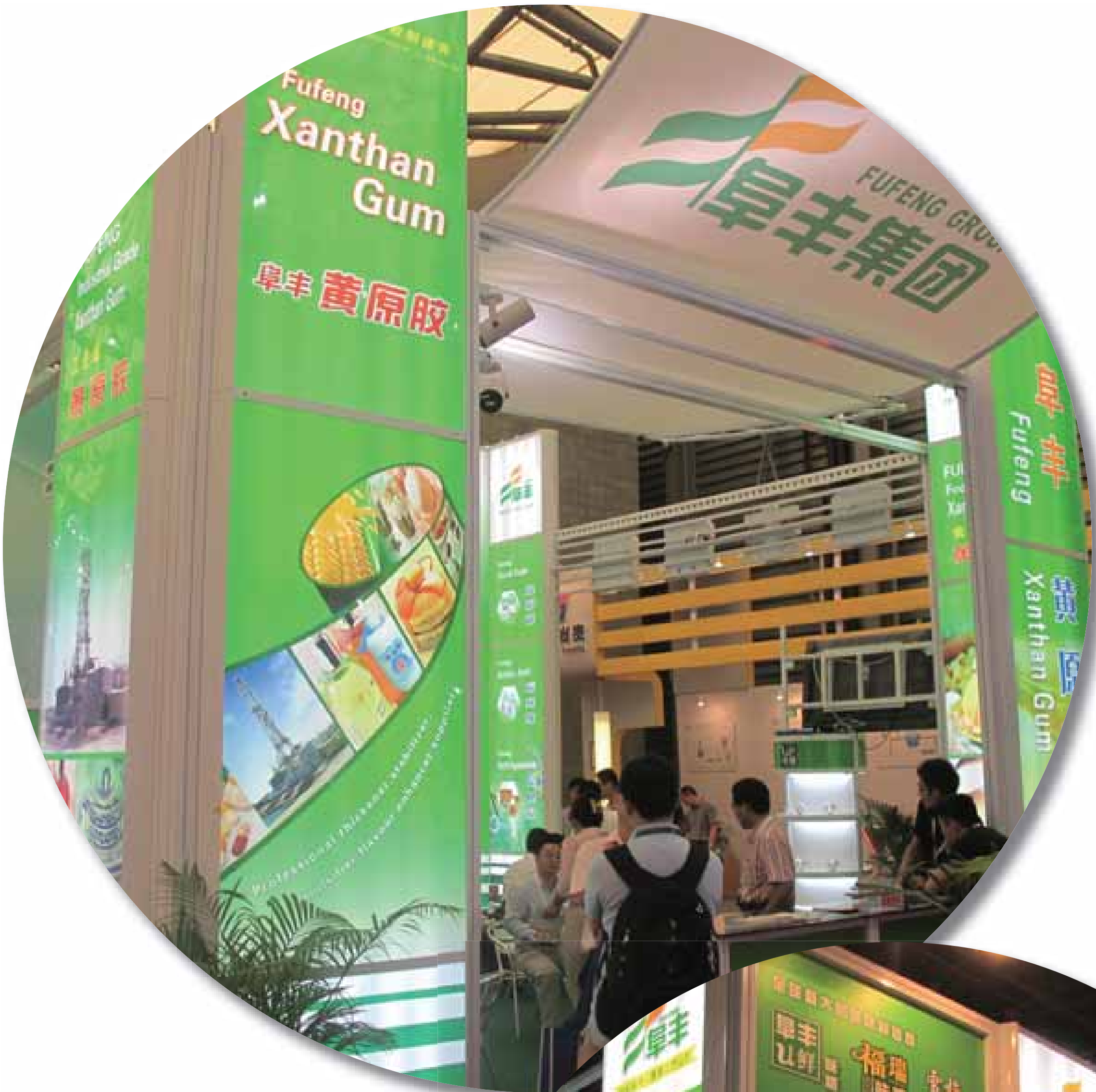
Fufeng Group Limited
阜豐集團有限公司

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

Annual Report 2010


Fufeng
Xanthan
Gum
阜丰 黄原胶
阜丰集团
阜丰
Fufeng
Xanthan Gum


阜丰
U鲜 味精
雪梅
味精
阜丰
U鲜 味精

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Chairman's Statement

On behalf of the Board, I am pleased to present the annual report of the Group for the year ended 31 December 2010.

Reaping fruitful results in 2010

The Group is a leading manufacturer and supplier of monosodium glutamate (MSG) and xanthan gum in the PRC and globally. In 2010, the Group continued its remarkable achievements in 2009 by achieving another record high, highlighting notable fruits and successes. Both the production and sales volumes of MSG and xanthan gum products reached new records for the period. The sales volume of MSG increased by 68.5%, while the sales volume of xanthan gum rose by 80.0%, showing that our market share for these two main products continued to grow, thereby further cementing our leading position in the PRC market and making us stay much further ahead of our competitors.

Our fourth production plant is in Zhalantun of Northeast China (Hulunbeir Plant) (the junction of the northeast part of Inner Mongolia Autonomous Region and Heilongjiang) where there are more prominent cost advantages and abundant supplies in corns and coal. This will lay a solid foundation for the speedy and efficient development of Fufeng. The capacities of the first phase of the plant are 200,000 tonnes of MSG, 160,000 tonnes of glutamic acid, 250,000 tonnes of fertilisers and 100,000 tonnes of synthetic ammonia. The plant is expected to be put into commercial production in the middle of 2011.

After the roll out of the two existing main products, namely, MSG and xanthan gum, the third largest product – threonine, was launched for commercial production in 2010. By the end of the year, the production capacity of threonine amounted to 10,000 tonnes. Capitalising on the cost advantages of our plants, the Group intends to rapidly expand the capacity of threonine to 100,000 tonnes within three years and become the largest manufacturer of threonine in the PRC.

During the year ended 31 December 2010, the Group's turnover and profit attributable to Shareholders grew by 38.5% and 4.1% respectively as compared to the year ended 31 December 2009. The Board proposed the payment of a final dividend of HK15 cents per share to Shareholders in appreciation for their support. The sum of declared interim dividend and proposed final dividend for the year ended 31 December 2010 amounts to HK26 cents per share.

Off-setting rising costs with highly cost efficient production

2010 also marked a year in which both the production and operation of the Group were faced with challenges. Given that the PRC continued its strong economic growth, the average selling price of the Group's MSG and glutamic acid grew by 2.9% and 13.7% respectively when compared to 2009. However, the production costs of the Group rose. This was mainly due to the fact that the prices of both raw materials (corns and chemical products) and coal continued to rise at a relatively substantial rate of around 20% during the period. The gross profit margin of the Group was thus under pressure.

To weather the unfavorable factors of rising costs, the Group managed to control costs through economy of scale by riding on its leading market position, and further expanding its existing production capacity. Meanwhile, to further extend the upstream development of the highly vertically integrated production process. A production line of 80,000 tonnes of synthetic ammonia was built and is scheduled to be put into commission in order to further reduce the costs on chemical materials and offset a considerable part of the pressure of rising costs internally.

Establishing an unrivalled presence in terms of the scale of production

2010 represented a year in which we established a solid foundation for our long-term development, and we took a strategic move to establish a new production plant. In June 2010, the Group began to build Hulunbeir Plant in Zhalantun of Northeast China. The first phase with a capacity of 200,000 tonnes MSG as well as supporting thermal power plant and fertilisers facilities will be put into production in the middle of this year. The Hulunbeir Plant will become a new milestone for the Group's capacity expansion. Meanwhile, the Group's new product – threonine was put into trial production in the middle of 2010, with a current production capacity reaching 10,000 tonnes. The product has been well received by the market. Threonine is set to become another major product. In the next few years, the production capacity of threonine will increase rapidly.

In 2010, the Group set two records in production capacity. For one of such records, MSG achieved an annual production capacity of 540,000 tonnes. Both the actual production and sales volume were close to 500,000 tonnes, reaching a new height. In addition, xanthan gum reported an annual production capacity of 38,000 tonnes, with an actual production and sales volume of approximately 32,000 tonnes and 35,000 tonnes respectively, also hitting a record high.

Increasing recognitions from capital markets

On 8 March 2010, the Group became a constituent of the Hang Seng Composite Index Series. In April, the Group successfully issued RMB-denominated U.S. dollar convertible bonds, raising net proceeds of approximately RMB1.02 billion. The proceeds were mainly used to invest in the construction of the first phrase of the production plant in Zhalantun of Northeast China, and financing the improvement and enhancement of the supporting facilities such as the thermal power plant of our IM Plant. With strong financing capacity and sufficient pool of funds, the Group is well positioned to achieve its strategic development goals. In September, the Group was named as one of the annual "Forbes Top 200 SMEs in the Asia-Pacific Region". This was another indication that the investors have cast their vote of confidence in the Group's position as a leading player in the PRC market, and held positive view about the Group's future prospect.

Reinforcing environmental protection

The Group, as always, placed indispensable values to sustainable development and recycling economy in 2010. Through continued efforts on research and development and investment, the Group has become an industry model for the development of green recycling economy, thus carving a competitive edge over its competitors in the field of environmental protection and emission controls.

Reinforcing the "Fufeng Culture"

Fufeng culture is the core philosophy for the development of the Group, and provides a underpinning platform for us to have susainable development and rapid growth. In 2010, the Group conducted a comprehensive campaign for promoting and nourishing "Fufeng Culture" by grasping the opportunity of the construction of the Hulunbeir Plant. The spirits and traditions of our values, including enthusiasm and proactive attitude, unswerving dedication in time of adversity as well as determined effort in pursuit of excellence, were heightened and further promoted throughout the Group. The campaign enhanced the cohesion and solidarity of all employees of the Group, thereby injecting a powerful spiritual impetus into the further development of the Group.

Goals and Strategies in 2011

Although the global economy remains uncertain, the Group has built a firm foundation for long-term development of its business, as witnessed by the Group's remarkable performance in 2010. The Group is confident of its future outlook, and is committed to becoming – the world's leading corn-based biochemicals supplier.

Further expanding production capacities, and strengthening leading market position

With the Group's strength in marketing and distribution networks, coupled with its cost advantages and economy of scale, the Group will timely expand its production capacity by keeping abreast of the market situation. With the commission of the Hulunbeir plant, the Group's annual production capacity of MSG will reach 750,000 tonnes. To effectively digest and absorb the new capacities, the Group will take active measures in exploring into the international market while continuing to expand its market share in the domestic market. This year, the exports of MSG are set to increase from 6% of our MSG sales in 2010 to 10%, thereby bringing broader sources of income.

Focusing on development of new products

The Group will continue to make non-stop effort to develop new products. To capture the rapid growth in the threonine market, and to capitalise on the Group's significant advantages in production, the Group has completed the construction of a production capacity of 10,000 tonnes of threonine. On this basis, the production capacity of threonine will expand in the coming few years, so that threonine will become another major product of the Group following the success of MSG and xanthan gum. We target to become the largest threonine manufacturer in the market by 2014.

The success of the Group is attributable to unwavering devotion to research and development. In 2011, the Group will continue to develop corn-based biochemical products using fermentation technology. The Group is currently developing a number of amino acids and biochemical products, including citric acid and will launch such products to the market when appropriate.

Strengthening brand building, expanding retail products, and fully tapping into the seasoning market

The Group will strengthen the brand building and the marketing for more diversified products, for instance, the "Uo Fresh" series of MSG, chicken powder, "Uo Fragrant" corn oil and fertilisers. Based on the development and expansion of the retail market focusing on the "Uo Fresh" brand over the past two years, the Group will step up its efforts on branding and retail distribution channel building and tapping into the seasoning market. To cater for the vast majority of household consumers, the Group will introduce a wide variety of household flavour enhancers thus further uplifting the recognition and acceptance of the products under the "Uo Fresh" brand among end consumers.

Looking ahead, given the golden opportunity arising from the stimulation of the domestic consumption in the PRC, the Group, as a market leader, is well-positioned to continue to lead the industry consolidation process by leveraging on its existing advantages. Through the implementation of the above strategies, we will fasten our market leadership in the MSG and Xanthan gum markets. We will continuously develop biotechnology products, and foster long-term and stable growth of the Group.

Appreciation

I would like to take this opportunity to thank the Board members, management team, all members of staff, partners, customers and shareholders for their great contribution and strong support to the Group. The Board will adhere to the Group's enduring faith as well as unhesitating perseverance and determination, so as to pave a bright future. We will make intensive efforts to consolidate and expand Fufeng's market leadership. We will also actively develop new biotechnology products and improve the Group's profitability, while endeavoring to generate higher returns for our Shareholders.

Li Xuechun
Chairman

21 March 2011

Five-year Summary

	Year				
	2006	2007	2008	2009	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Operating results – Summary					
Turnover	1,787,247	2,445,652	3,585,343	4,632,884	**6,416,425**
Gross profit	355,142	249,666	644,332	1,399,607	**1,565,054**
Profit before income tax	249,808	45,485	325,380	1,023,597	**1,071,329**
Profit attributable to Shareholders	240,483	45,069	294,706	928,285	**966,051**
Balance sheets – Summary					
Non-current assets	1,353,859	1,743,481	2,087,602	2,653,219	**4,277,621**
Current assets	570,485	1,138,354	1,174,863	1,607,802	**2,442,644**
Total assets	1,924,344	2,881,835	3,262,465	4,261,021	**6,720,265**
Current liabilities	1,034,645	1,095,170	1,170,225	1,572,209	**2,424,699**
Non-current liabilities	363,306	337,849	350,726	295,101	**1,150,301**
Net assets	526,393	1,448,816	1,741,514	2,393,711	**3,145,265**
Financial ratio					
Earning per share (Basic) (RMB Cents)	20.04	2.80	17.75	55.92	**57.75**
Gross profit ratio (%) *(Note 1)*	20	10	18	30	**24**
ROE (%) *(Note 2)*	46	3	17	39	**31**
Current ratio *(Note 3)*	0.55	1.04	1.00	1.02	**1.01**
Inventory turnover days (Day) *(Note 4)*	38	54	45	63	**54**
Debtors' turnover days (Day) *(Note 5)*	67	74	54	47	**38**
Trade receivable turnover days (Day) *(Note 6)*	17	10	8	7	**10**
Creditors' turnover days (Day) *(Note 7)*	65	76	63	56	**58**
Trade payable turnover days (Day) *(Note 8)*	58	74	63	56	**47**
Gearing ratio (%) *(Note 9)*	39	22	18	14	**23**

Notes:

1. Gross profit ratio is equal to gross profit divided by turnover.
2. Return on equity is equal to profit attributable to shareholders by total equity.
3. Current ratio is equal to current assets divided by current liabilities.
4. The number of inventory turnover days is equal to inventories at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
5. The number of debtors' turnover days is equal to trade and notes receivables at the end of year divided by the turnover for the corresponding year and then multiplied by 365 days.
6. The number of trade receivable turnover days is equal to trade receivable at the end of year divided by the turnover for the corresponding year and then multiplied by 365 days.
7. The number of creditors' turnover days is equal to trade and notes payables at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
8. The number of trade payable turnover days is equal to trade payable at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
9. Gearing ratio is equal to total borrowings at the end of the year divided by total assets at the end of the corresponding year.

Corporate Information

Executive Directors
Mr. Li Xuechun
Mr. Wang Longxiang
Mr. Feng Zhenquan
Mr. Xu Guohua
Mr. Li Deheng
Mr. Chen Yuan
Mr. Gong Qingli
Mr. Li Guangyu

Independent non-executive Directors
Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Liang Wenjun

Registered Office
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in the PRC
No. 10, Ke Chuang 2nd Street
East Zone of Beijing Economic-Technological
Development Area
Beijing 100023
PRC

Principal Place of Business in Hong Kong
Suite 1101, 11th Floor, Chinachem Century Tower,
178 Gloucester Road, Wanchai,
Hong Kong

Company Secretary and Qualified Accountant
Mr. Lee Wai Yin *CPA FCCA*

Authorised Representatives
Mr. Li Xuechun
Mr. Lee Wai Yin

Audit Committee
Mr. Choi Tze Kit, Sammy *(Chairman)*
Mr. Chen Ning
Mr. Liang Wenjun

Remuneration Committee
Mr. Choi Tze Kit, Sammy *(Chairman)*
Mr. Li Xuechun
Mr. Chen Ning
Mr. Liang Wenjun

Principal Bankers in the PRC
China Construction Bank
Bank of China
Agriculture Bank of China

Principal Bankers in Hong Kong
The Royal Bank of Scotland N.V.
Hang Seng Bank Limited

Independent Auditor
PricewaterhouseCoopers

Legal Adviser
Kirkpatrick & Lockhart Preston Gates Ellis

Principal Share Registrar
Butterfield Fund Services (Cayman) Limited

Branch Share Registrar
Tricor Investor Services Limited

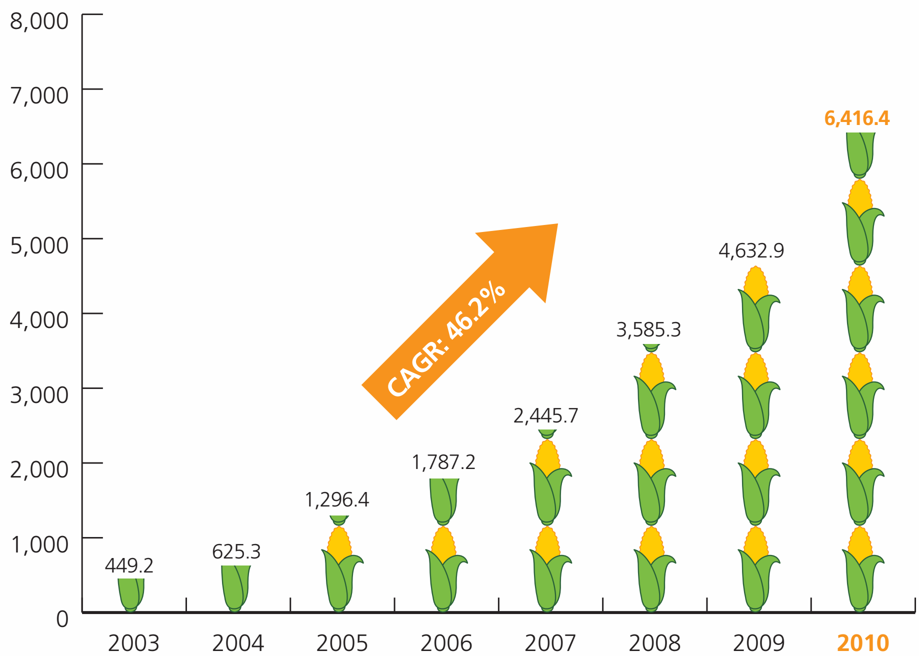
Stock Code
546

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

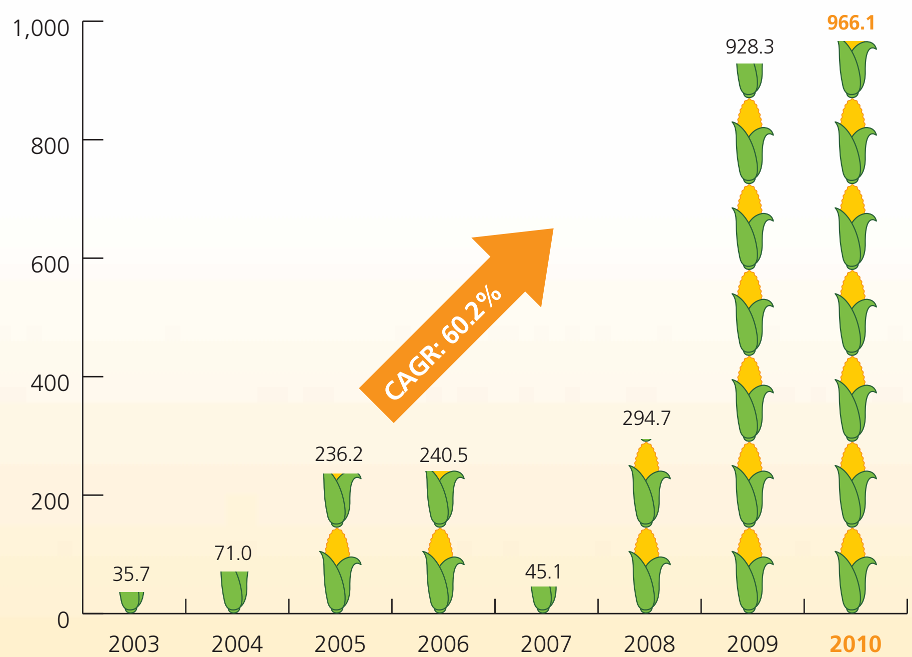
Website
www.fufeng-group.com

Financial Highlights

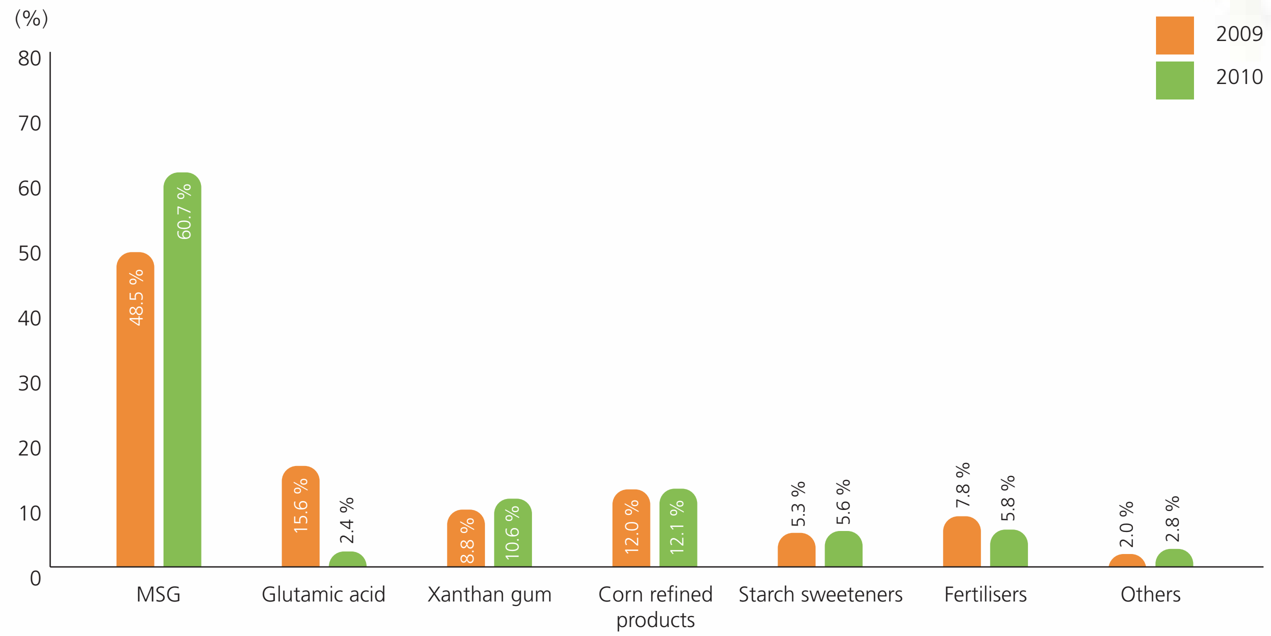
Turnover Growth
RMB million



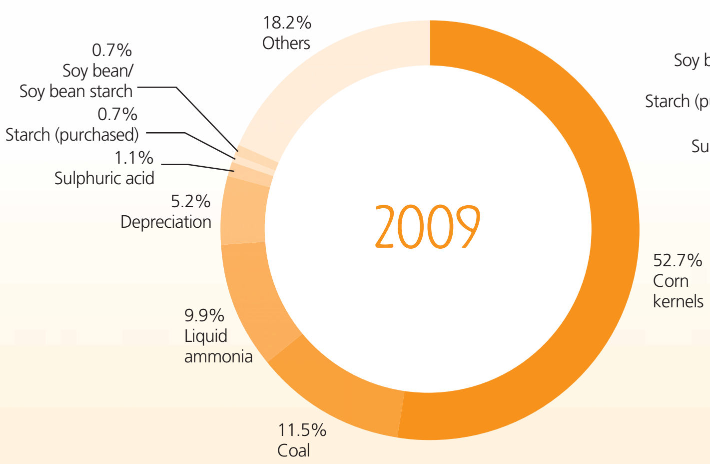
Profit Attributable to Shareholders
RMB million

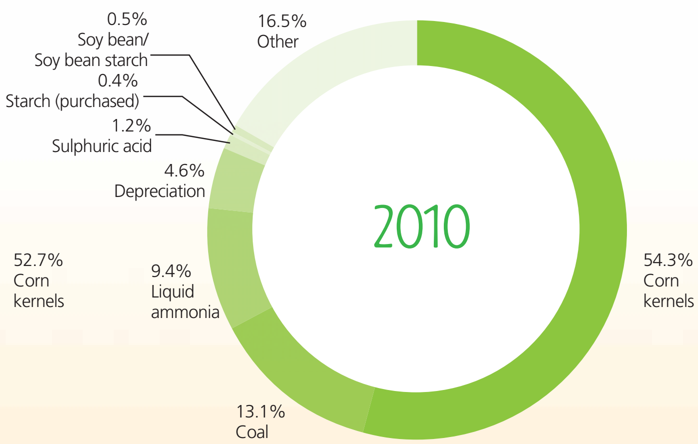


Revenue Analysis

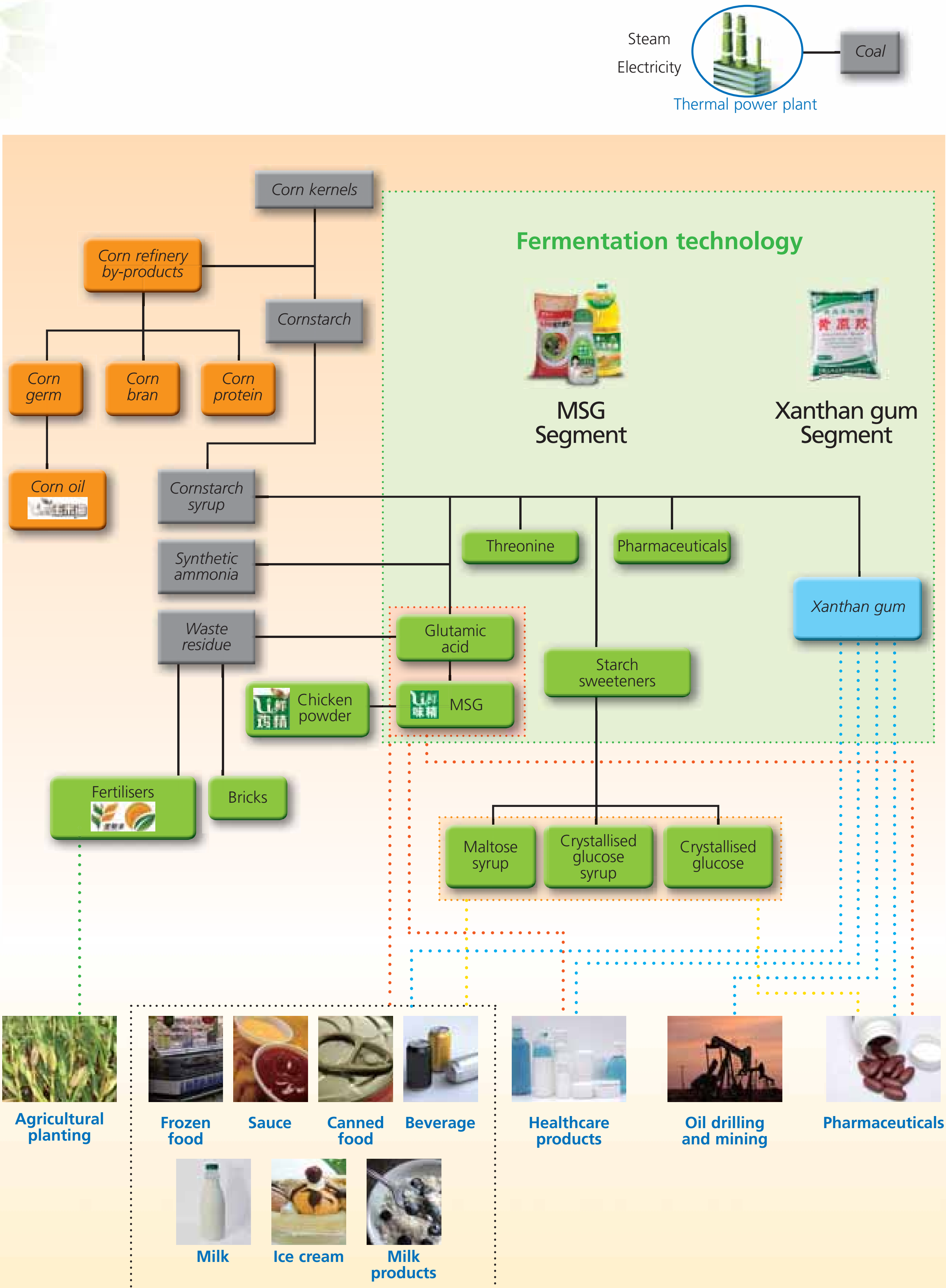


Production Cost Analysis





Major Products Processing Map



Biographies of Directors and Senior Management

Executive Directors

李學純 (Li Xuechun), aged 59, is the principal founder of the Group, the chairman of the Company and an executive Director. Mr. Li is also a director of Acquest Honour, Summit Challenge, Absolute Divine, Expand Base, Shandong Fufeng, Baoji Fufeng and IM Fufeng,. Mr. Li is responsible for the strategic planning and formulation of overall corporate development policy of the Group. Mr. Li obtained a bachelor's degree in industrial fermentation from 山東輕工業學院 (Shandong Institute of Light Industry) in 1982. Mr. Li is 山東省第十一屆人大代表 (a member of the Shandong Province 11th People's Congress), as well as being honored with "Outstanding Achievement" by the government of Shandong Province in April 2003. In the same year, he was also labeled as "Model Labour" of Shandong Province. Mr. Li first joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1982 as the factory manager. Mr. Li established the Group starting by set up Shandong Fufeng in June 1999. He was appointed a director of Shandong Fufeng upon its establishment. He has 29 years of experience in the fermentation industry. Mr. Li is the sole director of and is beneficially interested in the entire issued share capital of Motivator Enterprises Limited which in turn is interested in approximately 45.96% of the issued share capital of the Company and is a controlling shareholder of the Company. He is the father of 李廣玉 (Li Guangyu) (an executive Director) and the brother-in-law of 李德衡 (Li Deheng) (an executive Director).

王龍祥 (Wang Longxiang), aged 49, is an executive Director and the general manager of the Group. Mr. Wang is responsible for the overall management of the Group's daily operations. Mr. Wang obtained a bachelor's degree in industrial fermentation from 山東輕工業學院 (Shandong Institute of Light Industry) in 1982. He is qualified as a senior engineer. Mr. Wang also obtained a master's degree in business administration from 中國科技大學 (University of Science and Technology of China) in 1992. Mr. Wang joined the Group in 2005 and has over 19 years of experience in the fermentation industry. Mr. Wang is interested in 14.3% of the issued share capital of Hero Elite, which in turn is interested in 57,600,000 Shares, representing 3.35% of the issued share capital of the Company. Mr. Wang was granted an option to subscribe for 16,000,000 Shares pursuant to the Pre-IPO Share Option Scheme. At the end of 2010, the remaining balance of Share Option, which was held by Mr. Wang, is 5,910,000 shares, representing 0.34% of the issued share capital of the Company.

馮珍泉 (Feng Zhenquan), aged 41, is an executive Director and vice general manager of the Group. Mr. Feng is also a director of Shandong Fufeng, Baoji Fufeng and IM Fufeng. He is in charge of the operations of Hulunbeir Fufeng. Mr. Feng graduated from 山東輕工業學院專科 (Shandong Institute of Light Industry) in 1990 majoring in electrical and mechanical technology. Mr. Feng was appointed as a director of Shandong Fufeng in May 2002 and has over 17 years of experience in the fermentation industry. He was one of the initial management Shareholders. Mr. Feng is interested in 15% of the issued share capital of Ever Soar, which in turn is interested in 185,112,000 Shares, representing approximately 10.77% of the issued share capital of the Company.

徐國華 (Xu Guohua), aged 42, is an executive Director and vice general manager of the Group who is responsible for the production and research and development department of the Group. Mr. Xu is also a director of Shandong Fufeng, Baoji Fufeng and IM Fufeng. Mr. Xu graduated from 山東輕工業學院 (Shandong Institute of Light Industry) majoring in fermentation and economics management in July 1991 and 2003 respectively. He completed his study in fermentation engineering from 天津科技大學 (Tianjin University of Science and Technology) in September 2004. Mr. Xu has been elected to stand as the executive council member of the China Fermentation Industry Association in 2004 and prior to that was invited in 2002 to be a member of the Amino Acid Technology Committee under the China Fermentation Industry Association. Mr. Xu first joined Shandong Furui Brewery Group in 1991. Mr. Xu jointed the Group in June 1999 and has over 20 years of experience in the fermentation industry. He was also one of the initial management Shareholders. Mr. Xu was appointed a director of Shandong Fufeng in May 2002. Mr. Xu is interested in 15% of the issued share capital of Ever Soar, which in turn is interested in 185,112,000 Shares, representing approximately 10.77% of the issued share capital of the Company.

李德衡 (Li Deheng), aged 42, is an executive Director and a vice general manager of the Group who is responsible for the business operations of IM Fufeng. He is also a director of Shandong Fufeng, Baoji Fufeng and IM Fufeng. Mr. Li graduated from the 山東聊城師範學院 (Shandong Liaocheng Teacher's College) in 1992 and obtained a bachelor's degree in chemistry education. He joined the Group in January 2001 and was appointed a director of Shandong Fufeng in November 2003 and has over 10 years of experience in business management. Mr. Li Deheng is the brother-in-law of Mr. Li Xuechun. Mr. Li is interested in 15% of the issued share capital of Ever Soar, which in turn is interested in 185,112,000 Shares, representing approximately 10.77% of the issued share capital of the Company.

陳遠 (Chen Yuan), aged 41, is an executive Director and a vice general manager of the Group. Mr. Chen is responsible for the Group in the sectors of capital markets, corporate development and investor relations matters, and assist the Group to develop strategic planning and long-term development plan. Mr. Chen obtained a bachelor degree of accountancy from Xiamen University in 1991 and then received his Master in business administration degree from Birmingham Business school of University of Birmingham in 2001. Mr. Chen joined the Group in September 2010 and has over 18 years of experience in the corporate finance, corporate development and investor relation sector. Previously, he worked as a managing director and head of institutional sales for China Everbright Securities (HK) Limited. Mr. Chen was granted an option to subscribe for 5,000,000 Shares pursuant to the Post-IPO Share Option Scheme, representing 0.29% of the issued share capital of the Company. Mr. Chen did not hold any directorship in other listed public companies in the last three years.

龔卿禮 (Gong Qingli), aged 43, is an executive Director and the chief financial officer of the Group who is responsible for financial management and assists in strategic planning of the Group. He is also designated to manage and oversee the internal control and corporate governance systems of the Group. Mr. Gong obtained his accounting degree in 立信會計專科學校 (Shanghai Lixin Accounting College) in 1988. Mr. Gong is a member of the Chinese Institute of Certified Public Accountants. Prior to joining the Group in January 2007, Mr. Gong had over 21 years of experience in accounting, business advisory and risk management services, including some with an international accounting firm. Centerpoint Assets Management Limited, a company wholly and beneficially owned by Mr. Gong and at which Mr. Gong served as its sole director, was granted an option to subscribe for 16,000,000 Shares pursuant to the Pre-IPO Share Option Scheme. Mr. Gong exercised all share options during the year. Mr. Gong is interested in 10,000,000 Shares, representing approximately 0.58% of the issued share capital of the Company.

李廣玉 (Li Guangyu), aged 32, is an executive Director and a vice general manager of the Group who is responsible for the project of Hulunbeir Plant of the Group. Mr. Li has over 5 years of experience in the fermentation industry. Mr. Li graduated from 華東政法大學研究生院 (East China University of Political Science and Law Graduate School) in 2006 and obtained a master's degree in Laws. Mr. Li is the son of Mr. Li Xuechun. Mr. Li did not hold any directorship in other listed public companies in the last three years. Mr. Li is not interested in any shares of the Company pursuant to Part XV of the Securities and Future Ordinance.

Independent non-executive Director

蔡子傑 (Choi Tze Kit, Sammy), aged 48, was appointed as an independent non-executive Director in January 2007. Mr. Choi graduated from the Hong Kong Shue Yan College (presently known as Hong Kong Shue Yan University). He is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants and a fellow Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Taxation Institute of Hong Kong. Mr. Choi is also a council member of the Society of Chinese Accountants and Auditors. He has over 22 years of experience in finance and auditing.

陳寧 (Chen Ning), aged 48, was appointed as an independent non-executive Director in January 2007. Mr. Chen is a professor at the 天津科技大學生物工程學院 (School of Bioengineering, Tianjin University of Science and Technology), and a committee member of the 天津微生物學會 (Tianjin Society for Microbiology). Mr. Chen had spent 10 years in the study and research in microbial metabolism in the control of fermentation processes and in the amino acids technology. Mr. Chen was co-author to 6 academic textbooks and has written over 90 academic papers.

梁文俊 (Liang Wenjun), aged 47, was appointed as an independent non-executive Director in January 2007. Mr. Liang is a professor of financial management at the 石油化工管理幹部學院 (Sinopec Management Institute) since 2010. Mr. Liang has over 21 years of experience in financial accounting, auditing and consulting. Mr. Liang received his bachelor's degree in 1989 from 北京化工大學 (Beijing University of Chemical Technology) majoring in industrial engineering management.

Senior Management

來鳳堂 (Lai Fengtang), aged 42, is a vice general manager of the Group. Mr. Lai graduated from 西北大學 (Northwest University of China) in 1998. He first joined Shandong Furui Brewery Group in 1991. Mr. Lai joined the Group in June 1999 and has over 19 years of experience in the sales and marketing. Mr. Lai is the sole director of and is interested in 14.3% of the issued share capital of Hero Elite, which in turn is interested in 57,600,000 Shares, representing 3.35% of the issued share capital of the Company. Mr. Lai was granted an option to subscribe for 3,200,000 Shares pursuant to the Pre-IPO Share Option Scheme. At the end of 2010, the remaining balance of Share Option, which was held by Mr. Lai, is 1,088,000 shares, representing 0.06% of the issued share capital of the Company.

沈德權 (Shen Dequan), aged 45, is a vice general manager of Baoji Plant. Mr. Shen graduated from 山東省臨沂農業學校 (The Agriculture School of Linyi) in 1986, majoring in forestry. Before joining Shandong Fufeng in 1999, he spent 6 years with the Shandong Furui Brewery Group. Mr. Shen has accumulated 12 years of experience in production management. His current responsibilities within the Group include managing the production department. Mr. Shen is interested in 10.7% of the issued share capital of Hero Elite, which in turn is interested in 57,600,000 Shares, representing 3.35% of the issued share capital of the Company.

徐令國 (Xu Lingguo), aged 36, is a vice general manager of Hulunbeir Fufeng. Mr. Xu graduated in 1997 from 太原理工大學 (Taiyuan University of Technology) majoring in economic law. Mr. Xu joined the Group in 1999. Mr. Xu has 11 years of experience in the fermentation industry and is presently responsible for the Group's sales and marketing. Mr. Xu was granted an option to subscribe for 1,280,000 Shares pursuant to the Pre-IPO Share Option Scheme. At the end of 2010, the remaining balance of Share Option, which was held by Mr. Xu, is 436,000 shares, representing 0.03% of the issued share capital of the Company.

李慧 (Li Hui), aged 44, is a vice general manager of the international trade department of the Group. He obtained his bachelor's degree from 北京科技大學 (University of Science and Technology Beijing) in 1989. In 1999, Mr. Li completed a course in international trade at 對外貿易大學國際貿易專業 (University of International Business and Economics). He joined the Group in 2003 and is responsible for the Group's international market development and sales. He was granted an option to subscribe for 6,400,000 Shares pursuant to the Pre-IPO Share Option Scheme. At the end of 2010, the remaining balance of Share Option, which was held by Mr. Li, is 2,176,000 shares, representing 0.13% of the issued share capital of the Company.

肖勇 (Xiao Yong), aged 42, is a manager in the quality control department of the Group. Mr. Xiao obtained his bachelor's degree from 湖南大學 (Hunan University) in 1992, majoring in chemical industry. Before joining the Group in 2003, Mr. Xiao has accumulated 9 years of experience in quality control management and is primarily responsible for the Group's quality and production control. Mr. Xiao was granted an option to subscribe for 1,280,000 Shares pursuant to the Pre-IPO Share Option Scheme. At the end of 2010, the remaining balance of Share Option, which was held by Mr. Xiao, is 436,000 shares, representing 0.03% of the issued share capital of the Company.

葛文村 (Ge Wencun), aged 50, is a manager of operation department of the Group and has joined the Group since 1999. Mr. Ge obtained his bachelor's degree in 1986 from 山東輕工業學院 (Shandong Institute of Light Industry). Mr. Ge is currently responsible for the Group's domestic and international market development. Mr. Ge first joined Shandong Furui Brewery Group in 1992 and has over 18 years of experience in the fermentation industry. Mr. Ge was granted an option to subscribe for 1,120,000 Shares pursuant to the Pre-IPO Share Option Scheme. At the end of 2010, the remaining balance of Share Option, which was held by Mr. Ge, is 382,000 shares, representing 0.02% of the issued share capital of the Company.

張元年 (Zhang Yuannian), aged 37, is a manager of the finance department of the Group. Mr. Zhang first joined Shandong Furui Brewery Group in 1994 and graduated from 臨沂市商業學校 (The Commerce School of Linyi). He joined the Group in 1999 and has accumulated over 16 years of experience in finance. Mr. Zhang was granted an option to subscribe for 1,280,000 Shares pursuant to the Pre-IPO Share Option Scheme. At the end of 2010, the remaining balance of Share Option, which was held by Mr. Zhang, is 436,000 shares, representing 0.03% of the issued share capital of the Company.

Company Secretary and Qualified Accountant

李偉然 (Lee Wai Yin), aged 41, is the qualified accountant and company secretary of the Company since August 2008. Mr.Lee graduated from the Hong Kong Shue Yan College in 1993 with a diploma in accountancy and is a fellow member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has more than 17 years of working experience in finance and accounting including some with international accounting firms. Mr. Lee was granted an option to subscribe for 1,000,000 Shares pursuant to the Post-IPO Share Option Scheme, representing 0.06% of the issued share capital of the Company.

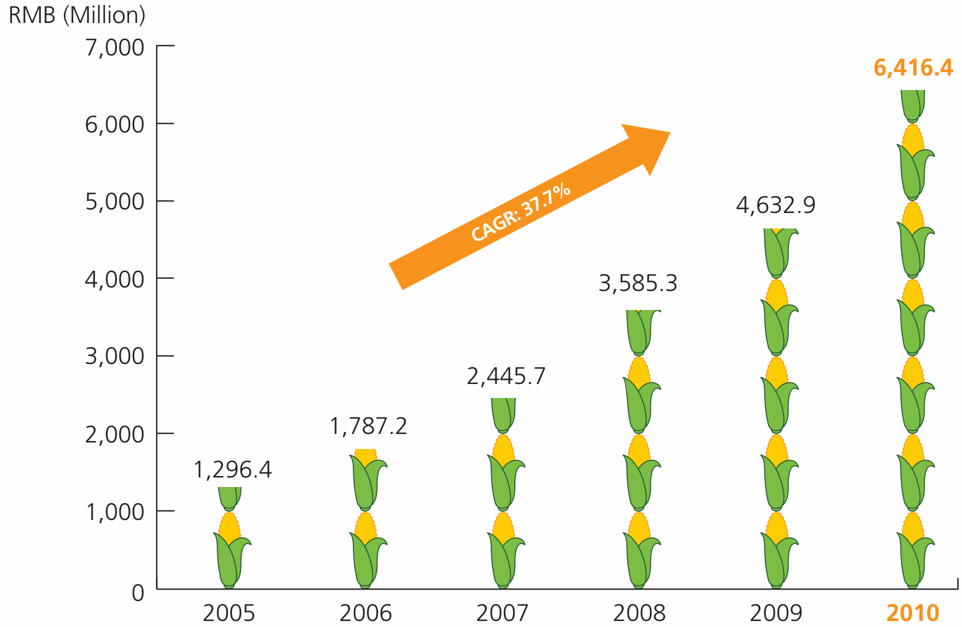
Management Discussion and Analysis

Overview

In 2010, the Group followed its outstanding 2009 performance with another set of records in 2010, highlighting notable fruits and successes. Pivoting on the Group's strategy, Fufeng continued to strengthen huge cost-effective production plant and continue to expand market share and launch new products. The ultimate objective is to become a leading corn-based biochemical products corporation in global markets.

The Group recorded the significant growth in the revenue and sales volume of MSG in 2010, the Group recorded an increase of approximately RMB1,783.5 million or 38.5% in turnover to RMB6,416.4 million for the year 2010, as compared with that in the year 2009. The significant growth was driven by the increase of sales volume and the increased production capacity which expanded its market share. Moreover, both the production and sales volume of MSG and xanthan gum products reached new height during the year, thus further strengthening our leading position in the PRC market and making us stay further ahead of our competitors.

The table below illustrates the continuous growth of the Group's revenue in the past 6 years:



Overall, the demand in the industry of MSG in 2010 was increased and has shown signs of the stable growth.

Owing to the increase in average selling prices and sales volume, gross profit of the Group increased from approximately RMB1,399.6 million in 2009 to approximately RMB1,565.1 million in 2010. However in 2010, the Group faced challenges in both the production and operation aspects. On one hand, the PRC continued its strong economic recovery and the costs of major raw materials increased significantly. On the other hand, as the market worried about oversupply caused by capacity expansion, the ASP increase was much lower than that of raw materials. As a result, the gross profit margin of the Group was thus under pressure.

To weather the rising material costs, the Group managed to control costs through economies of scale by riding on its leading market position, and further expanding the production capacity of the plants in Inner Mongolia and Baoji. Meanwhile, a production line of 80,000 tonnes of synthetic ammonia was under the establishment in order to further reduce the costs of chemical products. In 2010, the gross profit margin of MSG segment was decreased to 22.7% (2009: 29.6%). However, the gross profit margin of Xanthan gum segment was increased to 38.8% (2009: 36.5%).

The profit attributable to the Shareholders in 2010 was approximately RMB966.1 million, representing an increase of approximately RMB37.8 million or 4.1% as compared with that of 2009.

During the year under review, we established a solid foundation for our long-term development and took a strategic move to establish a new production plant. In June 2010, the Group began to build a new plant in Zhalantun in the Northeast China. The 200,000 tonnes of MSG production line as well as facilities including supporting thermal power plant and fertilisers will be put into trial production in the middle of 2011. This plant will become a new highlight of the Group's capacity expansion.

Meanwhile, the Group's new product – threonine was put into trial production in mid 2010, with an annual production capacity of 10,000 tonnes at the end of 2010. The operation was running smooth. Threonine is set to become another major product of the Group following the success of MSG and xanthan gum. The production capacity will be increased rapidly over the next few years.

In addition, the Company has successfully issued convertible bonds of RMB820.0 million on 1 April 2010 and option bonds of RMB205.0 million on 22 April 2010. The total issued convertible bonds amounted to RMB1,025 million with a coupon rate of 4.5% p.a. The convertible bonds can be converted into the Company's shares at any time on or after 12 May 2010 up to the close of the business day on 22 March 2015 at an initial conversion price of HKD7.03 per share. There were strong participation from more than 40 international investors with significant demand coming from top tier institutions. The proceeds raised from the bonds is mainly used as capital expenditure for the Group's development in IM Plant and Hulunbeir Plant.

Segmental Review

The Group's products are organised into two business segments, namely MSG segment and Xanthan gum segment. Products of the MSG segment include MSG, glutamic acid, threonine, fertilisers, and other related products while Xanthan gum segment represents the production and sale of xanthan gum. Key financials of these two segments in 2010 together with comparative figures in 2009 are set out in the following table:

	2010			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*	%	%	%
Revenue	**5,734,700**	**681,725**	**6,416,425**	4,224,760	408,124	4,632,884	35.7	67.0	38.5
Gross profit	**1,300,291**	**264,763**	**1,565,054**	1,250,764	148,843	1,399,607	4.0	77.9	11.8
Gross profit ratio	**22.7%**	**38.8%**	**24.4%**	29.6%	36.5%	30.2%	(6.9ppts.)	2.3ppts.	(5.8ppts.)
Segment result	**922,741**	**219,628**		934,166	136,014		(1.2)	61.5	
Segment net assets									
Assets	**5,467,764**	**747,285**		3,530,535	689,624		54.9	8.4	
Liabilities	**2,408,595**	**173,673**		1,529,617	334,088		57.5	(48.0)	
Net assets	**3,059,169**	**573,612**		2,000,918	355,536		52.9	61.3	

MSG segment review

Business review

The Group is a leading manufacturer and supplier of MSG in China, with the world's largest glutamic acid fermentation capacity. In 2010, the Group continued its outstanding 2009 performance with another set of records in 2010, highlighting its notable fruits and successes. Moreover, both the production and sales volume of MSG reached new height during the year, thus further strengthening our leading position in the PRC market and making us stay further ahead of our competitors.

When compared with 2009, the market demand for MSG has continuously increased as the PRC continued its strong economic growth. It is reflected by the increases in both sales volume and market share in the year 2010. The sales volume of MSG increased by more than 68.5% from 292,369 tonnes in 2009 to 492,560 tonnes in 2010. It is the strategy of the Group focusing more on the MSG production. The Group focus on enhancing the Group's overall margin.

Since Fufeng has repositioned itself as a MSG supplier, nearly all of the glutamic acid are used to produce MSG internally. Sales volume of glutamic acid dropped significantly. In 2010, the selling prices of glutamic acid and MSG continued to rise.

As the economic growth continued in China, overall commodity price experienced an upward trend in 2010. An average of the corn kernels price in 2010 increased by 23.2% compared to that of 2009. The average coal price also increased by 22.8% in 2010 as compared to 2009.

Although the industry benefited from favorable macro environment with national policy of encouraging domestic consumption in the year, the Group has faced a number of challenges in both production and management aspects. First, the prices of major raw materials (such as corn, chemicals and coal) increased significantly in 2010 due to the strong economic growth in China. The Group's production costs increased. In addition, the increasing percentage of ASP of MSG is lower than the percentage increase in major raw material cost as the market was worried about oversupply caused by the capacity expansions. The gross profit margin was under pressure. Each production plant of the Group has fully tapped the potential to enhance its production efficiency and capacity utilisation to ease the impacts on production costs.

The selling price of fertilisers, was on a downward trend in 2010 following the continued fall in price since 2009. The main reason is the bad weather conditions in the PRC. It affected the market demand of fertilisers.

The ASP of starch sweeteners and corn refined products increased in 2010, which was in line with the market trend.

Financial review

Sales

The revenue generated from the sales of the MSG segment products increased to RMB5,734.7 million in 2010, representing an increase of RMB1,509.9 million or 35.7%, as compared with that of 2009, which was mainly attributed to the increase in the ASP and sales volume of MSG and marketing effort so as to enlarge the Group's market share in the industry. Sales breakdown by products in this segment for 2010 and 2009 are set out in the table below:

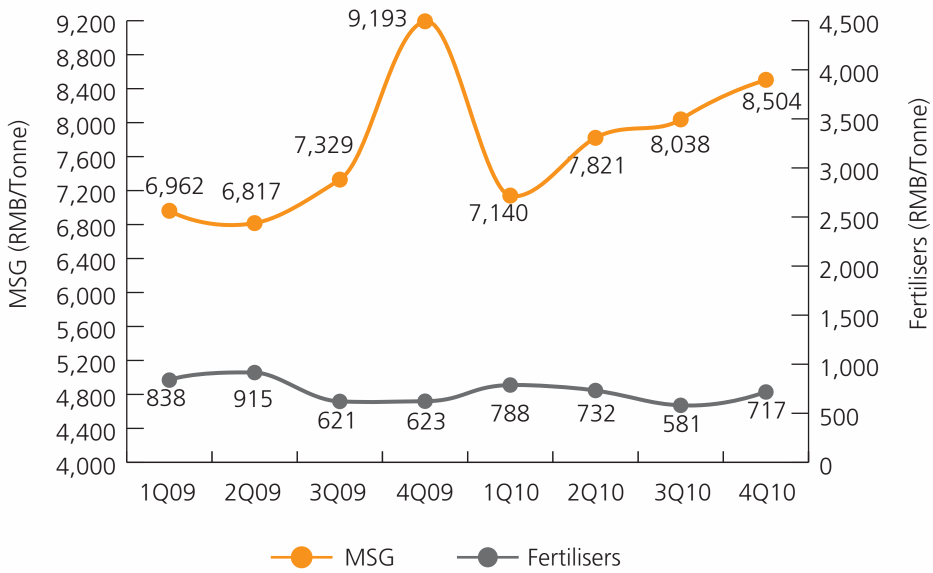
Product name	**2010** ***RMB'000***	2009 *RMB'000*	*% of change*
MSG	**3,892,506**	2,245,307	73.4
Glutamic acid	**153,633**	720,631	(78.7)
Fertilisers	**369,649**	361,468	2.3
Corn refined products	**773,563**	557,523	38.7
Starch sweeteners	**356,704**	245,168	45.5
Corn oil	**103,680**	61,575	68.4
Threonine	**28,145**	–	N/A
Others	**56,820**	33,088	71.7
Total	**5,734,700**	4,224,760	35.7

ASPs and sales volume

The ASPs of the Group's major products for 2010 and 2009 are set out below:

Product name	**2010** ***RMB/tonne***	2009 *RMB/tonne*	*% of change*
MSG	**7,903**	7,680	2.9
Glutamic acid	**8,113**	7,135	13.7
Fertilisers	**693**	727	(4.7)

The chart below illustrates the fluctuation of ASPs of the Group's major products in this segment in 2009 and 2010:



MSG

The MSG industry in the PRC has become increasingly concentrated. The Group has become the largest MSG manufacturer in the PRC as its leading position of the industry and took advantage of the industrial consolidation to further expand its market share.

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

The increase in domestic consumption demand supported the growth of MSG market. The ASP of MSG increased from approximately RMB 7,680 per tonne in 2009 to approximately RMB 7,903 per tonne in 2010, representing an increase of about 2.9%; the turnover of MSG increased substantially by approximately 73.4%, mainly driven by the increase in production volume of the Group.

The Group increased its marketing effort to boost the sales of its MSG so as to enlarge its market share in 2010. As such, the sales volume of MSG increased by 200,191 tonnes, or approximately 68.5 % compared to that of 2009.

Corn kernels accounted for approximately 56.5% of total production cost in the MSG segment. The average price of corn kernels increased steadily in 2010, rising from RMB1,413 per tonne at the beginning of 2010 to RMB1,741 per tonne by the end of 2010.

In the second half of 2009, the Group launched Uo series products, a new series targeting retail markets. It consists of two major categories of products including "Uo Fresh MSG" and "Uo Fresh Chicken powder". The Uo series targets to capture the retail market which benefits from the improved living standards in the PRC recently. The products have been sold in over 3,000 supermarkets via the retail distribution channels in the PRC.

Moreover, the increase in domestic consumption demand supported the growth of MSG market in the PRC. The market demand continuously increased in 2010. The supply and demand of the MSG industry in the PRC is balanced.

Fertilisers

The ASP of fertilisers has decreased since the third quarter of 2008. The ASP of fertilisers decreased from approximately RMB727 per tonne in 2009 to RMB693 per tonne in 2010, representing a decrease of about 4.7%. Based on the different quality requirements of different customers and crops, the Group has developed two new fertilisers brands, including "Golden Fufeng" and "Ka Fei Dou". The strategy is mainly to enhance the brand recognition and the expansion of market share.

Corn refined products

In line with the increase in the ASP of corn kernels, the ASP of corn refined products gradually increased since the fourth quarter of 2008. The revenue of corn refined products increased by about 38.7% in 2010 compared with 2009. The main reasons are due to the increasing consumed volume of corn kernels and the improved ASP of corn refined products.

Corn oil

During the year, the Group continuously developed its value chain products including corn oil. The sales amount of "Uo Fragant" corn oil increased to RMB103.7 million in 2010, representing an increase of about 68.4%. It is a result of the increased in market recognition and market demand of the Group's corn oil products.

Threonine

Threonine is a new product of the Group. The first 5,000 tonnes of production capacity has been completed and started to operate in the middle of 2010. Threonine is an essential amino acid which maintains body protein balance and promotes the growth of living. Our threonine product is mainly used as feed additives. The revenue and sales volume of threonine amounted to RMB28.1 million and 2,392 tonnes respectively during the year. The ASP of threonine was approximately RMB 11,766 per tonne. By the end of 2010, the capacity of threonine reached 10,000 tonnes.

The Group will wrap up the production capacity of threonine rapidly to make it a major product of the Group.

Starch sweeteners

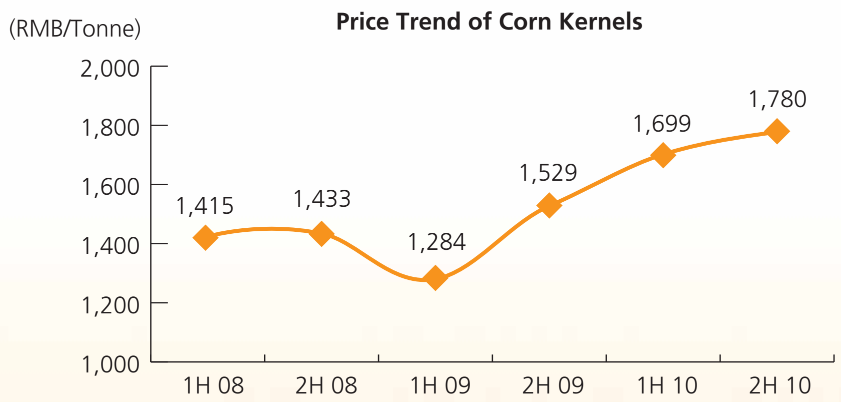
As a result of cane sugar price increases, the ASP of starch sweeteners increased from approximately RMB 2,080 per tonne in 2009 to approximately RMB 2,816 per tonne in 2010, representing an increase of about 35.4% . Sales volume of starch sweeteners also increased by 12.8% due to an increase in market demand and market recognition of the Group's products.

Cost of production

The breakdown of cost of production of this segment is set out below:

	2010		2009		% of
	RMB'000	***%***	*RMB'000*	*%*	*change*
Major raw materials					
Corn kernels	**2,559,799**	**56.5**	1,692,010	56.0	51.3
Liquid ammonia	**461,143**	**10.2**	333,454	11.0	38.3
Sulphuric acid	**60,636**	**1.3**	38,408	1.3	57.9
Energy					
Coal	**509,158**	**11.2**	282,358	9.4	80.3
Depreciation	**189,713**	**4.2**	143,007	4.7	32.7
Employee benefits	**166,914**	**3.7**	129,119	4.3	29.3
Others	**586,399**	**12.9**	401,254	13.3	46.1
Total cost of production	**4,533,762**	**100.0**	3,019,610	100.0	50.1

Corn kernels



In 2010, the cost of corn kernels accounted for approximately 56.5% (2009: 56.0%) of the total production cost of this segment. In line with the increases in other crops, the price of corn kernels has gradually increased in 2010. The average unit cost of corn kernels significantly increased to RMB1,741 in 2010 (2009: RMB1,413). The significant increase in corn kernels is mainly due to the increase in production volume of MSG as the production capacity of MSG has increased since the end of 2009.

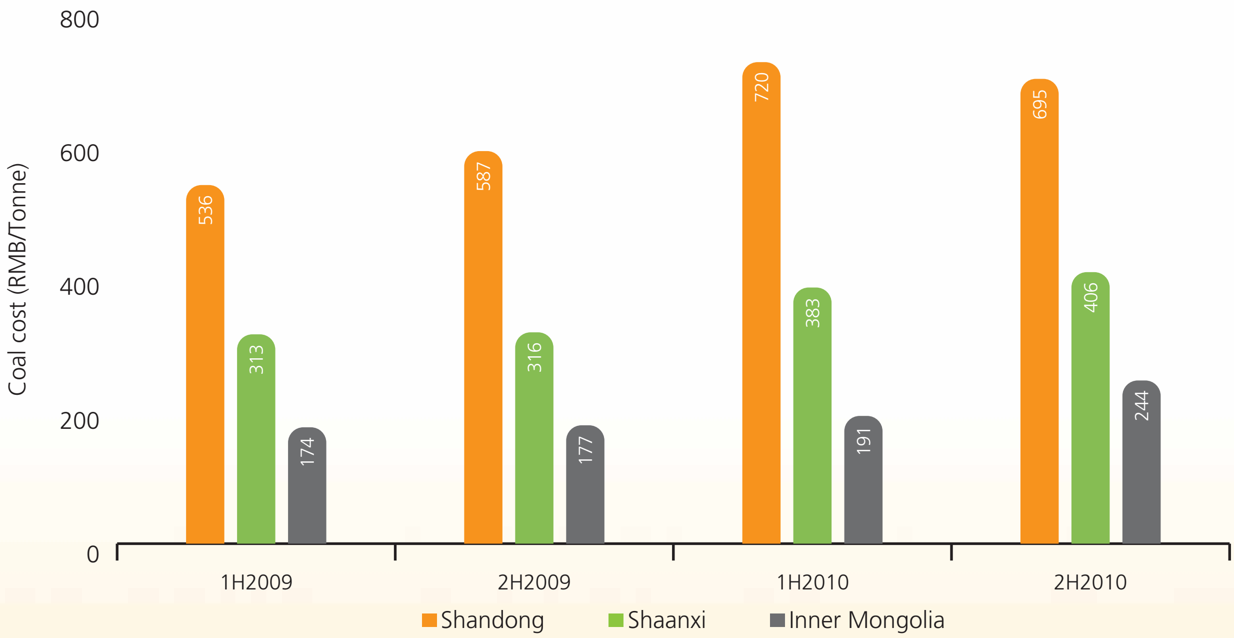
Liquid ammonia

Liquid ammonia accounted for approximately 10.2% of total production cost in this segment in 2010 (2009: 11.0%). The average unit cost of liquid ammonia in 2010 increased to RMB2,481 per tonne, which represents a increase of approximately RMB272 per tonne or 12.3% from that of 2009. (2009: RMB2,209 per tonne). As the increasing percentage of the unit cost of liquid ammonia is lower than the other major materials including corn kernels and coal, the percentage of liquid ammonia in total production cost was only decreased by 0.8 percentage points compared with 2009.

Sulphuric acid

In 2010, sulphuric acid accounted for 1.3% (2009: 1.3%) of the total production cost in this segment. The average unit cost of sulphuric acid increased to RMB279 per tonne in 2010 (2009: RMB212 per tonne). It was affected by the increase in market demand as industrial market recovery. Although the average unit cost of sulphuric acid increased significantly, the percentage of sulphuric acid cost in the production of this segment remained unchanged during the year.

Coal



In 2010, coal accounted for 11.2% (2009: 9.4%) of the total production cost in this segment. Such increase was mainly due to the increase in the average unit selling price of coal. The average unit cost of coal kept increasing from RMB254 in 2009 to RMB312 in 2010. While in general the coal price increased in 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 1.8 percentage points. It was also due to the Group's substantial cost advantage and economy of scale from increased production output in IM Plant.

Other production costs

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

Gross Profit

The gross profit of this segment increased from RMB1,250.8 million in 2009 to RMB1,300.3 million in 2010, representing an increase of RMB49.5 million or 4.0%. Such increase was mainly due to the increase in sales volume and ASP of the Group's MSG segment products.

The gross profit margin of MSG segment decreased from 29.6% in 2009 to 22.7% in 2010, representing an decrease of 6.9 percentage points. Such decrease was mainly due to a lower percentage increase of ASP of the Group's products and a higher percentage increase in the costs of major raw materials in 2010. Although the Group faced to the unfavorable factors of rising costs, the Group managed to control costs through economics of scale by riding on its leading market position, and further strengthening our cost advantages by mean of expanding the production capacity of the plants in Inner Mongolia and Baoji. The gross profit margin of our major MSG segment is stable kept in a relative high level of the MSG market.

Production

The annual designed production capacity of MSG, glutamic acid and fertilisers all increased in 2010 compared to the end of 2009. The construction of a new MSG production line of annual production capacity of 150,000 tonnes in IM Plant was completed and has commenced production at the end of 2009. In addition, the re-engineering project of MSG in Baoji Plant and IM Plant resulting in an additional annual production capacity of 50,000 tonnes respectively was also completed at the end of 2009.

The annual design production capacity of starch sweeteners has increased to 130,000 tonnes in 2010. It is due to the re-engineering project in IM Plant with an additional annual production capacity of 40,000 tonnes was completed in the first quarter of 2010.

The actual production output and the utilisation rate of each of the major products in 2010 together with the comparative figures in 2009 are set out as follows.

Product name	**2010** ***Tonnes***	2009 *Tonnes*	*% of* *change*
Glutamic acid			
Annual design production capacity *(Note)*	**460,000**	350,000	31.4
Actual production output	**434,333**	354,638	22.5
Utilisation rate	**94.4%**	101.3%	
MSG			
Annual design production capacity *(Note)*	**540,000**	305,000	77.0
Actual production output	**495,895**	302,572	63.9
Utilisation rate	**91.8%**	99.2%	
Fertilisers			
Annual design production capacity *(Note)*	**560,000**	460,000	21.7
Actual production output	**517,303**	457,978	13.0
Utilisation rate	**92.4%**	99.6%	
Starch sweeteners			
Annual design production capacity *(Note)*	**130,000**	100,000	30.0
Actual production output	**130,268**	106,194	22.7
Utilisation rate	**100.2%**	106.2%	

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

Glutamic acid

The annual production capacity of glutamic acid increased to 460,000 tonnes in 2010, from 350,000 tonnes in 2009. Such increase were mainly due to the full year impact of the new production lines and the re-engineering projects carried out in Baoji Plant and IM Plant which was completed at the end of 2009.

MSG

The annual production capacity of MSG increased to 540,000 tonnes in 2010, from 305,000 tonnes in 2009. The significant increase in production capacity of MSG was mainly due to the full year impact of the construction of a new MSG production line of annual production capacity of 150,000 tonnes in the IM Plant at the end of 2009 and the re-engineering project of MSG in Baoji Plant and IM Plant resulting in an additional annual production capacity of 50,000 tonnes respectively at the end of 2009.

Referring to the table, the utilisation rate of production facilities of MSG, glutamic acid and fertilisers were over 90%. It represented the new production capacities have been almost fully absorbed by the market in 2010.

Starch sweeteners

The annual designed production capacity of starch sweeteners has increased to 130,000 tonnes in 2010. Utilisation rate of production facilities of starch sweeteners kept at slightly over 100% in 2010 due to the stable increase in the market demand for starch sweeteners.

Xanthan gum segment review

Business review

After the global financial crisis in 2009, the global economy as well as the global oil industry, has started to recover. The market demand and the sales volume of xanthan gum have increased in 2010.

During the year, the Group has expanded its production capacity of xanthan gum in IM Plant to consolidate its leading position in the market. The Group has seen the positive impact of the global economic growth and the demand from the oil industry continuously increased. The Group has put a great effort to expand the market share of xanthan gum. The market has shown strong demand to absorb our increased production capacity in 2010.

Financial review

The table below set out the revenue, ASP, gross profit and gross profit ratio of xanthan gum for the years ended 31 December 2010 and 2009:

	2010	2009	% of change
Revenue (RMB'000)	**681,725**	408,124	67.0
ASP (RMB/tonne)	**19,579**	20,989	(6.7)
Gross profit (RMB'000)	**264,763**	148,843	77.9
Gross profit margin (%)	**38.8**	36.5	2.3 ppts.

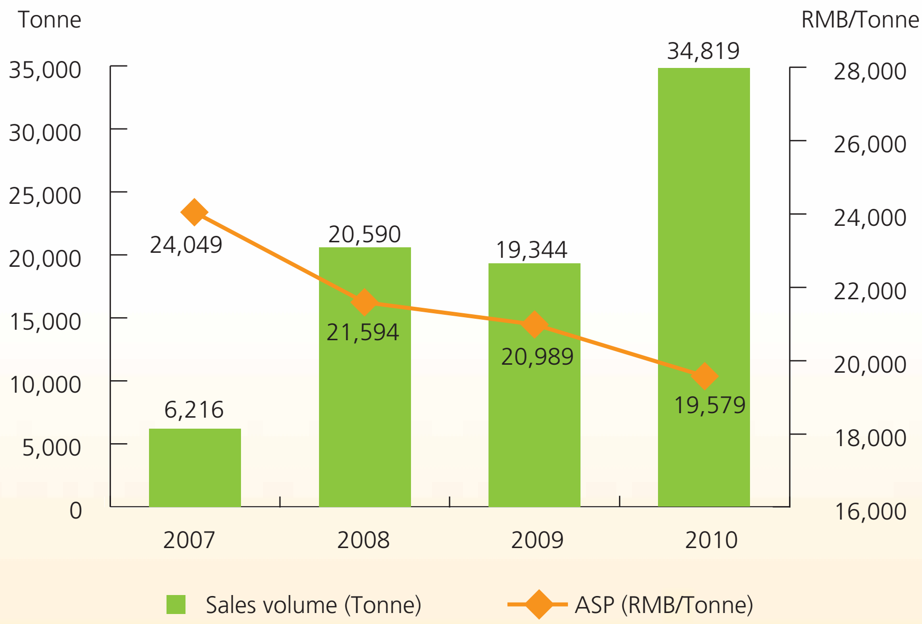
Sales

The revenue generated from the sales of xanthan gum increased to approximately RMB681.7 million in 2010, representing an increase of approximately RMB273.6million or 67.0%, as compared to 2009. Such significant increase was mainly due to the global economic recovery starting from the end of 2009. Despite the drop in ASP of xanthan gum due to price competition, the increase in sales volume of xanthan gum was significant. It is a result of effective market promotion and also represents the Group's products becoming more popular in the market. The market share of the Group has been continuously expanding.

In 2010, overseas sales of xanthan gum accounted for 86.4% (2009: 84.5%) of the total sales of xanthan gum.

ASP and sale volume

The chart below illustrates the movement of ASP of xanthan gum in recent years:



The ASP of xanthan gum decreased slightly from RMB19,987 per tonne in the first half of 2010 to about RMB 19,085 per tonne in the second half of 2010, representing a 4.5% drop, which was due to the price competition and expansion of the market share.

During the year, the Group has seen the positive impact of the global economic growth and the increased demand from the oil industry. In addition with the outstanding effort of the sales teams, the sales volume of xanthan gum increased significantly. The Group expected that the business environment will continue to grow in the near future and the price of xanthan gum will remain stable.

Cost of production

The breakdown of the cost of production of this segment is set out below:

	2010		2009		% of
	RMB'000	%	RMB'000	%	change
Major raw materials					
Corn kernels	112,451	29.0	76,680	22.7	46.6
Starch	17,745	4.6	22,314	6.6	(20.5)
Soy bean/Soy bean starch	22,991	5.9	22,657	6.7	1.5
Energy					
Coal	137,423	35.4	103,946	30.7	32.2
Depreciation	38,680	10.0	33,159	9.8	16.7
Employee benefit	31,221	8.0	27,276	8.1	14.5
Others	27,428	7.1	52,113	15.4	(47.4)
Total cost of production	387,939	100.0	338,145	100.0	14.7

Corn kernels/Starch

In 2010, corn kernels and starch accounted for approximately 33.6% (2009:29.3%) of the total production cost of this segment. The increase was mainly due to the larger increasing percentage of the corn kernel and starch costs. The corn kernels price and starch price increased from approximately RMB1,403 per tonne and approximately RMB1,873 per tonne respectively in 2009 to approximately RMB1,711 per tonne and approximately RMB 2,362 per tonne respectively in 2010, representing an increase of 22.0% and 26.1%.

Soy bean/Soy bean starch

In 2010, soy bean and soy bean starch accounted for approximately 5.9% (2009: 6.7%) of the total production cost of this segment. The average unit selling price of soy bean increased from approximately RMB3,512 in the 2009 to approximately RMB3,747 in 2010, representing an increase of 6.7%. As the increasing percentage of the unit cost of soy been is lower than other major materials including corn kernels and coal, the percentage of soy been in total production cost was decreased by 0.8 percentage points compared with 2009.

Coal

In 2010, coal accounted for approximately 35.4% (2009: 30.7%) of the total production cost in this segment. The Group took full advantage of the relatively low coal cost in IM plant. The average unit cost of coal in 2010 was approximately RMB265 per tonne, which represented an increase of approximately RMB37 per tonne or 16.2% from that of 2009.

Other production costs

Depreciation in 2010 was similar to 2009. It was mainly due to the operation of new production line of xanthan gum in IM plant since the beginning of 2009.

Gross profit and gross profit margin

The gross profit of xanthan gum increased from RMB148.8 million in 2009 to RMB264.8 million in 2010, representing an increase of RMB116.0 million or 77.9%. Such significant increase was mainly due to a stronger market demand and the increase in sales volume.

The gross profit margin of xanthan gum increased by 2.3%, from 36.5% in 2009 to 38.8% in 2010. Such increase was mainly due to the significant cost advantage in IM Plant. Although the increase in average unit cost of major raw materials in 2010, the average production cost of xanthan gum in IM Plant in 2010 continued to decrease as benefited from economy of scale after the expansion of production capacity in IM Plant.

Production

The annual designed production capacity of xanthan gum in the year 2010 together with the comparative figures in the year 2009 is set out as follows

	2010 Tonnes	2009 Tonnes	*% of change*
Annual designed production capacity at the end of year	**44,000**	32,000	37.5

The actual production output and the utilisation rate of xanthan gum in the year 2010 together with the comparative figures in the year 2009 are set out as follows:

	2010 Tonnes	2009 Tonnes	*% of change*
Annual designed production capacity *(Note)*	**38,000**	32,000	18.8
Actual production output	**31,619**	28,232	12.0
Utilisation rate	**83.2%**	88.2%	

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

The annual design production capacity of xanthan gum increased from 32,000 tonnes to 44,000 tonnes as the new production line with 12,000 tonnes production capacity in IM Plant was completed and has commenced production in the middle of 2010.

Although the actual production output increased by 12.0%, the utilisation rate was decreased slightly to 83.2% (2009: 88.2%) as it took time for the new production capacity to be fully wrapped up.

Other Financial Information

Other income

Other income increased by approximately RMB46.7 million or 73.0% from RMB63.9 million in the year 2009 to RMB110.6 million in the year 2010. The increase was mainly due to the increase in sales of waste products as increasing of overall production capacity of the Group and income from government grants related to acquisition of certain property, plant and equipment related to environment protection and technology improvement as increasing of overall production capacity of the Group.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB56.3 million or 26.1% from RMB215.7 million in the year 2009 to RMB272.0 million in the year 2010. Such increase was mainly due to the increase in freight expenses which was in line with the increase in the revenue.

Administrative expenses

Administrative expenses increased by approximately RMB82.8 million or 42.5% from RMB194.9 million in 2009 to RMB277.7 million in 2010. The increase was mainly due to administrative staffs and management salary increase, more research and development related expenses as more research and development projects were initiated during the year and the impairment provision for the intangible assets during the year.

Finance cost

Finance cost amounted approximately to RMB32.4 million which was increased by RMB7.1 million, representing 28.2% increase as compared to 2009. During the year, the Group successfully issued RMB1,025,000,000 worth of convertible bonds with a coupon rate 4.5% p.a. The increase of finance cost was mainly due to the new convertible bonds issued during the year and increase in interest rate in 2010.

Staff cost

Staff cost of the Group increased by approximately RMB76.7 million or 29.5% from RMB259.6 million in 2009 to RMB336.3 million in 2010. The increase was mainly due to the increase in the staff costs resulting from the expansion of the Group and increase in the average salary of the senior management and staffs.

Depreciation

Depreciation expense of the Group increased by approximately RMB61.0 million or 32.0% from RMB190.3 million in 2009 to RMB251.3 million in 2010. The increase was mainly due to the expansion and modification of the IM Plant and Baoji Plant.

Foreign exchange loss

During the year 2010, RMB appreciated by approximately 3.4% as compared with Hong Kong dollar. The appreciation of RMB led to a net exchange loss of approximately RMB18.0 million on the group's assets and liabilities denominated in Hong Kong dollars and US dollars mainly including part of the proceeds of convertible bonds which are not yet used and are kept in saving and fixed bank deposits in Hong Kong.

Taxation

The income tax expenses for the year 2010 represented the PRC Enterprise Income Tax ("EIT").

Effective from 1 January 2008, the subsidiaries incorporated in PRC are required to determine and pay the EIT in accordance with the Corporate Income Tax Law of the People's Republic of China (the "New EIT Law") as approved by the National People's Congress on 16 March 2007 and Detailed Implementations Regulations of the New EIT Law (the "DIR") as approved by the State Council on 6 December 2007. According to the new EIT Law and DIR, the income tax rates for both domestic and foreign investment enterprises have been unified at 25% effective from 1 January 2008. For enterprises which were established before the publication of the New EIT Law and were entitled to preferential treatments of reduced EIT rates granted by relevant tax authorities, the New EIT rate will be gradually increased from the preferential rates to 25% within 5 years after the effective date of the new EIT Law on 1 January 2008. For the regions that enjoy a reduced EIT rate at 15%, the tax rate would gradually increase to 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 according to the grandfathering rules stipulated in the DIR and related circular. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. The following table summaries the EIT rates applicable to the Group's major subsidiaries:

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

Note 1: Shandong Fufeng was approved to be a high-technique enterprise, which is entitled to a preferential enterprise income tax rate of 15% until 31 December 2010.

Note 2: 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.

Other Achievements

Research and Development

The Group is continuously increasing its effort in research and development.

The Group continued to improve the production process of its MSG. The Group has completed "High volume acid production technology development for glutamic acid"《谷氨酸高產酸技術的開發和利用》in Baoji plant and IM plant. This technology can improve the output level of fermentation of glutamic acid. It can increase productivity and reduce production cost of glutamic acid.

The Group has successfully developed threonine products in 2010. We have completed "The technology upgrade and re-engineering project for the production of threonine"《蘇氨酸生產技術的提升和工藝改造》in IM Plant. The project increases the acid concentration and conversion rate of sugar. It reduces the consumption of raw materials, power and labour cost in the production process.

For further improving the environmental protection standards, the Group has implemented the project "Condensed water recycling flue gas treatment technology and development"《煙氣處理凝結水的回收技術與開發》. The Baoji Plant and IM Plant adopted the flue gas treatment technology. The recycled water can be used in the production of fertilisers. The result of the project successfully improved the environment protection standards and increased the production rate of fertilisers simultaneously.

The expenditure for research and development in 2010 was approximately RMB89.2 million representing an increase of approximately RMB53.0 million or 146.3% as compared with of 2009.

Numbers of new products are under development, such as Citric acid, Branched-chain amino acids, Polyglutamine, Tryptophan, Proline and Crystalline fructose. These products will be mainly used in pharmaceuticals, food products and feed additives. We plan to launch new products to the market on a timely basis.

Future Plans And Outlook

2010 represented another record-breaking year for the Group. Though there is still uncertainties in the global economy, with fruitful results in 2010, the Directors believe that the Group has built a solid foundation for continued business development, and are highly confident in the future outlook. We are committed to become the world's leading corn-based biochemicals supplier.

Looking into the future, the Group will leverage on diversified product mix, significant cost advantage of the IM Plant and the established brand name, and will benefit from the rapid economic growth of the PRC. Driven by the expanding domestic consumer market, through strategic moves such as steady expansion of production capacity, acceleration of the introduction of new products, entry into the seasoning market and optimisation of capacity allocation, the Group will continue to strengthen its leadership in MSG and xanthan gum markets.

Consolidating leading position, and strengthening niche-player presence

Over the past few years, the Group continued to timely expand production capacity to meet strong demands. As the largest manufacturer and supplier of MSG across the country, riding on advantages in resources, cost and scale, the Group has further increased sales volume, reduced costs and enlarged market share, so that the Group is well-positioned to remain ahead of its competitors. The Group anticipates that with the operation of the Hulunbeir Plant, the annual production capacity of MSG is expected to reach 750,000 tonnes. By then, the market share of the Group will reach a new level . We will continue to be further ahead of our competitors. While actively exploring the domestic market, the Group will also expand the export markets of MSG products this year, so as to strive for a substantial breakthrough in the overseas markets.

The Group is a player with a stronger presence in the xanthan gum market globally. The Group has built largest capacity as well as production and sales volumes globally. This year, the Group will focus on improving product quality, establishing a sound marketing network, enhancing customer services and upgrading marketing system. During the year, the Group will set up six sales centres in overseas markets including Europe, North America, South America, the Middle East, Africa and Southeast Asia. The aim is to shorten the distance with customers, which will be conducive to export products to customers. This will also enable the Group to provide better service while enhancing recognition and trust from our customers, thereby further reinforcing our market position.

Accelerating the introduction of new products, and building up leading research and development capabilities

The past successes of the Group are attributed to continued optimisation of product quality, improvement of product portfolio and enhancement of profitability. In 2010, the Group successfully launched a new product, threonine and received encouraging market responses. This year, the Group will continue to enrich its product portfolio, and will step up its efforts to launch a wide range of corn-based biochemical products, such as citric acid, both of which have a rather large market demand and a broader scope of uses. The Group will also continue to invest resources in research and development activities. By these means, the Group believes that the sustainable long-term profitability can be achieved.

In late 2010, the Group entered into a co-operative agreement with "Ajinomoto" in Japan in relation to threonine products, whereby, part of the Group's threonine products will be sold through the sales network of Ajinomoto from this year onwards. This proves that the quality and credibility of the Group's threonine products are recognised and affirmed by the world-renowned customers. The Group will take this opportunity to rapidly expand the production capacity of its threonine product this year, making it a new growth driver and a major product for the Group.

Working on brand building, and gaining a firm foothold in the seasoning market

To seize the opportunities arising from the fast growing demand for MSG, the Group has extended glutamate production to downstream MSG products successfully. The Group expanded sales channels and reinforced brand building efforts, in order to seek for first-mover advantages in the market for flavour enhancers and consumer goods. This year, capitalising on the experiences in the marketing and promotion of the "Uo Fragrant" and "Uo Fresh" series of products, the Group will continue to uphold a "steady progress" strategy to step up its brand building efforts. The Group has appointed a brand marketing director to implement systemmatic management, to plan of our brand management, and to set up a dedicated marketing team to quickly meet the sales demand of fast-moving consumer goods. Meanwhile, the Group has selected a number of markets such as Shandong, Jiangsu, Zhejiang, Guangdong and Chongqing as the key locations for retail product promotion and marketing, and will work hard to ensure a breakthrough in these key markets.

At the same time, the Group has decided to diversify the existing range of retail products to fully enter into the seasoning market. In addition to compound flavor enhancers such as chicken powder, the Group plans to expand its product portfolio to other seasonings. While these new products, will further realise the economy of scale of the Group, as they are sold through the existing sales channels, they will plays a significant role in enriching product mix, and enhancing brand image and customer recognitions. Meanwhile, the entry of the Group into the seasoning market represents an exploration from the existing "corn-processing" to "MSG processing".

Providing solid logistics support and material supplies

The Group's products are sold all over the country and in the overseas markets. In particular, they are mostly sold in the coastal areas of East China and South China. As such, the Group has set a new goal for its logistics platform this year, with a focus on resolving the rail/sea transport arrangement from its plant in Inner Mongolia to the port in Tianjin, so as to ensure the Group's logistics arrangement of the export sales of xanthan gum and MSG. At the same time, in line with the commissioning of the Hulunbeir Plant, the logistics platform from Zhalantun to other areas is being actively organised. In 2011, the Group will explore new ways to procure corns in response to the ever changing market environments such as the establishment of stable partnerships with large grain suppliers, in order to broaden our corn supply channels and to further ensure the stable supply of raw materials.

Outlook

The Group's long-term development goal is to become the world's leading corn-based biochemical supplier. To further extend glutamate production to the downstream MSG products, we will cater for people's changing need of food from "no hungry" to "eating well" and "eating healthly". Given that food safety and nutritional quality have become increasingly concerned for food consumption and rising awareness of a healthy lifestyle from the general public, the Group is set to put great value on the important issue of food safety in the future. Capitalising on the two existing products of MSG and xanthan gum, the Group will continue to introduce new biochemical products with prominent market potential and bright prospect, while providing our customers with safe, reliable and healthy consumer food products and additives.

With the successful development and production of new products such as threonine and citric acid, and the roll out of a wide variety of seasonings to terminal markets, the Group will adhere to taking corn processing as its foundation and taking the development of fermentation technology as its core, in order to take full advantage from its low production costs. It will also gradually expand its product range and mix. The Group will make its best efforts to cater for the needs of the society and consumers. On this basis, we will strive to bring about further development and sustainable growth of the MSG segment and the corn-based biochemical industry.

The sustainable agricultural development is inseparable from biotechnology, and will presents ample room for the growth of biochemical products. With the Group's commitment in product research and development and constant improvement and upgrade in the production processes, the Board is confident that the Group is well positioned to lead ahead of its peers in all aspects.

Other Information

Liquidity and financial resources

The Group maintained a healthy liquidity position throughout the year 2010. At 31 December 2010, the cash and cash equivalent and restricted bank deposits of the Group were RMB915.2 million (2009: RMB369.0 million) whereas current bank borrowings were approximately RMB555.0 million (2009: RMB418 million) and non-current bank borrowings and balance of convertible bonds were nil and approximately RMB981.5 million respectively (2009: RMB180 million and nil). The Group may consider raising new financing through bank loans or debt issues to further strengthen its liquidity position.

Related party transaction

Mr. Li Xuechun, Chairman and an executive director of the Group, has granted a personal guarantee in favour of Shandong Fufeng on 16 December 2010 with a maximum credit amounting to RMB110 million for bank borrowings, issuing bank acceptance notes, letters of credit and letters of guarantee from 23 December 2010 to 23 December 2013. The aforesaid personnel guarantee has been utilised by Shandong Fufeng as of 31 December 2010 for bank borrowings amounting to RMB30 million.

Convertible bonds

The Company has issued RMB820.0 million convertible bonds on 1 April 2010 and also issued the option bonds amount to RMB205.0 million on 22 April 2010. Total issued convertible bonds are amounted to RMB1,025 million. The Bonds' coupon rate is 4.5% p.a. They can be converted into the Company's shares any time on or after 12 May 2010 up to the close of business on 22 March 2015 at an initial conversion price of HKD7.03 per Share, which represents a premium of approximately 20.0 per cent over the closing price of the Shares as of 25 March 2010. Based on the initial Conversion price of HKD7.03 and assuming full conversion of the Bonds at the initial Conversion price, the Bonds will be convertible into 165,742,524 Shares, representing approximately 9.64% of the existing issued share capital of the Company and approximately 8.80% of the issued share capital of the Company, as enlarged.

Material acquisition or disposal of subsidiary and associated company

During the year, the Group had no other material acquisition or disposal of the subsidiaries or associated companies for the year ended 31 December 2010.

Pledge of assets

At 31 December 2010, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB26.8 million (2009: RMB121.5 million) were pledged to certain banks to secure general banking facilities of the Group.

Foreign exchange exposure

During the year 2010, 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. The Group manages foreign exchange risk arising from proceeds from issuance of convertible bonds and new shares allotment of exercised share option by remitting the necessary funds to the PRC, deposits in fixed bank deposits and utilisation of the proceeds as soon as possible.

Gearing ratio

At 31 December 2010, the total assets of the Group amounted to approximately RMB6,720.3 million (2009: RMB4,261.0 million) whereas the total borrowings amounted to RMB1,536.5 million (2009: RMB598 million). The gearing ratio was approximately 22.9% (2009: 14.0%). The gearing ratio is calculated based on the Group's total interested bearing borrowings over total assets. The gearing ration was still kept in lower level.

Employees

At 31 December 2010, the Group had approximately 2,600 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. Please refer to the paragraph headed "share option schemes" under the "Directors' Report" for the share options granted to certain Directors and employees of the Group pursuant to the Pre-IPO and Post-IPO share option schemes.

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 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 about 31 May 2011 to Shareholders whose names appear on the register of members of the Company on 3 May 2011.

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 31December 2010.

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 2010, 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 3 May 2011 to 9 May 2011 (both dates inclusive), during which on 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 29 April 2011.

Annual general meeting

The annual general meeting is expected to be held on 9 May 2011. A notice convening the annual general meeting will be despatched to the Shareholders in due course.

Corporate Governance Report

The Company is committed to establish and ensure a high standard of corporate governance practices which places emphasis on quality of the Board, sound and efficient internal control and accountability and transparency to the equity holders. The Directors are in the opinion that the Company has complied with the code provision as set out in the Code since the Listing Date.

The Company's corporate governance structure includes the Board and two committees under the Board, namely the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee"). The terms of reference of all committees specify clearly the power and responsibilities of the respective committees.

Board of Directors

The Board comprises (i) eight executive Directors, Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng, Mr. Chen Yuan, Mr. Gong Qingli and Mr. Li Guangyu; and (ii) three independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun. Mr. Li Xuechun is the chairman of the Board and Mr. Wang Longxiang is the general manager of the Group. Mr. Li Xuechun is the father of Mr. Li Guangyu and the brother-in-law of Mr. Li Deheng.

For details of the Directors' biographical information, please refer to the section headed "Biographies of Directors and Senior Management".

The principal function of the Board is to consider and approve the strategies, financial objectives, annual budget, investment proposals and assume the responsibilities of corporate governance of the Company. The day-to-day operations of the Group are delegated to the management of the Group.

The roles of the chairman and general manager are segregated. Mr. Li Xuechun, being the chairman of the Group, is responsible for the orderly conduct and operation of the Board while Mr. Wang Longxiang, being the general manager of the Group, is responsible for the daily operations of the Group.

Independent non-executive Directors have been appointed for a term of two years.

Regular Board meetings will be held at least four times a year and the Board will convene other meetings when necessary. Before a Board meeting is convened, relevant documents will be sent to the Directors for their review pursuant to the Listing Rules and the Code. For the year ended of 31 December 2010, four regular Board meetings were held. Individual attendance of each director at the Board meeting during 2010 is set out below:

Attendance/Number of Board Meetings in 2010

Director	Attendance/ Number of Board Meetings
Executive Director	
Mr. Li Xuechun *(Chairman)*	4/4
Mr. Wang Longxiang	4/4
Mr. Wu Xindong (resigned on 9 March 2010)	0/0
Mr. Feng Zhenquan	4/4
Mr. Xu Guohua	4/4
Mr. Li Deheng	4/4
Mr. Chen Yuan (appointed on 9 November 2010)	1/1
Ms. Li Hongyu (resigned on 8 January 2010)	0/0
Mr. Gong Qingli	4/4
Mr. Li Guangyu (appointed on 31 March 2010)	3/3
Independent Non-executive Directors	
Mr. Choi Tze Kit, Sammy	4/4
Mr. Chen Ning	4/4
Mr. Liang Wenjun	4/4

The Company has received from each of the independent non-executive Directors a confirmation of his independence in accordance with Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Model code on securities transactions

The Company has adopted the Model Code. Having made specific enquiry of all Directors, the Directors have complied with the Model Code since the Listing Date.

Accountability and Auditor's remuneration

The Directors acknowledge their responsibility for preparation of consolidated financial statements of the Group. This responsibility has also been mentioned in the independent auditor's report on page 47.

The Board had conducted a review on the system of internal control of the Group and considers that the system of internal control is effectively operated.

The professional fee payable to the auditors of the Group in respect of the audit and non-audit services provided by the auditors of the Group is as follows:

	Amount *(RMB'000)*
Type of services	
Audit services	4,091
Non-audit services	1,695
	5,786

Non-audit services mainly represented the professional fee payable of the Group for the service related to issuance of convertible bonds, the projects of internal control review and the service of tax consultation.

Audit Committee

The Audit Committee, established in compliance with the Code, comprises three independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun. Mr. Choi Tze Kit, Sammy is the chairman of the Audit Committee.

The principal functions of the Audit Committee are to review the Group's audit, interim and annual accounts of the Group and the system of internal control.

The Board and the Audit Committee have reviewed the effectiveness of its internal control systems on all major operations of the Group on a rotational basis by appointing a professional accounting firm on their behalf. The scope of review by the professional accounting firm has been determined and approved by the Audit Committee. The professional accounting firm has reported major internal control review findings to the Board and the Audit Committee. No major issue but area for improvement have been identified. All recommendations from the professional accounting firm will be properly followed up to ensure that they are implemented within a reasonable time. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

The Audit Committee meetings will be held at least twice a year. For year ended of 31 December 2010, three Audit Committee meetings were held with Mr. Choi Tze Kit, Sammy and Mr. Liang Wenjun attended all the meetings while Mr. Chen Ning attended two meetings. The purpose of the meetings to review the Group's results for the year 2009, the interim results for the year 2010 as well as discussing the internal control review and the audit of the Group. The Group's 2009 annual report and 2010 interim report have been reviewed by the Audit Committee, which was of the opinion that such reports were prepared in accordance with the applicable accounting standards and requirements.

Remuneration Committee

The Remuneration Committee established in compliance with the Code, comprises an executive Director, Mr. Li Xuechun and three independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun. Mr. Choi Tze Kit, Sammy is the chairman of the Remuneration Committee.

The principal functions of the Remuneration Committee are to review, develop and approve the Group's policy on remuneration of all Directors and senior management for the purpose of retaining and attracting talent to manage the Group effectively. The Directors and their associates do not participate in the decisions in relation to their own remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions else where in the Group and desirability of performance-based remuneration so as to align management incentives with Shareholders' interests.

The Remuneration Committee meetings will be held at least once a year. For year ended of 31 December 2010, one Remuneration Committee meetings were held. All Remuneration committee members attended the meeting. The meeting of the Remuneration committee was duly held for reviewing and determination of the annual remuneration packages of the executive directors. The Remuneration committee consults the chairman and general manager about its proposals relating to the remuneration of other executive directors.

Nomination of Directors

The Company has not established a nomination committee. The Board is collectively responsible for the appointing of new directors either to fill casual vacancies or as additional Board members.

In nominating candidates for appointment of directors, the Board considers whether the candidates have the necessary expertise and experience to assist the Board to perform its duties.

Directors' Report

The Board has the pleasure in presenting the report and the audited financial statements of the Group for the year ended 31 December 2010.

Principal activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in note 33 to the consolidated financial statements.

Result and appropriations

Results of the Group for the year ended 31 December 2010 are set out under the consolidated income statement on page 51.

Interim dividend declared and paid after the interim period was HK11 cents (Equiv to RMB9.63 cents) per Share (2009: HK10 cents (Equiv to RMB8.82 cents) per Share). The Board recommends the payment of a final dividend of HK15 cents per Share (Equiv to RMB12.63 cents per Share) totalling HKD257,803,000 for the year ended 31 December 2010.

Material acquisitions or disposal of subsidiaries and associated companies

The Group had no material acquisitions or disposal of subsidiaries or associated companies for the year ended 31 December 2010.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in notes 16 and 18 to the financial statements.

Property, plant and equipment

Details of the movement in property, plant and equipment of the Group and of the Company are set out in note 7 to the financial statements.

Share capital

Details of the movement in share capital of the Company are set out in note 15 to the financial statements.

Distributable reserves

As at 31 December 2010, the Company's reserves available for distribution to the Shareholders amounted to RMB644,527,000 (2009: RMB964,725,000).

Directors

As at the date of this report, the Board comprised:

Executive Directors

Mr. Li Xuechun *(Chairman)*
Mr. Wang Longxiang
Mr. Wu Xindong (resigned on 9 March 2010)
Mr. Feng Zhenquan
Mr. Xu Guohua
Mr. Li Deheng
Mr. Chen Yuan (appointed on 9 November 2010)
Ms. Li Hongyu (resigned on 8 January 2010)
Mr. Gong Qingli
Mr. Li Guangyu (appointed on 31 March 2010)

Independent Non-executive Directors

Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Liang Wenjun

Biographical details of the directors of the Group are set out in the section headed "Biographies of Directors and Senior Management".

According to Article 87 of the articles of association of the Company, Mr. Wang Longxiang, Mr. Chen Yuan, Mr. Chen Ning and Mr. Liang Wenjun should retire by rotation and, being eligible, consider to offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Directors, Mr. Wang Longxiang and Mr. Chen Yuan, proposed for re-election at the forthcoming annual general meeting have a service contract with the Company for an initial term of three years commencing from the Listing Date and 9 November 2010 respectively and renewable automatically for successive terms of one year each commencing from the day following the expiry of the then current term unless and until (i) terminated by either party there to giving not less than three months' prior written notice with the last day of the notice falling on the last day of the initial term or any time thereafter; or (ii) the Director not being re-elected as a Director or being removed by shareholders at general meeting of the Company in accordance with its articles of association.

Each of the independent non-executive Directors proposed for re-election at the forthcoming annual general meeting has renewed into a service contract with the Company for two years commencing form 8 February 2011 and is subject to the requirement on rotation, removal, vacation or termination of office according to the articles of association of the Company, the relevant laws and the listing Rules.

As at 31 December 2010, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any Director proposed for re-election at the forthcoming annual general meeting.

Directors' interests in Shares

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 31 December 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)*	789,946,000 Shares	45.96%
Wang Longxiang	The Company	Beneficial interests *(Note 2)*	5,910,000 Shares	0.34%
Gong Qingli	The Company	Interests of controlled corporation *(Note 3)*	10,000,000 Shares	0.58%
Chen Yuan	The Company	Beneficial interests *(Note 4)*	5,000,000 Shares	0.29%

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 remaining option granted to him pursuant to the Pre-IPO Share Option Scheme.

3. The interest in these Shares is held by Centerpoint Assets Management Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Gong Qingli, an executive Director of the Company. Accordingly, Mr. Gong Qingli is deemed to be interest in all Shares held by Centerpoint Assets Management Limited under the SFO.

4. These shares represented the Shares which might be alloted and issued to Mr. Chen Yuan, an executive director who was appointed on 9 November 2010, upon the exercise in full of the option granted to him pursuant to the Post-IPO Share Option Scheme.

Save as disclosed above, for the year ended 31 December 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.

Interests of person holding 5% or more interests

As at 31 December 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	789,946,000 Shares	45.96%
Shi Guiling (Note 2)	The Company	Interests of spouse	789,946,000 Shares	45.96%
Ever Soar Enterprises Limited (Note 3)	The Company	Beneficial interests	185,112,000 Shares	10.77%

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 789,946,000 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 Mr. Guo Yingxi.

Save as disclosed above, for the year ended 31 December 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.

Arrangements to purchase shares or debentures

Save as disclosed in the below section of share options regarding the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, no time during the year was the Company, or any of its subsidiaries or the Company's holding Company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Share options

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 year ended 31 December 2010 are as follows:

	Number of share options						
Directors and eligible employees	At 1 January 2010	Exercised during the year	Lapsed during the year	At 31 December 2010	Date of grant	Exercise price (HKD)	Exercise period
Mr. Wang Longxiang (an executive Director)	16,000,000	(10,090,000)	–	5,910,000	10/1/2007	2.23	8/8/2009 – 7/8/2012
Centrepoint Assets Management Limited (a company wholly-owned by 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	(32,596,000)	–	16,844,000	10/1/2007	2.23	8/8/2009 – 7/8/2012
	81,440,000	(58,686,000)	–	22,754,000			

Out of the 22,754,000 options (2009: 81,440,000), 504,400 options (2009: 33,595,200) were exercisable as at 31 December 2010. Options exercised in 2010 resulted in 58,686,000 shares being issued at a weighted average price of HKD2.23 each. The related weighted average share price at the time of exercise was HKD6.20 per share. No options were exercised in 2009.

No option is being granted during the year ended 31 December 2010 and 2009 under the Pre-IPO Share Option Scheme.

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 RMB55,134,000. 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	HKD1.98
Exercise price	HKD2.23
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 HKD1.98 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 and 5,000,000 Shares on 14 July 2009 and 9 November 2010 respectively to certain Director and eligible employees. Details of the share options granted and outstanding under the Post-IPO Share Option Scheme during the year ended 31 December 2010 are as follows:

	Number of share options						
Director and eligible employees	At 1 January 2010	Granted during the year	Lapsed during the year	At 31 December 2010	Date of grant	Exercise price (HKD)	Exercise period
Chen Yuan (executive director)	–	5,000,000	–	5,000,000	9/11/2010	8.20	9/5/2013 – 9/5/2016
Eligible employees	62,360,000	–	(11,250,000)	51,110,000	14/7/2009	3.00	14/1/2012 – 13/1/2015
	62,360,000	5,000,000	(11,250,000)	56,110,000			

Out of the 56,110,000 options (2009: 62,360,000), no options were exercisable as at 31 December 2010 and 2009.

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 dates is approximately RMB55,963,000. 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	
	Granted on 09 November 2010	Granted on 14 July 2009
Average share price	**HKD8.14**	HKD2.81
Exercise price	**HKD8.20**	HKD3.00
Expected life of options	**3.0-5.0 years**	3.0-5.0 years
Expected volatility	**51.30-55.63%**	46.04-51.34%
Expected dividend yield	**3.14%**	3.56%
Risk free rate	**0.506-1.021%**	1.032-1.745%

Interest in contracts

No contract of significance in relation to the Group's business to which the Company or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Major customers and suppliers

The aggregate sales attributable to the Group's largest customer and five largest customers taken together were less than 30% of the total sales for the year 2010.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year 2010.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Sufficiency of public float

As at 18 March 2011, being the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

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 2010

Pre-emptive rights

There are no provisions for pre-emptive rights under the articles of the association of the Company and the Companies Law of the Cayman Islands.

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 then.

Subsequent events

Details of the significant events occurring after the balance sheet date are set out in note 34 to the consolidated financial statements.

Auditor

A resolution to reappoint PricewaterhouseCoopers as independent auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Xuechun
Chairman

21 March 2011

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the Shareholders of Fufeng Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Fufeng Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 49 to 118, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2011

Consolidated Balance Sheet

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	6	169,187	140,160
Property, plant and equipment	7	4,087,675	2,507,897
Intangible assets	8	–	–
Deferred income tax assets	11	20,759	5,162
		4,277,621	2,653,219
Current assets			
Inventories	12	710,695	551,028
Trade and other receivables	13	816,773	687,782
Short-term bank deposits	14	147,225	26,310
Cash and cash equivalents	14	767,951	342,682
		2,442,644	1,607,802
Total assets		6,720,265	4,261,021
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	174,097	169,034
Share premium	15		
– Proposed final dividend		217,070	219,240
– Others		329,594	566,200
Other reserves	16	(76,985)	(171,080)
Retained earnings	18	2,501,489	1,610,317
Total equity		3,145,265	2,393,711
LIABILITIES			
Non-current liabilities			
Deferred income	19	141,810	90,880
Borrowings	20	981,458	180,000
Deferred income tax liabilities	11	27,033	24,221
		1,150,301	295,101
Current liabilities			
Trade, other payables and accruals	21	1,839,022	1,140,475
Current income tax liabilities		30,677	13,734
Borrowings	20	555,000	418,000
		2,424,699	1,572,209
Total liabilities		3,575,000	1,867,310
Total equity and liabilities		6,720,265	4,261,021
Net current assets		17,945	35,593
Total assets less current liabilities		4,295,566	2,688,812

The notes on pages 55 to 118 are an integral part of these consolidated financial statements.

The financial statements on pages 49 to 118 were approved by the Board on 21 March 2011 and were signed on its behalf.

Li Xuechun
Director

Chen Yuan
Director

Company Balance Sheet

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	57	54
Investment in subsidiaries	9	415,007	407,831
		415,064	407,885
Current assets			
Loans to subsidiaries	9	190,098	196,699
Due from subsidiaries	9	805,204	577,990
Deposits and other receivables	13	344	1,451
Cash and cash equivalents	14	479,805	7,403
		1,475,451	783,543
Total assets		1,890,515	1,191,428
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	174,097	169,034
Share premium	15		
– Proposed final dividend		217,070	219,240
– Others		329,594	566,200
Other reserves	16	65,698	46,482
Retained earnings	18	97,863	179,285
Total equity		884,322	1,180,241
LIABILITIES			
Non-current liabilities			
Borrowings	20	981,458	–
Current liabilities			
Due to a subsidiary	9	10,521	10,521
Other payables and accruals	21	14,214	666
		24,735	11,187
Total liabilities		1,006,193	11,187
Total equity and liabilities		1,890,515	1,191,428
Net current assets		1,450,716	772,356
Total assets less current liabilities		1,865,780	1,180,241

The notes on pages 55 to 118 are an integral part of these financial statements.

The financial statements on pages 49 to 118 were approved by the Board on 21 March 2011 and were signed on its behalf.

Li Xuechun
Director

Chen Yuan
Director

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Revenue	5	**6,416,425**	4,632,884
Cost of sales	23	**(4,851,371)**	(3,233,277)
Gross profit		**1,565,054**	1,399,607
Other income	22	**110,550**	63,908
Selling and marketing expenses	23	**(272,008)**	(215,715)
Administrative expenses	23	**(277,697)**	(194,910)
Other operating expenses	23	**(22,187)**	(4,042)
Operating profit		**1,103,712**	1,048,848
Finance costs	26	**(32,383)**	(25,251)
Profit before income tax		**1,071,329**	1,023,597
Income tax expense	27	**(105,278)**	(95,312)
Profit for the year and attributable to the Shareholders		**966,051**	928,285
Earnings per share for profit attributable to the Shareholders during the year (expressed in RMB cents per share)			
– basic	28	**57.75**	55.92
– diluted	28	**53.68**	55.88
Dividends	29	**217,070**	219,240

The notes on pages 55 to 118 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 *RMB'000*	2009 *RMB'000*
Profit for the year	**966,051**	928,285
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**966,051**	928,285
Total comprehensive income attributable to the Shareholders	**966,051**	928,285

The notes on pages 55 to 118 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
		Attributable to the Shareholders				
Balance at 1 January 2009		169,034	1,078,144	(247,904)	742,240	1,741,514
Comprehensive Income						
Profit for the year	*18*	–	–	–	928,285	928,285
Total comprehensive income		–	–	–	928,285	928,285
Transactions with owners						
Profit appropriation	*16,18*	–	–	60,208	(60,208)	–
Employee share options schemes:						
– Value of employee service	*16,17*	–	–	16,616	–	16,616
Dividends	*15*	–	(292,704)	–	–	(292,704)
Total transactions with owners		–	(292,704)	76,824	(60,208)	(276,088)
Balance at 31 December 2009		169,034	785,440	(171,080)	1,610,317	2,393,711
Comprehensive Income						
Profit for the year	*18*	–	–	–	966,051	966,051
Total comprehensive income		–	–	–	966,051	966,051
Transactions with owners						
Profit appropriation	*16,18*	–	–	74,879	(74,879)	–
Employee share options schemes:						
– Value of employee service	*16,17*	–	–	15,180	–	15,180
– Proceeds from shares issued	*15,16*	5,063	140,646	(32,817)	–	112,892
Convertible bonds – equity component	*20*	–	–	36,853	–	36,853
Dividends	*15*	–	(379,422)	–	–	(379,422)
Total transactions with owners		5,063	(238,776)	94,095	(74,879)	(214,497)
Balance at 31 December 2010		174,097	546,664	(76,985)	2,501,489	3,145,265

The notes on pages 55 to 118 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	30(a)	1,187,742	636,522
Interest paid		(24,517)	(25,251)
Income tax paid		(43,275)	(25,097)
Net cash flows generated from operating activities		1,119,950	586,174
Cash flows from investing activities			
Purchase of leasehold land payments		(42,631)	(10,800)
Purchases of property, plant and equipment		(1,416,321)	(217,754)
Purchases of intangible assets		(14,002)	–
Government grants received		43,980	–
Proceeds from disposal of property, plant and equipment	30(b)	17,880	4,311
Proceeds from disposal of leasehold land payments	30(c)	12,790	–
Interest received	22	3,625	1,502
Net cash used in investing activities		(1,394,679)	(222,741)
Cash flows from financing activities			
Proceeds from issuance of share capital		112,892	–
Proceeds from issuance of convertible bonds	20	1,011,621	–
Dividends paid to the Company's shareholders		(379,015)	(292,704)
Proceeds from bank borrowings		645,000	646,000
Repayments of bank borrowings		(688,000)	(636,000)
Restricted bank deposits		(2,500)	–
Government grants received		–	37,247
Net cash generated from/(used in) financing activities		699,998	(245,457)
Net increase in cash and cash equivalents		425,269	117,976
Cash and cash equivalents at beginning of the year	14	342,682	224,706
Cash and cash equivalents at end of the year	14	767,951	342,682

The notes on pages 55 to 118 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 PRC and sells mainly to customers located in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 21 March 2011.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Changes in accounting standards and interpretations

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

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

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting standards and interpretations (Continued)

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

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The revised standard has no impact on the current period, as there was no business combination.

HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The revised standard has no significant impact on the current period.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating leases using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest the title of which is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

  HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases. As a result of the reassessment, it has no impact to the Group's financial statements.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting standards and interpretations (Continued)

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners', effective on or after 1 July 2009. The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of HKFRS for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting standards and interpretations (Continued)

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) (Continued)

- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined in paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC) 11, 'HKFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of Group arrangements that were not covered by that interpretation.

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations', effective 1 January 2010. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting standards and interpretations (Continued)

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted.

The Group's assessment of the impact of these new standards and interpretations is set out below.

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

- HKAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes HKAS 24, 'Related party disclosures', issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. It is not expected to have any impact to the Group's financial statements.

- Classification of rights issues' (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with HKAS 8 'Accounting policies, changes in accounting estimates and errors'. It is not expected to have any impact to the Group's financial statements.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting standards and interpretations (Continued)

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted (Continued)

- HK (IFRIC) 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group's financial statements.

- 'Prepayments of a minimum funding requirement' (amendments to HK (IFRIC) 14). The amendments correct an unintended consequence of HK (IFRIC) 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK (IFRIC) 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. It is not expected to have any impact to the Group's financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

2. Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2. Summary of significant accounting policies *(Continued)*

2.5 Leasehold land payments

Leasehold land payments represent up-front prepayments made for the usage of leasehold land in the PRC less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the up-front prepayments for land over the remaining lease term.

Amortisation on leasehold land payments is calculated using the straight-line method to allocate their costs over their estimated useful lives (10 to 50 years).

2.6 Property, plant and equipment

Property, plant and equipment, comprising plant, machinery, furniture and fixtures, and vehicles, are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress includes plant under construction and machinery under installation and testing and which, upon completion, management intends to hold as property, plant and equipment. They are carried at cost which includes cost of construction, plant and equipment and other direct cost plus borrowing costs that used to finance these projects during the construction period less accumulated impairment losses if any. No depreciation is provided for construction in progress. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment, except for construction in progress, is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Plant	15~20 years
Machinery	8~10 years
Furniture and fixtures	3~8 years
Vehicles	5~8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in the consolidated income statement under the other income and other operating expenses respectively.

2. Summary of significant accounting policies (Continued)

2.7 Intangible assets

Patents

Separately acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated beneficial period of 20 years.

2.8 Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life – for example, intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.9 Financial Assets

(a) *Classification*

The Group classifies its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables before prepayments", "short-term bank deposits" and "cash and cash equivalents" in the balance sheet (Notes 2.11 and 2.12).

(b) *Recognition and measurement*

Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.11.

2. Summary of significant accounting policies *(Continued)*

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling and marketing expenses.

2.11 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within "administrative expenses". When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expense in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. Summary of significant accounting policies *(Continued)*

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. Summary of significant accounting policies *(Continued)*

2.17 Current and deferred income tax *(Continued)*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to incomes taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits – pension

Group companies operate various pension schemes. In accordance with the rules and regulations in the PRC, the employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by Shandong Provincial, Shaanxi Provincial, Jiangsu Provincial and Inner Mongolia Autonomous Regional governments. The Shandong Provincial, Shaanxi Provincial, Jiangsu Provincial and Inner Mongolia Autonomous Regional governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. The Group's contributions to these plans are charged to consolidated income statement as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

2. Summary of significant accounting policies (Continued)

2.19 Share-based payments

The Group operates two equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in a subsidiary, with a corresponding credit to equity.

2.20 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the acquisition of property, plant and equipment are included in liabilities as deferred income and are credited to the consolidated income statement over the periods and in the proportions in which depreciation on these assets is charged.

2. Summary of significant accounting policies *(Continued)*

2.22 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales; are capitalised as part of the cost of that asset during the period of time that is required to complete and prepare the asset for its intended use.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods*

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised using the effective interest method.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2. Summary of significant accounting policies (Continued)

2.25 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.26 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use;

(b) management intends to complete the intangible asset and use it;

(c) there is an ability to use the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders, or directors, where applicable.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Directors do not consider the exposure to foreign exchange risk is significant to the Group's operation as the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Therefore, the Group has not used any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2010.

However, foreign currencies, mainly USD and HKD, are received from sales of products to countries or areas outside the PRC ("Export Sales") and issuance of convertible bonds. Export Sales denominated in foreign currencies amount to approximately 13% (2009: 10%) of the Group's total turnover for the year ended 31 December 2010. The Group manages the currency risk arising from sales of products by customers paying in advance or keeping the credit period available to customers as short as possible in order to reduce the effect on the fluctuation between USD, EUR and RMB. The Group manages the currency risk arising from proceeds from issuance of convertible bonds by utilisation of the proceeds as soon as possible.

The maximum exposures to the foreign exchange risks are disclosed in Note 13 and 14 respectively.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) *Market risk (Continued)*

(i) Foreign exchange risk (Continued)

The following table summarises the sensitivity of the Group's financial assets to foreign exchange risk based on the assumption that RMB had strengthened/weakened by 10% against USD and HKD (pegged with USD) with all other variables held constant.

	Foreign exchange risk			
	+10%		-10%	
	Profit	Equity	Profit	Equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2010				
Financial assets				
Cash and cash equivalents	(48,397)	(48,397)	48,397	48,397
Trade and other receivables	(10,591)	(10,591)	10,591	10,591
Total (decrease)/increase	(58,988)	(58,988)	58,988	58,988
31 December 2009				
Financial assets				
Cash and cash equivalents	(991)	(991)	991	991
Trade and other receivables	(7,670)	(7,670)	7,670	7,670
Total (decrease)/increase	(8,661)	(8,661)	8,661	8,661

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for bank deposits and balances, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its current borrowings. A portion of current borrowings bear variable rates and expose the Group to cash flow interest rate risk.

Fair value interest rate risk arises from convertible bonds, which bear fixed interest rates. The carrying amounts and fair values of the non-current borrowings have been disclosed in Note 20. The Group has not used any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2010.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

The sensitivity analysis for interest rate risk is based on the assumption that interest rate had been 10% lower/higher from the year end rates with all other variables held constant:

		Interest rate risk			
		-10%		+10%	
	Carrying amount	Profit	Equity	Profit	Equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2010					
Financial liabilities					
Borrowings bear variable rates	130,000	651	651	(651)	(651)
31 December 2009					
Financial liabilities					
Borrowings bear variable rates	250,000	885	885	(885)	(885)

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, short term bank deposits, trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that deposits are put in reputable banks. For sales of goods, customers of the Group usually pay in advance before the delivery of products. Credit will only be granted to some customers with long term relationship. The Group performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral on trade receivables. Credit quality of the financial assets is disclosed in Note 10.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the available credit facilities to meet obligations when they arise.

Management monitors the funding requirements of the Group and the availability of credit facilities in order to ensure the liquidity of the Group.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) *Liquidity risk (Continued)*

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*
The Group			
At 31 December 2010			
Borrowings	555,000	–	1,025,000
Interests payments on bank borrowings and convertible bonds (i)	69,318	46,125	115,313
Trade, other payables and accruals	1,625,678	–	–
Total	2,249,996	46,125	1,140,313
At 31 December 2009			
Borrowings	418,000	180,000	–
Interests payments on bank borrowings (i)	22,873	6,040	–
Trade, other payables and accruals	1,000,387	–	–
Total	1,441,260	186,040	–

(i) The interests on borrowings are calculated based on borrowings and convertible bonds held as at 31 December 2010 and 2009 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2010 and 2009 respectively.

3. Financial risk management *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is equal to total borrowings at the end of the year divided by total assets at the end of the corresponding year.

During 2010, the Group's strategy, which was changed from 2009, was to maintain the gearing ratio below 30% (2009: 10% to 20%). The gearing ratios at 31 December 2010 and 2009 were as following:

	2010	2009
	RMB'000	*RMB'000*
Total borrowings *(Note 20)*	**1,536,458**	598,000
Total assets	**6,720,265**	4,261,021
Gearing ratio	**22.86%**	14.03%

The increase in the gearing ratio for the year ended 31 December 2010 resulted primarily from the issuance of convertible bonds, leading to the increase of borrowing scale for the expansion of the Group.

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, which is not currently relevant for the Group as the Group does not have any financial instruments that are measured in the balance sheet at fair value as at 31 December 2010.

The carrying value less impairment provision of trade and other receivables, cash and cash equivalents and short-term bank deposits are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Estimated impairment of intangible assets

The Group tests annually whether intangible asset has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates *(Note 8)*.

A full impairment charge of RMB14,002,000 arose in the patents purchased during the year ended 31 December 2010, resulting in the carrying amount of the patents being written down to zero.

4.2 Borrowing costs eligible for capitalisation

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

Borrowing costs capitalised into property, plant and equipment are shown in Note 7.

4.3 PRC taxes

The Group is mainly subject to different taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the tax and deferred tax provisions in the period in which such determination is made.

5. 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, pharmaceuticals and bricks;

– Xanthan gum

Approximately 87% (2009: 90%) of the Group's revenue are generated from 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 2010 and 2009 are set out as following:

	2010	2009
	RMB'000	*RMB'000*
MSG	**3,892,506**	2,245,307
Glutamic acid	**153,633**	720,631
Corn refined products	**773,563**	557,523
Xanthan gum	**681,725**	408,124
Fertilisers	**369,649**	361,468
Starch sweeteners	**356,704**	245,168
Corn oil	**103,680**	61,575
Threonine	**28,145**	–
Others	**56,820**	33,088
	6,416,425	4,632,884

5. Segment information *(Continued)*

The segment information and capital expenditure for the year ended 31 December 2010 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	5,734,700	681,725	–	6,416,425
Segment results	922,741	219,628	(38,657)	1,103,712
Finance costs *(Note 26)*				(32,383)
Profit before income tax				1,071,329
Income tax expense *(Note 27)*				(105,278)
Profit for the year				966,051
Other segment items included in the income statement				
Depreciation *(Note 7)*	214,394	36,383	518	251,295
Amortisation of leasehold land payments *(Note 6)*	2,421	229	–	2,650
Loss on disposal of property, plant and equipment *(Note 30)*	(6,752)	–	–	(6,752)
Gain on disposal of leasehold land payment *(Note 30)*	1,836	–	–	1,836
Capital expenditure *(Notes 6, 7 and 8)*	1,824,396	86,014	1,928	1,912,338

The segment assets and liabilities at 31 December 2010 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	5,467,764	747,285	505,216	6,720,265
Total liabilities	2,408,595	173,673	992,732	3,575,000

5. 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*
Revenue	4,224,760	408,124	–	4,632,884
Segment results	934,166	136,014	(21,332)	1,048,848
Finance costs *(Note 26)*				(25,251)
Profit before income tax				1,023,597
Income tax expense *(Note 27)*				(95,312)
Profit for the year				928,285
Other segment items included in the income statement				
Depreciation *(Note 7)*	156,306	33,479	551	190,336
Amortisation of leasehold land payments *(Note 6)*	2,745	229	–	2,974
Reversal of write-down of inventories *(Note 12)*	(1,554)	–	–	(1,554)
Gain on disposal of property, plant and equipment *(Note 30)*	(2,925)	–	–	(2,925)
Capital expenditure *(Notes 6 and 7)*	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*
Segment assets and liabilities				
Total assets	3,530,535	689,624	40,862	4,261,021
Total liabilities	1,529,617	334,088	3,605	1,867,310

5. Segment information (Continued)

Unallocated assets mainly comprise cash and cash equivalents, property, plant and equipment and other receivables held by non-PRC established companies and Beijing Huijinhuaying for the Group as a whole.

Unallocated liabilities mainly comprise liability component of convertible bonds, operating liabilities held by non-PRC established companies for the Group as a whole.

The result of its revenue from external customers in the PRC is RMB5,562,690,000 (2009: RMB4,141,402,000) and the total of revenue from external customers from Hong Kong and other countries is RMB853,735,000 (2009: RMB491,482,000).

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 the PRC is RMB4,256,805,000 (2009: RMB2,648,003,000), and the total of these non-current assets located in Hong Kong is RMB57,000 (2009: RMB54,000).

Revenues of approximately RMB172,021,000 (2009: RMB375,304,000) are derived from a single external customer. These revenues are attributable to the MSG segment.

6. Leasehold land payments – The Group

Leasehold land payments represent the prepaid operating lease payments for the medium term leasehold land (10 to 50 years) located in Shandong Province, Shaanxi Province, Inner Mongolia Autonomous Region, Jiangsu Province and Beijing in the PRC, and their net book values are analysed as follows:

	2010	2009
	RMB'000	*RMB'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**169,187**	140,160

6. Leasehold land payments – The Group *(Continued)*

As at 31 December 2010 and 2009, the net book value of leasehold land pledged as security for the Group's borrowings amounted to approximately RMB21,516,000 and RMB32,210,000 (Note 20), respectively.

	2010	2009
	RMB'000	*RMB'000*
Cost		
At beginning of the year	**152,722**	141,922
Additions	**42,631**	10,800
Disposals	**(16,558)**	–
At end of the year	**178,795**	152,722
Amortisation		
At beginning of the year	**(12,562)**	(9,588)
Charge for the year	**(2,650)**	(2,974)
Disposals	**5,604**	–
At end of the year	**(9,608)**	(12,562)
Net book value		
At end of the year	**169,187**	140,160

Amortisation expense is recorded in the administrative expenses in the consolidated income statement.

7. Property, plant and equipment

The Group

	2010					
	Plant *RMB'000*	Machinery *RMB'000*	Furniture and fixtures *RMB'000*	Vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2010	663,109	2,062,582	41,442	31,326	236,665	3,035,124
Additions	27,307	194,805	17,490	8,086	1,608,017	1,855,705
Transfer upon completion	122,463	470,101	–	–	(592,564)	–
Disposals	(29,112)	(12,823)	(19)	(406)	–	(42,360)
At 31 December 2010	783,767	2,714,665	58,913	39,006	1,252,118	4,848,469
Accumulated depreciation						
At 1 January 2010	(68,896)	(422,784)	(19,101)	(16,000)	–	(526,781)
Charge for the year	(30,825)	(209,394)	(7,346)	(3,730)	–	(251,295)
Disposals	11,879	5,465	14	303	–	17,661
At 31 December 2010	(87,842)	(626,713)	(26,433)	(19,427)	–	(760,415)
Provision for impairment loss						
At 1 January 2010	–	–	–	–	(446)	(446)
Disposals	–	–	–	–	67	67
At 31 December 2010	–	–	–	–	(379)	(379)
Net book value						
At 31 December 2010	695,925	2,087,952	32,480	19,579	1,251,739	4,087,675

7. Property, plant and equipment *(Continued)*

The Group *(Continued)*

	2009					
	Plant	Machinery	Furniture and fixtures	Vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2009	543,414	1,637,186	35,579	27,637	49,564	2,293,380
Additions	1,285	141,233	5,878	3,689	592,689	744,774
Transfer upon completion	118,522	284,285	–	–	(402,807)	–
Disposals	(112)	(122)	(15)	–	(2,781)	(3,030)
At 31 December 2009	663,109	2,062,582	41,442	31,326	236,665	3,035,124
Accumulated depreciation						
At 1 January 2009	(42,911)	(268,932)	(12,061)	(12,623)	–	(336,527)
Charge for the year	(26,006)	(153,899)	(7,054)	(3,377)	–	(190,336)
Disposals	21	47	14	–	–	82
At 31 December 2009	(68,896)	(422,784)	(19,101)	(16,000)	–	(526,781)
Provision for impairment loss						
At 1 January 2009	–	–	–	–	(2,008)	(2,008)
Disposals	–	–	–	–	1,562	1,562
At 31 December 2009	–	–	–	–	(446)	(446)
Net book value						
At 31 December 2009	594,213	1,639,798	22,341	15,326	236,219	2,507,897

(a) As at 31 December 2010 and 2009, the net book values of plant and machinery pledged as security for the Group's borrowings amounted to approximately RMB5,235,000 and RMB89,254,000, respectively (Note 20).

7. Property, plant and equipment (Continued)

The Group (Continued)

(b) Depreciation expense included in the consolidated income statement is as follows:

	2010 RMB'000	2009 RMB'000
Cost of sales	231,013	177,364
Administrative expenses	20,282	12,972
	251,295	190,336

(c) Borrowing cost capitalised into the cost of property, plant and equipment is as follows:

	2010 RMB'000	2009 RMB'000
Borrowing cost capitalised	34,739	–
Average borrowing rate	5.41%	–

The Company

	2010 Furniture and fixtures RMB'000	2009 Furniture and fixtures RMB'000
Cost		
At beginning of the year	282	280
Additions	52	2
At end of the year	334	282
Accumulated depreciation		
At beginning of the year	(228)	(146)
Charge for the year	(49)	(82)
At end of the year	(277)	(228)
Net book value		
At end of the year	57	54

8. Intangible assets – The Group

	Patents *RMB'000*
Year ended 31 December 2010	
Opening net book amount	–
Additions	14,002
Impairment charge *(Notes 23, 30)*	(14,002)
Closing net book amount	–

The carrying amount of the patents has been reduced to zero as the Group has assessed there is no recoverable amount as there is significant uncertainty relating to the future economic benefit through recognition of an impairment loss. This loss has been included in 'administrative expenses' in the income statement.

9. Investment in and loans to subsidiaries – The Company

	2010 ***RMB'000***	2009 *RMB'000*
Investment in subsidiaries (a)	**415,007**	407,831
Loans to subsidiaries (b)	**190,098**	196,699
Due from subsidiaries (c)	**805,204**	577,990
Due to a subsidiary (d)	**10,521**	10,521

9. Investment in and loans to subsidiaries – The Company (Continued)

(a) Investment in subsidiaries

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	415,007	407,831

The particulars of the Company's directly and indirectly owned subsidiaries are disclosed in Note 33.

(b) Loans to subsidiaries

The loans to subsidiaries, Summit Challenge and Expand Base as at 31 December 2010 and 2009, are unsecured, interests free and repayable on demand. Their carrying amounts approximate their fair values as at 31 December 2010 and 2009.

(c) Due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. Their carrying amounts approximate their fair values as at 31 December 2010 and 2009.

(d) Due to a subsidiary

The amounts due to a subsidiary are unsecured, interest-free and repayable on demand. Their carrying amounts approximate their fair values as at 31 December 2010 and 2009.

10. Credit quality of financial assets

Trade receivables and notes receivables

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counterparty default rates. The Group categorises its trade receivables into the following:

Group 1 – Bank acceptance notes for which the repayments are guaranteed by large state-owned banks.
Group 2 – Trade receivables due from customers with no defaults in the past.
Group 3 – Trade receivables due from customers with some defaults in the past.

The Group

	2010 RMB'000	2009 RMB'000
Group 1	501,332	514,519
Group 2	158,353	74,480
Group 3	4,231	4,527
	663,916	593,526

10. Credit quality of financial assets *(Continued)*

Cash and bank balances

The management considers the credit risks in respect of cash and bank deposits are relatively minimum as each counter party either bears a high credit rating or is State-owned PRC bank. The management believes the State is able to support the State-owned PRC banks in the event of a crisis.

The Group categorises its cash in banks into the following:

Group 1 – Major international banks (Hang Seng Bank, ABN AMRO Bank N.V. and The Hong Kong and Shanghai Banking Corporation Limited.)

Group 2 – Top 4 banks in Mainland China (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China)

Group 3 – Other State-owned banks in mainland PRC

The Group

	2010 RMB'000	2009 RMB'000
Group 1	282,997	9,907
Group 2	225,578	264,129
Group 3	406,057	93,846
	914,632	367,882

The Company

	2010 RMB'000	2009 RMB'000
Group 1	280,616	7,402
Group 3	199,188	–
	479,804	7,402

None of the financial assets that are fully performing has been renegotiated in the current or last year.

11. Deferred income tax – The Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	2010 RMB'000	2009 RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	13,437	2,150
– Deferred income tax assets to be recovered within 12 months	7,322	3,012
	20,759	5,162
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(26,841)	(24,176)
– Deferred income tax liabilities to be settled within 12 months	(192)	(45)
	(27,033)	(24,221)
Deferred income tax liabilities, net	(6,274)	(19,059)

The gross movement on the deferred income tax account is as follows:

	2010 RMB'000	2009 RMB'000
Beginning balance of the year	(19,059)	(10,505)
Income statement credit/(charge) *(Note 27)*	12,785	(14,915)
Transferred to current income tax liabilities	–	6,361
Ending balance of the year	(6,274)	(19,059)

Deferred income tax is calculated on temporary differences under the liability method.

11. Deferred income tax – The Group *(Continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Unrealised profit *RMB'000*	Deferred income *RMB'000*	Staff pension plan *RMB'000*	Others *RMB'000*	Total *RMB'000*
1 January 2009	–	317	–	106	423
Credited/(Charged) to income statement *(Note 27)*	2,456	1,444	1,218	(379)	4,739
31 December 2009	2,456	1,761	1,218	(273)	5,162
Credited to income statement *(Note 27)*	10	10,645	1,735	3,207	15,597
31 December 2010	**2,466**	**12,406**	**2,953**	**2,934**	**20,759**

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise the deferred income tax assets in respect of losses amounting to RMB4,299,000, as at 31 December 2010 (2009: nil), that can be carried forward against future taxable income because it is uncertain whether there will be sufficient profit to offset in the near future. Total tax losses of RMB4,299,000 (2009: nil) were carried forward and will expire in 2015.

Deferred income tax liabilities:

	Borrowing costs capitalisation *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
1 January 2009	928	10,000	10,928
(Credited)/charged to income statement *(Note 27)*	(46)	19,700	19,654
Credited to current income tax liabilities	–	(6,361)	(6,361)
31 December 2009	882	23,339	24,221
Charged to income statement *(Note 27)*	2,812	–	2,812
31 December 2010	**3,694**	**23,339**	**27,033**

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC, in respect of earnings generated after 31 December 2007. The Group's certain subsidiaries in the PRC are held by companies incorporated in Hong Kong and is subject to 5% withholding tax. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

11. Deferred income tax – The Group (Continued)

Deferred income tax liabilities as at 31 December 2010 of RMB72,468,000 (2009: RMB20,181,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiary in the PRC, totalling RMB1,718,451,000 (2009: RMB672,704,000). The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the retained profits of these PRC subsidiaries since the Group has no plan to distribute such profits in the foreseeable future.

12. Inventories – The Group

	2010 RMB'000	2009 RMB'000
Raw materials	311,420	222,083
Work-in-progress	72,206	39,182
Finished goods	327,069	289,763
	710,695	551,028

As at 31 December 2010, finished goods included a write-down of RMB839,000 (2009: RMB1,418,000). For the year ended 31 December 2010, the Group has reversed RMB579,000 (2009: RMB1,554,000) of a previous inventory write-down as the Group sold part of the underlying goods that were written down to third parties. The amount of RMB579,000 reversed was included in "cost of sales" in the consolidated income statement (Notes 23 and 30).

The cost of inventories recognised as expense and included in cost of sales and administrative expenses amounted to RMB4,471,834,000 (2009: RMB2,924,824,000).

13. Trade and other receivables

The Group

	2010 RMB'000	2009 RMB'000
Trade receivables (a)	162,584	79,007
Less: provision for impairment of receivables (b)	(4,231)	(4,527)
Trade receivables, net	158,353	74,480
Notes receivables (c)	501,332	514,519
Deposits and others	43,365	30,605
Value-added tax recoverable	78,863	37,913
Trade and other receivables before prepayments	781,913	657,517
Prepayments for raw materials	34,860	30,265
	816,773	687,782

13. Trade and other receivables *(Continued)*

The Group *(Continued)*

(a) As at 31 December 2010 and 2009, the ageing analyses of trade receivables were as follows:

	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**153,067**	69,727
3–12 months	**3,927**	3,537
Over 12 months	**5,590**	5,743
	162,584	79,007

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 2010, trade receivables of RMB4,117,000 (2009: RMB3,601,000) 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:

	2010	2009
	RMB'000	*RMB'000*
Past due within 3 months	**817**	1,167
Past due in 3–12 months	**3,300**	2,434
	4,117	3,601

(b) As of 31 December 2010, trade receivables of RMB4,231,000 (2009: RMB4,527,000) 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 as they existed before the Group acquired Shenhua Pharmaceutical in 2008, and are long overdue, and they relate to individual customers with doubtful repayment ability. The ageing of these receivables is as follows:

	2010	2009
	RMB'000	*RMB'000*
Past due over 12 months	**4,231**	4,527

13. Trade and other receivables *(Continued)*

The Group *(Continued)*

(b) *(Continued)*

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

	2010 RMB'000	2009 RMB'000
As at 1 January	**4,527**	4,622
Reversal of amounts subsequently collected	**(296)**	(95)
As at 31 December	**4,231**	4,527

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 2010, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB471,952,000 (2009: RMB499,831,000) 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 before prepayments are denominated in the following currencies:

	2010 RMB'000	2009 RMB'000
– RMB	**675,255**	580,818
– USD	**105,911**	75,582
– EUR	**747**	1,117
	781,913	657,517

13. Trade and other receivables *(Continued)*

The Company

	2010 RMB'000	2009 RMB'000
Deposits and other receivables	**344**	1,451

14. Cash and bank balances

The Group

	2010 RMB'000	2009 RMB'000
Cash and cash equivalents		
– Cash on hand	**544**	1,110
– Cash in bank	**767,407**	341,572
	767,951	342,682
Short-term bank deposits		
– Secured (a)	**147,225**	26,310
	915,176	368,992
Cash and bank balances denominated in		
– RMB	**431,161**	359,084
– USD	**267,605**	48
– HKD	**216,367**	9,860
– EUR	**43**	–
	915,176	368,992

14. Cash and bank balances (Continued)

The Group *(Continued)*

(a) The short-term bank deposits as at 31 December 2010 included restricted bank deposits of RMB147,225,000 (2009: RMB26,310,000) pledged as security for following instruments:

	2010 RMB'000	2009 RMB'000
Issuing bank acceptance notes	143,945	25,000
Bank borrowings	2,500	–
Issuing letters of credit and letters of guarantee	510	1,310
Tenders	270	–
	147,225	26,310

(b) The Group's cash and bank balances denominated in RMB were deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(c) The weighted average effective interest rates on cash placed with banks and deposits by the Group were 0.35% and 0.47% per annum for the years ended 31 December 2010 and 2009, respectively.

The Company

	2010 RMB'000	2009 RMB'000
Cash and cash equivalents	479,805	7,403
Cash and bank balances denominated in		
– USD	265,820	48
– HKD	213,985	7,355
	479,805	7,403

The weighted average effective interest rates on cash placed with banks and deposits by the Company were 0.25% and 0.58% per annum for the years ended 31 December 2010 and 2009, respectively.

15. Share capital and premium

		Amount		
	Number of shares *(thousands)*	**Ordinary shares** *RMB'000*	**Share premium** *RMB'000*	**Total** *RMB'000*
At 1 January 2009	1,660,000	169,034	1,078,144	1,247,178
Dividends (a)	–	–	(292,704)	(292,704)
At 31 December 2009	1,660,000	169,034	785,440	954,474
Employee share option schemes:				
– Proceeds from shares issued	58,686	5,063	140,646	145,709
Dividends (a)	–	–	(379,422)	(379,422)
At 31 December 2010	**1,718,686**	**174,097**	**546,664**	**720,761**

The total number of authorised ordinary shares is 10,000,000,000 shares with a par value of HKD0.10 per share as at 31 December 2010 and 2009.

(a) According to the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands and the articles of association of the Company, the dividends can be declared out of share premium account subject to a solvency test.

16. Other reserves

	The Group				
	Convertible bonds (Note 20) RMB'000	Capital reserve (Note (a)) RMB'000	Statutory reserves (Note (b)) RMB'000	Share-based payment reserve (Note 17) RMB'000	Total RMB'000
1 January 2009	–	(370,760)	92,990	29,866	(247,904)
Profit appropriation *(Note 18)*	–	–	60,208	–	60,208
Employee share options schemes:					
– Value of employee services *(Notes 17, 24)*	–	–	–	16,616	16,616
31 December 2009	–	(370,760)	153,198	46,482	(171,080)
Profit appropriation *(Note 18)*	–	–	74,879	–	74,879
Employee share options schemes:					
– Value of employee services *(Notes 17, 24)*	–	–	–	15,180	15,180
– Proceeds from shares issued	–	–	–	(32,817)	(32,817)
Convertible bonds – equity component	36,853	–	–	–	36,853
31 December 2010	**36,853**	**(370,760)**	**228,077**	**28,845**	**(76,985)**

	The Company		
	Convertible bonds (Note 20) RMB'000	Share-based payment reserve (Note 17) RMB'000	Total RMB'000
1 January 2009	–	29,866	29,866
Employee share options schemes:			
– Value of employee services *(Notes 17, 24)*	–	16,616	16,616
31 December 2009	–	46,482	46,482
Employee share options schemes:			
– Value of employee services *(Notes 17, 24)*	–	15,180	15,180
– Proceeds from shares issued	–	(32,817)	(32,817)
Convertible bonds – equity component	36,853	–	36,853
31 December 2010	**36,853**	**28,845**	**65,698**

16. Other reserves (Continued)

(a) Capital reserve

It mainly represents reserve arising from the Group's reorganisation completed in July 2006.

(b) Statutory reserves

In accordance with the PRC regulations and the Articles of the Association of the companies comprising the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the entity's share capital after such issuance.

17. Share-based payment – Group and Company

The Company adopted a Pre-IPO Share Option Scheme and a Post-IPO Share Option Scheme on 10 January 2007, pursuant to which the Company is entitled to grant options prior to and after the IPO.

(1) Pre-IPO Share Option Scheme

Pursuant 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, and no further share options will be granted under the Pre-IPO share option scheme. These options vest in tranches over a period of up to 4.5 years.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2010		2009	
	Average exercise price in HKD per share	Options (thousands)	Average exercise price in HKD per share	Options (thousands)
At 1 January	2.23	81,440	2.23	81,440
Granted	2.23	–	2.23	–
Exercised	2.23	(58,686)	2.23	–
At 31 December	2.23	22,754	2.23	81,440

Out of the 22,754,000 options (2009: 81,440,000), 504,400 options (2009: 33,595,200) were exercisable as at 31 December 2010. Options exercised in 2010 resulted in 58,686,000 shares being issued at a weighted average price of HKD2.23 each. The related weighted average share price at the time of exercise was HKD6.20 per share. No options were exercised in 2009.

17. Share-based payment – Group and Company *(Continued)*

(1) Pre-IPO Share Option Scheme *(Continued)*

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price HKD per share	Number of options (thousands) 2010	2009
7 August 2011	2.23	–	16,000
7 August 2012	2.23	22,754	65,440
		22,754	81,440

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 RMB55,134,000. 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	HKD1.98
Exercise price	HKD2.23
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 HKD1.98 was estimated by the management at the grant date.

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2010 was approximately RMB5,129,000 (2009: RMB10,118,000).

No option is being granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2010 and 2009.

17. Share-based payment – Group and Company (Continued)

(2) Post-IPO Share Option Scheme

Pursuant to the Post-IPO Share Option Scheme, options to subscribe for an aggregate of 64,110,000 shares of the Company were granted to certain director and eligible employees in 2009 and an aggregate of 5,000,000 shares of the Company were granted to certain director in 2010. These options vest in tranches over a period of up to 4.5 years.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2010		2009	
	Average exercise price in HKD per share	Options (thousands)	Average exercise price in HKD per share	Options (thousands)
At 1 January	3.00	62,360	–	–
Granted	8.20	5,000	3.00	64,110
Forfeited	3.00	(11,250)	3.00	(1,750)
At 31 December	3.46	56,110	3.00	62,360

Out of the 56,110,000 options (2009: 62,360,000), no options (2009: no options) were exercisable as at 31 December 2010.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price HKD per share	Number of options (thousands) 2010	2009
13 January 2015	3.00	51,110	62,360
9 May 2016	8.20	5,000	–
		56,110	62,360

17. Share-based payment – Group and Company *(Continued)*

(2) Post-IPO Share Option Scheme *(Continued)*

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 dates is approximately RMB55,963,000. 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	
	Granted on 09 November 2010	Granted on 14 July 2009
Average share price	**HKD8.14**	HKD2.81
Exercise price	**HKD8.20**	HKD3.00
Expected life of options	**3.0-5.0 years**	3.0-5.0 years
Expected volatility	**51.30-55.63%**	46.04-51.34%
Expected dividend yield	**3.14%**	3.56%
Risk free rate	**0.506-1.021%**	1.032-1.745%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2010 was approximately RMB10,051,000 (2009: RMB6,498,000).

18. Retained earnings/(Accumulated losses)

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
1 January	**1,610,317**	742,240	**179,285**	(122,536)
Profit/(Loss) for the year	**966,051**	928,285	**(81,422)**	301,821
Profit appropriation to statutory reserves	**(74,879)**	(60,208)	**–**	–
31 December	**2,501,489**	1,610,317	**97,863**	179,285

19. Deferred income – The Group

	2010 *RMB'000*	2009 *RMB'000*
Deferred income	**141,810**	90,880

Deferred income includes government grants related to purchase of qualified domestic manufactured equipment and acquisition of certain raw materials, property, plant and equipment, environment protection and technology improvement.

(a) Government grants related to purchase of qualified domestic manufactured equipment

It represents reduction in income tax granted to Shandong Fufeng in the year ended 31 December 2003, Baoji Fufeng in the year ended 31 December 2008 and 2010 and IM Fufeng in the year ended 31 December 2009 and 2010 respectively on purchase of certain qualified domestic manufactured equipment. It is recognised in the income statement over the periods and in the proportions in which depreciation on these assets is charged. The maturity profile of the government grant credit is as follows:

	2010 *RMB'000*	2009 *RMB'000*
Within 10 years	**81,817**	37,042

The movements of the above government grant during the years ended 31 December 2010 and 2009 are as follows:

	2010 *RMB'000*	2009 *RMB'000*
At beginning of the year	**37,042**	5,528
Granted during the year	**57,845**	37,304
Amortised as income *(Note 22)*	**(13,070)**	(5,790)
At end of the year	**81,817**	37,042

19. Deferred income – The Group *(Continued)*

(b) Government grants related to acquisition of certain raw materials, property, plant and equipment, environment protection and technology improvement

They represent grants from the government relating to the acquisition of certain raw materials, property, plant and equipment, environment protection and technology improvement. Grants received are recorded as deferred income and recognised in the income statement over the periods and in the proportions in which depreciation on these assets is charged or over the periods necessary to match them with the costs that they are intended to compensate. The maturity profile of these deferred government grants is as follows:

	2010	2009
	RMB'000	*RMB'000*
Within 10 years	**59,993**	53,838

The movements of the above government grants for the year ended 31 December 2010 and 2009 are as follows:

	2010	2009
	RMB'000	*RMB'000*
At beginning of the year	**53,838**	28,962
Granted during the year	**49,406**	44,607
Amortised as income *(Note 22)*	**(43,251)**	(19,731)
At end of the year	**59,993**	53,838

20. Borrowings

The Group

	2010 RMB'000	2009 RMB'000
Non-current		
Long-term bank borrowings, secured	–	150,000
Long-term bank borrowings, unsecured	–	100,000
Convertible bonds	981,458	–
	981,458	250,000
Less: Current portion of long-term bank borrowings, secured	–	(70,000)
	981,458	180,000
Current		
Short-term bank borrowings, guaranteed and secured	30,000	–
Short-term bank borrowings, secured	30,000	–
Short-term bank borrowings, unsecured	495,000	348,000
Current portion of long-term bank borrowings, secured	–	70,000
	555,000	418,000
Total borrowings	1,536,458	598,000

The Company

	2010 RMB'000	2009 RMB'000
Non-current		
Convertible bonds	981,458	–

(a) *Bank borrowings*

As at 31 December 2010, all the bank borrowings were denominated in RMB and included: (i) RMB30,000,000 guaranteed by Mr. Li Xuechun (Note 32(b)) and secured by leasehold land (Note 6) and plant (Note 7); (ii) RMB30,000,000 pledged by restricted bank deposits of RMB2,500,000 (Note 14(a)).

As at 31 December 2009, all the bank borrowings were denominated in RMB and included bank borrowings of RMB150,000,000 secured by leasehold land (Note 6) and plant and machinery (Note 7).

20. Borrowings *(Continued)*

(a) *Bank borrowings (Continued)*

As at 31 December 2010 and 2009, the Group's bank borrowings were repayable as follows:

	2010 **RMB'000**	2009 RMB'000
Within 1 year	**555,000**	418,000
Between 1 and 2 years	**–**	180,000
	555,000	598,000

The weighted average effective interest rates at the balance sheet dates were as follows:

	2010	2009
Bank borrowings	**5.30%**	4.98%

The carrying amounts and fair values of the non-current bank borrowings are as follows:

	Carrying amounts	
	2010 **RMB'000**	2009 RMB'000
Bank borrowings	**–**	180,000

	Fair values	
	2010 **RMB'000**	2009 RMB'000
Bank borrowings	**–**	178,169

As of 31 December 2009, the fair values are based on cash flows discounted using a rate based on the primary rate published by the People's Bank of China of 5.40% per annum.

The carrying amounts of current bank borrowings approximate their fair values.

20. Borrowings (Continued)

(a) *Bank borrowings (Continued)*

Interest rates of the bank borrowings are reset periodically according to the primary rate announced by the People's Bank of China. The exposure of the Group's bank borrowings to interest-rate changes and the contractual re-pricing dates are as follows:

	2010 RMB'000	2009 RMB'000
6 months or less	–	100,000
6 to 12 months	555,000	318,000
1 to 2 years	–	180,000
	555,000	598,000

(b) *Convertible bonds*

The Company issued 8,200 and 2,050 of 4.5% convertible bonds at a par value of the total amounted to RMB1,025,000,000 settled in USD on 1 April 2010 and 22 April 2010 respectively. 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 HKD7.03 per share. The values of the liability component and the equity conversion component, net off transaction cost of RMB25,679,000, were determined at issuance of the bonds.

The fair value of the liability component, included in non-current borrowings, was calculated using a market interest rate of 5.08% for an equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves (Note 16).

The convertible bonds recognised in the balance sheet is calculated as follows:

	2010 RMB'000
Net proceeds from convertible bonds issued on 25 March 2010	1,011,621
Equity component *(Note 16)*	(36,853)
Liability component on initial recognition at 25 March 2010	974,768
Interest expense on convertible bonds *(Note 26)*	41,284
Interest paid	(23,063)
Liability component at 31 December 2010	992,989
Including:	
– Interest payable – current portion *(Note 21)*	11,531
– Carrying amount at 31 December 2010	981,458

The fair value of the liability component of the convertible bonds at 31 December 2010 amounted to RMB981,458,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 5.64%.

21. Trade, other payables and accruals

The Group

	2010 RMB'000	2009 RMB'000
Trade payables (a)	614,194	493,092
Advances from customers (b)	147,604	111,330
Bank acceptance notes payable	149,945	–
Payables for leasehold land, property, plant and equipment	743,499	430,991
Salaries, wages and staff welfares payables	58,313	52,303
Interest payable – current portion	11,531	–
Unused government grants	29,702	4,312
Dividend payable	407	–
Other payables and accruals	83,827	48,447
	1,839,022	1,140,475

(a) As at 31 December 2010 and 2009, the ageing analyses of trade payables were as follows:

	2010 RMB'000	2009 RMB'000
Within 3 months	575,781	465,313
3 to 6 months	23,959	11,644
6 to 12 months	5,594	4,751
Over 12 months	8,860	11,384
	614,194	493,092

As at 31 December 2010, notes receivables of RMB471,952,000 (2009: RMB499,831,000) 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 and are mainly denominated in RMB.

The Company

	2010 RMB'000	2009 RMB'000
Interest payables - current portion	11,531	–
Dividend payable	407	–
Other payables and accruals	2,276	666
	14,214	666

22. Other income

	2010 RMB'000	2009 RMB'000
Interest income	**3,625**	1,502
Amortisation of deferred income *(Note 19)*	**56,321**	25,521
Sales of waste products	**49,090**	32,774
Others	**1,514**	4,111
	110,550	63,908

23. Expense by nature

	2010 RMB'000	2009 RMB'000
Changes in inventories of finished goods and work in progress	**(69,751)**	(122,924)
Raw materials and consumables used	**4,541,585**	3,047,748
Employee benefit expenses *(Note 24)*	**336,294**	259,587
Depreciation *(Note 7)*	**251,295**	190,336
Amortisation of leasehold land payments *(Note 6)*	**2,650**	2,974
Impairment charges for intangible assets *(Note 8)*	**14,002**	–
Transportation expenses	**205,759**	157,188
Utilities purchased	**22,442**	3,753
Travelling and office expenses	**18,858**	14,564
Reversal of write-down of inventories *(Note 12)*	**(579)**	(1,554)
Reversal of provision of trade receivables	**(296)**	–
Auditors' remuneration	**4,091**	4,245
Land use tax, real estate tax and other taxes	**23,074**	24,457
Advertisement fee	**11,287**	20,794
Foreign exchange losses	**18,044**	1,576
Others	**44,508**	45,200
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**5,423,263**	3,647,944

24. Employee benefit expenses including directors' emoluments

	2010 RMB'000	2009 RMB'000
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	296,355	224,299
– Pension costs-defined contribution plans *(Note (a))*	24,759	18,672
– Share options granted to directors and employees *(Note 17)*	15,180	16,616
	336,294	259,587

(a) Retirement benefit costs – defined contribution plans

The employees of the Group's subsidiaries established in the PRC participated in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group was required to make monthly contributions to these plans at the rate of 20% of the employees' basic salary for Shandong Province, Shaanxi Province, Inner Mongolia Autonomous Region and Jiangsu Province, respectively, for the year ended 31 December 2010 and 2009.

(b) Directors' emoluments

The emoluments of every director for the years ended 31 December 2010 and 2009, on a named basis, are set out as below:

	2010			
Name of Director	Fees RMB'000	Salaries, allowances and pension costs RMB'000	Fair value of employee share options granted RMB'000	Total RMB'000
Executive Directors:				
Li, Xuechun	–	1,870	–	1,870
Wang, Longxiang	–	1,300	1,175	2,475
Feng, Zhenquan	–	807	–	807
Xu, Guohua	–	706	–	706
Li, Deheng	–	799	–	799
Gong, Qingli	–	300	322	622
Li, Guangyu*	–	419	–	419
Chen, Yuan**	–	430	571	1,001
Independent non-executive Directors:				
Choi, tze kit, Sammy	240	–	–	240
Chen, Ning	50	–	–	50
Liang, Wenjun	50	–	–	50
	340	6,631	2,068	9,039

* *Appointed on 31 March 2010.*
** *Appointed on 9 November 2010.*

24. Employee benefit expenses including directors' emoluments *(Continued)*

(b) Directors' emoluments *(Continued)*

	2009			
Name of Director	Fees	Salaries, allowances and pension costs	Fair value of employee share options granted	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors:				
Li, Xuechun	–	1,105	–	1,105
Wang, Longxiang	–	1,030	2,212	3,242
Wu, Xindong ***	–	530	–	530
Yan, Ruliang *	–	174	–	174
Feng, Zhenquan	–	636	–	636
Xu, Guohua	–	570	–	570
Li, Deheng	–	633	–	633
Li, Hongyu **	–	175	167	342
Gong, Qingli	–	250	1,072	1,322
Independent non-executive Directors:				
Choi, tze kit, Sammy	211	–	–	211
Chen, Ning	50	–	–	50
Liang, Wenjun	50	–	–	50
	311	5,103	3,451	8,865

* *Resigned on 15 May 2009.*
** *Resigned on 8 January 2010.*
*** *Resigned on 9 March 2010.*

There was no bonus paid to the directors of the Company for the years ended 31 December 2010 and 2009.

No director waived or agreed to waive any remuneration for the years ended 31 December 2010 and 2009.

24. Employee benefit expenses including directors' emoluments (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2010 include three directors (2009: two) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals during the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and allowances	1,098	1,379
Pension costs-defined contribution plan	12	70
Share options granted to employees	940	2,212
	2,050	3,661

For the years ended 31 December 2010 and 2009, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

The remunerations paid to the above non-director individuals for the year ended 31 December 2010 and 2009 fell within the following bands.

	Number of individuals 2010	2009
Emolument bands (in HK dollar)		
HKD1,000,001 – HKD1,500,000	2	2
HKD1,500,001 – HKD2,000,000	–	1

25. Research and development costs

The following amounts were recognised as expenses and charged to administrative expenses in the consolidated income statement:

	2010 RMB'000	2009 RMB'000
Research and non-capitalised development costs	89,158	36,203

All these development costs arose from internal development.

26. Finance costs

	2010 RMB'000	2009 RMB'000
Interest expense		
Bank borrowings wholly repayable within 2 years	**25,838**	25,251
Convertible bonds wholly repayable within 5 years *(Note 20)*	**41,284**	–
Less: amounts capitalised on qualifying assets	**(34,739)**	–
Finance costs	**32,383**	25,251

27. Taxation

(a) Income tax expense

	2010 RMB'000	2009 RMB'000
Current income tax		
– PRC enterprise income tax ("EIT")	**118,063**	80,397
Deferred income tax *(Note 11)*	**(12,785)**	14,915
	105,278	95,312

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 2010 and 2009.

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.

Effective from 1 January 2008, the subsidiaries incorporated in PRC are required to determine and pay the EIT in accordance with the Corporate Income Tax Law of the People's Republic of China (the "New EIT Law") as approved by the National People's congress on 16 March 2007 and Detailed Implementations Regulations of the New EIT Law (the "DIR") as approved by the State Council on 6 December 2007. According to the new EIT Law and DIR, the income tax rates for both domestic and foreign investment enterprises have been unified at 25% effective from 1 January 2008. For enterprises which were established before the publication of the New EIT Law and were entitled to preferential treatments of reduced EIT rates granted by relevant tax authorities, the New EIT rate will be gradually increased from the preferential rates to 25% within 5 years after the effective date of the new EIT Law on 1 January 2008. For the regions that enjoy a reduced EIT rate at 15%, the tax rate would gradually increase to 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 according to the grandfathering rules stipulated in the DIR and related circular. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

27. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

Effective from 5 December 2008, Shandong Fufeng was approved to be a high-technique enterprise. In accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 5 December 2004, Shandong Fufeng was entitled to a three-year 50% tax reduction from PRC state EIT of 30% and a full exemption from local EIT of 3% during its approved operating period of twelve years. Accordingly, the effective tax rate for Shandong Fufeng for the year ended 31 December 2010 is 15% (2009: 15%).

Baoji Fufeng was set up on 24 September 2004 as a foreign-invested limited liability company in Baoji, Shaanxi Province. As Baoji Fufeng is registered in China's western development region and its registered category is encouraged by the state, according to the Fiscal and Taxation (2001) No. 202 "The notice on the preferential tax policies of development of the western region issued by the Ministry of Finance, the State Administration of Taxation, General Administration of Customs", the applicable income tax rate is 15% from 2001 to 2010 for domestic and foreign invested enterprises set up in western region and encouraged by state. In addition, being a foreign-invested limited liability company and in accordance with the relevant tax laws and regulations and a local tax authority approval dated 31 May 2005, Baoji Fufeng is entitled to a two-year full exemption followed by a three-year 50% tax deduction from PRC state EIT, commencing from the first year with cumulative taxable profit since its establishment. Baoji Fufeng entered into its first profit making year during the year ended 31 December 2005. Besides, Baoji Fufeng was approved to be a high-technique enterprise. In accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 21 November 2009, Baoji Fufeng was entitled to a three-year 50% tax reduction from PRC state EIT of 30%. However, Baoji Fufeng chose to utilise the tax preference of "western development region". Accordingly, the effective tax rate for Baoji Fufeng for the years ended 31 December 2010 is 15% (2009: 7.5%).

IM Fufeng was set up as a foreign-invested limited liability company on 31 March 2006 in Hohhot, Inner Mongolia Autonomous Region. As IM Fufeng is registered in China's western development region and its registered category is encouraged by state, according to the Fiscal and Taxation (2001) No. 202 "The notice on the preferential tax policies of development of the western region issued by the Ministry of Finance, the State Administration of Taxation, General Administration of Customs", the applicable income tax rate is 15% from 2001 to 2010 for domestic and foreign invested enterprises set up in western region and encouraged by state. In addition, being a foreign-invested limited liability company and in accordance with the relevant tax laws and regulations and a local tax authority approval dated 16 April 2007, IM Fufeng is entitled to a two-year full exemption followed by a three-year 50% tax deduction from PRC state EIT, commencing from 2007. Besides, IM Fufeng was approved to be a high-technique enterprise. In accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 1 September 2010, IM Fufeng was entitled to a three-year 50% tax reduction from PRC state EIT of 30%. However, IM Fufeng chose to utilise the tax preference of "western development region". Accordingly, the effective tax rate for IM Fufeng for the year ended 31 December 2010 is 7.5% (2009: 7.5%).

Shandong Fufeng Biotechnology Development Company Limited was set up as a domestic limited liability company on 7 June 2007 in Junan, Shandong Province. The effective tax rate is 25% for the years ended 31 December 2010 and 2009.

Shenhua Pharmaceutical was acquired on 25 January 2008 and became a foreign-invested limited liability company after that. It is entitled to a two-year full exemption followed by a three-year 50% tax deduction from PRC state EIT, commencing from 2008. Accordingly, the effective tax rate for Shenhua Pharmaceutical for the year ended 31 December 2010 is 12.5% (2009: fully exempted).

Beijing Huijinhuaying is a domestic limited liability company. The effective tax rate is 25% for the year ended 31 December 2010 and 2009.

27. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

Hulunbeir Fufeng was set up as a domestic limited liability company on 14 May 2010 in Hulunbeir, Inner Mongolia Autonomous Region. The effective tax rate is 25% for the year ended 31 December 2010.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	2010 RMB'000	2009 RMB'000
Profit before income tax	1,071,329	1,023,597
Tax calculated at PRC statutory rate of 25%	267,832	255,899
Effect of tax exemption	(165,732)	(175,567)
Withholding tax on dividends from PRC subsidiaries *(Note 11)*	–	19,700
Unrecognised tax losses/(Utilisation of previously unrecognised tax losses)	4,575	(6,390)
Effect of change of tax rate upon assessing deferred tax assets	–	2,556
Expenses not deductible for tax purposes	372	183
Income not subject to tax	(1,769)	(1,069)
	105,278	95,312

(b) Value-added tax ("VAT")

Sales of self-manufactured products of the Company's PRC subsidiaries are subject to VAT. The applicable tax rates for domestic sales are 0%, 13% and 17%. Shandong Fufeng, Baoji Fufeng and IM Fufeng have been approved to use the "exempt, credit, refund" method on goods exported. The tax refund rate is 13%.

Input VAT on purchases of raw materials, fuel, utilities, certain fixed assets and other production materials (merchandise, transportation costs) are deductible from output VAT. VAT recoverable/(payable) is the net difference between output VAT and deductible input VAT.

28. Earnings per share

(a) Basic

Basic earnings per share for the years ended 31 December 2010 and 2009 are calculated by dividing the profit attributable to the Shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010 RMB'000	2009 RMB'000
Profit attributable to the Shareholders	966,051	928,285
Weighted average number of ordinary shares in issue (thousands)	1,672,801	1,660,000
Basic earnings per share (RMB cents per share)	57.75	55.92

28. Earnings per share (Continued)

(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 has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2010 RMB'000	2009 RMB'000
Profit attributable to the Shareholders	966,051	928,285
Interest expense on convertible bonds (net of tax)	17,786	–
Profit used to determine diluted earnings per share	983,837	928,285
Weighted average number of ordinary shares in issue (thousands)	1,672,801	1,660,000
Adjustments for:		
– Assumed conversion of convertible bonds (thousands)	122,967	–
– Share options (thousands)	37,083	1,249
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,832,851	1,661,249
Diluted earnings per share (RMB cents per share)	53.68	55.88

29. Dividends

	2010 RMB'000	2009 RMB'000
Interim, paid	159,775	146,411
Final, proposed	217,070	219,240

At a meeting held on 21 March 2011, the Board proposed a final dividend of HKD257,803,000 (equivalent to RMB217,070,000) (2009: HKD249,000,000 (equivalent to RMB219,240,000)), representing HK15 cents (equivalent to RMB12.63 cents) (2009: HK15 cents (equivalent to RMB13.21 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 2011.

30. Notes to consolidated cash flow statement – The Group

(a) Cash generated from operations

	2010 RMB'000	2009 RMB'000
Profit before income tax	1,071,329	1,023,597
Adjustments for:		
– Reversal of write-down of inventories *(Note12)*	(579)	(1,554)
– Reversal of provision for trade receivables *(Note 13)*	(296)	(95)
– Impairment provision for intangible assets *(Note 8)*	14,002	–
– Depreciation *(Note 7)*	251,295	190,336
– Amortisation of leasehold land payments *(Note 6)*	2,650	2,974
– Amortisation of deferred income *(Note 19)*	(56,321)	(25,521)
– Loss/(Gain) on disposal of property, plant and equipment *(Note (b))*	6,752	(2,925)
– (Gain)/ Loss on disposal of leasehold land payments *(Note (c))*	(1,836)	–
– Employee share option schemes *(Notes 17, 24)*	15,180	16,616
– Interest income *(Note 22)*	(3,625)	(1,502)
– Interest expenses *(Note 26)*	32,383	25,251
Changes in working capital:		
– Inventories	(159,088)	(193,186)
– Trade and other receivables	(119,458)	(469,332)
– Restricted bank deposits	(118,415)	16,550
– Trade, other payables and accruals	253,769	55,313
Cash generated from operations	1,187,742	636,522

(b) Proceeds from disposal of property, plant and equipment

	2010 RMB'000	2009 RMB'000
Net book amount for sale *(Note 7)*	24,632	1,386
(Loss)/Gain on disposal of property, plant and equipment	(6,752)	2,925
Proceeds from disposal of property, plant and equipment	17,880	4,311

30. Notes to consolidated cash flow statement – The Group (Continued)

(c) Proceeds from disposal of leasehold land payments

	2010 RMB'000	2009 RMB'000
Net book amount for sale *(Note 6)*	10,954	–
Gain on disposal of leasehold land payments	1,836	–
Proceeds from disposal of leasehold land payments	12,790	–

31. Commitments

The Group

Capital commitments

	2010 RMB'000	2009 RMB'000
Purchase of property, plant and equipment		
– Contracted but not yet incurred	416,489	175,522

Operating lease commitments – Group as lessee

The Group leases buildings under non-cancellable lease agreements. The Group's future aggregate minimum lease payments under these non-cancellable operating leases were as follows:

	2010 RMB'000	2009 RMB'000
No later than 1 year	451	679
Later than 1 year and no later than 5 years	263	713
	714	1,392

31. Commitments *(Continued)*

The Company

As at 31 December 2010 and 2009, the Company had no material capital commitments.

Operating lease commitments – Company as lessee

The Company leases buildings under non-cancellable lease agreements. The Group's future aggregate minimum lease payments under these non-cancellable operating leases were as follows:

	2010 RMB'000	2009 RMB'000
No later than 1 year	350	350
Later than 1 year and no later than 5 years	263	613
	613	963

32. Related party transactions and balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group

(a) *Key management compensation*

	2010 RMB'000	2009 RMB'000
Salaries and allowances	11,657	8,135
Pension costs-defined contribution plan	578	457
Share options granted to key management	4,913	6,452
	17,148	15,044

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.

(b) *Financial guarantee given by a director*

Mr. Li Xuechun, Chairman and an executive director of the Group, has granted a personnel guarantee in favour of Shandong Fufeng on 16 December 2010 with a maximum credit amounting to RMB110,000,000 (2009: nil) for bank borrowings, issuing bank acceptance notes, letters of credit and letters of guarantee from 23 December 2010 to 23 December 2013. The aforesaid personnel guarantee has been utilised by Shandong Fufeng as of 31 December 2010 for bank borrowings amounting to RMB30,000,000 (Note 20).

The Company

Please refer to Note 9 for details for loans to subsidiaries and amounts due from/to subsidiaries.

33. Particulars of subsidiaries

As at 31 December 2010, the Company has direct and indirect interests in the following wholly-owned subsidiaries:

Name	Place of incorporation/ establishment	Registered/ Issued and paid capital	Principal activities and place of operation
Directly held:			
Acquest Honour	The British Virgin Islands ("BVI")	USD2	Investment holding in Hong Kong
Indirectly held:			
Summit Challenge	BVI	USD1	Investment holding in Hong Kong
Absolute Divine	BVI	USD1	Investment holding in Hong Kong
Expand Base	BVI	USD1	Investment holding in Hong Kong
Profit Champion International Ltd.	Hong Kong	USD2	Investment holding in Hong Kong
Full Profit Investment (Group) Ltd.	Hong Kong	USD2	Investment holding in Hong Kong
Trans-Asia Capital Resources Ltd.	Hong Kong	USD2	Investment holding in Hong Kong
Shandong Fufeng	PRC	RMB220,500,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweetener and other related products in the PRC
Baoji Fufeng	PRC	HKD80,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers and other related products in the PRC
IM Fufeng	PRC	HKD640,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers, starch sweetener and other related products, autoclaved aerated concrete block, in the PRC

33. Particulars of subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Registered/ Issued and paid capital	Principal activities and place of operation
Shandong Fufeng Biotechnologies Development Co., Ltd.	PRC	RMB5,500,000	Biological techniques research and development, promotion and industrialisation of new biological techniques and achievements, information services of biological technique, in the PRC
Shenhua Pharmaceutical (b)	PRC	RMB122,000,000	Manufacture and sales of eubacteria material medicine, preparations and food additives and other related products in the PRC
Beijing Huijinhuaying	PRC	RMB21,000,000	Not applicable as it does not carry out any business activities
Hulunbeir Fufeng (a)	RPC	RMB800,000,000	Manufacture and sales of starch, starch sweeteners, amino acids, monosodium glutamate, xanthan gum, fertilisers, and other related products in the PRC

(a) Hulunbeir Fufeng was established on 14 May 2010, with the registered capital of RMB100,000,000. It is held by IM Fufeng of 50% interest, Baoji Fufeng of 30% interest and Shandong Fufeng of 20% interest. The registered capital of Hulunbeir Fufeng was increased to RMB300,000,000 on 23 June 2010, RMB500,000,000 on 9 August 2010, RMB700,000,000 on 20 October 2010 and RMB800,000,000 on 9 December 2010.

(b) The registered capital of Shenhua Pharmaceutical was increased to RMB122,000,000 on 17 June 2010.

34. Events after the balance sheet date

There is no significant event of the Group after the balance sheet date except the proposed final dividend mentioned in Note 29.

Share Information

Stock Code 546

Board lot 1,000 shares

Price and turnover

2010	Share price High (HKD)	Share price Low (HKD)	Turnover Share ('000)
January	6.47	4.70	105,601
February	5.65	4.46	39,350
March	6.55	5.16	123,559
April	6.88	5.25	169,373
May	6.48	5.35	90,524
June	5.79	5.05	41,958
July	5.56	4.84	44,060
August	5.91	4.80	147,019
September	5.75	5.03	138,221
October	7.39	5.54	305,364
November	8.59	6.99	213,264
December	7.94	6.71	105,380

Issued capital at 31 December 2010 1,718,686,000 shares

Closing price at 31 December 2010 HKD6.90 per share

Glossary

Absolute Divine	Absolute Divine Limited, an indirect wholly-owned subsidiary of the Company
Acquest Honour	Acquest Honour Holdings Limited, a wholly-owned subsidiary of the Company
ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技有限公司 (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 Huijinhuaying	Beijing Huijinhuaying Commercial Co., Ltd, an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
CAGR	cumulative average growth rate
Centerpoint Assets	Centerpoint Assets Management Limited, a company which is wholly owned by Mr. Gong Qingli, an executive Director
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
Ever Soar	Ever Soar Enterprises Limited, a company with limited liability, the issued share capital of which is owned as to 25% by 吳欣東 (Wu Xindong), 15% by 嚴汝良 (Yan Ruliang), 15% by 馮珍泉 (Feng Zhenquan), 15% by 徐國華 (Xu Guohua), 15% by 李德衡 (Li Deheng), 15% by 郭英熙 (Guo Yingxi)
Expand Base	Expand Based Limited, an indirect wholly-owned subsidiary of the Company
Group	the Company and its subsidiaries
Hero Elite	Hero Elite Limited, a company with limited liability, the issued share capital of which is owned as the 14.3% by 王龍祥 (Wang Longxiang), 14.3% by 來鳳堂 (Lai Fengtang), 14.3% by 劉振余 (Liu Zhenyu), 14.3% by 趙蘭坤 (Zhao Lankun), 10.7% by 王俊任 (Wang Junren), 10.7% by 嚴紅偉 (Yan Hongwei), 10.7% by 李曼山 (Li Manshan) and 10.7% by 沈德權 (Shen Dequan)

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
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd), an indirect wholly-owned subsidiary of the Company
Hulunbeir Plant	the production plant of the Group located at Hulunbeir, Inner Monogolia Autonomous Region, the PRC
IM Fufeng	內蒙古阜豐生物科技有限公司 (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
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
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
HKD	Hong Kong dollars, the lawful currency of Hong Kong
USD	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