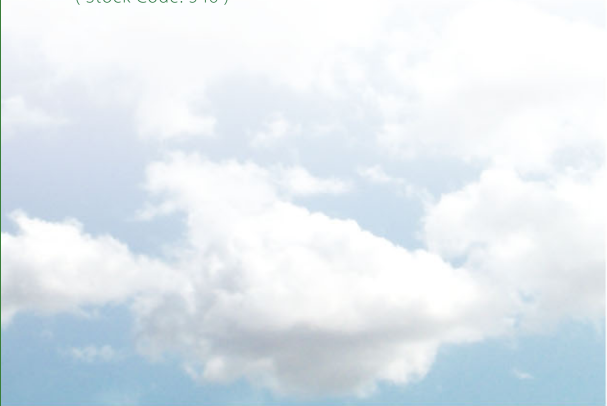
Fufeng Group Limited

阜豐集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 546)



Interim Report 2011

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ADRs Information

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

Website

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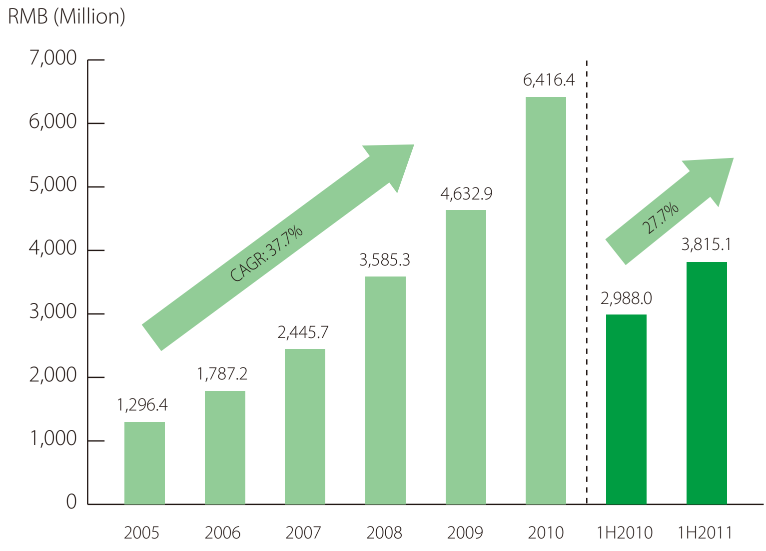
Business and Financial Review

Overview

In 2011, the Group continues its business growth strategy to expand its market shares by expanding its production capacity, strengthening its research and development capabilities, and to diversify its product offerings.

For the six months ended 30 June 2011, the Group recorded an increase of 27.7% in sales from the corresponding period of 2010. Such increase was primarily attributable to the increase in sales volume and the market demand for MSG and xanthan gum products.

The table below illustrates the continuous growth of the Group's revenue in the past six years and current period:



The Group's gross profit increased from approximately RMB742.1 million in the first half of 2010 to approximately RMB828.4 million in the first half of 2011. It represented an increase of 11.6%, primarily due to increase in sales and sales volume.

In the first half of 2011, the production and sales volume of MSG increased by 18.9% and 17.7% over the first half of 2010, respectively. The production and sales volume of xanthan gum increased by 64.3% and 12.8% from the corresponding period of 2010, respectively. Capitalising on the strong sales of MSG and xanthan gum, the Group was able to maintain the growth momentum of 2010.

As threonine was just launched for commercial production in the middle of 2010 and reached the 10,000 tonnes of production capacity by the end of 2010, its revenue increased significantly from the corresponding period of 2010. Capitalising on the cost advantages of our plants, the Group intends to rapidly expand the capacity of threonine to 40,000 tonnes in coming year. Threonine is one of the major products which is rapidly becoming an important growth driver for the Group.

Given that the PRC continued its strong economic growth, the major material costs have been increasing at a larger extent over the ASP of the Group's products during the period. The Group's gross profit margin was thus under pressure. The gross profit margin of the Group decreased from 24.8% in the first half of 2010 to 21.7% in the first half of 2011.

Economy of scale by riding on its leading market position and further expanding its existing production capacity, the Group was able to control cost effectively. Meanwhile, to further extend the upstream development of the highly vertically integrated production process. Construction of the production line of 100,000 tonnes of synthetic ammonia has begun and is scheduled to commence production in September 2011 in order to further reduce the costs on chemical materials and offset a considerable part of the pressure of rising costs internally.

It is expected that with the continuous development and growth of China's economy, the retail sector will benefit from tremendous market opportunities. The Group continuously develops and promotes the own brand name products in industrial and retail sector. For the MSG products, the Group established its brand products of "U Fresh Series". They are sold through an extensive retail and distribution network of supermarket in the PRC.

According to the Group's development plan, the main construction of the Hulunbeir Plant Phase 1 located in Inner Mongolia and close to the border with Heilongjiang has been completed. It will commence production in the third quarter of 2011. Upon completion of this new plant, the Group's MSG and glutamic acid production capacity will be enhanced, further strengthening the Group's leading position.

On 13 April 2011, the Company has successfully issued USD300.0 million senior notes for five years with fixed interest rate 7.625% p.a. The fund raising from the senior notes has been mainly used to finance the construction of new production facilities of Hulunbeir Plant Phase 1 and Phase 2, and for general working capital purposes.

Market overview

The market demand of MSG and xanthan gum has steadily grown since the beginning of 2011. Costs of major raw materials increase significantly due to the continuous economic growth in the PRC. It is the strategy of the Group to leverage its leading market position and offer competitive pricing products. The main objective is to expand its market share by preparing the additional production capacity to be launched to the market smoothly in the second half of 2011.

MSG segment

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

The MSG and glutamic acid market in the PRC became increasingly concentrated due to industry consolidation and the Group has become the world's leading manufacturer in the MSG industry as it took advantage of the industry consolidation to further expand its market share. The Group has strategically controlled the products price at competitive level to boost its sales volume, and to prepare the additional production capacity in the Hulunbeir Plant to be launched to the market smoothly in the second half of 2011.

In late 2010, the Group entered into a co-operative agreement with "Ajinomoto" in Japan in relation to threonine products, whereby, the Group's threonine products can be sold through the sales and distribution network of Ajinomoto from 2011 onwards. The Group will rapidly expand the production capacity of its threonine product in 2011, being the one of growth driver for the Group moving forward, threonine will be the one of core products of the Group.

Xanthan gum segment

The global market demand for xanthan gum has continuously recovered since 2010. The Group has increased its production capacity and continues to increase its market share since 2009. The market demand of xanthan gum increased in the first half of 2011. The Group further strengthens the market leading position of xanthan gum.

Operational review of the Group

With further industry consolidation in the first half of 2011, the market demand and the sales revenue of the Group continuously expand. In addition, the new Hulunbeir Plant will commence commercial production in the third quarter. Set out below are certain indicative operational figures of the Group:

Turnover/Gross profit/Gross profit margin of the Group

	Six months ended 30 June		Change
	2011	2010	**%**
Turnover (RMB'000)	**3,815,117**	2,987,974	27.7
Gross profit (RMB'000)	**828,421**	742,096	11.6
Gross profit margin (%)	**21.7**	24.8	(3.1) ppts.

The performance growth of the Group is mainly due to the increase in sales volume and selling prices of certain products. The major material costs have been increasing at a larger extent over the ASP of the Group's products during the first half of 2011. As a result, the gross profit margin of the Group was thus under pressure.

Profit attributable to the Shareholders

	Six months ended 30 June		
	2011	2010	**Change**
	RMB'000	RMB'000	**%**
As reported	**420,249**	460,070	(8.7)

Profit attributable to the Shareholders decreased by about 8.7%, due to the factors mentioned above. Despite the increase in market share, sales by volume and value, cost efficiencies and an improved operating environment, there were significant increases in raw material costs as well. The Group made a strategic decision to maintain its competitive pricing policies in order to preserve market share while waiting for completion of new production facilities that will reinforce its cost advantages through economies of scale. In addition to higher raw material costs, administrative costs increased as mainly due to staff costs and research and development costs rise during the period. And also, administrative expenses of the Group increased as the operation of new plant has started. It is expected that upon commencement of the operation of the new Hulunbeir Plant, it can benefit the profit growth of the Group.

Segment Highlights

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

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

	Six months ended 30 June 2011			Six months ended 30 June 2010			Increase/(Decrease)		
	MSG	**Xanthan gum**	**Group**	MSG	Xanthan gum	Group	MSG	Xanthan gum	Group
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	%	%	%
	Unaudited	**Unaudited**	**Unaudited**	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenue	**3,415,703**	**399,414**	**3,815,117**	2,606,503	381,471	2,987,974	31.0	4.7	27.7
Gross profit	**679,806**	**148,615**	**828,421**	592,409	149,687	742,096	14.8	(0.7)	11.6
Gross profit margin	**19.9%**	**37.2%**	**21.7%**	22.7%	39.2%	24.8%	(2.8) ppts.	(2.0) ppts.	(3.1) ppts.
Segment results	**402,409**	**125,447**		423,286	134,826		(4.9)	(7.0)	
Segment net assets									
Assets	**7,032,749**	**1,025,018**		4,109,815	761,356		71.1	34.6	
Liabilities	**1,897,774**	**309,696**		1,517,634	273,789		25.0	13.1	
Net assets	**5,134,975**	**715,322**		2,592,181	487,567		98.1	46.7	

MSG Segment

Revenue and ASP

Revenue generated from the sale of the MSG segment products increased to RMB3,415.7 million in the first half of 2011, representing an increase of RMB809.2 million or 31.0%, over the same period in 2010, mainly attributable by the increase in the sales volume and ASP of the MSG.

Set out below is the revenue of the Group by products in this segment for the six months ended 30 June 2011 and 2010:

	Six months ended 30 June		
Product	**2011**	2010	**Change**
	RMB'000	RMB'000	**%**
MSG	**2,219,246**	1,762,926	25.9
Glutamic acid	**89,826**	96,687	(7.1)
Fertilisers	**253,092**	152,423	66.0
Corn refined products	**474,602**	362,837	30.8
Starch sweeteners	**210,527**	176,673	19.2
Threonine	**60,899**	137	444.3 times
Corn oil	**50,308**	35,421	42.0
Branched-chain amino acid	**22,308**	2,732	7.2 times
Chicken powder	**3,029**	1,789	69.3
Others	**31,866**	14,878	114.2
	3,415,703	2,606,503	31.0

MSG

Increases in raw material costs contributed to market consolidation in the first half of 2011, as many obsolete production facilities are facing closure. The Group maintained its market leadership in the MSG industry through increases in production capacity, increased marketing efforts, and competitive pricing. While the ASP increased just 7.0%, from RMB7,489 per tonne in the first half of 2010 to RMB8,010 per tonne in the first half of 2011, turnover of MSG in the first half of 2011 increased by 25.9% and sales volume by 17.7% compared to the first half of 2010, to 277,074 tonnes. Market demand supported growth during the period.

In the first half of 2011, the Group also strengthened its effort in promoting the U Series products in consumable retail section, which consists of two major categories of products including MSG and chicken powder. We are targeting to capture the household market which benefited from the improved living standards in China recently by the U series. We are pleased to report the operating result of this series was generally in line with the expectations of the management. In addition, the new compound seasoning products will gradually launch in the third quarter of 2011.

Moreover, the increase of domestic consumption demand supported the growth of MSG market in the PRC. In addition, many small and medium MSG manufacturers are facing closure and being phased out as the production cost continued to increase. Hence, the supply and demand of the MSG industry in the PRC is still in a balanced situation.

Fertilisers

The bad weather affected part of the market demand of fertilisers during the period. The Group actively implemented a competitive pricing policy to counteract the changes of market environment. Therefore, the ASP of the fertiliser products are reduced. The ASP of fertilisers decreased from approximately RMB762 per tonne in the first half of 2010 to approximately RMB681 per tonne in the first half of 2011, representing a decrease of about 10.6%. It is in line with the price trend of products of the same nature. The production and sales volume of fertilisers significantly increased, mainly due to the increase in sales promotion effort for those fertilisers products by the Group.

Corn refined products

In line with the corn price, the ASP of corn refined products increased during the period. Turnover of corn refined products increased by about 30.8% for the six months ended 30 June 2011 when compared with the same period of 2010, mainly due to the increase in the consumption volume of corn kernels.

Starch sweeteners

Turnover of starch sweeteners rose by 19.2% during the period, reflecting strong demand despite a 23.8% increase in ASP. ASP was affected by sugar shortages, and rose from RMB2,763 per tonne in the first half of 2010 to RMB3,421 per tonne in the first half of 2011.

Threonine

Threonine is a new product of the Group launched in 2010. By the end of 2010, the capacity of threonine reached 10,000 tonnes. Threonine is an essential amino acid which maintains body protein balance and enhance growth and development. Our threonine product is mainly used as feed additives. The revenue and sales volume of threonine amounted to RMB60.9 million and 4,733 tonnes respectively during the period.

Others

During the period under review, the Group developed its product range along its value chain, including branched-chain amino acid, corn oil and chicken powder. The sales volume of branched-chain amino acid, corn oil and chicken powder increased to 256 tonnes, 5,305 tonnes and 190 tonnes in the first half of 2011, respectively. The objective of the Group is to strengthen the Group's brand name and continue to develop new consumption products in both industrial and retail markets. As a result, it can increase the market recognition of the Group's products and market demand of such products.

Gross Profit and Gross Profit Margin

The gross profit of this segment is set out below:

	Six months ended 30 June		
	2011	2010	**Change**
Gross profit (RMB'000)	**679,806**	592,409	14.8%
Gross profit margin (%)	**19.9**	22.7	(2.8) ppts.

The major raw material costs have been increasing at a larger extent over the ASP of the Group's products during the period, as has been noted. Despite a robust 14.8% increase in gross profit to RMB679.8 million, gross margin fell by 2.8 percentage points to 19.9%.

ASP has been a key factor in determining gross margin, as the Group has maintained competitive pricing in order to expand market share during this period of consolidation when many small and medium MSG manufacturers have been forced out of the market. The first objective of the Group is to expand market share for preparing the new production capacities to be launched into the market smoothly in the second half of 2011.

Production costs structure

	Six months ended 30 June				
	2011		2010		**Change**
	RMB'000	**%**	RMB'000	%	**%**
Major raw materials					
• Corn kernels	**1,506,043**	**54.0**	1,201,514	57.7	25.3
• Liquid ammonia	**303,054**	**10.9**	195,301	9.4	55.2
• Sulphuric acid	**53,005**	**1.9**	20,257	1.0	161.7
Energy					
• Coal	**314,086**	**11.3**	227,667	10.9	38.0
Depreciation	**116,821**	**4.2**	92,686	4.5	26.0
Employee benefits	**104,292**	**3.7**	78,095	3.8	33.5
Others	**390,280**	**14.0**	265,658	12.7	46.9
Total cost of production	**2,787,581**	**100.0**	2,081,178	100.0	33.9

Corn kernels

During the first half of 2011, corn kernels accounted for approximately 54.0% (1H 2010: 57.7%) of the total production cost of this segment. Due to the continuous increase in the market demand in the first half of 2011, the price of corn kernels had been increasing continuously since 2009. The average cost of corn kernels for the first half of 2011 was approximately RMB1,820 per tonne, representing an increase of approximately RMB121 per tonne or 7.1% over the same period in 2010.

Liquid ammonia

Liquid ammonia accounted for approximately 10.9% (1H 2010: 9.4%) of total production cost in this segment in the first half of 2011. Being affected by the increase of market demand due to industrial demand recovery, the average unit cost of liquid ammonia for the first half of 2011 increased to approximately RMB2,782 per tonne, representing an increase of approximately RMB453 per tonne or 19.5% from the corresponding period of 2010. The increase, higher than that of other inputs such as corn kernels and coal, translated into a 1.5 percentage points increase in its share of total production cost. The Group has begun construction of capacity of synthetic ammonia in order to counteract higher prices of liquid ammonia. We anticipate proportion of liquid ammonia to total production cost will decrease upon commencement of the operation of synthetic ammonia production line in September 2011.

Sulphuric acid

Sulphuric acid accounted for approximately 1.9% (1H 2010: 1.0%) of total production cost in this segment in the first half of 2011. The average unit cost of sulphuric acid increased continuously from the end of 2009 primarily due to the increase in market demand as a result of industrial market recovery. The average unit cost of sulphuric acid for the first half of 2011 increased to approximately RMB404 per tonne, representing an increase of approximately RMB171 per tonne or 73.4% from the corresponding period of 2010.

Coal

Coal accounted for 11.3% of total production cost in this segment in the first half of 2011 (1H 2010: 10.9%). The average unit cost of coal for the first half of 2011 was RMB350 per tonne, representing an increase of RMB57 per tonne or 19.5% from the corresponding period of 2010. The increase in coal prices reflects a general increase in commodity prices. While the increase in the average unit cost of coal was significant, the contribution of coal to total production cost increased by a modest 0.4 percentage points. This was mainly due to current Group's major production in Inner Mongolia and Shannxi, with access to lower-cost coal, reinforces the Group's cost advantages.

Other production costs

The increase in cost of depreciation, employee benefits and other costs was mainly due to the increase in production capacity of MSG as new production capacity in the Baoji Plant and IM Plant has been completed and commenced production since 2010.

Production

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

Product	Six months ended 30 June 2011 Tonnes	2010 Tonnes	Change %
MSG			
Annual designed production capacity (Note A)	**270,000**	270,000	–
Actual production output	**279,339**	234,976	18.9
Utilisation rate	**103.5%**	87.0%	
Glutamic acid			
Annual designed production capacity (Note A)	**230,000**	230,000	–
Actual production output	**244,017**	207,048	17.9
Utilisation rate	**106.1%**	90.0%	
Fertilisers			
Annual designed production capacity (Note A)	**280,000**	280,000	–
Actual production output	**322,096**	228,516	41.0
Utilisation rate	**115.0%**	81.6%	
Starch sweeteners			
Annual designed production capacity	**70,000**	60,000	16.7
Actual production output	**63,078**	64,370	(2.0)
Utilisation rate	**90.1%**	107.3%	

Note:

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

Utilisation rates increased slightly in the first half of 2011, due to the significant increases in production capacity at the end of 2009, which have now been fully absorbed by the market. Utilisation rates for all major products are now over 100%, reflecting the continuous increase in the Group's market share of the MSG.

Xanthan Gum Segment

Operation results

The table below set out the sales amount, gross profit, gross profit ratio and utilisation rate of xanthan gum for the six months ended 30 June 2011 and 2010:

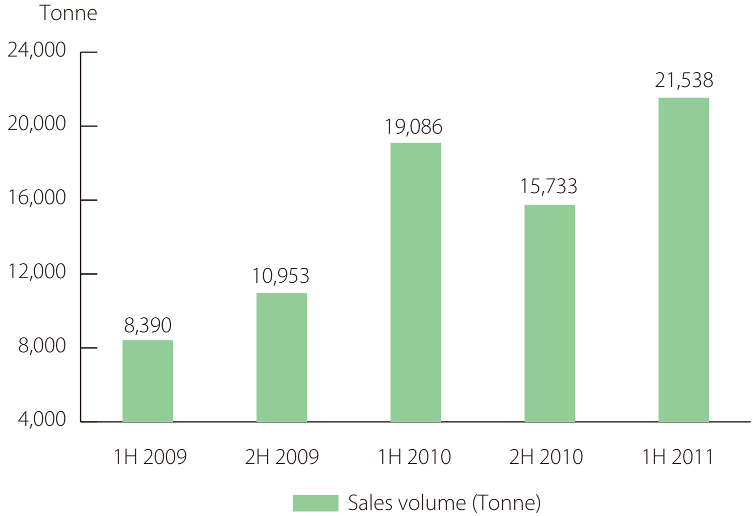
	Six months ended 30 June		Change
	2011	2010	**%**
Sales amount (RMB'000)	**399,414**	381,471	4.7
Gross profit (RMB'000)	**148,615**	149,687	(0.7)
Gross profit margin (%)	**37.2**	39.2	(2.0) ppts.
Annual designed production capacity (tonnes) (Note)	**22,000**	16,000	37.5
Actual production output (tonnes)	**21,929**	13,344	64.3
Utilisation rate	**99.7%**	83.4%	

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

Revenue generated from xanthan gum increased by 4.7% to RMB399.4 million in the first half of 2011, from RMB381.5 million in the first half of 2010. The relatively small increase in revenue was partly due to the Group's strategy of maintaining market share through competitive pricing.

The Group's exports of xanthan gum remained stable as a percentage to total sales. Export sales of xanthan gum contributed 88% of total sales of xanthan gum in both the first half of 2010 and 2011.

Xanthan Gum Sales Volume



Sales volume increased by 12.8% in the first half of 2011, reflecting expansion of market share, while sales in terms of value increased by just 4.7% over the same period. The mismatch was due to a 7.2% decrease in ASP from RMB19,987 per tonne in the first half of 2010 to RMB18,545 per tonne in the first half of 2011.

Increased activities in oil industry have been a strong driver in the higher sales volumes of xanthan gum in the first half of 2011. We expect such trend will continue as the demand in the food industry as well as other sectors continue to increase. We expect to achieve record growth in sales volume.

Gross profit and gross profit margin

Gross profit of the xanthan gum segment decreased by 0.7% from RMB149.7 million in the first half of 2010 to RMB148.6 million in the first half of 2011. Gross margin fell slightly as well, with a decrease of 2.0 percentage points in the first half of 2011, reflecting a reduction in ASP. Counterbalancing the decreasing ASP, we experienced significant cost advantages at our IM Plant where we have access to lower-cost coal. The Group has bargaining power over pricing of coal due to the increase in production at our IM Plant and the overall production cost is reduced.

Production costs

	Six months ended 30 June				
	2011		2010		**Change**
	RMB'000	**%**	RMB'000	%	**%**
Major raw materials					
• Corn kernels	**89,573**	**37.3**	45,299	27.4	97.7
• Starch	**2,317**	**1.0**	8,891	5.4	(73.9)
• Soy bean/Soy bean starch	**15,776**	**6.6**	10,001	6.0	57.7
Energy					
• Coal	**83,657**	**34.8**	57,908	35.0	44.5
Depreciation	**22,715**	**9.5**	17,290	10.5	31.4
Employee benefit	**16,207**	**6.8**	14,575	8.8	11.2
Others	**9,826**	**4.0**	11,321	6.9	(13.2)
Total cost of production	**240,071**	**100.0**	165,285	100.0	45.2

Corn kernels/Starch

During the first half of 2011, corn kernels and starch represented approximately 38.3% (1H 2010: 32.8%) of the total production cost of this segment. The increase in proportion was mainly due to the higher increasing percentage of the cost price of corn kernels and starch. The corn kernel price and starch price increased from approximately RMB1,658 per tonne and RMB2,259 per tonne in the first half of 2010 to approximately RMB1,832 per tonne and RMB2,620 per tonne in the first half of 2011, representing a increase of 10.5% and 16.0% respectively.

Soy bean/Soy bean starch

During the first half of 2011, soy bean accounted for approximately 6.6% (1H 2010: 6.0%) of the total production cost of this segment. The increase in proportion was mainly due to the increase in soy bean price from approximately RMB3,754 per tonne in the first half of 2010 to approximately RMB3,802 per tonne in the first half of 2011, representing an increase of 1.3%.

Coal

During the first half of 2011, coal accounted for approximately 34.8% (1H 2010: 35.0%) of the total production cost of this segment. The Group took full advantage of the relatively low coal cost in its IM Plant. The major production of xanthan gum is located in IM Plant during the period. The average unit cost of coal in IM Plant for the first half of 2011 was approximately RMB275 per tonne.

Other production costs

The cost of depreciation in the first half of 2011 was increased significantly over the corresponding period of 2010 mainly due to the new production capacity of xanthan gum in IM Plant has operated since the beginning of 2011.

Other financial information

Selling and marketing expenses

A substantial increase in selling and marketing expenses was mainly due to an increase in the transportation costs in line with the increase in sales. Marketing and promotion expenses also increased as the campaign to strengthen the Group's brand was released.

Administrative expenses

Administrative expenses increased by approximately RMB47.3 million or 34.7% for the six months ended of 30 June 2011. The increase was mainly due to research and development related expenses increased as more research and development projects have been initiated since 2009. The staff costs are also increased during the period. In addition, the new Hulunbeir Plant incurred administrative expenses from the middle of the first half of 2011.

Finance costs

The finance cost of the Group for the six months ended 30 June 2011 amounted approximately to RMB48.8 million which was increased by RMB20.4 million or about 71.7% from the corresponding period of 2010. On 13 April 2011, the Group successfully issued the senior notes with a principal amount to USD300.0 million for five years with fixed interest rate of 7.625% p.a. The increase of finance cost was mainly due to the new senior notes issued during the period.

Outlook for the second half of 2011

We expect the domestic and international economies stable to continue to reflect robust demand for our products. Hulunbeir Plant Phase 1 has commenced the trial production in June 2011 and will commence production in the third quarter of 2011. The Group's strategy is to continue to focus on competitive pricing to maintain and expand our market share, and it is expected that the increase of domestic market demand and expansion of overseas market will readily absorb capacity from this new facility.

MSG segment

The Group expected that the MSG demand will continue to grow steadily due to the increase of domestic consumption in the PRC. In addition, our new production capacities of Hulunbeir Plant Phase 1 will commence production in the third quarter of 2011, which will further strengthen the competitive cost advantages of the Group. The Group will grasp this opportunity to further expand its market share. The Group will continue to build up brand products of U Fresh Series through extensive coverage of sales and distribution network. At the same time, the Group also actively maintains and develops the industrial customers. The Group expects the MSG industry will continue to consolidate. The gross profit margin of the MSG segment can be maintained at a stable level based on its cost advantages and bargaining power of pricing.

Xanthan gum segment

The Group has expanded its production capacity of xanthan gum in IM Plant at the end 2010. During the period, the market demand has steadily increased. It is reflected by our utilisation rate of production capacity of xanthan gum at approximately 99%. The Group expected that the market demand of xanthan gum will continue to increase as a result of the positive impact of the global macro environment. The Group will put a great effort to expand its market share. It will contribute a good result to the Group in the second half of 2011.

Future plan and recent development

New production plant in Hulunbeir

The fourth production plant was newly built by the Group in June 2010, Hulunbeir Plant has commenced trial production in June this year, and is progressing well. The new plant will be in full production from September as scheduled. The Group's annual production capacity will then reach 750,000 tonnes, further ahead of the Group's peers. Meanwhile, to facilitate the successful implementation of the sales of the products produced by the new plant, the development of the relevant logistics, transportation and customers were well prepared. One of the priorities for the second half of this year is to endeavour to meet the goal of the new plant in terms of production and sales.

Expansion of the production capacity of threonine

Threonine is an essential amino acid which maintains body protein balance and promotes growth and development. Threonine is mainly used for medicine, food fortifier and feed additives. Currently, application of feed additives continues to increase.

At the end of 2010, the production capacity of threonine in IM Plant is 10,000 tonnes per annum. Capitalising on the cost advantages of IM Plant and Hulunbeir Plant, the Group has started to expand the capacity of threonine to 30,000 tonnes in Hulunbeir Plant. The construction of the new production line will commence in the second half of 2011, which is expected to commence production in the first half of 2012. The Group intends to become the leading manufacturer of threonine in the PRC within three years.

Overseas market expansion

To further expand its presence in the export market, the Group has made vigorous efforts on market expansion this year by taking advantage of the establishment of the sales branches and offices. In the first half of the year, sales branches were set up in Singapore and the U.S., and sales offices were established in the Middle East. During the year, sales organisations will also be established in Europe, Africa and South America, in order to provide customers with better after-sale services, improve customer relationships, and increase customer reliability.

Reinforcement of brand promotion efforts

Since the beginning of this year, the sales and operations teams of the brand products of the Group have basically completed the building of platform and staffing allocation. Sales managers for brand products at province-level, and sales personnel for brand products in key cities are already in place. During the first half of this year, both the sales of "U Fresh" small package MSG and chicken powder grew by more than one hundred percent when compared to the same period last year. In particular, the sales in key markets such as Jiangsu and Zhejiang demonstrated promising growth momentum. Currently, in accordance with industry standards, the Group has completed the compound seasoning formula and trial production of small samples of the mushroom category, pork rib category, beef category and seafood category. Production and sales in small scale will commence in September 2011.

Liquidity and financial resources

The Group maintained a healthy liquidity position throughout the period under review. As at 30 June 2011, the Group's cash and cash equivalent and restricted back deposits were RMB1,305.6 million (2010: RMB915.2 million) whereas current bank borrowings were approximately RMB310.0 million (2010: RMB555.0 million) and non-current bank borrowings and non-current other borrowings (including the balances of senior notes and convertible bonds) were approximately Nil and RMB2,885.9 million (2010: Nil and RMB981.5 million), respectively. The Group's major borrowings are in USD and RMB. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

During the period, according to the adjustments on the national policies and changes in the supply of raw materials, the Group increased the purchasing volume from the granary and the grain purchasing and storage enterprises. As a result, working capital spent on prepayment for purchases of raw materials rose significantly. Prepayment for raw materials rose from RMB34,900,000 as at 31 December 2010 to RMB235,400,000 as at 30 June 2011.

Senior notes

On 13 April 2011, the Company issued USD300.0 million senior notes for five years with fixed interest rate is 7.625% p.a. The fund raising from the senior notes has mainly been used to finance the construction of new production facilities of Hulunbeir Plant Phase 1 and Phase 2 and for general working capital purposes.

Convertible bonds

The Group issued RMB820.0 million in convertible bonds with a coupon rate of 4.5% per year on 1 April 2010 together with bond options of RMB205.0 million on 22 April 2010. The bonds can be converted into Group 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% over the closing price of the shares on 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 converted into 165,742,524 Shares, representing approximately 9.64% of the existing issued share capital of the Group and approximately 8.80% of the enlarged issued share capital of the Group.

Material acquisition or disposal of subsidiary and associated company

During the period, the Group had no other material acquisition or disposal of the subsidiaries or associated companies for the six months ended 30 June 2011.

Employees

As at 30 June 2011, the Group had approximately 2,700 employees. Employees' remuneration are paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses are paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Schemes" under the "Other Information" section below for the share options granted to certain Directors and employees of the Group before and after the IPO.

Charges on assets

As at 30 June 2011, no leasehold land, property, plant and equipment of the Group were pledged as all secure bank borrowings of the Group were fully repaid during the period.

The senior notes issued in April 2011 are secured by the pledge of the capital stock of certain subsidiaries of the Company, which are Acquest Honour Holdings Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group.

Gearing ratio

As at 30 June 2011, the total assets of the Group amounted to approximately RMB8,500.6 million (2010: RMB6,720.3 million) whereas the total borrowings amounted to RMB3,195.9 million (2010: RMB1,536.5 million). The gearing ratio was approximately 37.6% (2010: 22.9%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

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

American Depositary Receipt Facility

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

Dividend

The Board has resolved to pay an interim dividend of HK10 cents per share for the six months ended 30 June 2011, payable on or before 30 September 2011 to the shareholders whose names appear on the register of members of the Company on 6 September 2011.

Closure of register of members

The register of members of the Company will be closed from Thursday, 1 September 2011 to Tuesday, 6 September 2011 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the interim Dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 31 August 2011.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Audited
ASSETS			
Non-current assets			
Leasehold land payments	7	**230,835**	169,187
Property, plant and equipment	7	**4,864,818**	4,087,675
Intangible assets	7	**–**	–
Deferred income tax assets		**17,603**	20,759
		5,113,256	4,277,621
Current assets			
Inventories		**775,651**	710,695
Trade and other receivables	8	**1,306,027**	816,773
Short-term bank deposits		**11,030**	147,225
Cash and cash equivalents		**1,294,607**	767,951
		3,387,315	2,442,644
Total assets		**8,500,571**	6,720,265
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	9	**174,097**	174,097
Share premium			
– Proposed interim dividend		**141,018**	–
– Proposed final dividend		**–**	217,070
– Others		**188,576**	329,594
Other reserves		**(68,864)**	(76,985)
Retained earnings		**2,921,738**	2,501,489
Total equity		**3,356,565**	3,145,265

	Note	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Audited
LIABILITIES			
Non-current liabilities			
Deferred income		**168,775**	141,810
Borrowings	10	**2,885,946**	981,458
Deferred income tax liabilities		**23,339**	27,033
		3,078,060	1,150,301
Current liabilities			
Trade, other payables and accruals	11	**1,741,674**	1,839,022
Current income tax liabilities		**14,272**	30,677
Borrowings	10	**310,000**	555,000
		2,065,946	2,424,699
Total liabilities		**5,144,006**	3,575,000
Total equity and liabilities		**8,500,571**	6,720,265
Net current assets		**1,321,369**	17,945
Total assets less current liabilities		**6,434,625**	4,295,566

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June 2011 RMB'000 Unaudited	2010 RMB'000 Unaudited
Revenue	6	**3,815,117**	2,987,974
Cost of sales	13	**(2,986,696)**	(2,245,878)
Gross profit		**828,421**	742,096
Other income	12	**68,279**	63,102
Selling and marketing expenses	13	**(188,466)**	(121,950)
Administrative expenses	13	**(183,639)**	(136,330)
Other operating expenses	13	**(8,638)**	(5,748)
Operating profit		**515,957**	541,170
Finance costs		**(48,753)**	(28,401)
Profit before income tax		**467,204**	512,769
Income tax expense	14	**(46,955)**	(52,699)
Profit for the period attributable to the Shareholders		**420,249**	460,070
Earnings per share for profit attributable to the Shareholders during the period (expressed in RMB cent per share)			
– basic	15	**24.45**	27.72
– diluted	15	**23.06**	26.20
Dividends	16	**141,018**	159,775

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Unaudited
Profit for the period	**420,249**	460,070
Other comprehensive income for the period	**–**	–
Total comprehensive income for the period	**420,249**	460,070
Total comprehensive income attributable to the Shareholders	**420,249**	460,070

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Attributable to the Shareholders				
	Share capital RMB'000	**Share premium** RMB'000	**Other reserves** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
Balance at 1 January 2010	169,034	785,440	(171,080)	1,610,317	2,393,711
Total comprehensive income for the six months	–	–	–	460,070	460,070
Employees share option scheme:					
– value of employee services	–	–	7,510	–	7,510
Dividends paid	–	(219,240)	–	–	(219,240)
Convertible bonds – equity component	–	–	36,853	–	36,853
Balance at 30 June 2010	169,034	566,200	(126,717)	2,070,387	2,678,904
Balance at 1 January 2011	**174,097**	**546,664**	**(76,985)**	**2,501,489**	**3,145,265**
Total comprehensive income for the six months	**–**	**–**	**–**	**420,249**	**420,249**
Employees share option scheme:					
– value of employee services	**–**	**–**	**8,121**	**–**	**8,121**
Dividends paid	**–**	**(217,070)**	**–**	**–**	**(217,070)**
Balance at 30 June 2011	**174,097**	**329,594**	**(68,864)**	**2,921,738**	**3,356,565**

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Unaudited
Cash flows from operating activities		
Cash generated from operations	**331,659**	636,084
Interest paid	**(31,872)**	(14,660)
Income taxes paid	**(31,210)**	(26,106)
Net cash flows generated from operating activities	**268,577**	595,318
Cash flows from investing activities		
Purchases of property, plant and equipment	**(1,172,858)**	(500,869)
Purchases of leasehold land payments	**(62,941)**	(40,391)
Purchases of intangible assets	**(42)**	–
Government grants received	**25,840**	25,650
Proceeds from disposal of property, plant and equipment	**–**	17,880
Proceeds from disposal of leasehold land payments	**–**	12,790
Interest received	**4,311**	1,196
Net cash used in investing activities	**(1,205,690)**	(483,744)
Cash flows from financing activities		
Dividends paid to the Company's shareholders	**(217,070)**	(219,240)
Proceeds from issuance of senior notes	**1,925,839**	–
Proceeds from issuance of convertible bonds	**–**	1,011,621
Proceeds from bank borrowings	**225,000**	80,000
Repayments of bank borrowings	**(470,000)**	(240,000)
Net cash generated from financing activities	**1,463,769**	632,381
Net increase in cash and cash equivalents	**526,656**	743,955
Cash and cash equivalents at beginning of the period	**767,951**	342,682
Cash and cash equivalents at end of the period	**1,294,607**	1,086,637

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 was incorporated in the Cayman Islands on 15 June 2005 as an exempted company with limited liability. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 8 February 2007. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

Key Events

In April 2011, the Company issued senior notes of USD300,000,000 in total for funding capital expenditure in connection with the expansion of its business and for general corporate and working capital purpose. Further details are given in Note 10.

2. Basis of Preparation

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements information for the year ended 31 December 2010 which have been prepared in accordance with HKFRS.

3. Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

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

The following new standards, new interpretations and amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011, but are not currently relevant for the Group.

HKAS 24 (Revised) 'Related party disclosures'
Amendment to HKAS 34 'Interim financial reporting'
Amendment to HKAS 32 'Classification of rights issues'
Amendment to HK(IFRIC) – Int-14 'Prepayments of a minimum funding requirement'
HK(IFRIC) – Int 19 'Extinguishing financial liabilities with equity instruments'
Third improvements to HKFRS (2010) were issued in May 2010 by both IASB and the HKICPA.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

HKFRS 9	'Financial instruments'[1]
HKAS 12 (Amendment)	'Deferred tax: Recovery of underlying assets'[2]
HKFRS 7 (Amendment)	'Disclosures – Transfers of financial assets'[3]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2011

For the application of these standards or interpretations, the management is either assessing the impact of or considers that there will have no material impact on the results and the financial position of the Group.

4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

5. Financial Risk Management

5.1 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 interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

There have been no changes in the risk management department since year end or in any risk management policies.

5.2 Liquidity risk

Compared to year end, there was an additional non-current borrowing of USD300,000,000 with maturity date 13 April 2016 in the contractual undiscounted cash out flows for financial liabilities.

5.3 Fair value estimation

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.

6. 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, threonine, corn oil, chicken powder, branched-chain amino acid, pharmaceuticals and bricks;

– Xanthan gum

Approximately 82% (30 June 2010: 90%) of the Group's revenue and business activities are conducted in the PRC.

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

6. Segment Information *(Continued)*

The revenue of the Group for the six months ended 30 June 2011 and 2010 are set out as following:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Unaudited
MSG	**2,219,246**	1,762,926
Glutamic acid	**89,826**	96,687
Corn refined products	**474,602**	362,837
Xanthan gum	**399,414**	381,471
Fertilisers	**253,092**	152,423
Starch sweeteners	**210,527**	176,673
Threonine	**60,899**	137
Corn oil	**50,308**	35,421
Others	**57,203**	19,399
	3,815,117	2,987,974

The segment results for the six months ended 30 June 2011 are as follows:

	MSG	**Xanthan gum**	**Unallocated**	**Group**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Revenue	**3,415,703**	**399,414**	**–**	**3,815,117**
Segment results	**402,409**	**125,447**	**(11,899)**	**515,957**
Finance costs				**(48,753)**
Profit before income tax				**467,204**
Income tax expenses				**(46,955)**
Profit for the period				**420,249**

6. Segment Information *(Continued)*

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

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Depreciation	132,523	20,329	708	153,560
Amortisation of leasehold land payments	873	377	43	1,293
Capital expenditure	943,597	49,209	904	993,710

The segment assets and liabilities at 30 June 2011 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Total assets	7,032,749	1,025,018	442,804	8,500,571
Total liabilities	1,897,774	309,696	2,936,536	5,144,006

6. Segment Information *(Continued)*

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

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

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

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Depreciation	99,939	17,427	617	117,983
Amortisation of leasehold land payments	1,212	116	43	1,371
Reversal of write-down of inventories	(207)	–	–	(207)
Loss on disposal of leasehold land prepayments and property, plant and equipment	228	–	–	228
Capital expenditure	500,997	48,870	39	549,906

6. Segment Information *(Continued)*

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

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

7. Leasehold Land Payments, Property, Plant and Equipment and Intangible Assets

	Leasehold land payments RMB'000 Unaudited	Property, plant and equipment RMB'000 Unaudited	Intangible assets RMB'000 Unaudited	Total RMB'000 Unaudited
Six months ended 30 June 2010				
Opening net book amount at 1 January 2010	140,160	2,507,897	–	2,648,057
Additions	40,391	509,515	–	549,906
Disposals	(16,558)	(34,293)	–	(50,851)
Depreciation and amortisation	(1,371)	(117,983)	–	(119,354)
Depreciation disposal	5,604	14,347	–	19,951
Closing net book amount at 30 June 2010	168,226	2,879,483	–	3,047,709
Six months ended 30 June 2011				
Opening net book amount at 1 January 2011	**169,187**	**4,087,675**	**–**	**4,256,862**
Additions	**62,941**	**930,727**	**42**	**993,710**
Disposals	**–**	**(24)**	**–**	**(24)**
Depreciation and amortisation	**(1,293)**	**(153,560)**	**–**	**(154,853)**
Impairment charge	**–**	**–**	**(42)**	**(42)**
Closing net book amount at 30 June 2011	**230,835**	**4,864,818**	**–**	**5,095,653**

8. Trade and Other Receivables

	As at	
	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Audited
Trade receivable (a)	**226,177**	162,584
Less: provision for impairment of receivables	**(4,467)**	(4,231)
Trade receivable, net	**221,710**	158,353
Notes receivables (b)	**698,644**	501,332
Deposits and others	**46,275**	43,365
Value Added Tax recoverable	**104,030**	78,863
Trade and other receivables before prepayments	**1,070,659**	781,913
Prepayments for raw materials	**235,368**	34,860
	1,306,027	816,773

8. Trade and Other Receivables *(Continued)*

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

	As at	
	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Audited
Within 3 months	**197,869**	153,067
3 – 12 months	**23,753**	3,927
Over 12 months	**4,555**	5,590
	226,177	162,584

The Group sells its products to customers and received settlement either in cash or in form of bank acceptance notes upon delivery of goods. The bank acceptance notes are usually with maturity dates within six months. Major customers with good repayment history are normally offered credit terms for not more than three months.

(b) As at 30 June 2011, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB552,422,000 (2010: RMB471,952,000) applied for settling the amounts payable to the Group's suppliers.

9. Share Capital

	Number of authorised shares '000 Unaudited	Number of issued and fully paid shares '000 Unaudited	Amount: Ordinary shares RMB'000 Unaudited	Amount: Share premium RMB'000 Unaudited	Amount: Total RMB'000 Unaudited
Opening balance at 1 January 2010	10,000,000	1,660,000	169,034	785,440	954,474
Dividends paid	–	–	–	(219,240)	(219,240)
At 30 June 2010	10,000,000	1,660,000	169,034	566,200	735,234
Opening balance at 1 January 2011	**10,000,000**	**1,718,686**	**174,097**	**546,664**	**720,761**
Dividends paid	**–**	**–**	**–**	**(217,070)**	**(217,070)**
At 30 June 2011	**10,000,000**	**1,718,686**	**174,097**	**329,594**	**503,691**

10. Borrowings

	As at 30 June 2011 RMB'000 Unaudited	As at 31 December 2010 RMB'000 Audited
Non-current	**2,885,946**	981,458
Current	**310,000**	555,000
	3,195,946	1,536,458

10. Borrowings *(Continued)*

Movements in borrowings is analysed as follows:

	RMB'000 (Unaudited)
Six months ended 30 June 2010	
Opening amount as at 1 January 2010	598,000
New borrowings	80,000
Repayments of borrowings	(240,000)
Convertible bonds – liability component	976,977
Closing amount as at 30 June 2010	1,414,977
Six months ended 30 June 2011	
Opening amount as at 1 January 2011	**1,536,458**
New borrowings	**225,000**
Repayments of borrowings	**(470,000)**
Senior notes	**1,927,702**
Convertible bonds – liability component	**4,606**
Exchange differences	**(27,820)**
Closing amount as at 30 June 2011	**3,195,946**

The Group issued 7.625% senior notes at a par value of total amounted to USD300,000,000 settled in USD on 13 April 2011. The notes mature five years from the issue date and are secured by the pledge of the capital stock of certain subsidiaries of the company, which are Acquest Honour Holdings Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group.

Interest expenses on borrowings and loans for the six months ended 30 June 2011 was RMB41,342,000 (30 June 2010: RMB28,401,000).

11. Trade ,Other Payables and Accruals

	As at	
	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Audited
Trade payable (a)	**625,023**	614,194
Advances from customers	**224,948**	147,604
Bank acceptance notes payable	**26,000**	149,945
Payables for leasehold land, property, plant and equipment	**607,748**	743,499
Salaries, wages and staff welfares payables	**78,552**	58,313
Interest payable – current portion	**50,183**	11,531
Unused government grants	**46,902**	29,702
Dividend payable	**407**	407
Other payables and accruals	**81,911**	83,827
	1,741,674	1,839,022

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

	As at	
	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Audited
Within 3 months	**540,202**	575,781
3 to 6 months	**49,491**	23,959
6 to 12 months	**25,520**	5,594
Over 12 months	**9,810**	8,860
	625,023	614,194

As at 30 June 2011, notes receivables of RMB552,422,000 (2010: RMB471,952,000) were applied for negotiation with the Group's suppliers for settling the amounts payable to them.

12. Other Income

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Unaudited
Interest income	**4,311**	1,196
Amortisation of deferred income	**20,419**	11,732
Sales of waste materials	**40,374**	22,192
Subsidy income due to purchase of grains allocated by the government	**–**	25,000
Others	**3,175**	2,982
	68,279	63,102

13. Expenses by Nature

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Unaudited
Amortisation of leasehold land payments	**1,293**	1,371
Depreciation of property, plant and equipment	**153,560**	117,983
Value on employee services for the share option schemes	**8,121**	7,510
Foreign exchange losses	**7,147**	3,777
Write-down/(Reversal of write-down) of inventories	**102**	(207)

14. Income Tax Expense

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Unaudited
Current income tax		
– PRC enterprise income tax ("EIT")	**47,493**	48,695
Deferred income tax	**(538)**	4,004
	46,955	52,699

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

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit in Hong Kong for the six months ended 30 June 2011 and 2010.

PRC EIT is calculated based on the effective tax rate on assessable profit of subsidiaries established in the PRC in accordance with PRC tax laws and regulations.

15. EARNINGS PER SHARE

Earnings per share attributable to the Shareholders are as follows:

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Earnings per share for profit attributable to the Shareholders (RMB cents per Share)		
– basic	**24.45**	27.72
– diluted	**23.06**	26.20

Earnings per share – basic and diluted for the first half of 2011 was RMB24.45 cents and RMB23.06 cents respectively (equivalent to HK29.40 cents and HK27.73 cents) (1H 2010: RMB27.72 cents and RMB26.20 cents (equivalent to HK31.77 cents and HK30.03 cents)).

16. Dividends

A 2010 final dividend of HK15 cents (equivalent to RMB12.63 cents) per Share, totalling HKD257,803,000 (equivalent to RMB217,070,000) was paid in May 2011.

In addition, an interim dividend of HK10 cents (equivalent to RMB8.21 cents) (2010: HK11 cents (equivalent to RMB9.63 cents)) per Share was declared by the Board on 16 August 2011. It is payable on or before 30 September 2011 to Shareholders who are on the register at 6 September 2011. This interim dividend, amounting to HKD171,868,600 (equivalent to RMB141,018,186), has not been recognised as liability in this interim financial information. It will be reflected as an appropriation of share premium for the year ending 31 December 2011.

17. Contingent Liabilities – the Group

As at 30 June 2011 and 2010, the Group had no material contingent liabilities.

18. Related Party Transactions

Key management compensation is set out below:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Unaudited
Salaries and allowances	**6,084**	4,640
Pension costs-defined contribution plan	**526**	205
Share options granted	**2,810**	1,623
	9,420	6,468

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.

19. Approval on the Condensed Consolidated Interim Financial Information

The condensed consolidated interim financial information was reviewed by the audit committee of the Company and approved by the board of Directors on 11 August 2011 and 16 August 2011, respectively.

20. Events Occurring After the Balance Sheet Date

Details of the interim dividend proposed are given in Note 16.

Corporate governance

The Company is committed to establishing and ensuring a high standard of corporate governance practices which place emphasis on quality of the board, sound and efficient internal control and accountability as well as transparency to equity holders. The Directors are in the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules since the Listing Date to 30 June 2011.

The audit committee of the Company has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2011.

Model code for securities transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the period under review.

Purchase, redemption or sale of securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2011.

Share option scheme

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 period ended 30 June 2011 are as follows:

	Number of share options						
Directors and eligible employees	At 1 January 2011	Exercised during the period	Lapsed during the period	At 30 June 2011	Date of grant	Exercise price (HKD)	Exercise period
Mr. Wang Longxiang (an executive Director)	5,910,000	–	–	5,910,000	10/1/2007	2.23	8/8/2009 – 7/8/2012
Other eligible employees	16,844,000	–	–	16,844,000	10/1/2007	2.23	8/8/2009 – 7/8/2012
	22,754,000	–	–	22,754,000			

The total fair value, which was determined by using Black-Scholes option price model, of the options granted under the Pre-IPO Share Option Scheme as at the grant date is approximately 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 period ended 30 June 2011, are as follows:

	Number of share options						
Director and eligible employees	**At 1 January 2011**	**Granted during the period**	**Lapsed during the period**	**At 30 June 2011**	**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	51,110,000	–	(1,000,000)	50,110,000	14/7/2009	3.00	14/1/2012 – 13/1/2015
	56,110,000	–	(1,000,000)	55,110,000			

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 9 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 of Directors and chief executive

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 30 June 2011, 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)	791,946,000 Shares	46.08%
Wang Longxiang	The Company	Beneficial interests (Note 2)	5,910,000 Shares	0.34%
Chen Yuan	The Company	Beneficial interests (Note 3)	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. 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 period ended 30 June 2011, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interest of persons holding 5% or more interests

Interests of person holding 5% or more interests

As at 30 June 2011, 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	791,946,000 Shares	46.08%
Shi Guiling (Note 2)	The Company	Interests of spouse	791,946,000 Shares	46.08%
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 period ended 30 June 2011, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

GLOSSARY

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

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
PRC	the People's Republic of China, which for the purpose of this report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Pre-IPO Share Option Scheme	the share option scheme adopted by the Company on 10 January 2007 for granting the share options to certain Directors and employees of the Company before IPO
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
HKD	Hong Kong dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of the PRC
USD	United States dollars, the lawful currency of the United States of America
%	per cent