transfer the increase in corn kernels price to the customers in 2009.

The coal price in general dropped in 2009 as compared to 2008 was in line with the market trend in the first half of 2009. Coal price began to pick up slightly in the second half of 2009 following the recovery of global economy.

As a result of the Group's strategy of switching to producing more MSG, the decrease in raw material prices and the improved production efficiency, gross profit margin was enhanced substantially in 2009.

The Group will continue to lead market consolidation going forward. The Group finished expanding its production capacities of glutamic acid in Baoji Plant by 70,000 tonnes and that of fertilisers by 100,000 tonnes at the end of 2009. The Group has also completed the expansion of MSG production plant from the initial 100,000 tonnes to 250,000 tonnes in IM Plant. Re-engineering of production process in Baoji Plant and IM Plant also enhance the production capacity of MSG and glutamic acid by 110,000 tonnes and 40,000 tonnes respectively.

The Group expects that the internal consumption of glutamic acid will be further increased in year 2010, which is in line with the Group's strategy.

## Financial review

### Revenue

Revenue generated from the sale of the MSG segment products increased to RMB4,224.8 million in 2009, representing an increase of RMB1,091.2 million or 34.8%, as compared with that in year 2008, which was mainly attributed to the increase in the ASP and sales volume of MSG. Revenue breakdown by products in this segment for the years 2009 and 2008 are set out in the table below:

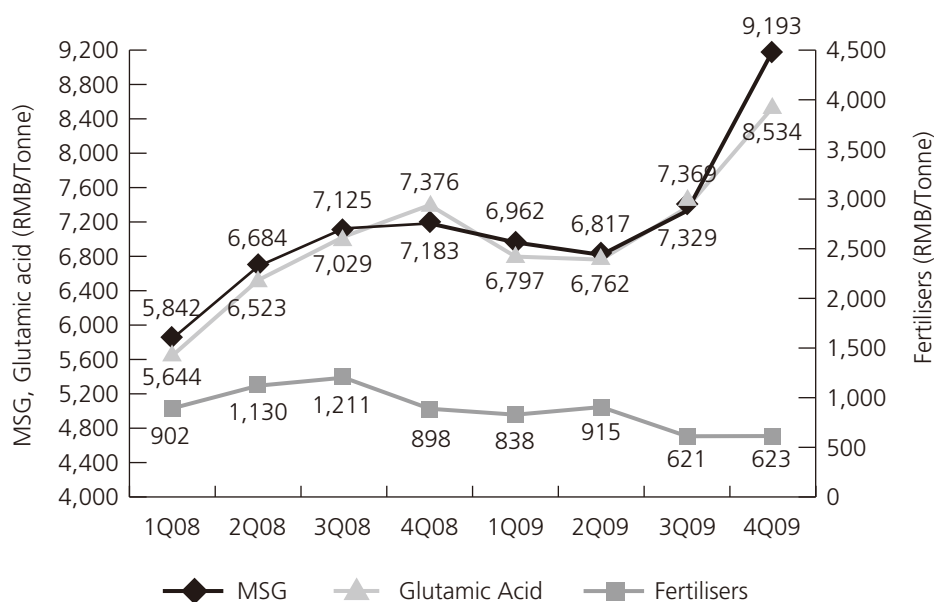
Product name	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>	% of change
MSG	<b>2,245,307</b>	1,004,381	123.6
Glutamic acid	<b>720,631</b>	1,053,298	(31.6)
Corn refined products	<b>557,523</b>	509,849	9.4
Fertilisers	<b>361,468</b>	380,097	(4.9)
Starch sweeteners	<b>245,168</b>	163,002	50.4
Others	<b>94,663</b>	22,977	312.0
	<b>4,224,760</b>	3,133,604	34.8

### ASPs and sales volume

Set out below the ASPs of the Group's major products for the years 2009 and 2008:

Product name	2009 RMB/tonne	2008 RMB/tonne	% of change
MSG	<b>7,680</b>	6,865	11.9
Glutamic acid	<b>7,135</b>	6,474	10.2
Fertilisers	<b>727</b>	1,026	(29.1)

The chart below illustrates the fluctuation of ASPs (in RMB/Tonne) of the Group's major products in this segment in 2008 and 2009:



### MSG

The ASP of MSG increased from approximately RMB6,865 per tonne in 2008 to approximately RMB7,680 per tonne in 2009, representing an increase of about 11.9%; while turnover of MSG increased substantially by approximately 123.6%, as a result of the increase in production capacity of the Group. However, the sudden sharp surge of the ASP in the fourth quarter of 2009 was unusual, and ASP of MSG returned to a more reasonable level in the beginning of 2010.

As stated above, leveraging on its leading position in the market and benefited from the strong domestic consumption market in the PRC, the Group increased marketing effort to boost the sale of its MSG so as to enlarge its market share in 2009. As a result, the sales volume of MSG (in terms of tonne) increased by approximately 100.0% in 2009 from that of 2008.

### Glutamic acid

The ASP of glutamic acid increased from approximately RMB6,474 per tonne in 2008 to approximately RMB7,135 per tonne in 2009, representing an increase of about 10.2%. Similar to MSG, the sudden sharp surge of the ASP in the fourth quarter of 2009 was unusual, and the ASP of glutamic acid returned to a more reasonable level in the beginning of 2010.

Due to the aforementioned strategy of focusing more on the MSG production, although the total production capacity of the Group increased, sales volume of glutamic acid dropped by 61,715 tonnes to 100,993 tonnes in 2009.



#### Fertilisers

ASP of fertilisers in general dropped by 29.1% from RMB1,026 per tonne in 2008 to RMB727 in 2009. It is in line with the price trend of urea.

#### Corn refined products

The revenue of corn refined products increased by about 9.4% in 2009 when compared with that in 2008. The ASP of corn refined products gradually increased since fourth quarter of 2008 and there was an increasing demand from ranches as the breeding industry recovered in 2009.

#### Starch sweeteners

The ASP of starch sweeteners increased from approximately RMB1,842 per tonne in 2008 to approximately RMB2,080 per tonne in 2009. Sales volume of starch sweeteners also increased by 33.2% as market demand and market recognition of the Group's products increased.

#### Cost of production

The breakdowns of cost of production of this segment are set out below:

	2009		2008		% of change
	RMB'000	%	RMB'000	%	
<b>Major raw materials/Energy</b>	<b>2,346,230</b>	<b>77.7</b>	2,103,892	80.6	11.5
– Corn kernels	<b>1,692,010</b>	<b>56.0</b>	1,304,277	50.0	29.7
– Liquid ammonia	<b>333,454</b>	<b>11.0</b>	331,430	12.7	0.6
– Sulphuric acid	<b>38,408</b>	<b>1.3</b>	183,919	7.0	(79.1)
– Coal	<b>282,358</b>	<b>9.4</b>	284,266	10.9	(0.7)
<b>Depreciation</b>	<b>143,007</b>	<b>4.7</b>	108,551	4.2	31.7
<b>Employee benefit</b>	<b>129,119</b>	<b>4.3</b>	87,412	3.3	47.7
<b>Others</b>	<b>401,254</b>	<b>13.3</b>	309,553	11.9	29.6
<b>Total cost of production</b>	<b>3,019,610</b>	<b>100.0</b>	2,609,408	100.0	15.7

#### Corn kernels

In 2009, cost of corn kernels accounted for approximately 56.0% (2008: 50.0%) of the total production cost of this segment. Such increase was mainly due to the decrease in cost of other raw materials such as liquid ammonia, sulphuric acid and coal as a percentage of the total production cost of this segment during 2009. Although the average unit cost of corn kernels significantly increased from about RMB1,223 per tonne in first quarter of 2009 to about RMB1,538 per tonne in fourth quarter of 2009, the average unit cost of corn kernels for the whole year slightly decreased to about RMB1,413 per tonne in 2009 (2008: RMB1,424 per tonne).

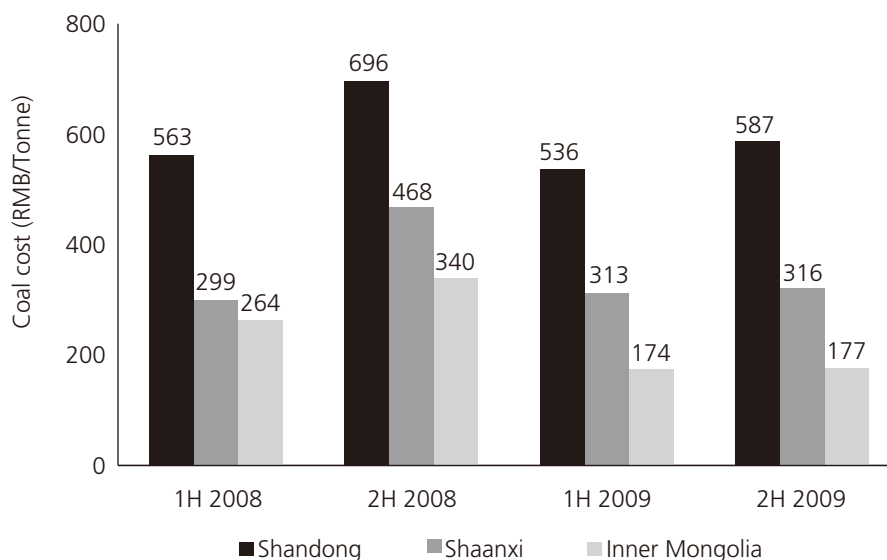
#### Liquid ammonia

Liquid ammonia accounted for approximately 11.0% (2008: 12.7%) of total production cost in this segment in 2009. Such decrease was mainly due to the decrease in the average unit selling price of liquid ammonia. The average unit cost of liquid ammonia decreased to about RMB2,209 per tonne in 2009 (2008: RMB2,700 per tonne).

### Sulphuric acid

In 2009, sulphuric acid accounted for 1.3% (2008: 7.0%) of the total production cost in this segment. Such significant decrease was mainly due to the decrease in the average unit selling price of sulphuric acid. The average unit cost of sulphuric acid decreased significantly to about RMB212 per tonne in 2009 (2008: RMB923 per tonne).

### Coal



In 2009, coal accounted for 9.4% (2008: 10.9%) of the total production cost in this segment. Such decrease was mainly due to the decrease in the average unit selling price of coal and the cost advantage enjoyed by the Group in the IM plant. The average unit cost of coal decreased from about RMB369 per tonne in 2008 to about RMB254 per tonne in 2009.

### Gross profit and gross profit margin

Gross profit of this segment increased from RMB488.9 million in 2008 to RMB1,250.8 million in 2009, representing an increase of RMB761.9 million or 155.8%. Such increase was mainly due to the increase in both sales volume and ASPs of the Group's MSG segment products and the decrease in average cost of production.

Gross profit margin of MSG segment jumped from 15.6% in 2008 to 29.6% in 2009, representing an increase of 14.0 percentage points. Such increase was mainly attributable to the increase of ASP of the Group's products, the Group's strategy of expanding its MSG sales, the improved production efficiency and the decrease in the costs of major raw materials in 2009.

### Production

The annual designed production capacity of each of the major products as at the end of 2009 together with comparative figures for 2008 is as follows:

Product name	As at the end of		% of change
	2009 (Tonnes)	2008 (Tonnes)	
MSG	<b>540,000</b>	280,000	92.9
Glutamic acid	<b>460,000</b>	350,000	31.4
Fertilisers	<b>560,000</b>	460,000	21.7
Starch sweeteners	<b>100,000</b>	100,000	–

#### MSG

The annual designed production capacity of MSG increased to 540,000 tonnes at the end of 2009 from 280,000 tonnes in 2008. The significant increase in production capacity of MSG was mainly due to 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 of the MSG production process completed by the end of 2009 which would enhance the production capacity of MSG of the Group by 110,000 tonnes.

#### Glutamic acid

The annual designed production capacity of glutamic acid increased to 460,000 tonnes at the end of 2009 from 350,000 tonnes in 2008. The Group completed the construction of a new glutamic acid production line of 70,000 tonnes at the end of 2009. In addition, the re-engineering of the glutamic acid production process completed by the end of 2009 which would enhance the production capacity of glutamic acid of the Group by 40,000 tonnes.

#### Fertilisers

The annual designed production capacity of fertilisers increased to 560,000 tonnes in 2009 from 460,000 tonnes in 2008. Such increase was mainly due to the construction of a new fertilisers production line of 100,000 tonnes per year in Baoji Plant. The new production line commenced production in December 2009.

The actual production output and the utilisation rate of each of the major products in 2009 together with the comparative figures in 2008 are as follows.

Product name	<b>2009</b> <b>(Tonnes)</b>	2008 (Tonnes)	% of change
<b>Glutamic acid</b>			
Annual designed production capacity <i>(Note)</i>	<b>350,000</b>	275,000	27.3
Actual production output	<b>354,638</b>	275,212	28.9
Utilisation rate	<b>101%</b>	100%	
<b>MSG</b>			
Annual designed production capacity <i>(Note)</i>	<b>305,000</b>	171,667	77.7
Actual production output	<b>302,572</b>	150,353	101.2
Utilisation rate	<b>99%</b>	88%	
<b>Fertilisers</b>			
Annual designed production capacity <i>(Note)</i>	<b>460,000</b>	405,000	13.6
Actual production output	<b>457,978</b>	380,531	20.4
Utilisation rate	<b>100%</b>	94%	
<b>Starch sweeteners</b>			
Annual designed production capacity <i>(Note)</i>	<b>100,000</b>	100,000	–
Actual production output	<b>106,194</b>	67,819	56.6
Utilisation rate	<b>106%</b>	68%	

*Note:* the annual production capacity is expressed on a pro-rata basis.

Referring to the table above, the utilisation of the Group's production facilities in 2009 have reached their maximum designed capacity.

## Xanthan gum segment

### Business review

Due to its exporting nature and high coherence with the oil market, the demand for xanthan gum had been heavily hit by the global financial crisis and the falling oil prices during 2009. Although the demand for xanthan gum gradually picked up in the second half of 2009, the Group recorded a slightly drop in sales of xanthan gum in 2009 as a whole. However, it still managed to achieve a slightly improved operating result for this segment.

During the year under review, the Group expanded its production capacity of xanthan gum in IM Plant and managed to capture additional market share to consolidate its leading position in the industry.

During 2009, the xanthan gum market was adversely affected by the poor global oil market, as a result of, among other things, the global economic downturn. Despite this, during the 2009, the Group was able to mitigate the negative impact of the drop in ASP of the xanthan gum by maintaining its sales volume while the Group continued to enjoy the reduced average cost of production as the production capacity of the IM Plant continued to increase.

### Financial review

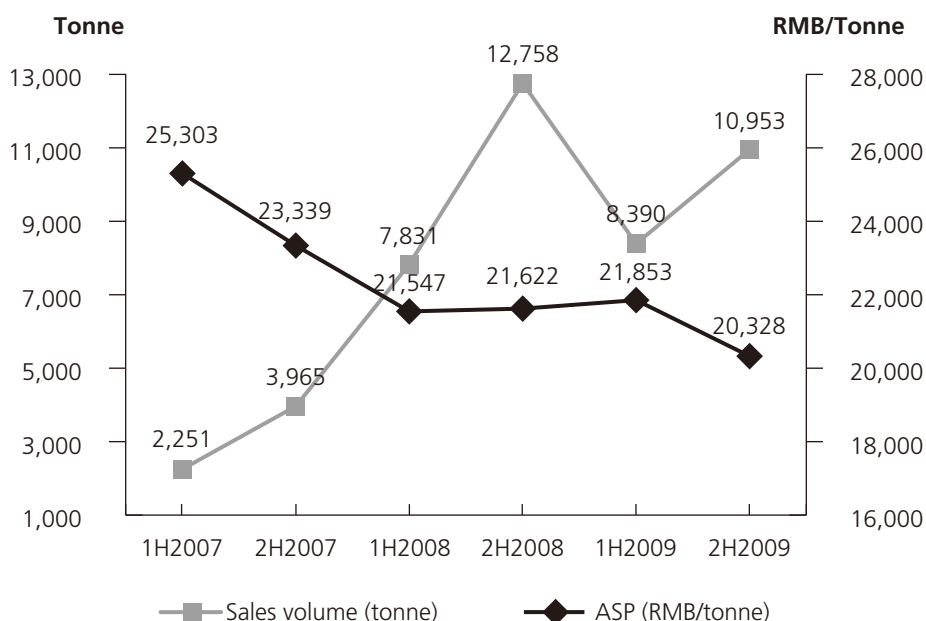
#### Revenue

Revenue generated from the sales of xanthan gum decreased to RMB408.1 million in 2009, representing a drop of RMB43.6 million or 9.7%, as compared to 2008. Such decrease was mainly due to the drop in ASP and sales volume of xanthan gum which was a direct result of weakened demand from the oil market due to the global economic recession.

In 2009, overseas sales of xanthan gum contributed 84.5% (2008: 85.2%) to the total sales of the xanthan gum.

#### ASP and sales volume

The chart below illustrates the fluctuation of ASP of xanthan gum in 2007, 2008 and 2009:



The ASP of xanthan gum decreased from RMB21,547 per tonne in the first half of 2008 to about RMB20,328 per tonne in the second half of 2009, representing a 5.7% drop.

The global economic downturn and the drop in oil price have adversely affected the xanthan gum business, causing the production capacity was not being fully absorbed by the market in 2009.

#### Cost of production

The breakdowns of the cost of production of this segment are set out below:

	2009		2008		% of change
	RMB'000	%	RMB'000	%	
<b>Major raw materials/Energy</b>	<b>225,597</b>	<b>66.7</b>	224,985	74.7	0.3
– Coal	<b>103,946</b>	<b>30.7</b>	127,360	42.3	(18.4)
– Corn kernels	<b>76,680</b>	<b>22.7</b>	51,033	17.0	50.3
– Starch	<b>22,314</b>	<b>6.6</b>	23,290	7.7	(4.2)
– Soy bean	<b>22,657</b>	<b>6.7</b>	23,302	7.7	(2.8)
<b>Depreciation</b>	<b>33,159</b>	<b>9.8</b>	25,141	8.4	31.9
<b>Employee benefit</b>	<b>27,276</b>	<b>8.1</b>	18,104	6.0	50.7
<b>Others</b>	<b>52,113</b>	<b>15.4</b>	32,782	10.9	59.0
<b>Total cost of production</b>	<b>338,145</b>	<b>100.0</b>	301,012	100.0	12.3

#### Coal

In 2009, coal accounted for approximately 30.7% (2008: 42.3%) of the total production cost of this segment. Such decrease was mainly due to decrease in coal price and the increase in other costs as a percentage of the total cost of production. The Group also enjoyed the lower average coal cost in Inner Mongolia Autonomous Region as a result of the expansion of its production capacity in the IM Plant. The IM Plant's average cost of coal was about RMB176 per tonne in 2009 (2008: RMB306 per tonne), which was significantly lower than that of compared to about RMB563 per tonne (2008: RMB628 per tonne) in Shandong Plant. During the year, the average cost of coal decreased by approximately 37.5% in this segment.

#### Corn Kernels/Starch

In 2009, corn kernels/starch accounted for approximately 29.3% (2008: 24.7%) of the total production cost of this segment. The increase in proportion was mainly due to the fall in the cost of other raw materials, most notably coal, as a percentage of the total cost of production.

#### Soy bean

In 2009, soy bean accounted for approximately 6.7% (2008: 7.7%) of the total production cost of this segment. The decrease in proportion was mainly due to the decrease in average unit selling price of soy bean from approximately RMB4,354 per tonne in the 2008 to approximately RMB3,512 per tonne in 2009, representing an decrease of 19.3%.

### Gross profit and gross profit margin

The gross profit of xanthan gum decreased from RMB155.4 million in 2008 to RMB148.8 million in 2009, representing a decrease of RMB6.6 million or 4.2% drop. Such decrease was mainly due to drop in the ASP and sales volume of xanthan gum. Due to the aforementioned cost reduction and benefited from economies of scale as a result of the increased production capacity, the Group managed to improve the gross profit margin of xanthan gum from 34.4% in 2008 to 36.5% in 2009, or an increase of 2.1 percentage points.

### Production

The annual design production capacity of xanthan gum in the year 2009 together with the comparative figures in the year 2008 was as follows:

	<b>2009</b> <b>(Tonnes)</b>	2008 <i>(Tonnes)</i>	% of change
Annual designed production capacity at the end of year	<b>32,000</b>	32,000	–

The actual production output and the utilisation rate of xanthan gum in the year 2009 together with the comparative figures in the year 2008 were as follows:

	<b>2009</b> <b>(Tonnes)</b>	2008 <i>(Tonnes)</i>	% of change
Annual designed production capacity <i>(Note)</i>	<b>32,000</b>	21,000	52.4
Actual production output	<b>28,232</b>	21,277	32.7
Utilisation rate	<b>88.2%</b>	101.3%	

*Note:* the annual production capacity is expressed on a pro-rata basis.

The drop in utilisation rate was due to weakened demand of xanthan gum as a result of the global economic downturn in 2009.

The construction of the production facilities for the 12,000 tonnes of xanthan gum have commenced in first half of 2009 as scheduled, which is expected to be completed in the first half of 2010.

## Other financial information

### Other income

Other income increased by approximately RMB19.6 million or 44.3% from RMB44.3 million in the year 2008 to RMB63.9 million in the year 2009. The increase was mainly due to the increase in sales of waste products and income from government grants.

### Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB49.3 million or 29.6% from RMB166.4 million in the year 2008 to RMB215.7 million in the year 2009. Such increase was in line with the increase in the revenue .

### Administrative expenses

Administrative expenses increased by approximately RMB52.9 million or 37.3% from RMB142.0 million in 2008 to RMB194.9 million in 2009. The increase was mainly due to the increase in administrative staffs and management salary, the amortisation of share option increase for the Pre-IPO and Post-IPO Share Option Scheme. In addition, research and development related expenses also increased as more research and development project was initiated during the year.

### Finance costs

Finance costs are approximately amount to RMB25.3 million which is decreased by RMB17.4 million represented 40.8% as compared to 2008. The reduction of finance cost was mainly due to the decrease in average bank loan balance and the decrease in interest rate in 2009.

### Staff cost

Staff cost of the Group increased by approximately RMB89.3 million or 52.5% from RMB170.3 million in 2008 to RMB259.6 million in 2009. The increase was mainly due to the increase in the staff costs resulted from the expansion of the Group's production and increase in the average salary of the staff. In addition, the amortisation of share options as a result of the increase in share price also attributed to the increase in staff cost.

### Depreciation

Depreciation expense of the Group increased by approximately RMB37.8 million or 24.8% from RMB152.5 million in 2008 to RMB190.3 million in 2009. The increase was mainly due to the expansion and modification of the IM Plant and Baoji Plant.

### Taxation

The income tax expenses for the year 2009 represented the PRC Enterprise Income Tax ("EIT").

Effective on 1 January 2009, in accordance to with the relevant tax laws, the EIT rate applicable to the subsidiaries incorporated in the PRC was 25% for those with original applicable EIT rates higher than 25%, or gradually increased to 25% in a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%. However, the Group's subsidiaries will continue enjoying the existing tax preferential treatment up to the end of the tax holiday, after which the 25% standard rate will apply. The following table summaries the EIT rates applicable to the Group's subsidiaries:

	Shandong Fufeng	Baoji Fufeng	IM Fufeng
Standard/preferential tax rate	15% (Note 2)	15% (Note 1)	15% (Note 1)
Tax holiday			
Full exemption (year)	Already expired	Already expired	Already expired
50% exemption (year)	Already expired	2007 to 2009	2009 to 2011

Note 1: with the Opening Up of Western China policy, Baoji Fufeng and IM Fufeng are entitled to a preferential enterprise income tax rate of 15% until 31 December 2010.

Note 2: Shandong Fufeng was approved as a high-technique enterprise, which is entitled to a preferential enterprise income tax rate of 15% until 31 December 2010.



## **Other achievements**

### **Research and Development**

The Group is committed in research and development. The Group's research and development team applied for an additional 15 new patents in 2009. Total patents applied amounted to 68, out of which 22 have been granted.

As a result of the Group's effort in research and development six of our research results were accredited by the provincial government, including the high concentration ASND technology, corn-based crystallised fructose technology and the applied technology of fermentation of glutamic acid.

Furthermore, the Group's research and development centre was recognised as the national-grade laboratory qualification (國家認可實驗室資格).

The Group continued to improve the production process of its MSG and Xanthan gum segments, with an aim to improve efficiency and reduce energy consumption.

Meanwhile, the Group is going to commercialise two new products known as threonine and a series of new amino acid products such as valine, norleucine and isoleucine in 2010, which was developed in 2009, as well as the products of pharmaceutical, corn oil and chicken powder have been initially launched in 2008.

In view of the enormous potential of pharmaceutical fermentation industry, the Group will further extend the business opportunity and develop the pharmaceutical business of Shenhua Pharmaceutical.

As increasing of research and development projects, the expenditure for research and development in 2009 was approximately RMB36.2 million representing an increase of approximately RMB13.8 million or 61.5% as compared with that of 2008.

On 30 April, 2009, the Baoji Plant adopted a flue gas treatment initiative to alleviate the impact of flue gas released during the production process by installing additional flue gas desulfurisation facilities. Certain facilities have been commissioned and have achieved the intended benefits. The success in flue gas treatment proves that the Group has the ability to provide a solution to the problem that has troubled the MSG industry for years. The Group is well positioned to become the pioneer in setting standards for flue gas treatment and environmentally production process.

### **Future plans**

2009 represented a very successful year for the Group. This was considered by the Directors to be a remarkable accomplishment amidst the global economic downturn. After the continuous effort to increase production capacity over the past few years, the Group has become the genuine leader in the MSG markets and xanthan gum markets.

Looking ahead, its leading market position, established brand names, and the substantial cost advantage in its IM Plant has made the Group best positioned to benefit from future economic growth in China, which is increasingly in driven by the domestic consumption market. The Group will continue to strengthen its market leading position in MSG segment products and xanthan gum by steadily expanding its production capacity, broadening its market coverage, reduction of production cost, and product diversification via development of new products.

### **New production plant in Northeast China**

The Group is planning to set up a new production plant in the transition of Inner Mongolia Autonomous Region and Heilongjiang Province. Construction work of such new production plant is scheduled to begin in the second quarter of 2010. The initial commercial production is expected to commence in the second half of 2011. The project comprises production lines with a 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 significantly decreased.

### **Enhancement of the IM Plant**

The Group will continue to enhance its IM Plant. The Group plans to make the investment on production cost reduction project of its IM Plant by a 80,000 tonnes of synthetic ammonia production capacity and related facility. The project is expected to be commenced by the end of 2010.

The Group will also invest a new 5,000 tonnes of fructose production capacity in IM Plant, which is expected to be commenced in the second half of 2010.

### **Developing new products and improving the production technologies**

The Group is developing a series of new amino acid products and biomass based polymer products in order to enhance the Group's product mix and future growth driver.

Apart from developing new products, the Group is planning to re-engine its production process of its MSG segment products and xanthan gum, with an aim to improve efficiency and reduce energy consumption. Following such re-engineering, the Group is expected to increase the output of its existing production facilities of MSG segment without significant capital expenditure.

### **Strive to become the world's leading xanthan gum manufacturer**

The Group's xanthan gum production facilities are primarily located in Inner Mongolia Autonomous Region, which enjoys advantage in low raw material costs. Leveraging on this competitive advantages, the Group will grasp the opportunity brought by market consolidation and strive to become the world's leading xanthan gum supplier. Along with the completion of the 12,000 tonnes of xanthan gum in the IM Plant in the first half of 2010, the Group will have increased the production capacity of xanthan gum of 44,000 tonnes in 2010, which is approximately 38% increased than in 2009.

### **Further expansion of market network and marketing efforts**

The Group strives to extend its 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. Meanwhile, the Group actively expands into the international market, with preliminarily plans to establish operations offices in the Middle East, North America and Europe to strengthen its xanthan gum and MSG export business.

In addition, the Group further promotes its brand name in the market by engaging brand spokesperson and enhances popularity of the enterprise and products in the market as well as extending to the retail end-users.

## **Outlook**

### **MSG Segment**

It is the Group's strategy to continue expanding the market shares of its MSG segment products. With the increased production capacity, the Group will further strengthen its market leading position. The Group's current strategy is to vertically expand along the product chain, by focusing on utilizing self-produced glutamic acid to product more MSG products,

The Group had a very successful year in 2009, as we saw significant increase in both the ASP and the profit margin of the MSG segment products. The Group will continue to closely monitor the price trend of the Group's products, the price trend of its raw materials, and the gross profit margin of MSG segment, and adopt appropriate sales and pricing strategy with an aim to maintain and improve the Group's profitability and leadership in the market.

### **Xanthan gum**

2009 represented a challenging year for the Group's xanthan gum business, mainly attributable to the weakened oil market. Looking ahead, the Directors are optimistic towards the xanthan gum market. Following the global economic recovery since the second half of 2009, the market demand for xanthan gum is expected to grow with more end-users realising the advantages of using xanthan gum as an effective thickener, stabiliser or suspension agent applying in food, oil exploration, personal care products and pharmaceutical items. The Group will take full advantage of its cost effectively in its IM Plant and capture additional market share. As the Group has become one of the leading xanthan gum manufacturers in the world, the Directors believe that it will have better control of its selling price and hence the profit margin of its products.

## **Other Information**

### **Liquidity and financial resources**

The Group maintained a healthy liquidity position throughout the year 2009. At 31 December 2009, the cash and cash equivalent and restricted bank deposits of the Group were RMB369 million (2008: RMB268 million). The current bank borrowings were approximately RMB418 million (2008: RMB276 million) and non-current bank borrowings were approximately RMB180 million (2008: RMB312 million). The Group may consider raising new financing through bank loans or debt issues to further strengthen its liquidity position.

### **Pledge of assets**

At 31 December 2009, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB121 million (2008: RMB189 million) were pledged to certain banks to secure general banking facilities of the Group.

### **Foreign exchange exposure**

During the year 2009, 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 from the export sales of products. Such proceeds were subject to foreign exchange risk before receiving and translating into RMB.

The foreign currencies received from export sales were translated into RMB upon receiving from the overseas customers.

### **Gearing ratio**

At 31 December 2009, the total assets of the Group amounted to approximately RMB4,261 million (2008: RMB3,262 million) whereas the bank borrowings amounted to RMB598 million (2008: RMB588 million). The gearing ratio was approximately 14% (2008: 18%). The gearing ratio is calculated based on the Group's total interested bearing borrowings over total assets.

**Employees**

At 31 December 2009, the Group had approximately 2,200 employees. Employees' remuneration is 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.

**Dividend and dividend policy**

The Board recommended the declaration of a final dividend of HK15 cents per share, subject to shareholders' approval at the Annual General Meeting.

The final dividend will be payable on or before 31 May 2010 to shareholders whose names appear on the register of members of the Company on 6 May 2010.

Subject to the availability of the Company's cash and distributable reserves, the Group's investment requirements, and the cashflow and working capital requirements of the Group, the Directors intend to recommend annually distribution to Shareholders of not less than 30% of the Group's annual net profits as dividend in the foreseeable future. In addition, the Board will consider to pay dividend in the form of an interim and a final dividend for each financial year.

**Purchase, redemption or sales of listed 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 year ended 31 December 2009.

**Corporate governance report**

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company has complied with the code provision as set out in the Code since the listing of Shares.

**Audit Committee**

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2009, including the accounting principles and practices adopted by the Group.

**Closure of register of members**

The register of members of the Company will be closed from Thursday, 6 May 2010 to Wednesday, 12 May 2010 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers 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 Wednesday, 5 May 2010.

### **Annual general meeting**

The annual general meeting is expected to be held on 12 May 2010. A notice convening the annual general meeting will be despatched to the Shareholders in due course.

By Order of the Board  
**Fufeng Group Limited**  
**Li Xuechun**  
*Chairman*

Hong Kong, the PRC, 23 March 2010

As at the date of this announcement, the executive Directors are Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng and Mr. Gong Qingli and the independent non-executive Directors are Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun.

### **Glossary**

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技股份有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Beijing Huijinhuaing	Beijing Huijinhuaing Commercial Co., Ltd, an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
CAGR	cumulative average growth rate
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Directors	the director(s) of the Company
EIT Law	Enterprise Income Tax Law of the PRC which came into effect on 1 January 2008
Group	the Company and its subsidiaries
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	the Hong Kong Special Administrative Region of the PRC

IM Fufeng	內蒙古阜豐生物科技股份有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Plant	the production plant of the Group located at 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 annual 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
Prospectus	the prospectus issued by Fufeng Group Limited dated 25 January 2007 in relation to the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited
Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company
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

Summit Challenge	Summit Challenge Limited, an indirect wholly-owned subsidiary of the Company
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
EUR	Euro, the lawful currency of the participating states within the European Union
%	per cent