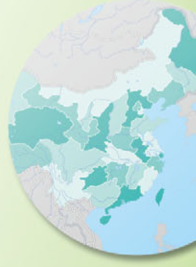
Fufeng Group Limited
阜豐集團有限公司

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



Annual Report 2011


Revenue continued to grow
福瑞味精
雪梅味精
有机-无机复混肥料
食品添加剂
黄原胶
Forbes
Best
Billion

FUFENG
阜丰

Contents

Chairman's Statement

On behalf of the board of Directors (the "Board"), I would like to present the annual report of Fufeng Group Limited ("Fufeng" or "the Company" and its subsidiaries, together called "the Group") for the year ended 31 December 2011.

The Group is the world's largest producer and supplier of monosodium glutamate ("MSG") and xanthan gum. Its principle business is to develop and produce corn-based biochemical products with fermentation technology. In the year under review, the Group enhanced the advantages of its economies of scale and market leadership in its mainstay businesses of MSG and xanthan gum, and diversified into high-value added products for future growth drivers.

MSG Business

In 2011, the Group accelerated the MSG industry consolidation by continuously pricing its products competitively and expanding production capacity in places where it had abundant raw materials and so enjoyed the cost advantages. As a result, it increased its market share as the market became even more concentrated in the country's major MSG producers. The Hulunbeir Plant Phase 1 with an annual MSG production capacity of 200,000 tonnes was launched into operation in the second half of 2011, bringing Fufeng's total annual MSG production capacity to 750,000 tonnes by the end of 2011. The expanded production capacity manifested the strength of the economies of scale and helped boost the market share. In 2011, the Group sold 620,000 tonnes of MSG. The sales volume grew by 25%.

The year of 2011 was a crucial year for the PRC MSG industry as its new round of consolidation, coupled with the rising costs of a main raw material and fuel, left the majority of the producers in a difficult situation. Some weaker businesses were supplanted. The competitive pricing of the product ate into the profits, while the costs of corn kernels and coal were rising substantially, exerting severe pressure on the entire MSG industry. The impact on the small producers was especially pronounced. In December 2011, the Ministry of Industry and Information Technology of the People's Republic of China announced its targets for eliminating outdated and inefficient production capacities in the country's 19 pillar industries during the "Twelfth Five-year Plan" period, including the elimination of 182,000 tonnes of annual MSG production capacity. The Group expects that more inefficient production capacity will be supplanted as the industry consolidation is drawing to a close with the catalysts of the government policy and market forces. Major industry players with competitive advantages will fill the void in the supply. The Group adhered to its competitive pricing strategy and this yielded expected results. Its MSG business achieved record highs in terms of revenue, production and sales volume, and market share. Although the competitive pricing strategy has weighed on the gross profit margin in the short term, it has reinforced the Group's market leadership for the future development. The Group expects that, when the industry consolidation finishes, its pricing power will become stronger, reversing the trends of declining product prices and decreasing profits. With an aim of enhancing its economies of scale and making up for the shortfall in the MSG supply, the Group has been expanding its annual MSG production capacity, which will become one million tonnes when its Hulunbeir Plant Phase 2 goes on stream in the first half of 2012. This means that Fufeng will attain the goal of its mid-term development strategy set in 2009, reinforcing its leadership in both the industry and market. The management team will be able to effectively realise its vision. Presently, the Group has formed its production capacity layout by setting up four production bases in places with cost advantage of raw materials in the PRC. The plants are respectively located in Shandong, Baoji of Shaanxi, and Hohhot and Hulunbeir of Inner Mongolia. The Group's other businesses of starch sweeteners, fertiliser and by-products of corn-based fermentation also recorded growth in production and sales volume.

Xanthan Gum Business

Xanthan gum production and sales, which is the Group's second largest business, performed well in the year under review. It sold 45,000 tonnes of the product, exceeding the sales target for 2011. Xanthan gum has a bright market prospect as it is widely used in chemical industry, food industry, medicine, oil extraction, textile, pottery, printing and dying, etc. The Group plans to increase its annual xanthan gum production capacity to 50,000 tonnes in 2012 to capitalise on its business opportunities.

Amino Acid Business

The amino acid production and sales is the Group's another growth driver in addition to the mainstay businesses of MSG and xanthan gum. The business segment is now producing threonine for sales. It will also produce and sell other types of high value-added amino acid products as it develops more corn-based biochemical products with fermentation technology. Threonine is a type of amino acid which is used as an animal feed additives, including piglets, breeding pigs, chicken, prawns and eels. In the year under review, the Group sold 8,979 tonnes of threonine.

Building brand to extend business scope to retailing from production and wholesale

The Group has been actively developing its own brand to build up its presence in the retail market, extending its business scope from production to wholesale. It has launched MSG and chicken powder product series under the "U Fresh" brand. Moreover, it also launched compound seasoning products into the markets.

Business performance and dividend

For the year ended 31 December 2011, the Group's turnover rose by 30.9% to RMB8,399.2 million. Profit attributable to the shareholders decreased by 37.5% to RMB604.1 million because of the material cost hikes and the decline in the products' selling prices. The Board recommended a payment of a final dividend of HK3 cents per share, which, together with the interim dividend of HK10 cents per share, bring the total dividend to HK13 cents per share for the year.

Investors supported the Company's fund-raising for production capacity expansion

In April 2011, the Group succeeded in issuing USD300 million worth of senior notes for five years to fund the construction of the production base in Hulunbeir. The move gained support from the institutional investors on the international capital market. The success of the senior note issuance showed that the Group is able to raise fund to support its long-term development.

Prospects and Development Strategy

In 2012, we expect that the MSG market consolidation will basically finish, and that the product's selling price will then become more stabilised. This will enable the leading MSG producers to raise their pricing power in the longer term. Meanwhile, as the economic growth decelerated, we expect that the prices of major raw materials will begin declining or will become stabilised. This trend will help reduce the production cost and is likely to improve the Group's profitability.

On the demand side, industrial and consumer demands for such food ingredients and additives such as MSG, xanthan gum and starch sweeteners will continue to grow because the living standards improve and the food industry and catering sector have been growing rapidly. Moreover, such demands are not affected by the economic cycle. We believe the Group will be able to maintain its fast growth momentum.

With years of efforts, the Group has established its market leadership. In 2012, we will continue to build on past achievements and create growth drivers. The Group will continue to maintain the economies of scale, cost advantage and market dominance of its mainstay businesses, and at the same time will shift the focus of development from production capacity expansion to the raising of products' quality standards and overall efficiency. It will also continue to actively develop new high value-added and high profit-margin products to boost business growth in the future. This year, we will continue to tap the potential of the corn-based fermentation technology and leverage our economies of scale by reinforcing our leading position in the food additive markets for MSG and xanthan gum and by actively developing different amino acid products. We will step up efforts to develop the market for amino acid products and expand the related production capacity. We will continue to develop the threonine business and other high-end amino acid products. We have set the following goals for our mid-term development strategy:

- To leverage the production capacities of the Phases 1 and 2 of the Hulunbeir Plant to reinforce and maintain the market leadership of our mainstay businesses of MSG, xanthan gum and other products. This is a way to bring the economies of scale and cost advantage into play as well as to raise efficiency. The move will help make the industry's development and competition more rational. The Group has set the targets of increasing its share of domestic MSG market to above 40% and that of the world's MSG market to above 30% in 2013. It plans to expand overseas markets by establishing sales offices in Europe, America, the Middle East, Africa and Southeast Asia.

- To step up efforts to develop more amino acid products for animal feed in addition to threonine. The Group aims to become a major producer and supplier of the products.

- In 2012, the Group will set up a plant in Xinjiang to produce some high-end amino acid products. This will enable it to tap the rich coal resource of the place in order to develop high-end amino acid products with cost advantage. It will try to quickly enter the high-end amino acid products market and build footholds there. The short-term goal of the Group is to become one of the world's top three producers and suppliers by market share in three to five such amino acid products. The development and production of these products will upgrade and diversify the Group's product mix, satisfying the various demands of the market. This is the Group's plan to extend its business scope from the production and sales of typical amino acid products for bulk trade to those of high-end products.

In order to achieve the goals mentioned above, the Group will improve the organisation of the management, continue to attract and develop talent, and lift the standards of the corporate culture. We hired a professional consulting firm for business management and strategy. The consultant will assist the Board in assessing, streamlining and improving the Group's present systems for management and human resources and raising the standards of its corporate culture. The improvement is believed to be able to benefit the Group's long-term development.

Appreciation

I would like to express my gratitude to the members of the Board, the management team, all staff and business partners for their efforts and contribution. I would also like to thank the clients for their patronage and the shareholders for their support. Fufeng will build on its past achievements and blaze a trail for growth, doing its part in contributing to society's prosperity.

Li Xuechun
Chairman

20 March 2012

Five-year Summary

	Year				
	2007	2008	2009	2010	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Operating results – Summary					
Turnover	2,445,652	3,585,343	4,632,884	6,416,425	**8,399,246**
Gross profit	249,666	644,332	1,399,607	1,565,054	**1,519,673**
Profit before income tax	45,485	325,380	1,023,597	1,071,329	**716,436**
Profit attributable to Shareholders	45,069	294,706	928,285	966,051	**604,137**
Balance sheets – Summary					
Non-current assets	1,743,481	2,087,602	2,653,219	4,277,621	**6,326,641**
Current assets	1,138,354	1,174,863	1,607,802	2,442,644	**3,532,681**
Total assets	2,881,835	3,262,465	4,261,021	6,720,265	**9,859,322**
Current liabilities	1,095,170	1,170,225	1,572,209	2,424,699	**3,388,364**
Non-current liabilities	337,849	350,726	295,101	1,150,301	**3,064,255**
Net assets	1,448,816	1,741,514	2,393,711	3,145,265	**3,406,703**
Financial ratio					
Earning per share (Basic) (RMB Cents)	2.80	17.75	55.92	57.75	**35.15**
Gross profit ratio (%) *(Note 1)*	10	18	30	24	**18**
ROE (%) *(Note 2)*	3	17	39	31	**18**
Current ratio *(Note 3)*	1.04	1.00	1.02	1.01	**1.04**
Inventory turnover days (Day) *(Note 4)*	54	45	63	54	**63**
Debtors' turnover days (Day) *(Note 5)*	74	54	47	38	**63**
Trade receivable turnover days (Day) *(Note 6)*	10	8	7	10	**12**
Creditors' turnover days (Day) *(Note 7)*	76	63	56	58	**58**
Trade payable turnover days (Day) *(Note 8)*	74	63	56	47	**58**
Gearing ratio (%) *(Note 9)*	22	18	14	23	**36**

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. 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
Building 3, No. 29 Jinghai 2nd Road
Beijing Economic-Technological Development Area
Beijing, 101111
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

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

Hulunbeir Plant

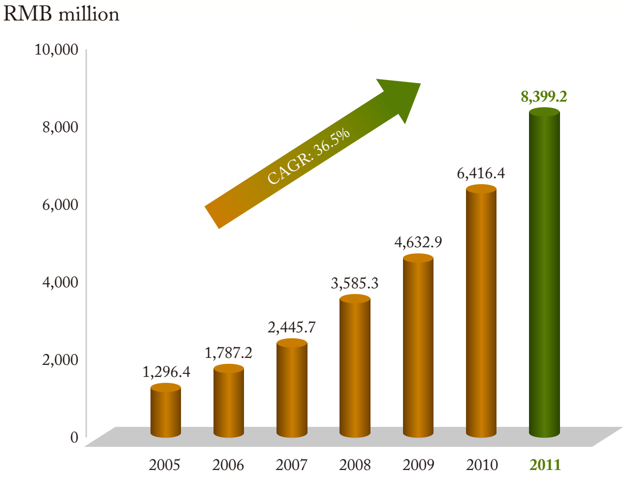
IM Plant

Shandong Plant

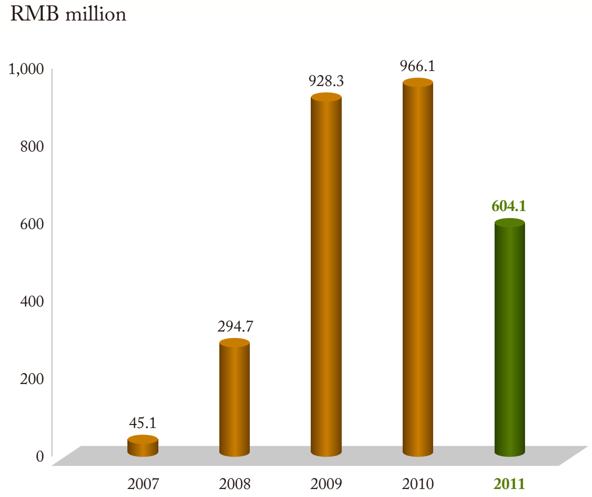
Baoji Plant

Financial Highlights

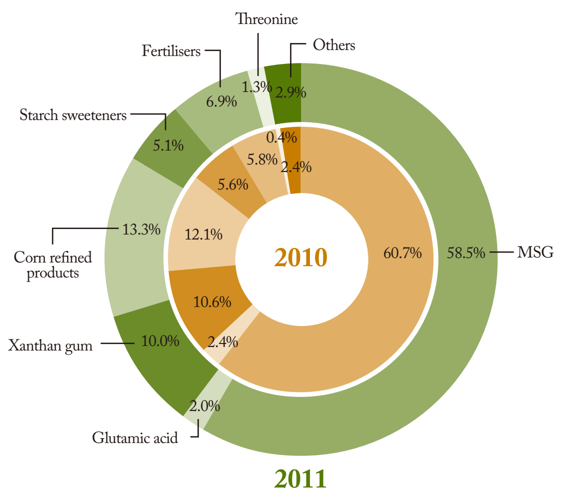
Turnover Growth



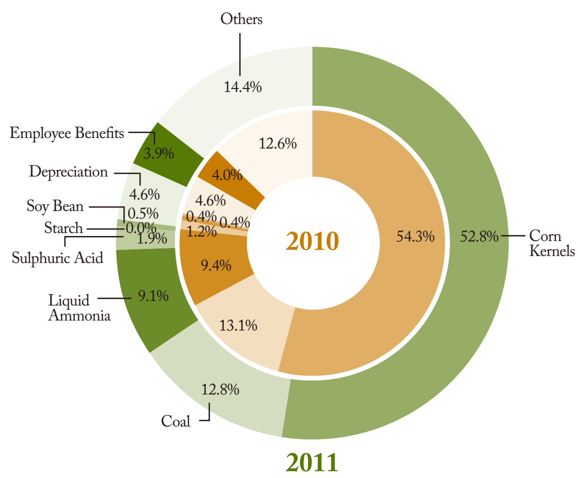
Profit attributable to Shareholders



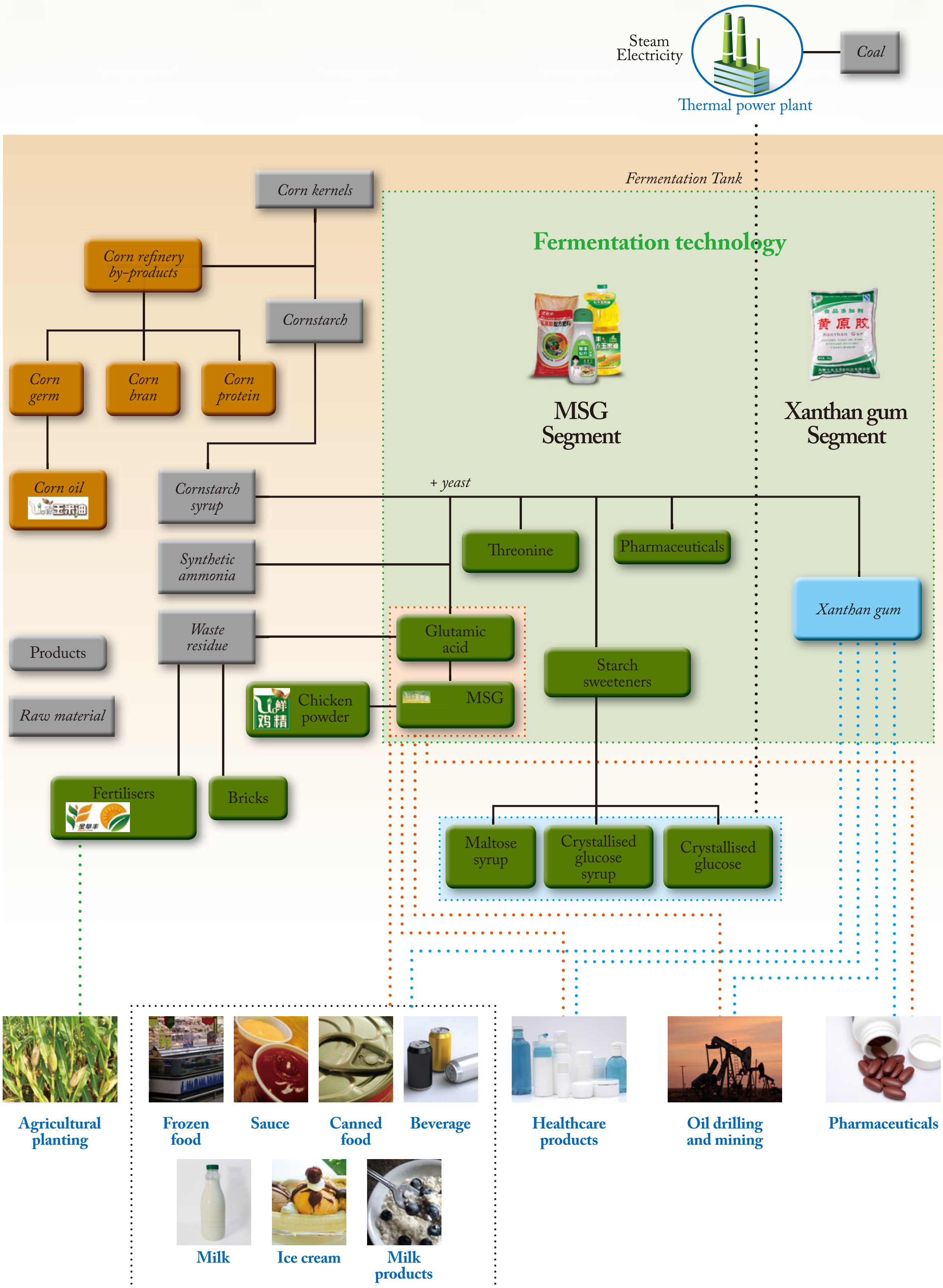
Revenue Analysis



Production Cost Analysis



Major Products Processing Map



Biographies of Directors and Senior Management

Executive Directors

李學純 (Li Xuechun), aged 60, 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, IM Fufeng and Hulunbeir 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 as a director of Shandong Fufeng upon its establishment. He has 30 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 46.71% 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 50, is an executive Director and the general manager of the Group. Mr. Wang is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng and Hulunbeir Fufeng. 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 20 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. In addition, Mr. Wang is interested in 1,000,000 Shares which are held by Mr. Wang directly, representing 0.06% of 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 2011, 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 42, is an executive Director and vice general manager of the Group. Mr. Feng is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng and Hulunbeir 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 18 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 43, is an executive Director and vice general manager of the Group who is responsible for Shenhua Pharmaceutical and the research and development department of the Group. Mr. Xu is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng and Hulunbeir 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 21 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 43, is an executive Director and a vice general manager of the Group who is responsible for the Import and Export business of the Group. He is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng and Hulunbeir 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 11 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 42, is an executive Director and the chief financial officer of the Group. Mr. Chen is responsible for financial management, capital markets, corporate development and investor relations matter, and assist the Group to develop strategic planning and long-term development plan. He is also designated to manage and oversee the internal control and corporate governance system of the Group. 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 19 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.

李廣玉 (Li Guangyu), aged 33, 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 6 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 49, 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 25 years of experience in finance and auditing.

陳寧 (Chen Ning), aged 49, 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 11 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 48, 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 22 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 43, 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 20 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 2011, 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 46, is a vice general manager of Hulunbeir Fufeng. 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 13 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 37, 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 12 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 2011, 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 45, 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 2011, 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 43, 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 10 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 2011, 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 51, 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 19 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 2011, 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 38, is a manager of the finance department of IM Fufeng. 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 17 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 2011, 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 42, 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 18 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

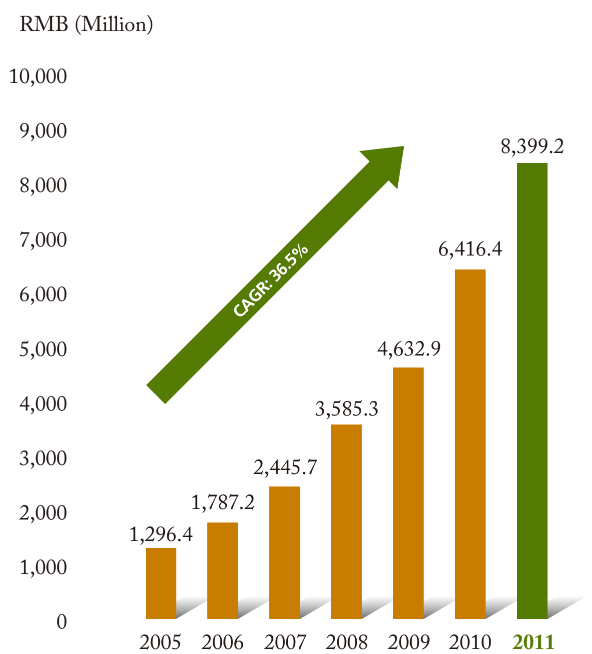
Business and Financial Review

Overview

In 2011, the Group continued its strategy of expanding its market shares by expanding production capacity, strengthening research and development capabilities, and diversifying its products. Presently, the Group is the largest producer of MSG and xanthan gum in the world, aiming to become a leading global corn-based biochemical products producer.

The Group's MSG business recorded a significant growth in both revenue and sales volume and reached new highs for the year ended 31 December 2011. MSG sales increased by 26.3% to approximately RMB4,915.4 million on the back of sales volume growth and expanded production capacity, which drove up the market share. The Group's another mainstay xanthan gum business also recorded historical highs in terms of production and sales volume during the year, strengthening its leading position in the global market and leaving competitors further behind.

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



The Group's gross profit decreased by 2.9% from approximately RMB1,565.1 million in 2010 to approximately RMB1,519.7 million in 2011. The decrease was primarily due to a slight decline in the products' selling price and hikes in major material costs resulting in the decrease of gross profit margin of its major products.

Although the PRC continued its strong economic growth and growth in market demand, the Group implemented its short-term strategy of cutting selling prices of its products to consolidate the MSG market. The ASP of the Group's MSG increased by 1.0% compared to 2010. Production costs were rising, mainly due to a substantial increase in the prices of both raw materials (corn kernels and chemical products) and fuel coal. The Group's gross profit margin was squeezed to 18.1% in 2011 from 24.4% in 2010.

Nevertheless, the Group stepped up efforts to control costs by leveraging its economies of scale, which was achieved with expanded production capacity and its leading market position. The Group was able to manage cost control effectively. For instance, it extended its business scope upstream by setting up a synthetic ammonia production line with an aim of reducing the cost of a major raw material. The construction of synthetic ammonia production line with an annual production capacity of 80,000 tonnes was completed and launched into operation by the end of 2011.

In 2011, the sales amounts and sales volume of MSG increased by 26.3% and 25.0% respectively in 2011. The sales amounts and sales volume of xanthan gum increased by 22.6% and 31.7% respectively. The Group was able to maintain the growth momentum in the year under review because of the strong sales of MSG products and xanthan gum.

The Group launched a threonine plant in the IM Plant with an annual production capacity of 10,000 tonnes into commercial production in 2010, and rapidly expanded the Hulunbeir Plant annual production capacity of threonine to 30,000 tonnes at the end of 2011 to capitalise on its cost advantage. Revenue from threonine sales increased by about 287.1% in 2011 when compared with that in 2010.

It is expected that continuously fast economic development and growth in China will benefit the retail sector. In order to capture the business opportunities, the Group continued to develop and promote its brand products for industrial and retail customers. It was selling its own brand MSG products, U Fresh Series, through an extensive retail and distribution network of supermarkets in the PRC. In addition, the Group has launched some compound seasoning products since the end of 2011 to widen the MSG product range.

According to the Group's development plan, the main construction of the Hulunbeir Plant Phase 1, which is located in Inner Mongolia and close to the border with Heilongjiang, was completed on schedule and began production since the second half of 2011. Upon completion of this new plant, the Group's MSG production capacity has been enhanced, maximizing the strength of the Group's economies of scale and cost advantage.

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

Market Overview

The Group faces challenges in both the production and operation aspects since the beginning of 2011. The overall industrial demand for MSG increased consistently. The demand for xanthan gum also grew steadily as the oil industry's demand for the product increased, showing a continuing recovery of the xanthan gum market. Costs of major raw materials increased significantly due to the continuous economic growth in the PRC. Prices of corn kernels, coal and other major raw materials continued to increase during 2011. However, the Group adhered to its strategy of consolidating the MSG market with price-cutting despite the hikes of raw material and fuel costs. It is the Group's main objective to expand its market share by increasing production capacity in the second half of 2011. The major raw material costs increased at a high degree than the average selling price of the Group's products, resulting in a decrease in the gross profit margin to 18.1%.

Business Review

MSG

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

The Group has become the world's leading MSG producer as it presses ahead with the industry consolidation with its competitive pricing strategy to expand market share. The MSG market in the PRC became increasingly concentrated in 2011. In particular, in the second half of 2011, the MSG industry consolidation accelerated. The Group had set an objective of accelerating the industry consolidation in a short period of time and so adopted a competitive pricing strategy, which resulted in a slight decrease in the ASP of its MSG products. After the Hulunbeir Plant Phase 1 commenced production in the second half of 2011, the Group was able to use its economies of scale and cost advantage to eliminate its small to medium-sized competitors. As a result, it continuously expanded its market share in the PRC.

In late 2010, the Group entered into a co-operative agreement with "Ajinomoto" of Japan about the distribution of threonine products. According to the agreement, the Group's threonine products will be sold through the sales and distribution network of Ajinomoto from 2011 onwards. The Group has rapidly expanded the threonine production capacity to 40,000 tonnes at the end of 2011. It will develop threonine into one of its core products to help drive its growth.

Xanthan gum

The global market demand for xanthan gum has continuously recovered since 2010. The Group has been increasing its production capacity and market share since 2009. The top three xanthan gum manufacturers continued to dominate the global market. Both the demand and sales volume of xanthan gum significantly increased in 2011.

Financial Review of the Group

The Hulunbeir Plant Phase 1 has commenced production since the second half of 2011. Following the rapid growth in 2010, the Group achieved a record high in sales in 2011 on the back of expanded production capacity. Certain indicative operational figures of the Group are set out below:

Turnover/Gross profit/Gross profit margin of the Group

	Year ended 31 December		Change
	2011	2010	%
Turnover (RMB'000)	**8,399,246**	6,416,425	30.9
Gross profit (RMB'000)	**1,519,673**	1,565,054	(2.9)
Gross profit margin (%)	**18.1**	24.4	(6.3 ppts.)

The improvement in the performance of the Group was mainly due to the increase in production capacity and sales volume of certain products. The ASP of the Group's products was maintained at a similar level as that in 2010. However, the costs of major raw materials rose significantly, resulting in a decrease in gross profit margin. These are discussed in more details in the following sections.

Profit attributable to the Shareholders

	Year ended 31 December		
	2011	2010	Change
	RMB'000	*RMB'000*	%
As reported	**604,137**	966,051	(37.5)

Profit attributable to the Shareholders decreased by about 37.5%, due to the factors mentioned above. The effect of the positive factors such as increased market share, sales volume growth, raised cost efficiencies and improved operating environment was more than offset by the significant increases in raw material costs. The Group made a strategic decision to adhere to its competitive pricing strategy in order to maintain its market share and accelerate the completion of industry consolidation. The Hulunbeir Plant filled the gap in the demand left behind by the supplanted competitors. In addition, administrative costs also increased as mainly due to the commencement of production at the Hulunbeir Plant in the second half of 2011. Costs of staff and research and development rose in 2011.

Segment Highlights

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

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

	Year ended 31 December 2011			Year ended 31 December 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*	*%*	*%*	*%*
Revenue	**7,563,484**	**835,762**	**8,399,246**	5,734,700	681,725	6,416,425	31.9	22.6	30.9
Gross profit	**1,217,515**	**302,158**	**1,519,673**	1,300,291	264,763	1,565,054	(6.4)	14.1	(2.9)
Gross profit ratio	**16.1%**	**36.2%**	**18.1%**	22.7%	38.8%	24.4%	(6.6 ppts.)	(2.6 ppts.)	(6.3 ppts.)
Segment results	**497,790**	**249,886**		922,741	219,628		(46.1)	13.8	
Segment net assets									
Assets	**8,721,294**	**1,036,954**		5,467,764	747,285		59.5	38.8	
Liabilities	**3,359,969**	**195,881**		2,408,595	173,673		39.5	12.8	
Net assets	**5,361,325**	**841,073**		3,059,169	573,612		75.3	46.6	

MSG Segment

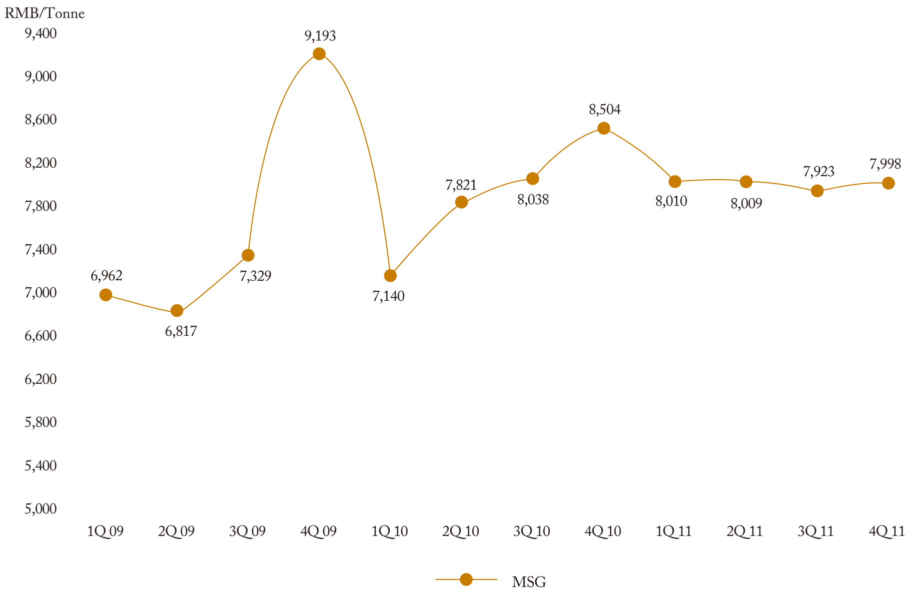
Revenue and ASP

Revenue generated from the sales of the MSG segment products increased to RMB7,563.5 million in 2011, representing an increase of RMB1,828.8 million or 31.9%, as compared with that in 2010. The increase was mainly attributable to the increase in the sales volume after the Group launched the new MSG production capacity of the Hulunbeir Plant Phase 1 into production.

The table below sets out the revenue of the products in this segment for the years ended 31 December 2011 and 2010:

Product	Year ended 31 December		
	2011	2010	Change
	RMB'000	*RMB'000*	*%*
MSG	**4,915,408**	3,892,506	26.3
Glutamic acid	**167,457**	153,633	9.0
Fertilisers	**582,893**	369,649	57.7
Corn refined products	**1,113,473**	773,563	43.9
Starch sweeteners	**430,341**	356,704	20.6
Threonine	**108,960**	28,145	287.1
Corn oil	**133,349**	103,680	28.6
Branched-chain amino acid	**34,581**	12,663	173.1
Others	**77,022**	44,157	74.4
	7,563,484	5,734,700	31.9

Set out below is a chart showing the ASP of the Group's major products of MSG for each quarter from the first quarter of 2009 to the fourth quarter of 2011:



MSG

The increase in raw material cost was mainly contributed to the industry consolidation in 2011, as many obsolete production facilities closed. The Group maintained its market leadership in the MSG segment through production capacity expansion, increased marketing efforts, and competitive pricing. While the ASP increased only about 1.0%, from approximately RMB7,903 per tonne in 2010 to approximately RMB7,984 per tonne in 2011, turnover of the MSG increased by about 26.3% and sales volume rose by about 25.0% to approximately 615,630 tonnes when compared to that in 2010. Market demand drove the growth in 2011.

In 2011, the Group also enhanced the marketing of U Fresh Series products in consumable retail section. During the second half of 2011, the Group launched some new compound seasoning products. The compound seasoning products targeted the household market, which was booming as the PRC's living standards improved. The operating results of this product series were generally in line with the management's expectations.

Moreover, the increase in the domestic consumption demand drove the growth of the PRC's MSG market. The demand for MSG continued to grow in 2011.

Fertilisers

The bad weather affected part of the market demand for fertilisers during the first half of 2011. The Group actively implemented a competitive pricing strategy to counteract the changes of market environment. However, the market demand has recovered since the second half of 2011. The ASP of fertilisers slightly increased from approximately RMB693 per tonne in 2010 to approximately RMB698 per tonne in 2011, representing an increase of about 0.7%. This is in line with the price trend of the products of the same nature. The production and sales volume of fertilisers significantly increased, mainly due to the increase in production capacity in the Hulunbeir Plant Phase 1 in the second half of 2011 and increased efforts in sales and marketing of fertilisers.

Corn refined products

The ASP of corn refined products increased in tandem with the corn kernels price in 2011. The revenue of corn refined products increased by about 43.9% for the year ended 31 December 2011 compared with that in 2010. The increase was mainly due to the increased consumption of corn kernels and the increase in the ASP of corn refined products.

Starch sweeteners

Turnover of starch sweeteners rose by about 20.6% in 2011, reflecting a strong demand. ASP of the product increased by about 22.3% to approximately RMB3,444 per tonne in 2011 from approximately RMB2,816 per tonne in 2010 due to sugar shortages.

Threonine

Threonine is a new product of the Group. By the end of 2010, the annual threonine production capacity was 10,000 tonnes. Threonine is an essential amino acid which maintains body protein balance and promotes the growth of living things. Our threonine product is mainly used as animal feed additives. The revenue and sales volume of threonine amounted to approximately RMB109.0 million and approximately 8,979tonnes respectively in 2011. The ASP of threonine was approximately RMB12,135 per tonne.

Others

During the year under review, the Group developed its product range along its value chain to include branched-chain amino acid, corn oil and chicken powder. The sales volume of branched-chain amino acid, corn oil and chicken powder increased to about 413 tonnes, 13,989 tonnes and 354 tonnes respectively in 2011. The Group continued to develop new products. The objective is to strengthen the brand name of the Group and also develop new products for both industrial and consumable retail market. The move is expected to help increase market recognition of the Group's products and boost demand for such products.

Gross profit and gross profit margin

The gross profit of this segment is set out below:

	Year ended 31 December		
	2011	2010	Change
Gross profit (RMB'000)	**1,217,515**	1,300,291	(6.4%)
Gross profit margin (%)	**16.1**	22.7	(6.6 ppts.)

Rising raw material costs squeezed margins during the year. The gross profit decreased by 6.4% as compared to 2010. The Group made a strategic decision to adhere to its competitive pricing strategy in order to maintain market share and accelerate the completion of industry consolidation. The Hulunbeir Plant Phase 1 filled the gap in the demand left behind by the supplanted competitors. The ASP of MSG decreased to approximately RMB7,964 per tonne in the second half of 2011. The gross profit margin decreased from 19.9% in the first half of 2011 to 13.0% in the second half of 2011.

Gross profit decreased by 6.4% to RMB1,217.5 million, while gross profit margin fell by 6.6 percentage points to 16.1%. The decreases had already been anticipated and weighed by the Group.

Production costs

	Year ended 31 December				
	2011		2010		Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
Major raw materials					
• Corn kernels	**3,577,070**	**53.7**	2,559,799	56.5	39.7
• Liquid ammonia	**647,175**	**9.7**	461,143	10.2	40.3
• Sulphuric acid	**136,230**	**2.0**	60,636	1.3	124.7
Energy					
• Coal	**753,147**	**11.3**	509,158	11.2	47.9
Depreciation	**292,568**	**4.4**	189,713	4.2	54.2
Employee benefits	**242,805**	**3.6**	166,914	3.7	45.5
Others	**1,007,951**	**15.3**	586,399	12.9	71.9
Total cost of production	**6,656,946**	**100.0**	4,533,762	100.0	46.8

Corn kernels

In 2011, corn kernels accounted for approximately 53.7% (2010: 56.5%) of the total production cost of this segment. As the demand continued to increase in 2011, the price of corn kernels kept rising since 2009. The average unit cost of corn kernels became stable since the fourth quarter of 2011. The average unit cost of corn kernels for 2011 was approximately RMB1,912 per tonne, which represents an increase of approximately RMB171 per tonne or 9.8% over 2010.

Liquid ammonia

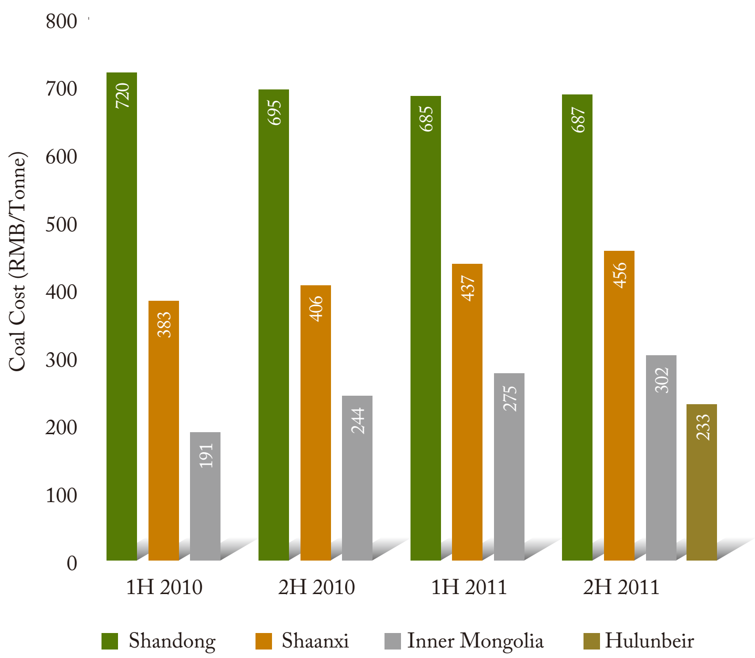
Liquid ammonia accounted for approximately 9.7% (2010: 10.2%) of total production cost in this segment in 2011. Being affected by the increase in market demand as industrial demand recovered, the average unit cost of liquid ammonia for 2011 increased to approximately RMB2,956 per tonne, which represents an increase of approximately RMB475 per tonne or 19.1% from that of 2010. The Group has begun construction of additional production capacity of composite ammonia in order to counteract higher prices of liquid ammonia. We anticipate reductions of 2–3% in the share of liquid ammonia to total production costs over the next year, through the first half of 2012.

Sulphuric acid

Sulphuric acid accounted for approximately 2.0% (2010: 1.3%) of total production cost in this segment in 2011. The average unit cost of sulphuric acid has been rising since the end of 2009. It was affected by the increase in market demand as the industrial demand recovered. In 2011, the average unit cost of sulphuric acid increased to approximately RMB486 per tonne, which represents an increase of approximately RMB207 per tonne or 74.2% from that of 2010. The increase, which was higher than those of other inputs such as corn kernels and coal, translated into a 0.7% increase in its share of total production costs.

Coal

Coal accounted for 11.3% of total production cost in this segment in 2011 (2010: 11.2%). The average unit cost of coal for 2011 was approximately RMB340 per tonne, an increase of approximately RMB28 per tonne or 9.0% from 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 costs increased by a modest 0.1%. This was in part due to our pricing power, as we located our production facilities in the coal-producing regions such as Inner Mongolia, Hulunbeir and Shaanxi, to enjoy access to lower-cost coal. This helped strengthen the Group's pricing power. The chart below shows coal costs at each of our plants in Shandong, Shaanxi, Inner Mongolia and Hulunbeir:



Other production costs

The increase in cost of depreciation, employee benefits and other costs was mainly due to the increased production capacity of MSG in the new Hulunbeir Plant as new production capacity has completed and started production since the second half of 2011. It is in line with our production volume output.

Production

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

Product	Year ended 31 December 2011 *Tonnes*	2010 *Tonnes*	Change *%*
MSG			
Annual designed production capacity *(Note)*	**606,667**	540,000	12.3
Actual production output	**648,025**	495,895	30.7
Utilisation rate	**106.8%**	91.8%	
Glutamic acid			
Annual designed production capacity *(Note)*	**513,333**	460,000	11.6
Actual production output	**552,197**	434,333	27.1
Utilisation rate	**107.6%**	94.4%	
Fertilisers			
Annual designed production capacity *(Note)*	**643,333**	560,000	14.9
Actual production output	**757,562**	517,303	46.4
Utilisation rate	**117.8%**	92.4%	
Starch sweeteners			
Annual designed production capacity *(Note)*	**140,000**	130,000	7.7
Actual production output	**130,326**	130,268	0.0
Utilisation rate	**93.1%**	100.2%	

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

The new production capacity from the new Hulunbeir Plant has commenced production in the second half of 2011. Utilisation rates kept at fully usage level in 2011. It represented that our new production are successively absorbed by the market and reflected the Group's increasing share of the MSG market.

Xanthan Gum Segment

Operation results

The table below sets out the sales amount, gross profit, gross profit margin and utilisation rate of xanthan gum for the years ended 31 December 2011 and 2010:

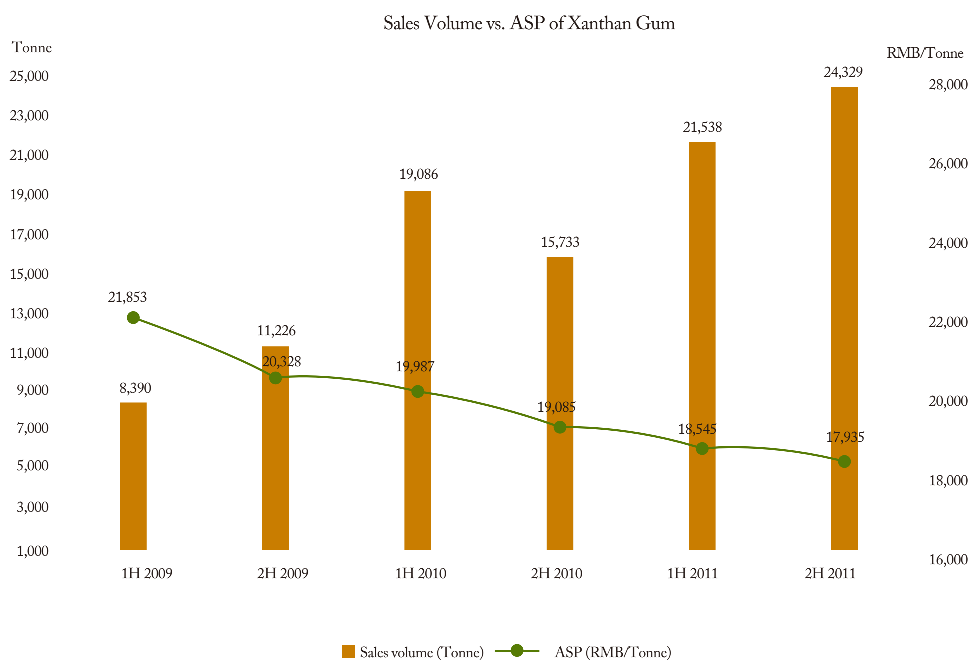
	Year ended 31 December		Change
	2011	2010	%
Revenue (RMB'000)	**835,762**	681,725	22.6
Gross profit (RMB'000)	**302,158**	264,763	14.1
Gross profit margin (%)	**36.2**	38.8	(2.6 ppts.)
Annual designed production capacity (tonnes) *(Note)*	**44,000**	38,000	15.8
Actual production output (tonnes)	**43,242**	31,619	36.8
Utilisation rate	**98.3%**	83.2%	

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

Revenue generated from xanthan gum increased by about 22.6% to approximately RMB835.8 million in 2011, from approximately RMB681.7 million in 2010. The significant increase in revenue was due in part to the Group's strategy of expanding market share through competitive pricing.

The Group's exports of xanthan gum remained stable in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed 88.5% of total sales of xanthan gum in 2011 (2010: 86.4%).

Sales and ASP



Sales volume increased by about 31.7% in 2011, reflecting expanded production capacity, while revenue increased by just 22.6% over the same period. The mismatch was due to a 6.9% decrease in ASP from approximately RMB19,579 per tonne in 2010 to approximately RMB18,222 per tonne in 2011.

Global economic recovery and the Group's increased sales and marketing efforts boosted sales volume of xanthan gum in 2011. We expect this trend to continue as the demands in the oil industry and other sectors grow. We expect to achieve record growth in sales volume as well as a reversal of the recent decline in ASP.

Gross profit and gross profit margin

Gross profit of the xanthan gum segment increased by about 14.1% from approximately RMB264.8 million in 2010 to approximately RMB302.2 million in 2011. Gross profit margin fell slightly as well, with a decrease of 2.6 percentage points in 2011, reflecting lower ASP. Counterbalancing the lower average selling price, we experienced significant cost advantages at the IM Plant where we have access to lower-cost coal. The increase in production at the IM Plant has given us pricing power over coal and helped to reduce overall production costs.

Production costs

	Year ended 31 December				
	2011		2010		Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
Major raw materials					
• Corn kernels	**186,157**	**39.7**	112,451	29.0	65.5
• Starch	**2,317**	**0.5**	17,745	4.6	(86.9)
• Soy bean	**32,401**	**6.9**	20,923	5.4	54.9
Energy					
• Coal	**161,649**	**34.5**	137,423	35.4	17.6
Depreciation	**38,042**	**8.1**	38,680	10.0	(1.6)
Employee benefit	**32,855**	**7.0**	31,221	8.0	5.2
Others	**15,283**	**3.3**	29,496	7.6	(48.2)
Total cost of production	**468,704**	**100.0**	387,939	100.0	20.8

Corn kernels/Starch

During 2011, corn kernels and starch represented approximately 40.2% (2010: 33.6%) 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 kernels price and starch price increased from approximately RMB1,711 per tonne and approximately RMB2,362 per tonne in 2010 to approximately RMB1,915 per tonne and approximately RMB2,620 per tonne in 2011, representing an increase of 11.9% and 10.9% respectively. Since the production of xanthan gum has concentrated in the IM Plant from the beginning of 2011, the production cost of starch significantly reduced in 2011.

Soy bean

During 2011, soy bean accounted for approximately 6.9% (2010: 5.4%) of the total production cost of this segment. The increase in proportion was mainly due to the increase in soy bean price from approximately RMB3,747 per tonne in 2010 to approximately RMB3,907 per tonne in 2011, representing an increase of 4.3%.

Coal

During 2011, coal accounted for approximately 34.5% (2010: 35.4%) of the total production cost of this segment. The Group took full advantage of the relatively low coal cost in the IM Plant. The average unit cost of coal for 2011 was approximately RMB305 per tonne, which represents an increase of approximately RMB40 per tonne or 15.1% from that of 2010.

Other production costs

The cost of depreciation in 2011 was similar to the corresponding period of 2010 mainly as there is no change on the production capacity of xanthan gum from 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 part of a campaign to strengthen the Group's brand.

Administrative expenses

Administrative expenses increased by approximately RMB96.0 million or 34.6% for the year ended 31 December 2011. The increase was mainly due to increased research and development related expenses after more research and development projects have been initiated since 2009. The staff costs also increased during the year. In addition, the administrative expenses from the new Hulunbeir Plant was incurred from the mid of the first half of 2011.

Finance costs

The finance costs of the Group for the year ended 31 December 2011 increased by approximately RMB29.1 million or about 90.0% when compared with that of 2010. The Company has successfully issued the senior notes with a principal amount to USD300 million on 13 April 2011. The fixed interest rate of the senior notes is 7.625% p.a.. The increase of finance cost was mainly due to the senior notes issued during the year and increase in interest rate in 2011.

Staff cost

Staff cost of the Group increased by approximately RMB103.7 million or 30.8% from approximately RMB336.3 million in 2010 to approximately RMB440.0 million in 2011. The increase was mainly due to the increase in the staff costs resulting from the expansion of the Group and the increase in the average salary of the senior management and staffs.

Depreciation

Depreciation expense of the Group increased by approximately RMB114.4 million or 45.5% from approximately RMB251.3 million in 2010 to approximately RMB365.7 million in 2011. The increase was mainly due to commencement of production in the Hulunbeir Plant Phase 1 in the second half of 2011.

Foreign exchange loss

During the year 2011, RMB appreciated by approximately 5.0% as compared with Hong Kong dollar. The appreciation of RMB led to a net exchange loss of approximately RMB50.0 million (2010: 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 senior notes which are kept in saving and fixed bank deposits in US dollar in Hong Kong during 2011 waiting for remittance to the PRC subsidiaries for capital expenditure and operating use.

Taxation

The income tax expenses for the year 2011 represented the PRC Enterprise Income Tax ("EIT").

Effective from 1 January 2008, the subsidiaries incorporated in the 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	Hulunbeir Fufeng
Standard/preferential tax rate	15% *(Note 1)*	15% *(Note 2)*	12.5% *(Note 3)*	–
PRC State tax rate	–	–	–	25%
Tax holiday				
Full exemption	Already expired	Already expired	Already expired	N/A
50% exemption (year)	Already expired	Already expired	2009 to 2011	N/A

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 2011.

Note 2: Baoji Fufeng chose to utilise the tax preferential policy of new and high technique enterprise, which is entitled to a preferential enterprise income tax rate of 15% from 2011 to 2013.

Note 3: IM Fufeng was approved to be a new and high-technique enterprise, which was entitled to 15% tax rate from 2010 to 2012, but this policy cannot be enjoyed at the same time with the "2 + 3" tax holiday. Finally, IM Fufeng chose to utilise the PRC state 25% tax rate with the "2 + 3" tax holiday.

Outlook

In 2011, the prices of the Group's products decreased slightly. With the Hulunbeir Plant going on stream, the Group took advantage of its expanded production capacity and continued its competitive pricing strategy in 2011 to exert pressure on the small to medium-sized players in the MSG industry. The moves enhanced the Group's market share and its leading position in the industry as well as completed the last round of consolidation for the PRC MSG industry. The Group accelerated the industry consolidation which eliminated production capacity of outdated technology.

We are pleased to see that the current industry consolidation is drawing to a close and the MSG industry has bottomed and begun recovering. Over the last year, small-sized MSG producers which lagged behind in technology and did not have cost advantages and resources advantages in the industry, ceased their production due to business and financial difficulties. Upon the commencement of production at the Hulunbeir Plant Phase 2, this round of the industry consolidation will be basically completed.

Future Plan and Recent Development

Looking ahead to the prospects of 2012, the Group has confidence in its business performance despite a slowdown in the PRC's economic growth. The main products of the Group such as MSG, xanthan gum and starch sweeteners are raw material and additives for food processing and production. As the overall living standard has risen and the food and catering industries have been experiencing a rapid development, both the industrial and retail demands for the Group's products will continue to grow and will not be affected by fluctuations in the macroeconomic cycle. This is a fundamental assurance for maintaining the Group's fast growth momentum. Also, the economic slowdown caused the prices of some major raw materials to decline, which will lower our costs and improve the gross profit margin.

Strategically increasing production capacity

With the management's foresight, the Group led and accelerated the industry consolidation and enlarged its market share. The Hulunbeir Plant gave the Group cost advantage and the strength of the economies of scale to supplant the competitors with outdated and inefficient production capacities. By the second quarter of 2012, the Group's annual MSG production capacity will increase to 1,000,000 tonnes, achieving the mid-term strategic target set in 2009. By then, the Group will enjoy absolute competitive advantages and maintain its leadership in the domestic MSG market.

Development of amino acid products used in animal feed additives and construction of a new Xinjiang plant

In 2012, in addition to the mainstay food additive products of MSG and xanthan gum, the Group will step up its effort on developing the market for amino acid products used in animal feed. It will launch other related products based on the existing threonine products.

The Group will set up a new production base in Xinjiang in 2012 for developing high-end amino acid products with cost advantage and advantage of the abundant coal supply in Xinjiang. The Group's product portfolio will be further enhanced by developing and producing this type of products. This will enable us to provide more diversified biochemical products, shifting the Group's focus from production and sales of traditional commodity-type amino acid products for bulk transaction to high-end products.

Mid-term strategic objectives for the coming three to five years

– To fortify and maintain its present leading position in the food additive market in which MSG and xanthan gum are the major products. The Group will use its economies of scale and cost advantage to drive the industry development and help make the competition more reasonable so that products efficiency can be brought into full play;

– Based on the existing threonine products, the Group will put more effort in exploring other amino acid products used in animal feed so as to become a key producer and supplier of this type of products in the PRC;

– With the Xinjiang plant, the Group will step up its efforts to develop the market for high-end amino acid products and build a stronghold in that market. It targets to become one of the top three producers and suppliers of three to five small types of these products in the world.

Enhancement corporate management structure to achieve coming targets

To achieve the coming targets, the Group needs to keep improving its management structure, nourishing and attracting talents and further enhancing its corporate culture. The Group has appointed professional management and strategy consultation institution and review, integrate and strengthen the Group's existing management system, human resource system and corporate culture with the Board, which will bring a positive effect on the sound development of the Group in the long run.

Other Information

Liquidity and financial resources

The Group maintained a healthy liquidity position throughout the period under review. As at 31 December 2011, the Group's cash and cash equivalent and restricted bank deposits were RMB614.1 million (2010: RMB915.2 million) whereas current bank borrowings were approximately RMB704.0 million (2010: RMB555.0 million) and non-current bank borrowings and non-current other borrowings were approximately Nil and RMB2,844.1million (2010: Nil and RMB981.5 million).

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 not been utilised as of 31 December 2011 while utilised by Shandong Fufeng as of 31 December 2010 for bank borrowings amounting to RMB30 million.

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 convert into 165,742,524 Shares, representing approximately 9.64% of the existing issued share capital of the Group and approximately 8.80% of the issued share capital of the Group, as enlarged.

Senior notes

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

Material acquisition or disposal of subsidiary and associated company

The Group had no other material acquisition or disposal of the subsidiaries or associated companies for the year ended 31 December 2011.

Employees

As at 31 December 2011, the Group had approximately 2,800 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 "Other information" section below for the share options granted to certain Directors and employees of the Group pursuant to the Pre-IPO and Post-IPO share option schemes.

Contingent Liabilities

As at 31 December 2011, the Group had no material contingent liabilities.

Charges on assets

As at 31 December 2011, certain leasehold land, property, plant and equipment and restricted bank deposit of the Group with carrying value of approximately RMB65.1 million, RMB13.8 million and RMB25.0 million, respectively, were pledged to certain banks to secure bank borrowings of RMB310 million of the Group.

Gearing ratio

As at 31 December 2011, the total assets of the Group amounted to approximately RMB9,859.3 million (2010: RMB6,720.3 million) whereas the total borrowings amounted to RMB3,548.1 million (2010: RMB1,536.5 million). The gearing ratio was approximately 36.0% (2010: 22.9%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

The Directors do not consider the exposure to foreign exchange risk is significant to the Group's operation as 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 and issuance of convertible bonds and senior notes. 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. The Group manages foreign exchange risk arising from proceeds from issuance of convertible bonds and senior notes by remitting the necessary funds to the PRC and utilisation of the proceeds as soon as possible. The Group has not used any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2011.

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 HK3 cents per share, subject to shareholders' approval at the Annual General Meeting.

The final dividend will be payable on or about 31 May 2012 to Shareholders whose names appear on the register of members of the Company on 14 May 2012.

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 paying dividend in the form of an interim and a final dividend for each financial year.

Purchase, redemption or sales of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

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 2011, including the accounting principles and practices adopted by the Group.

Annual general meeting

The annual general meeting is expected to be held on 8 May 2012. A notice convening the annual general meeting will be dispatched to the Shareholders in due course.

Closure of register of members

The register of members of the Company will be closed from 4 May 2012 to 8 May 2012 (both dates inclusive), during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 8 May 2012, 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 4:30 p.m. on 3 May 2012.

The register of members of the Company will be closed from 14 May 2012 to 16 May 2012 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 11 May 2012.

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) seven executive Directors, Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng, Mr. Chen Yuan, 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 2011, four regular Board meetings were held. Individual attendance of each director at the Board meeting during 2011 is set out below:

Attendance/Number of Board Meetings in 2011

Director	Attendance/ Number of Board Meetings
Executive Director	
Mr. Li Xuechun *(Chairman)*	4/4
Mr. Wang Longxiang	4/4
Mr. Feng Zhenquan	4/4
Mr. Xu Guohua	4/4
Mr. Li Deheng	4/4
Mr. Chen Yuan	4/4
Mr. Gong Qingli (resigned on 13 May 2011)	2/2
Mr. Li Guangyu	4/4
Independent Non-executive Directors	
Mr. Choi Tze Kit, Sammy	4/4
Mr. Chen Ning	2/4
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 41.

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	4,899
Non-audit services	2,406
	7,305

Non-audit services mainly represented the professional fee payable of the Group for the service related to issuance of senior notes and the projects of internal control review.

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 2011, 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 2010, the interim results for the year 2011 as well as discussing the internal control review and the audit of the Group. The Group's 2010 annual report and 2011 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 2011, one Remuneration Committee meetings was 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 2011.

Principal activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in note 34 to the consolidated financial statements.

Result and appropriations

Results of the Group for the year ended 31 December 2011 are set out under the consolidated income statement on page 45.

Interim dividend declared and paid after the interim period was HK10 cents (Equiv to RMB8.20 cents) per Share (2010: HK11 cents (Equiv to RMB9.63 cents) per Share). The Board recommends the payment of a final dividend of HK3 cents per Share (Equiv to RMB2.44 cents per Share) totalling HKD51,561,000 for the year ended 31 December 2011.

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 2011.

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 2011, the Company's reserves available for distribution to the Shareholders amounted to RMB425,931,000 (2010: RMB644,527,000).

Directors

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

Executive Directors

Mr. Li Xuechun *(Chairman)*
Mr. Wang Longxiang
Mr. Feng Zhenquan
Mr. Xu Guohua
Mr. Li Deheng
Mr. Chen Yuan
Mr. Gong Qingli (resigned on 13 May 2011)
Mr. Li Guangyu

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. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng and Mr. Choi Tze Kit, Sammy 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. Feng Zhenquan, Mr. Xu Guohua, and Mr. Li Deheng, 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 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 2011, 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 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)*	802,781,000 Shares	46.71%
Wang Longxiang	The Company	Beneficial interests *(Note 2)*	6,910,000 Shares	0.40%
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. The interest in 1,000,000 Shares is held by Mr. Wang Longxiang, an executive Director of the Company. And the interest in balance of 5,910,000 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 allotted 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 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.

Interests of person holding 5% or more interests

As at 31 December 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	802,781,000 Shares	46.71%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	802,781,000 Shares	46.71%
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 802,781,000 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 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.

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, 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 for the year ended 31 December 2011 are as follows:

	Number of share options						
Directors and eligible employees	At 1 January 2011	Exercised during the year	Lapsed during the year	At 31 December 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	–	(56,000)	16,788,000	10/1/2007	2.23	8/8/2009-7/8/2012
	22,754,000	–	(56,000)	22,698,000			

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 for the year ended 31 December 2011, are as follows:

	Number of share options						
Director and eligible employees	At 1 January 2011	Granted during the year	Lapsed during the year	At 31 December 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	–	(2,840,000)	48,270,000	14/7/2009	3.00	14/1/2012-13/1/2015
	56,110,000	–	(2,840,000)	53,270,000			

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%

Major customers and suppliers

The aggregate sales attributable to the Group's five largest customers taken together were less than 30% of the total sales for the year 2011.

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 2011.

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 16 March 2012, 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 2011.

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 35 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

20 March 2012

Independent Auditor's Report

pwc 羅兵咸永道

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 43 to 114, which comprise the consolidated and company balance sheets as at 31 December 2011, 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2011 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 Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2012

Consolidated Balance Sheet

As at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	6	265,217	169,187
Property, plant and equipment	7	6,032,345	4,087,675
Intangible assets	8	–	–
Deferred income tax assets	11	29,079	20,759
		6,326,641	4,277,621
Current assets			
Inventories	12	1,179,863	710,695
Trade and other receivables	13	1,738,737	816,773
Short-term bank deposits	14	30,164	147,225
Cash and cash equivalents	14	583,917	767,951
		3,532,681	2,442,644
Total assets		9,859,322	6,720,265
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	174,097	174,097
Share premium	15		
– Proposed final dividend		–	217,070
– Others		188,576	329,594
Other reserves	16	18,877	(76,985)
Retained earnings	18		
– Proposed final dividend		41,981	–
– Others		2,983,172	2,501,489
Total equity		3,406,703	3,145,265
LIABILITIES			
Non-current liabilities			
Deferred income	19	199,942	141,810
Borrowings	20	2,844,147	981,458
Deferred income tax liabilities	11	20,166	27,033
		3,064,255	1,150,301
Current liabilities			
Trade, other payables and accruals	21	2,630,637	1,839,022
Current income tax liabilities		53,727	30,677
Borrowings	20	704,000	555,000
		3,388,364	2,424,699
Total liabilities		6,452,619	3,575,000
Total equity and liabilities		9,859,322	6,720,265
Net current assets		144,317	17,945
Total assets less current liabilities		6,470,958	4,295,566

The notes on pages 49 to 114 are an integral part of these consolidated financial statements.

The financial statements on pages 43 to 114 were approved by the Board on 20 March 2012 and were signed on its behalf.

Li Xuechun
Director

Chen Yuan
Director

Company Balance Sheet

As at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	27	57
Investment in subsidiaries	9	422,576	415,007
		422,603	415,064
Current assets			
Loans to subsidiaries	9	1,931,817	190,098
Due from subsidiaries	9	1,155,706	805,204
Deposits and other receivables	13	1,582	344
Cash and cash equivalents	14	76,368	479,805
		3,165,473	1,475,451
Total assets		3,588,076	1,890,515
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	174,097	174,097
Share premium	15		
– Proposed final dividend		–	217,070
– Others		188,576	329,594
Other reserves	16	81,087	65,698
Retained earnings	18		
– Proposed final dividend		41,981	–
– Others		195,374	97,863
Total equity		681,115	884,322
LIABILITIES			
Non-current liabilities			
Borrowings	20	2,844,147	981,458
Current liabilities			
Due to subsidiaries	9	14,174	10,521
Other payables and accruals	21	48,640	14,214
		62,814	24,735
Total liabilities		2,906,961	1,006,193
Total equity and liabilities		3,588,076	1,890,515
Net current assets		3,102,659	1,450,716
Total assets less current liabilities		3,525,262	1,865,780

The notes on pages 49 to 114 are an integral part of these financial statements.

The financial statements on pages 43 to 114 were approved by the Board on 20 March 2012 and were signed on its behalf.

Li Xuechun
Director

Chen Yuan
Director

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Revenue	5	**8,399,246**	6,416,425
Cost of sales	23	**(6,879,573)**	(4,851,371)
Gross profit		**1,519,673**	1,565,054
Other income	22	**117,619**	110,550
Selling and marketing expenses	23	**(421,328)**	(272,008)
Administrative expenses	23	**(373,703)**	(277,697)
Other operating expenses	23	**(64,296)**	(22,187)
Operating profit		**777,965**	1,103,712
Finance costs – net	26	**(61,529)**	(32,383)
Profit before income tax		**716,436**	1,071,329
Income tax expense	27	**(112,299)**	(105,278)
Profit for the year and attributable to the Shareholders		**604,137**	966,051
Earnings per share for profit attributable to the Shareholders during the year (expressed in RMB cents per share)			
– basic	28	**35.15**	57.75
– diluted	28	**33.55**	53.68
Dividends	30	**41,981**	217,070

The notes on pages 49 to 114 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 *RMB'000*	2010 *RMB'000*
Profit for the year	**604,137**	966,051
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**604,137**	966,051
Total comprehensive income attributable to the Shareholders	**604,137**	966,051

The notes on pages 49 to 114 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

		Attributable to the Shareholders				
		Share capital	Share premium	Other reserves	Retained earnings	Total
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2010		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 bond – 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
Comprehensive Income						
Profit for the year	*18*	–	–	–	604,137	604,137
Total comprehensive income		–	–	–	604,137	604,137
Transactions with owners						
Profit appropriation	*16,18*	–	–	80,473	(80,473)	–
Employee share options schemes:						
– Value of employee service	*16,17*	–	–	15,389	–	15,389
Dividends	*15*	–	(358,088)	–	–	(358,088)
Total transactions with owners		–	(358,088)	95,862	(80,473)	(342,699)
Balance at 31 December 2011		174,097	188,576	18,877	3,025,153	3,406,703

The notes on pages 49 to 114 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Cash generated from operations	*31(a)*	**457,632**	1,187,742
Interest paid		**(147,757)**	(24,517)
Income tax paid		**(61,627)**	(43,275)
Net cash flows generated from operating activities		**248,248**	1,119,950
Cash flows from investing activities			
Purchase of leasehold land payments		**(98,940)**	(42,631)
Purchases of property, plant and equipment		**(2,131,861)**	(1,416,321)
Purchases of intangible assets		**(1,482)**	(14,002)
Government grants received		**94,062**	43,980
Proceeds from disposal of property, plant and equipment	*31(b)*	**3,752**	17,880
Proceeds from disposal of leasehold land payments	*31(c)*	**373**	12,790
Interest received	*22*	**10,061**	3,625
Net cash used in investing activities		**(2,124,035)**	(1,394,679)
Cash flows from financing activities			
Proceeds from issuance of share capital		**–**	112,892
Proceeds from issuance of convertible bonds	*20*	**–**	1,011,621
Proceeds from issuance of senior notes		**1,925,885**	–
Dividends paid to the Company's shareholders		**(358,088)**	(379,015)
Proceeds from bank borrowings		**929,000**	645,000
Repayments of bank borrowings		**(780,000)**	(688,000)
Restricted bank deposits		**(25,044)**	(2,500)
Net cash generated from financing activities		**1,691,753**	699,998
Net (decrease)/increase in cash and cash equivalents		**(184,034)**	425,269
Cash and cash equivalents at beginning of the year	*14*	**767,951**	342,682
Cash and cash equivalents at end of the year	*14*	**583,917**	767,951

The notes on pages 49 to 114 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 20 March 2012.

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 policy and disclosures

(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 2011 that would be expected to have a material impact on the Group.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

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

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  - The name of the government and the nature of their relationship;

  - The nature and amount of any individually significant transactions; and

  - The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party. The Group applied the revised standard on 1 January 2011 and it does not have any impact on the Group's consolidated financial statements. Further information in respect of the related party transactions and balances is disclosed in Note 33.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted
The group's and parent entity's assessment of the impact of these new and amended standards is set out below.

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted *(Continued)*

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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

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 applies 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 to the former owners of the acquiree 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. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets 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. Summary of significant accounting policies *(Continued)*

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 Renminbi ("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.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within 'finance cost - net'. All other foreign exchange gains and losses are presented in the income statement within 'other income/expense'.

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.

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

2.6 Property, plant and equipment *(Continued)*

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.

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

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.

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.

2.10 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 expenses.

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

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

In the consolidated statement of cash flow, 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 or options 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. Summary of significant accounting policies *(Continued)*

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.

(a) *Current income tax*

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.

(b) *Deferred income tax*

Inside basis differences

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.

Outside basis differences

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.

(c) *Offsetting*

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. Summary of significant accounting policies *(Continued)*

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 the 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.

2.19 Share-based payments

(a) *Equity-settled share-based payment transactions*

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.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiaries undertakings 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 in the parent company accounts.

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

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.

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

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.

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

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 2011.

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 and senior notes. Export sales denominated in foreign currencies amount to approximately 18% (2010: 13%) of the Group's total turnover for the year ended 31 December 2011. 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 impact on the fluctuation between USD, HKD and RMB to the Group. The Group manages the currency risk arising from proceeds from issuance of convertible bonds and senior notes 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 2011				
Financial assets				
Cash and cash equivalents	(9,613)	(9,613)	9,613	9,613
Trade and other receivables	(17,670)	(17,670)	17,670	17,670
Total (decrease)/increase	(27,283)	(27, 283)	27, 283	27, 283
Financial liabilities				
Borrowings	185,335	185,335	(185,335)	(185,335)
Trade, other payables and accruals	3,603	3,603	(3,603)	(3,603)
Total increase/(decrease)	188,938	188,938	(188,938)	(188,938)
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

(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 and senior notes, 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 2011.

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 2011					
Financial liabilities					
Borrowings bear variable rates	524,000	2,175	2,175	(2,175)	(2,175)
31 December 2010					
Financial liabilities					
Borrowings bear variable rates	130,000	651	651	(651)	(651)

(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 2011			
Borrowings	704,000	–	2,915,270
Interests payments on bank borrowings, convertible bonds and senior notes (i)	222,969	190,258	429,520
Trade, other payables and accruals	2,259,537	–	–
Total	3,186,506	190,258	3,344,790
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
The Company			
At 31 December 2011			
Borrowings	–	–	2,915,270
At 31 December 2010			
Borrowings	–	–	1,025,000

(i) The interests on borrowings are calculated based on borrowings, convertible bonds and senior notes held as at 31 December 2011 and 2010 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2011 and 2010 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 2011, the Group's strategy, which was changed from 2010, was to maintain the gearing ratio below 40% (2010: 30%). The gearing ratios at 31 December 2011 and 2010 were as following:

	2011 ***RMB'000***	**2010** *RMB'000*
Total borrowings *(Note 20)*	**3,548,147**	1,536,458
Total assets	**9,859,322**	6,720,265
Gearing ratio	**35.99%**	22.86%

The increase in the gearing ratio for the year ended 31 December 2011 resulted primarily from the issuance of senior notes, leading to the increase of borrowing scale for the expansion of the Group.

3.3 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.

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 property, plant and equipment

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with the accounting policy stated in Note 2.8. The recoverable amount of cash-generating unit has been determined based on the higher of value in use and fair value less costs to sell.

A full impairment charge of RMB4,433,000 arose in the specific assets mainly for MSG production during the year ended 31 December 2011, resulting in the carrying amount of these assets being written down to zero.

4.2 Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. For the deferred government grants relating to the acquisition of property, plant and equipment, the periodic credits to income statement will also be increased under above mentioned circumstances as such grants are credited to the income statement over the periods and in the proportions in which depreciation on these assets is charged.

4.3 Estimated impairment of intangible assets

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2.7. 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 RMB1,482,000 arose in the patents purchased during the year ended 31 December 2011, resulting in the carrying amount of the patents being written down to zero.

4. Critical accounting estimates and judgements

4.4 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 requires and the exercise of judgement.

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

4.5 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 recognizes 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 sales 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 82% (2010: 87%) 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.

5. Segment information *(Continued)*

The revenue of the Group for the years ended 31 December 2011 and 2010 are set out as follows:

	2011 *RMB'000*	2010 *RMB'000*
MSG	**4,915,408**	3,892,506
Corn refined products	**1,113,473**	773,563
Xanthan gum	**835,762**	681,725
Fertilisers	**582,893**	369,649
Starch sweeteners	**430,341**	356,704
Glutamic acid	**167,457**	153,633
Corn oil	**133,349**	103,680
Threonine	**108,960**	28,145
Others	**111,603**	56,820
	8,399,246	6,416,425

The segment information and capital expenditure for the year ended 31 December 2011 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	7,563,484	835,762	–	8,399,246
Segment results	497,790	249,886	30,289	777,965
Finance costs – net *(Note 26)*				(61,529)
Profit before income tax				716,436
Income tax expense *(Note 27)*				(112,299)
Profit for the year				604,137
Other segment items included in the income statement				
Depreciation *(Note 7)*	326,428	38,760	501	365,689
Amortisation of leasehold land payments *(Note 6)*	2,023	563	–	2,586
Gain on disposal of property, plant and equipment *(Note 31)*	349	–	–	349
Gain on disposal of leasehold land payment *(Note 31)*	49	–	–	49
Capital expenditure *(Notes 6, 7 and 8)*	2,414,898	2,007	1,712	2,418,617

5. Segment information *(Continued)*

The segment assets and liabilities at 31 December 2011 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	**8,721,294**	**1,036,954**	**101,074**	**9,859,322**
Total liabilities	**3,359,969**	**195,881**	**2,896,769**	**6,452,619**

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 – net *(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 31)*	(6,752)	–	–	(6,752)
Gain on disposal of property, plant and equipment *(Note 31)*	1,836	–	–	1,836
Capital expenditure *(Notes 6, 7 and 8)*	1,824,396	86,014	1,928	1,912,338

5. Segment information *(Continued)*

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

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, senior notes, 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 RMB6,929,126,000 (2010: RMB5,562,690,000) and the total of revenue from external customers from Hong Kong and other countries is RMB1,470,120,000 (2010: RMB853,735,000).

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 RMB6,297,535,000 (2010: RMB4,256,805,000), and the total of these non-current assets located in Hong Kong is RMB27,000 (2010: RMB57,000).

Revenues of approximately RMB219,981,000 (2010: RMB172,021,000) 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:

	2011 *RMB'000*	2010 *RMB'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**265,217**	169,187

As at 31 December 2011 and 2010, the net book value of leasehold land pledged as security for the Group's borrowings amounted to approximately RMB65,084,000 and RMB21,516,000 (Note 20), respectively.

	2011 *RMB'000*	2010 *RMB'000*
Cost		
At beginning of the year	**178,795**	152,722
Additions	**98,940**	42,631
Disposals	**(381)**	(16,558)
At end of the year	**277,354**	178,795
Amortisation		
At beginning of the year	**(9,608)**	(12,562)
Charge for the year	**(2,586)**	(2,650)
Disposals	**57**	5,604
At end of the year	**(12,137)**	(9,608)
Net book value		
At end of the year	**265,217**	169,187

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

As at 31 December 2011, the Group was still in the process to apply for the certificates of the leasehold land amounting to RMB147,578,000 (2010: RMB48,638,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2011

7. Property, plant and equipment

The Group

	2011					
	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 2011	783,767	2,714,665	58,913	39,006	1,252,118	4,848,469
Additions	1,422	315,547	46,190	5,838	1,949,198	2,318,195
Transfer upon completion	542,517	1,276,851	64,083	5	(1,883,456)	–
Disposals	–	(4,152)	(33)	–	(429)	(4,614)
At 31 December 2011	1,327,706	4,302,911	169,153	44,849	1,317,431	7,162,050
Accumulated depreciation						
At 1 January 2011	(87,842)	(626,713)	(26,433)	(19,427)	–	(760,415)
Charge for the year	(45,059)	(298,896)	(16,688)	(5,046)	–	(365,689)
Disposals	–	800	32	–	–	832
At 31 December 2011	(132,901)	(924,809)	(43,089)	(24,473)	–	(1,125,272)
Provision for impairment loss						
At 1 January 2011	–	–	–	–	(379)	(379)
Impairment charge	–	(4,292)	(72)	(69)	–	(4,433)
Disposals	–	–	–	–	379	379
At 31 December 2011	–	(4,292)	(72)	(69)	–	(4,433)
Net book value						
At 31 December 2011	1,194,805	3,373,810	125,992	20,307	1,317,431	6,032,345

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2011

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

The Group *(Continued)*

	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

(a) As at 31 December 2011, the net book values of plant and machinery pledged as security for the Group's borrowings amounted to approximately RMB13,809,000 (2010: RMB5,235,000) (Note 20).

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

	2011 ***RMB'000***	2010 *RMB'000*
Cost of sales	**330,610**	231,013
Administrative expenses	**35,079**	20,282
	365,689	251,295

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

The Group *(Continued)*

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

	2011 ***RMB'000***	2010 *RMB'000*
Borrowing cost capitalised	**57,174**	34,739
Average borrowing rate	**6.12%**	5.41%

The Company

	2011 **Furniture and fixtures** ***RMB'000***	2010 Furniture and fixtures *RMB'000*
Cost		
At beginning of the year	**334**	282
Additions	**–**	52
At end of the year	**334**	334
Accumulated depreciation		
At beginning of the year	**(277)**	(228)
Charge for the year	**(30)**	(49)
At end of the year	**(307)**	(277)
Net book value		
At end of the year	**27**	57

8. Intangible assets – The Group

	Patents *RMB'000*
At 1 January 2010	
Cost	–
Impairment	–
Net book amount	–
Year ended 31 December 2010	
Opening net book amount	–
Additions	14,002
Impairment charge *(Notes 23, 31)*	(14,002)
Closing net book amount	–
At 31 December 2010	
Cost	14,002
Impairment	(14,002)
Net book amount	–
Year ended 31 December 2011	
Opening net book amount	–
Additions	1,482
Impairment charge *(Notes 23, 31)*	(1,482)
Closing net book amount	–
At 31 December 2011	–
Cost	15,484
Impairment	(15,484)
Net book amount	–

The carrying amount of the patents has been reduced to zero as the Group has assessed that there is no recoverable amount as there is significant uncertainty relating to the its 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

	2011	2010
	RMB'000	*RMB'000*
Investment in subsidiaries (a)	**422,576**	415,007
Loans to subsidiaries (b)	**1,931,817**	190,098
Due from subsidiaries (c)	**1,155,706**	805,204
Due to subsidiaries (d)	**14,174**	10,521

(a) Investment in subsidiaries

	2011	2010
	RMB'000	*RMB'000*
Unlisted shares, at cost	**422,576**	415,007

The particulars of the Company's directly and indirectly owned subsidiaries are disclosed in Note 34.

(b) Loans to subsidiaries

	2011	2010
	RMB'000	*RMB'000*
With interests	**1,750,707**	–
Interests free	**181,110**	190,098
	1,931,817	190,098

Loans to subsidiaries are unsecured and repayable on demand as at 31 December 2011 and 2010. Their carrying amounts approximate their fair values as at 31 December 2011 and 2010. Interest rate of the loan with interests is 7.625% as at 31 December 2011.

(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 2011 and 2010.

(d) Due to subsidiaries

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand. Their carrying amounts approximate their fair values as at 31 December 2011 and 2010.

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 categorizes 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

	2011	2010
	RMB'000	*RMB'000*
Group 1	**1,151,917**	501,332
Group 2	**273,112**	158,353
Group 3	**4,586**	4,231
	1,429,615	663,916

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 categories its cash in banks into the following:

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

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

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

The Group

	2011	2010
	RMB'000	*RMB'000*
Group 1	**77,592**	282,997
Group 2	**172,465**	225,578
Group 3	**362,745**	406,057
	612,802	914,632

The Company

	2011	2010
	RMB'000	*RMB'000*
Group 1	**76,367**	280,616
Group 3	**–**	199,188
	76,367	479,804

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:

	2011 *RMB'000*	2010 *RMB'000*
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**13,083**	13,437
– Deferred income tax assets to be recovered within 12 months	**15,996**	7,322
	29,079	20,759
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(19,843)**	(26,841)
– Deferred income tax liabilities to be settled within 12 months	**(323)**	(192)
	(20,166)	(27,033)
Deferred income tax assets/(liabilities), net	**8,913**	(6,274)

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

	2011 *RMB'000*	2010 *RMB'000*
Beginning balance of the year	**(6,274)**	(19,059)
Credited to income statement *(Note 27)*	**2,687**	12,785
Transfer to current income tax liabilities	**12,500**	–
Ending balance of the year	**8,913**	(6,274)

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*	Depreciation difference *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2010	2,456	1,761	1,218	42	(315)	5,162
Credited to income statement *(Note 27)*	10	10,645	1,735	2,142	1,065	15,597
At 31 December 2010	2,466	12,406	2,953	2,184	750	20,759
(Charged)/Credited to income statement *(Note 27)*	(292)	640	2,653	2,164	3,155	8,320
At 31 December 2011	**2,174**	**13,046**	**5,606**	**4,348**	**3,905**	**29,079**

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 RMB6,864,000, as at 31 December 2011 (2010: RMB4,299,000), 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. The tax losses as at 31 December 2011 amounting to RMB2,565,000 and at 31 December 2010 amounting to RMB4,299,000 will expire in year 2016 and year 2015, respectively.

Deferred income tax liabilities:

	Borrowing costs capitalisation *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2010	882	23,339	24,221
Charged to income statement *(Note 27)*	2,812	–	2,812
At 31 December 2010	3,694	23,339	27,033
(Credited)/Charged to income statement *(Note 27)*	(178)	5,811	5,633
Transfer to current income tax liabilities	–	(12,500)	(12,500)
At 31 December 2011	**3,516**	**16,650**	**20,166**

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

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.

Deferred income tax liabilities as at 31 December 2011 of RMB111,497,000 (2010: RMB72,468,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiary in the PRC, totalling RMB2,229,942,000 (2010: RMB1,718,451,000). 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

	2011 ***RMB'000***	2010 *RMB'000*
Raw materials	**534,511**	311,420
Work-in-progress	**87,797**	72,206
Finished goods	**557,555**	327,069
	1,179,863	710,695

As at 31 December 2011, finished goods included a written-down of RMB299,000 (2010: RMB839,000). For the year ended 31 December 2011, the Group has reversed RMB540,000 (2010: RMB579,000) of a previous inventory written-down the Group sold part of the underlying goods that were written-down to third parties. The amount of RMB540,000 reversed was included in "cost of sales" in the consolidated income statement (Notes 23 and 31).

The cost of inventories recognised as expense and included in cost of sales and administrative expenses amounted to RMB6,358,253,000 (2010: RMB4,471,834,000).

13. Trade and other receivables

The Group

	2011 *RMB'000*	2010 *RMB'000*
Trade receivables (a)	277,698	162,584
Less: provision for impairment of trade receivables (b)	(4,586)	(4,231)
Trade receivables – net	273,112	158,353
Notes receivables (c)	1,151,917	501,332
Deposits and others	28,373	43,365
Value – added tax recoverables	231,439	78,863
Trade and other receivables before prepayments	1,684,841	781,913
Prepayments for raw materials	53,896	34,860
	1,738,737	816,773

(a) As at 31 December 2011 and 2010 the ageing analyses of trade receivables were as follows:

	2011 *RMB'000*	2010 *RMB'000*
Within 3 months	239,831	153,067
3–12 months	26,259	3,927
Over 12 months	11,608	5,590
	277,698	162,584

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.

13. Trade and other receivables *(Continued)*

The Group *(Continued)*

(a) *(Continued)*

As at 31 December 2011, trade receivables of RMB9,356,000 (2010: RMB4,117,000) 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:

	2011	2010
	RMB'000	*RMB'000*
Past due within 3 months	**2,258**	817
Past due in 3–12 months	**7,098**	3,300
	9,356	4,117

(b) As of 31 December 2011, trade receivables of RMB4,586,000 (2010: RMB4,231,000) 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:

	2011	2010
	RMB'000	*RMB'000*
Past due over 12 months	**4,586**	4,231

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

	2011	2010
	RMB'000	*RMB'000*
As at 1 January	**4,231**	4,527
Provision for receivables impairment	**355**	–
Reversal of amounts subsequently collected	**–**	(296)
As at 31 December	**4,586**	4,231

13. Trade and other receivables *(Continued)*

The Group *(Continued)*

(b) *(Continued)*

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 2011, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB1,047,599,000 (2010: RMB471,952,000) 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.

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

	2011 *RMB'000*	2010 *RMB'000*
– RMB	1,506,067	675,255
– USD	176,704	105,911
– SGD	2,070	–
– EUR	–	747
	1,684,841	781,913

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.

The Company

	2011 *RMB'000*	2010 *RMB'000*
Deposits and other receivables	1,582	344

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2011

14. Cash and bank balances

The Group

	2011	2010
	RMB'000	*RMB'000*
Cash and cash equivalents		
– Cash on hand	**1,279**	544
– Cash in bank	**582,638**	767,407
	583,917	767,951
Short-term bank deposits		
– Secured (a)	**30,164**	147,225
	614,081	915,176
Cash and bank balances denominated in		
– RMB	**517,886**	431,161
– USD	**83,423**	267,605
– HKD	**12,706**	216,367
– EUR	**–**	43
– SGD	**66**	–
	614,081	915,176

(a) The short-term bank deposits as at 31 December 2011 included restricted bank deposits of RMB30,164,000 (2010: RMB147,225,000) pledged as security for following instruments:

	2011	2010
	RMB'000	*RMB'000*
Issuing bank acceptance notes	**1,800**	143,945
Bank borrowings	**25,044**	2,500
Issuing letters of credit and letters of guarantee	**2,800**	510
Tenders	**520**	270
	30,164	147,225

(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 and deposits placed with banks by the Group were 0.41% and 0.35% per annum for the years ended 31 December 2011 and 2010, respectively.

14. Cash and bank balances *(Continued)*

The Company

	2011	2010
	RMB'000	*RMB'000*
Cash and cash equivalents	**76,368**	479,805

The weighted average effective interest rates on cash and deposits placed with banks by the Company were 0.01% and 0.25% per annum for the years ended 31 December 2011 and 2010, 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 2010	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
Dividends (a)	–	–	(358,088)	(358,088)
At 31 December 2011	**1,718,686**	**174,097**	**188,576**	**362,673**

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 2011 and 2010.

(a) According to the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2011

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 2010	–	(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)
Profit appropriation *(Note 18)*	–	–	80,473	–	80,473
Employee share options schemes					
– Value of employee services *(Notes 17, 24)*	–	–	–	15,389	15,389
31 December 2011	**36,853**	**(370,760)**	**308,550**	**44,234**	**18,877**

	The Company		
	Convertible bonds *(Note 20)* RMB'000	Share-based payment reserve *(Note 17)* RMB'000	Total RMB'000
1 January 2010	–	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
Employee share options schemes:			
– Value of employee services *(Notes 17, 24)*	–	15,389	15,389
31 December 2011	**36,853**	**44,234**	**81,087**

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:

	2011		2010	
	Average exercise price in HKD per share	**Options (thousands)**	Average exercise price in HKD per share	Options (thousands)
At 1 January	**2.23**	**22,754**	2.23	81,440
Forfeited	**2.23**	**(56)**	–	–
Exercised	**–**	**–**	2.23	(58,686)
At 31 December	**2.23**	**22,698**	2.23	22,754

Out of the 22,698,000 options (2010: 22,754,000), 22,698,000 options (2010: 504,400) were exercisable as at 31 December 2011. Option 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.

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	Number of options (thousands)	
	HKD per share	**2011**	2010
7 August 2012	2.23	**22,698**	22,754

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 2011 was approximately RMB1,500,000 (2010: RMB5,129,000).

No option is being granted under the Pre-IPO Share Option Scheme during the years ended 31 December 2011 and 2010.

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:

	2011		2010	
	Average exercise price in HKD per share	Options (thousands)	Average exercise price in HKD per share	Options (thousands)
At 1 January	3.46	56,110	3.00	62,360
Granted	–	–	8.20	5,000
Forfeited	3.00	(2,840)	3.00	(11,250)
At 31 December	3.48	53,270	3.46	56,110

Out of the 53,270,000 options (2010: 56,110,000), no options (2010: no options) were exercisable as at 31 December 2011.

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

Expiry date	Exercise price	Number of options (thousands)	
	HKD per share	2011	2010
13 January 2015	3.00	48,270	51,110
09 May 2016	8.20	5,000	5,000
		53,270	56,110

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 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%

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 2011 was approximately RMB13,889,000 (2010: RMB10,051,000).

18. Retained earnings

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**2,501,489**	1,610,317	**97,863**	179,285
Profit/(Loss) for the year	**604,137**	966,051	**139,492**	(81,422)
Profit appropriation to statutory reserves	**(80,473)**	(74,879)	**–**	–
At 31 December	**3,025,153**	2,501,489	**237,355**	97,863

19. Deferred income – The Group

	2011	2010
	RMB'000	*RMB'000*
Deferred income	**199,942**	141,810

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, technology improvement, land use tax return and enterprise support subsidy.

(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 years ended 31 December 2008, 2010 and 2011, and IM Fufeng in the years ended 31 December 2009, 2010 and 2011 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:

	2011	2010
	RMB'000	*RMB'000*
Within 10 years	**112,094**	81,817

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

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

The movements of the above government grant during the years ended 31 December 2011 and 2010 are as follows:

	2011 **RMB'000**	2010 RMB'000
At beginning of the year	**81,817**	37,042
Granted during the year	**49,657**	57,845
Amortised as income *(Note 22)*	**(19,380)**	(13,070)
At end of the year	**112,094**	81,817

(b) Government grants related to acquisition of certain raw materials, property, plant and equipment, environment protection, technology improvement, land use tax return and enterprise support subsidy.

They represent grants from the government relating to the acquisition of certain raw materials, property, plant and equipment, environment protection and technology improvement, land use tax return and enterprise support subsidy. 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:

	2011 **RMB'000**	2010 RMB'000
Within 10 years	**87,848**	59,993

The movements of the above government grants for the years ended 31 December 2011 and 2010 are as follows:

	2011 **RMB'000**	2010 RMB'000
At beginning of the year	**59,993**	53,838
Granted during the year	**45,631**	49,406
Amortised as income *(Note 22)*	**(17,776)**	(43,251)
At end of the year	**87,848**	59,993

20. Borrowings

The Group

	2011 RMB'000	2010 RMB'000
Non-current		
Convertible bonds (b)	990,802	981,458
Senior notes (c)	1,853,345	–
	2,844,147	981,458
Current		
Bank borrowings, guaranteed and secured (a)	–	30,000
Bank borrowings, secured (a)	310,000	30,000
Bank borrowings, unsecured (a)	394,000	495,000
	704,000	555,000
Total Borrowings	3,548,147	1,536,458

The Company

	2011 RMB'000	2010 RMB'000
Non-current		
Convertible bonds (b)	990,802	981,458
Senior notes (c)	1,853,345	–
	2,844,147	981,458

(a) Bank borrowings

As at 31 December 2011, all the bank borrowings were denominated in RMB and included: (i) RMB110,000,000 secured by leasehold land (Note 6) and plant and machinery (Note 7); (ii) RMB200,000,000 secured by the pledge of restricted bank deposits of RMB25,044,000 (Note 14(a)).

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 33) and secured by leasehold land (Note 6) and plant and machinery (Note 7); (ii) RMB30,000,000 secured by the pledge of restricted bank deposits of RMB2,500,000 (Note 14(a)).

20. Borrowings *(Continued)*

The Company *(Continued)*

(a) *Bank borrowings (Continued)*

As at 31 December 2011 and 2010, the Group's bank borrowings were repayable with one year.

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

	2011	2010
Bank borrowings	**6.98%**	5.30%

The carrying amounts of current borrowings approximate their fair values.

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:

	2011 ***RMB'000***	2010 *RMB'000*
6 months or less	**300,000**	–
6 to 12 months	**404,000**	555,000
	704,000	555,000

(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 in 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 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).

20. Borrowings *(Continued)*

The Company *(Continued)*

(b) *Convertible bonds (Continued)*

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

	Group and Company *RMB'000*
Net proceeds from convertible bond	1,011,621
Equity component *(Note 16)*	(36,853)
Liability component on initial recognition	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	11,531
– Carrying amount at 31 December 2010	981,458
Liability component at 1 January 2011	992,989
Interest expense on convertible bonds *(Note 26)*	55,469
Interest paid	(46,125)
Liability component at 31 December 2011	1,002,333
Including:	
– Interest payable – current portion	11,531
– Carrying amount at 31 December 2011	990,802

The fair value of the liability component of the convertible bonds at 31 December 2011 amounted to RMB965,754,000 (2010: RMB981,458,000).

(c) *Senior notes*

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 in five years from the issue date and are secured by the pledge of the capital stock of certain subsidiaries of the Company, including Acquest Honour Holding Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all intermediate holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group. The values of the liability net off transaction cost of USD 6,706,000 were determined at issuance of the bonds.

The fair value of the senior notes at 31 December 2011 amounted to RMB1,531,119,000.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2011

21. Trade, other payables and accruals

The Group

	2011 RMB'000	2010 RMB'000
Trade payables (a)	**1,082,194**	614,194
Advances from customers (b)	**246,518**	147,604
Bank acceptance notes payable	**–**	149,945
Payables for leasehold land, property, plant and equipment	**1,013,444**	743,499
Salaries, wages and staff welfares payables	**96,392**	58,313
Interest payables – current portion	**47,565**	11,531
Unused government grants	**5,462**	29,702
Dividends payable	**407**	407
Other payables and accruals	**138,655**	83,827
	2,630,637	1,839,022

(a) As at 31 December 2011 and 2010, the ageing analyses of trade payables were as follows:

	2011 RMB'000	2010 RMB'000
Within 3 months	**849,373**	575,781
3 to 6 months	**210,218**	23,959
6 to 12 months	**12,661**	5,594
Over 12 months	**9,942**	8,860
	1,082,194	614,194

(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

	2011 RMB'000	2010 RMB'000
Interest payables – current portion	**47,565**	11,531
Dividends payable	**407**	407
Other payables and accruals	**668**	2,276
	48,640	14,214

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2011

22. Other income

	2011 *RMB'000*	2010 *RMB'000*
Interest income	**10,061**	3,625
Amortisation of deferred income *(Note 19)*	**37,156**	56,321
Sales of waste products	**62,036**	49,090
Others	**8,366**	1,514
	117,619	110,550

23. Expense by nature

	2011 *RMB'000*	2010 *RMB'000*
Changes in inventories of finished goods and work in progress	**(245,537)**	(69,751)
Raw materials and consumables used	**6,603,790**	4,541,585
Employee benefit expenses *(Note 24)*	**440,010**	336,294
Depreciation *(Note 7)*	**365,689**	251,295
Amortisation of leasehold land payments *(Note 6)*	**2,586**	2,650
Impairment charges for property, plant and equipment *(Note 7)*	**4,433**	–
Impairment charges for intangible assets *(Note 8)*	**1,482**	14,002
Transportation expenses	**302,909**	205,759
Utilities purchased	**29,802**	22,442
Travelling and office expenses	**20,698**	18,858
Reversal inventories provision *(Note 12)*	**(540)**	(579)
Provision/(Reversal of provision) of trade receivables *(Note 13)*	**355**	(296)
Auditors' remuneration	**4,899**	4,091
Land use tax, real estate tax and other taxes	**58,804**	23,074
Advertisement fee	**15,911**	11,287
Foreign exchange losses *(Note 29)*	**49,995**	18,044
Others	**83,614**	44,508
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**7,738,900**	5,423,263

24. Employee benefit expenses including directors' emoluments

	2011	2010
	RMB'000	*RMB'000*
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	**390,555**	296,355
– Pension costs-defined contribution plans *(Note (a))*	**34,066**	24,759
– Share options granted to directors and employees *(Note 17)*	**15,389**	15,180
	440,010	336,294

(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 years ended 31 December 2011 and 2010.

(b) Directors' emoluments

The emoluments of every director for the years ended 31 December 2011 and 2010, on a named basis, are set out as below:

		2011		
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	–	**1,833**	–	**1,833**
Wang, Longxiang	–	**1,317**	**367**	**1,684**
Chen, Yuan	–	**1,256**	**3,425**	**4,681**
Feng, Zhenquan	–	**946**	–	**946**
Li, Deheng	–	**940**	–	**940**
Xu, Guohua	–	**839**	–	**839**
Li, Guangyu	–	**496**	–	**496**
Independent non-executive Directors:				
Choi, tze kit, Sammy	**199**	–	–	**199**
Chen, Ning	**50**	–	–	**50**
Liang, Wenjun	**50**	–	–	**50**
	299	**7,627**	**3,792**	**11,718**

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2011

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

(b) Directors' emoluments *(Continued)*

	2010			
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	–	1,870	–	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	209	–	–	209
Chen, Ning	50	–	–	50
Liang, Wenjun	50	–	–	50
	309	6,631	2,068	9,008

* *Appointed on 31 March 2010.*
** *Appointed on 9 November 2010.*
*** *Resigned on 13 May 2011.*

There was no bonus paid to the directors of the Company for the years ended 31 December 2011 and 2010.

No director waived or agreed to waive any remuneration for the years ended 31 December 2011 and 2010.

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 2011 include four directors (2010: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2010: two) individuals during the year are as follows:

	2011 *RMB'000*	2010 *RMB'000*
Salaries and allowances	**718**	1,098
Pension costs-defined contribution plans	**31**	12
Share options granted to employees	**208**	940
	957	2,050

For the years ended 31 December 2011 and 2010, no emoluments were paid by the Group of 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 years ended 31 December 2011 and 2010 fell within the following bands.

	Number of individuals	
	2011	2010
Emolument bands (in HK dollar)		
HKD1,000,001 – HKD1,500,000	**1**	2

25. Research and development costs

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

	2011 *RMB'000*	2010 *RMB'000*
Research and non-capitalised development costs	**139,074**	89,158

All these development costs arose from internal development.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2011

26. Finance costs – net

	2011 *RMB'000*	2010 *RMB'000*
Interest expense:		
Bank borrowings wholly repayable within 1 year	27,056	25,838
Convertible bonds wholly repayable within 5 years *(Note 20)*	55,469	41,284
Senior notes wholly repayable within 5 years	116,060	–
	198,585	67,122
Finance costs		
Less: amounts capitalised on qualifying assets	(62,644)	(34,739)
Finance costs	135,941	32,383
Finance income:		
Exchange gain from senior notes	(79,882)	–
Less: amounts capitalised on qualifying assets	5,470	–
Finance income	(74,412)	–
Net finance costs	61,529	32,383

27. Taxation

(a) Income tax expense

	2011 *RMB'000*	2010 *RMB'000*
Current income tax		
– PRC enterprise income tax ("EIT")	114,986	118,063
Deferred income tax *(Note 11)*	(2,687)	(12,785)
	112,299	105,278

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 years ended 31 December 2011 and 2010.

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.

27. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

Effective from 1 January 2008, the subsidiaries incorporated in the 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.

Effective from 5 December 2008, Shandong Fufeng was approved to be a new and high-technique enterprise and entitled to a 15% tax rate from 2008 to 2010. In 2011, its new and high-technique enterprise qualification was re-approved. Accordingly, the effective tax rate for Shandong Fufeng for the year ended 31 December 2011 is 15% (2010: 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, but this policy is expired in 2010. Besides, Baoji Fufeng was approved to be a new and high-technique enterprise in accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 9 October 2011, Baoji Fufeng is entitled to 15% tax rate from 2011 to 2013. Since the new western development region tax preferential policy and registered category are not issued, whether Baoji Fufeng can enjoy 15% western development region preferential tax rate is not determined. Baoji Fufeng chose to utilise the tax preferential policy of new and high-technique enterprise. Accordingly, the effective tax rate for Baoji Fufeng for the year ended 31 December 2011 is 15% (2010: 15%).

27. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

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, but this policy is expired in 2010. 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 (the "2+3" tax holiday), commencing from 2007. Besides, IM Fufeng was approved to be a new and 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 15% tax rate from 2010 to 2012, but this policy cannot be enjoyed at the same time with the "2+3" tax holiday mentioned above. Since the new western development region tax preferential policy and registered category are not issued, whether IM Fufeng can enjoy 15% western development region preferential tax rate with three-year 50% tax deduction policy are not determined. Per instruction from IM Fufeng's in-charge tax bureau, the Company chose to utilise the PRC state 25% tax rate with the "2+3" tax holiday. Accordingly, the effective tax rate for IM Fufeng for the year ended 31 December 2011 is 12.5% (2010: 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 2011 and 2010.

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 2011 is 12.5% (2010: 12.5%).

Beijing Huijinhuaying is a domestic limited liability company. The effective tax rate is 25% for the years ended 31 December 2011 and 2010.

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 2011 (2010: 25%).

27. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

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:

	2011 **RMB'000**	2010 RMB'000
Profit before income tax	**716,436**	1,071,329
Tax calculated at PRC statutory rate of 25%	**179,109**	267,832
Effect of tax exemption	**(71,845)**	(165,732)
Withholding tax on dividends from PRC subsidiaries	**5,811**	–
Unrecognised tax losses	**536**	4,575
Effect of change of tax rate upon assessing deferred tax assets	**3,466**	–
Expenses not deductible for tax purposes	**721**	372
Income not subject to tax	**(5,499)**	(1,769)
	112,299	105,278

(b) Value-added tax (the "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 2011 and 2010 are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year.

	2011 **RMB'000**	2010 RMB'000
Profit attributable to the Shareholders	**604,137**	966,051
Weighted average number of ordinary shares in issue (thousands)	**1,718,686**	1,672,801
Basic earnings per share (RMB cents per share)	**35.15**	57.75

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.

	2011 ***RMB'000***	2010 *RMB'000*
Earnings		
Profit attributable to the Shareholders	**604,137**	966,051
Interest expense on convertible debt (net of tax)	**37,677**	17,786
Profit used to determine diluted earnings per share	**641,814**	983,837
Weighted average number of ordinary shares in issue (thousands)	**1,718,686**	1,672,801
Adjustments for:		
– Assumed conversion of convertible debt (thousands)	**165,743**	122,967
– Share options (thousands)	**28,725**	37,083
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,913,154**	1,832,851
Diluted earnings per share (RMB cents per share)	**33.55**	53.68

29. Net foreign exchange gains/(losses)

	2011 ***RMB'000***	2010 *RMB'000*
Other expenses *(Note 23)*	**(49,995)**	(18,044)
Finance income *(Note 26)*	**74,412**	–
	24,417	(18,044)

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2011

30. Dividends

	2011 *RMB'000*	2010 *RMB'000*
Interim, paid	**141,018**	159,775
Final, proposed	**41,981**	217,070

At a meeting held on 20 March 2012, the Board proposed a final dividend of HKD51,561,000 (equivalent to RMB41,981,000) (2010: HKD257,803,000 (equivalent to RMB217,070,000)), representing HK3 cents (equivalent to RMB2.44 cents) (2010: HK15 cents (equivalent to RMB12.63 cents)) per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but reflected as an appropriation of retained earnings for the year ending 31 December 2012.

31. Notes to consolidated cash flow statement – The Group

(a) Cash generated from operations

	2011 *RMB'000*	2010 *RMB'000*
Profit before income tax	**716,437**	1,071,329
Adjustments for:		
– Reversal of write-down of inventories *(Note 12)*	**(540)**	(579)
– Recognition/(Reversal) of provision for trade receivables *(Note 13)*	**355**	(296)
– Impairment charge for property, plant and equipment *(Note 7)*	**4,433**	–
– Impairment charge for intangible assets *(Note 8)*	**1,482**	14,002
– Depreciation *(Note 7)*	**365,689**	251,295
– Amortisation of leasehold land payments *(Note 6)*	**2,586**	2,650
– Amortisation of deferred income	**(30,480)**	(56,321)
– (Gain)/Loss on disposal of property, plant and equipment *(Note (b))*	**(349)**	6,752
– Gain on disposal of leasehold land prepayments *(Note (c))*	**(49)**	(1,836)
– Employee share option schemes *(Notes 17, 24)*	**15,389**	15,180
– Interest income *(Note 22)*	**(10,061)**	(3,625)
– Interest expenses *(Note 26)*	**135,941**	32,383
– Foreign exchange losses/(gains) on financing activities *(Note 26)*	**(74,412)**	–
Changes in working capital:		
– Inventories	**(468,628)**	(159,088)
– Trade and other receivables	**(922,319)**	(119,458)
– Restricted bank deposits	**142,105**	(118,415)
– Trade, other payables and accruals	**580,053**	253,769
Cash generated from operations	**457,632**	1,187,742

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

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

	2011	2010
	RMB'000	*RMB'000*
Net book amount for sale *(Note 7)*	**3,403**	24,632
Gain/(Loss) on disposal of property, plant and equipment	**349**	(6,752)
Proceeds from disposal of property, plant and equipment	**3,752**	17,880

(c) Proceeds from disposal of leasehold land payments

	2011	2010
	RMB'000	*RMB'000*
Net book amount for sale *(Note 6)*	**324**	10,954
Gain on disposal of leasehold land payments	**49**	1,836
Proceeds from disposal of leasehold land payments	**373**	12,790

32. Commitments

The Group

Capital commitments

	2011	2010
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
– Contracted but not yet incurred	**797,283**	416,489

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:

	2011	2010
	RMB'000	*RMB'000*
No later than 1 year	**1,727**	451
Later than 1 year and no later than 5 years	**12**	263
	1,739	714

32. Commitments *(Continued)*

The Company

As at 31 December 2011 and 2010, 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:

	2011 ***RMB'000***	2010 *RMB'000*
No later than 1 year	**284**	350
Later than 1 year and no later than 5 years	**–**	263
	284	613

33. 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

	2011 ***RMB'000***	2010 *RMB'000*
Salaries and allowances	**12,491**	11,657
Pension costs-defined contribution plan	**624**	578
Share options granted to key management	**4,627**	4,913
	17,742	17,148

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 (2010: RMB110,000,000) 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 not been utilised as of 31 December 2011 while utilised by Shandong Fufeng as of 31 December 2010 for bank borrowings amounting to RMB30,000,000 (Note 20).

34. Particulars of subsidiaries

As at 31 December 2011, 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 & 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	HKD2	Investment holding in Hong Kong
Full Profit Investment (Group) Ltd.	Hong Kong	HKD2	Investment holding in Hong Kong
Trans-Asia Capital Resources Ltd. ("Trans-Asia")	Hong Kong	HKD2	Investment holding in Hong Kong
Fufeng International Trade (Hongkong) Limited ("Fufeng International") (a)	Hong Kong	HKD2	Investment holding in Hong Kong
Shandong Fufeng (b)	PRC	RMB370,500,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweeteners and other related products in the PRC
Baoji Fufeng (b)	PRC	HKD250,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers and other related products in the PRC

34. Particulars of subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Registered/ Issued and paid capital	Principal activities & place of operation
IM Fufeng	PRC	HKD640,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers, starch sweeteners and other related products, autoclaved aerated concrete block, in the PRC
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	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	Does not carry out any business activities
Hulunbeir Fufeng (b)	PRC	RMB900,000,000	Manufacture and sales of starch, starch sweeteners, amino acids, monosodium glutamate, xanthan gum, fertilisers, and other related products in the PRC
Fufeng Singapore (a)	Singapore	SGD2	Sales of monosodium glutamate and other related products in the Southeast Asia
Jiangsu Fufeng (a)	PRC	RMB5,000,000	Does not carry out any business activities
Hulunbeir Shengmin (a)	PRC	RMB10,000,000	Does not carry out any business activities

34. Particulars of subsidiaries *(Continued)*

(a) Fufeng International was established on 8 July 2011, with the registered capital of HKD2. It is wholly held by Trans-Asia.

Fufeng Singapore was established on 14 July 2011, with the registered capital of SGD2. It is wholly held by Fufeng International.

Jiangsu Fufeng was established on 11 October 2011, with the registered capital of RMB5,000,000. It is wholly held by Shenhua Pharmaceutical.

Hulunbeir Shengmin has completed capital verification with the amount of RMB10,000,000 on 29 December 2011 but has not obtained the business license before the year end. It is wholly held by Hulunbeir Fufeng.

(b) The registered capital of Shandong Fufeng was increased to RMB370,500,000 on 10 May 2011.

The registered capital of Baoji Fufeng was increased to HKD250,000,000 on 10 June 2011.

The registered capital of Hulunbeir Fufeng was increased to RMB900,000,000 on 25 January 2011.

35. 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 30.

Share Information

Stock Code 546

Board lot 1,000 shares

Price and turnover

2011	Share price High *(HKD)*	Low *(HKD)*	Turnover Share *('000)*
January	7.55	6.18	96,456
February	6.59	5.22	85,621
March	5.92	4.98	177,365
April	6.70	5.31	196,965
May	5.96	5.20	64,546
June	5.50	4.48	83,776
July	5.45	4.59	91,194
August	4.78	3.57	107,381
September	4.07	2.85	61,946
October	4.36	2.90	79,294
November	4.59	3.98	61,512
December	4.28	3.52	27,823

Issued capital at 31 December 2011 1,718,686,000 shares

Closing price at 31 December 2011 HKD3.56 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
Fufeng Singapore	Fufeng (Singapore) Pte. Ltd, an indirect wholly-owned subsidiary of the Company

Glossary *(Continued)*

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
Hulunbeir Shengmin	呼倫貝爾市晟敏農業開發有限責任公司 (Hulunbeir Shengmin Agriculture Development Co., Ltd.), an indirect wholly-owned subsidiary of the Company)
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
Jiangsu Fufeng	江蘇阜豐生物科技有限公司 (Jiangsu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
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

Glossary *(Continued)*

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
SGD	Singapore dollars, the lawful currency of Singapore
%	per cent