



Fufeng Group Limited  
阜豐集團有限公司

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

# Interim Report 2012





## CONTENTS

Corporate information	2
Management discussion and analysis	3
Interim condensed consolidated balance sheet	25
Interim condensed consolidated income statement	27
Interim condensed consolidated statement of comprehensive income	28
Interim condensed consolidated statement of changes in equity	29
Interim condensed consolidated cash flow statement	30
Notes to the condensed financial statements	31
Other information	50
Glossary	56

## 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

### Principal place of business in the PRC

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

### Principal place of business in Hong Kong

Suite 1101, 11th Floor  
Chinachem Century Tower,  
178 Gloucester Road,  
Wanchai,  
Hong Kong

### Investor Relations Consultant

Christensen International Limited.  
Unit 1701, 17/F, Overseas Trust Bank Bldg,  
160 Gloucester Road, Wanchai,  
Hong Kong

### Independent auditor

PricewaterhouseCoopers

### 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](http://www.fufeng-group.com)



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

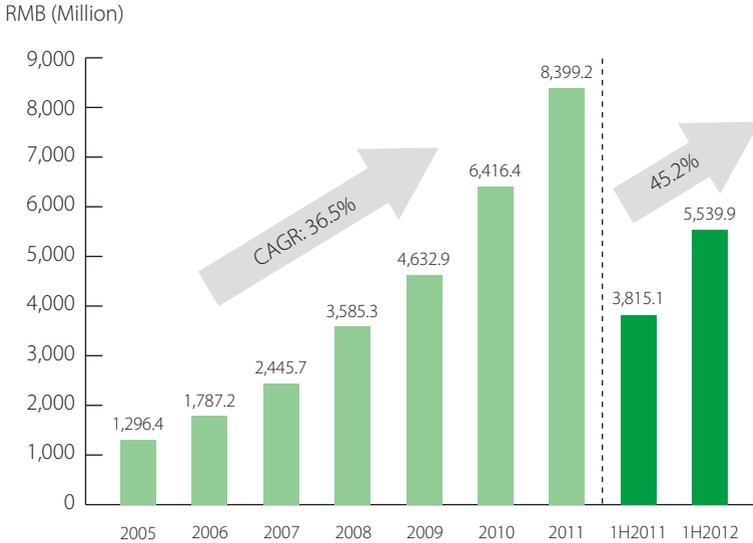
#### Overview

Since the end of 2011, confronted with industry consolidation, domestic macro-control measures and the European debt crisis, as well as various other unfavorable factors, the Group focused on its long-term development strategy and strengthened its cost advantages to address challenges to meet its objectives.

The Group continued its business growth strategy to increase its market shares by expanding its production capacity, strengthening its research and development capabilities, and diversifying its product offerings.

For the six months ended 30 June 2012, the Group recorded an increase of 45.2% in revenue over the same period in 2011. Such an increase was primarily attributable to the increase in sales volume of MSG products and xanthan gum to meet the rising market demand. The production capacities of the Group have been increased after commencement of operation of Hulunbeir Plant Phase 1 and Phase 2 at the end of 2011 and in the second quarter of 2012, respectively, to cope with the increasing sales volume.

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



The Group’s gross profit decreased from approximately RMB828.4 million in the first half of 2011 to approximately RMB824.8 million in the first half of 2012. This decrease of 0.4% was primarily due to a reduction in the ASP of MSG which could not be fully offset by an increase in overall sales volumes.

As the industry consolidation that started in the second half of 2011 continued in the first half of 2012, the ASP of the Group’s MSG decreased by 7.8% compared to the corresponding period of 2011. The Group’s production costs continued to increase, mainly due to a relatively substantial increase of approximately 8.4% and 16.0% in the prices of corn and sulphuric acid, respectively. As a result, gross profit margin decreased from 21.7% in the first half of 2011 to 14.9% in the first half of 2012.

Leveraging its economies of scale derived from its leading market position and expansion of production capacity, the Group was able to control cost effectively. To further develop its upstream highly vertical-integrated production process, the Group built and started production at a new 80,000 tonnes synthetic ammonia production line in order to further reduce the cost of liquid ammonia and offset a considerable part of the pressure of rising costs through internal production in 2012.

In the first half of 2012, the production and sales volume of MSG increased by 63.6% and 65.8% respectively over the first half of 2011, and the production and sales volume of xanthan gum increased by 5.1% and 25.2%, respectively over the same period in 2011. Thanks to strong sales of MSG products and xanthan gum, the Group was able to maintain its growth momentum in the first half of 2012.

It is expected that with the continuous development of the domestic consumer market in the PRC, the food industry will benefit from tremendous market opportunities. The Group continued to develop and promote its brand name products for the industrial and retail sectors. In addition, the Group intends to develop foreign MSG markets. During the period, exports of MSG products increased to approximately RMB364.3 millions, representing an increase of RMB106.1 million or 41.1%, as compared with that in the same period in 2011.

In line with the Group's development plan, the main construction of the Hulunbeir Plant Phase 2 in Inner Mongolia Autonomous Region and close to the border with Heilongjiang was completed during the second quarter of 2012. As a result, MSG production capacity increased to 1,050,000 tonnes per year, strengthening the group's cost-effectiveness.

Amino acid has become a third growth driver for the Group in addition to its mainstay businesses of MSG and xanthan gum, and production and sales of threonine have been started. Threonine is a type of amino acid used as animal feed additives for piglets, pigs, chicken, prawns and eels, and others. In the first half of 2012, the Group sold 7,742 tonnes of threonine. The Group will also produce and sell other types of high value-added amino acid products as it develops more corn-based biochemical products required advanced fermentation technology.

In 2012, the Group has started to set up a plant in Xinjiang to produce some high-end amino acid products. This will enable the Group to exploit the abundant and cheap coal resources in Xinjiang to enhance its cost advantages. The Group will move quickly to build a foothold in this sector. 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 production and sales of high-end products.

### **Market overview**

The Group has been facing challenges in production and overall operations since the beginning of 2011 and has been leading the industry consolidation which continued in the first half of 2012. Overall demand in the MSG industry in the first half of 2012 increased steadily. Market demand for xanthan gum also increased in early 2012. Despite the economic slowdown in the PRC in the first half of 2012, costs of major raw materials such as corn kernels still increased due to growing market demand. The Group's strategy is to leverage its leading market position and offer competitive pricing. Its main objective is to expand market share by increasing production capacity in 2012. As major raw material costs increased and the ASP of the Group's products decreased, the gross profit margin of the Group decreased to 14.9%.

### **MSG segment**

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

While the MSG market in the PRC became increasingly concentrated, the Group has become the world's leading producer in the MSG industry as it took advantage of the industry consolidation to further expand its market share. The ASP of MSG products decreased during the first half of 2012. The Group has strategically maintained its product prices at a competitive level in order to increase its sales volume and utilise the additional production capacity from the Hulunbeir Plant started in the first half of 2012.

### Xanthan gum segment

The global market demand for xanthan gum continuously increased during the first half of 2012. The Group has increased its production capacity and continued to increase its market share since 2009. Supply from the top three xanthan gum producers continued to dominate this market. The sales volume of xanthan gum increased in the first half of 2012.

### Operational review of the Group

Construction of the new Hulunbeir Plant Phase 2 was completed during the second quarter of 2012. The Group achieved a new record in sales in the first half of 2012 on the back of its increase in production capacity. Certain indicative operational figures of the Group are set out below:

#### Turnover/Gross profit/Gross profit margin of the Group

	Six months ended 30 June		Change %
	2012	2011	
Turnover (RMB'000)	<b>5,539,921</b>	3,815,117	45.2
Gross profit (RMB'000)	<b>824,808</b>	828,421	(0.4)
Gross profit margin (%)	<b>14.9</b>	21.7	(6.8) pts.

The increase in revenue of the Group was mainly due to the increase in sales volume of certain products. The ASP of MSG products decreased under the Group's strategy to drive industry consolidation. As a result, the gross profit margin of the Group came under great pressure. Please see more details in the following sections.

**Profit attributable to Shareholders**

	<b>Six months ended 30 June</b>		<b>Change %</b>
	<b>2012 RMB'000</b>	2011 RMB'000	
As reported	<b>274,269</b>	420,249	(34.7)

Profit attributable to shareholders decreased by about 34.7%, due to the factors mentioned above. A rise in market share, increases in sales volume and amount, cost efficiencies and an improved operating environment were not sufficient to counter significant increase in raw material costs. The Group made a strategic decision to maintain its competitive pricing policies in order to preserve market share while absorbing additional capacity from new production facilities that will reinforce its cost advantage through economies of scale. In addition to the increasing raw material costs, administrative costs increased mainly because of the commencement of operations of the new Hulunbeir Plant in the second half of 2011.

### Segment Highlights

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

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

	Six months ended 30 June 2012			Six months ended 30 June 2011			Increase/(Decrease)		
	Xanthan			Xanthan			Xanthan		
	MSG	gum	Group	MSG	gum	Group	MSG	gum	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%	%	%
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
<b>Revenue</b>	<b>5,040,864</b>	<b>499,057</b>	<b>5,539,921</b>	3,415,703	399,414	3,815,117	47.6	25.0	45.2
<b>Gross profit</b>	<b>628,966</b>	<b>195,842</b>	<b>824,808</b>	679,806	148,615	828,421	(7.5)	31.8	(0.4)
<b>Gross profit margin</b>	<b>12.5%</b>	<b>39.2%</b>	<b>14.9%</b>	19.9%	37.2%	21.7%	(7.4) ppts.	2.0 ppts.	(6.8) ppts.
<b>Segment results</b>	<b>242,503</b>	<b>178,371</b>		402,409	125,447		(39.7)	42.2	
<b>Segment net assets</b>									
Assets	<b>9,159,824</b>	<b>1,724,601</b>		7,032,749	1,025,018		30.2	68.3	
Liabilities	<b>3,908,149</b>	<b>506,552</b>		1,897,774	309,696		105.9	63.6	
Net assets	<b>5,251,675</b>	<b>1,218,049</b>		5,134,975	715,322		2.3	70.3	

The sections below describe the performance of each segment in more details.

### MSG Segment

#### Revenue and ASP

Revenue generated from the sales of MSG products increased to RMB5,040.9 million in the first half of 2012, representing an increase of RMB1,625.2 million or 47.6%, as compared with the corresponding period of 2011. This was mainly attributed to the increase in sales volume of MSG products.

The table below sets out revenue by products of MSG segment for the six months ended 30 June 2012 and 2011:

Product	Six months ended 30 June		Change %
	2012 RMB'000	2011 RMB'000	
MSG	<b>3,394,687</b>	2,219,246	53.0
Glutamic acid	<b>49,786</b>	89,826	(44.6)
Fertilisers	<b>468,203</b>	253,092	85.0
Corn refined products	<b>725,302</b>	474,602	52.8
Starch sweeteners	<b>199,916</b>	210,527	(5.0)
Threonine	<b>76,327</b>	60,899	25.3
Corn oil	<b>53,598</b>	50,308	6.5
Compound seasoning	<b>2,703</b>	3,029	(10.8)
Others	<b>70,342</b>	54,174	29.8
	<b>5,040,864</b>	3,415,703	47.6

### MSG

The increasing raw materials cost continued to contribute to industry consolidation in the first half of 2012, with many obsolete production facilities facing closure. The Group maintained its market leadership in the MSG segment through increases in production capacity, increased marketing efforts, and competitive pricing. While the ASP decreased by about 7.8%, from approximately RMB8,010 per tonne in the first half of 2011 to approximately RMB7,382 per tonne in the first half of 2012, turnover of MSG in the first half of 2012 increased by about 53.0% attributable to the increase of sales volume by about 65.8% to approximately 459,285 tonnes compared to the first half of 2011. The revenue growth was driven by rising market demand in the first half of 2012.

In the first half of 2012, the Group also strengthened exports of MSG products and promoted U Fresh Series products to retail customers. The Group increased exports of MSG products from about RMB258.2 million in the first half of 2011 to about RMB364.3 million in the first half of 2012. The U Fresh Series products target the household market which benefits from the improving living standards in the PRC. The operating results of this series was generally in line with management expectations.

Moreover, the increase in domestic consumption demand supported the growth of the domestic MSG market as market demand continuously increased in the first half of 2012. Supply and demand in the domestic MSG industry is still in a balancing stable status.

### ***Fertilisers***

As the New Hulunbeir Plant commenced operation in the second half of 2011, the production capacity of fertilisers increased to 1,100,000 tonnes per year for the six months ended 30 June 2012. The market demand and the ASP of fertilisers increased during the first six months of 2012. The ASP of fertilisers increased from approximately RMB681 per tonne in the first half of 2011 to approximately RMB840 per tonne in the first half of 2012, representing an increase of about 23.3%. This is in line with pricing trends for similar products.

### ***Corn refined products***

The ASP of corn refined products increased in tandem with the corn kernels price in the first half of 2012. The revenue of corn refined products increased by about 52.8% for the six months ended of 30 June 2012 compared in the same period of 2011. The increase was mainly due to the increased consumption volume of corn kernels and the increase in the ASP of corn refined products.

### ***Starch sweeteners***

Turnover of starch sweeteners decreased by about 5.0% in the first half of 2012. ASP decreased by about 6.8% to approximately RMB3,189 per tonne in the first half of 2012 from approximately RMB3,421 per tonne in the corresponding period of 2011 due to the reduction in sugar demand to a more stable level.

### ***Threonine***

Threonine is a new product of the Group. The annual threonine production capacity has been increased to 40,000 tonnes since March 2012. 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 RMB76.3 million and approximately 7,742 tonnes respectively in the first half of 2012.

**Others**

The Group continued to develop new products to strengthen the brand name of the Group and also to develop new products into both industrial and retail markets. This will 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:

	Six months ended 30 June		
	2012	2011	Change
Gross profit (RMB'000)	<b>628,966</b>	679,806	(7.5%)
Gross profit margin (%)	<b>12.5</b>	19.9	(7.4) ppts.

Rising raw materials cost and lower ASP of MSG products squeezed margins during the period, as noted earlier. Gross profit decreased to RMB629.0 million and gross profit margin fell by 7.4 percentage points to 12.5%.

Lower ASP has been a key factor affecting gross profit margin, as the Group has maintained its competitive pricing strategy in order to expand its market share during the period of consolidation when many smaller producers have been forced out of the market. Gross profit margin for the first half of 2012 was reasonable under the objective of maintaining market share while fully absorbed the new production capacity. ASP has returned to an upward trend from July 2012.

The Group believes that the pricing power and leading market position would maintain or improve gross margin from the current levels in the second half of 2012.

**Production costs**

	Six months ended 30 June				Change %
	2012		2011		
	RMB'000	%	RMB'000	%	
Major raw materials					
Corn kernels	<b>2,465,335</b>	<b>55.3</b>	1,506,043	54.0	63.7
Liquid ammonia	<b>342,466</b>	<b>7.7</b>	303,054	10.9	13.0
Sulphuric acid	<b>95,161</b>	<b>2.1</b>	53,005	1.9	79.5
Energy					
Coal	<b>485,022</b>	<b>10.9</b>	314,086	11.3	54.4
Depreciation	<b>219,736</b>	<b>4.9</b>	116,821	4.2	88.1
Employee benefits	<b>206,404</b>	<b>4.6</b>	104,292	3.7	97.9
Others	<b>643,076</b>	<b>14.5</b>	390,280	14.0	64.8
Total cost of production	<b>4,457,200</b>	<b>100.0</b>	2,787,581	100.0	59.9

**Corn kernels**

During the first half of 2012, corn kernels accounted for approximately 55.3% (1H 2011: 54.0%) of the total production cost of this segment. The price of corn kernels has continuously increased since 2009 and remained high in the first half of 2012 due to continuous increase in market demand. However, the rate of increase slowed down during the first half of 2012. The average cost of corn kernels for the first half of 2012 was approximately RMB1,972 per tonne, which represents an increase of approximately RMB152 per tonne or 8.4% from the corresponding period in 2011.

The average cost of corn kernels has been increasing, however at a lower rate than other production costs components. Therefore, the cost of corn kernels as a percentage of total production costs only slightly increased by 1.3%.

***Liquid ammonia***

Liquid ammonia accounted for approximately 7.7% (1H 2011: 10.9%) of total production cost in this segment in the first half of 2012. The Group benefited from the additional production capacity of composite ammonia built by the Group in order to counteract higher prices of liquid ammonia.

The average unit cost of liquid ammonia for the first half of 2012 increased to approximately RMB2,934 per tonne, which represents an increase of approximately RMB116 per tonne or 4.1% from the first half of 2011. The increase was much lower than that of other chemical inputs such as sulphuric acid.

***Sulphuric acid***

Sulphuric acid accounted for approximately 2.1% (1H 2011: 1.9%) of total production cost in this segment in the first half of 2012. The average unit cost of sulphuric acid has increased continuously since the end of 2009. It was affected by increasing market demand as the industrial market recovered. Compared with the average unit cost of sulphuric acid in the first half of 2011, the average unit cost of sulphuric acid increased to approximately RMB470 per tonne, which represents an increase of approximately RMB66 per tonne or 16.3%.

***Coal***

Coal accounted for 10.9% of total production cost in this segment in the first half of 2012 (1H 2011: 11.3%) and its average unit cost was RMB291 per tonne, representing a decrease of RMB59 per tonne or 16.9% from the first half of 2011. The decrease in coal prices validates the Group's strategy. While the decrease in the average unit cost of coal was significant, the contribution of coal to total production costs decreased by a modest 0.4%. This was in part due to our pricing power as our major production facilities in the IM Plant and the Hulunbeir Plant are located close to lower-cost coal supply from the coal-producing region of Northeast of China and Inner Mongolia.

***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 that started production in the second half of 2011.

### Production

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

Product	Six months ended 30 June		Change %
	2012 Tonne	2011 Tonne	
MSG			
Annual designed production capacity (Note)	<b>483,333</b>	270,000	79.0
Actual production output	<b>457,053</b>	279,339	63.6
Utilisation rate	<b>94.6%</b>	103.5%	
Glutamic acid			
Annual designed production capacity (Note)	<b>376,667</b>	230,000	63.8
Actual production output	<b>378,574</b>	244,017	55.1
Utilisation rate	<b>100.5%</b>	106.1%	
Fertilisers			
Annual designed production capacity (Note)	<b>508,333</b>	280,000	81.5
Actual production output	<b>501,714</b>	322,096	55.8
Utilisation rate	<b>98.7%</b>	115.0%	
Starch sweeteners			
Annual designed production capacity (Note)	<b>70,000</b>	70,000	–
Actual production output	<b>56,914</b>	63,078	(9.8)
Utilisation rate	<b>81.3%</b>	90.1%	

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

Utilisation rates decreased slightly in the first half of 2012 due to significant increases in production capacity during the period which has been continuously absorbed by the market recently. Utilisation rates for main products except for starch sweeteners remained above 90%, reflecting the Group's increasing market share of MSG.

## Xanthan Gum Segment

### Operation results

The table below sets out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the six months ended 30 June 2012 and 2011:

	Six months ended 30 June		Change %
	2012	2011	
Sales amount (RMB'000)	<b>499,057</b>	399,414	25.0
ASP (RMB/tonne)	<b>18,501</b>	18,545	(0.2)
Gross profit (RMB'000)	<b>195,842</b>	148,615	31.8
Gross profit margin (%)	<b>39.2</b>	37.2	2.0 ppts.
Annual designed production capacity (tonne) (Note)	<b>22,000</b>	22,000	–
Actual production output (tonne)	<b>23,040</b>	21,929	5.1
Utilisation rate	<b>104.7%</b>	99.7%	

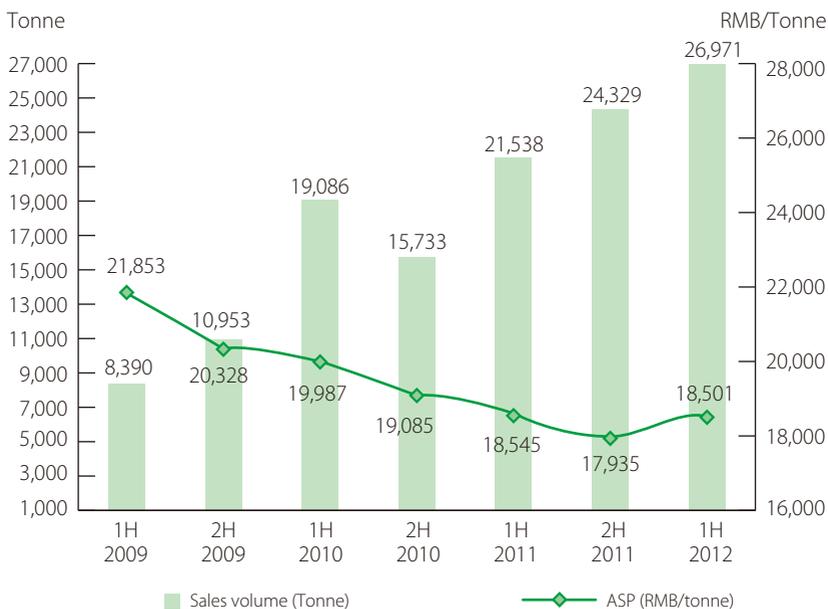
Note: The annual designed production capacity is expressed on pro-rata basis.

Revenue generated from xanthan gum increased by 25.0% to RMB499.1 million in the first half of 2012 from RMB399.4 million in the first half of 2011. The significant increase in revenue was due to increase in market demand while the ASP of xanthan gum remained stable at a relatively high level.

The Group's exports of xanthan gum remained stable in terms of the percentage contribution to total sales of xanthan gum. Export sales of xanthan gum contributed 87.6% of total sales of xanthan gum in the first half of 2012 (1H 2011: 88.1%).

**Sales and ASP**

**Sales Volume vs. ASP of Xanthan Gum**



Sales volume increased by 25.2% in the first half of 2012, reflecting expanded production capacity, while sales amount increased by 25.0% over the same period of 2011, representing an increasing demand for xanthan gum. The ASP, on an upward trend, increased to RMB18,501 per tonne in the first half of 2012.

Although the global economy remained weak, the sales volumes of xanthan gum increased in the first half of 2012. The Group expects to achieve growth in sales volume as well as a continuously increase in ASP for the year.

**Gross profit and gross profit margin**

Gross profit of the xanthan gum segment increased by about 31.8% from approximately RMB148.6 million in the first half of 2011 to approximately RMB195.8 million in the first half of 2012. Gross margin increased as well, by 2.0 percentage points in the first half of 2012, reflecting our competitive costs advantage at the IM Plant.

## Production costs

	Six months ended 30 June				Change %
	2012		2011		
	RMB'000	%	RMB'000	%	
Major raw materials					
Corn kernels	<b>104,602</b>	<b>39.5</b>	89,573	37.3	16.8
Soy bean	<b>18,561</b>	<b>7.0</b>	15,378	6.4	20.7
Energy					
Coal	<b>83,314</b>	<b>31.4</b>	83,657	34.8	(0.4)
Depreciation	<b>15,789</b>	<b>6.0</b>	22,715	9.5	(30.5)
Employee benefit	<b>22,126</b>	<b>8.4</b>	16,207	6.8	36.5
Others	<b>20,538</b>	<b>7.7</b>	12,541	5.2	63.8
Total cost of production	<b>264,930</b>	<b>100.0</b>	240,071	100.0	10.4

The production line of xanthan gum at the Shandong Plant has been closed since the end of 2011. The relevant production facility has been transferred to the IM Plant.

### ***Corn kernels***

During the first half of 2012, corn kernels represented approximately 39.5% (1H 2011: 37.3%) 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. The corn kernel price increased by 6.7% from approximately RMB1,832 per tonne in the first half of 2011 to approximately RMB1,954 per tonne in the first half of 2012.

### ***Soy bean***

During the first half of 2012, soy bean accounted for approximately 7.0% (1H 2011: 6.4%) of the total production cost of this segment. The increase in proportion was mainly due to the increase in soy bean price from approximately RMB3,802 per tonne in the first half of 2011 to approximately RMB4,063 per tonne in the first half of 2012.

### **Coal**

During the first half of 2012, coal accounted for approximately 31.4% (1H 2011: 34.8%) of the total production cost of this segment. The proportion decreased mainly due to all production capacity of xanthan gum are in IM Plant from the second half of 2011. The Group took full advantage of the relatively low coal cost in its IM plant. The average unit cost of coal in the first half of 2012 was approximately RMB262 per tonne, which represents a decrease of approximately RMB13 per tonne or 4.7% from the first half of 2011.

### **Other production costs**

The depreciation expense in the first half of 2012 was significantly lower than that in the corresponding period of 2011 primarily as a result of closure of the old production plant for xanthan gum in Shandong at the end of 2011.

### **Other financial information**

#### **Selling and marketing expenses**

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

#### **Administrative expenses**

Administrative expenses increased by approximately RMB29.8 million or 16.2% for the six months ended 30 June 2012. The increase was mainly due to higher research and development related expenses as more research and development projects have been initiated. Staff costs also increased during the period as wages and salaries level continuously increased in the PRC. Administrative expenses from the new Hulunbeir Plant Phase 1 and Phase 2 that started operations in the second half of 2011 and the second quarter of 2012, respectively, also contributed to the increase.

#### **Finance costs**

The Company successfully issued senior notes with a principal amount of USD300 million on 12 April 2011 with a fixed interest rate of 7.625% p.a..

The finance costs of the Group for the six months ended 30 June 2012 increased by approximately RMB62.9 million or about 129.2% when compared with the first six months of 2011 as the senior notes were charged interest for the entire first half year period in 2012.

### Income tax expenses

During the period, IM Fufeng has confirmed that it can benefit from a 15% western development region preferential tax rate with the “2+3” tax holiday by which 50% deduction policy. Accordingly, the effective tax rate for IM Fufeng is 7.5% for 2011. Therefore, the relevant part of tax benefit is recorded during the six months ended of 30 June 2012.

The following table summaries the EIT rates applicable to the Group’s major subsidiaries for 2012:

	<b>Shandong Fufeng</b>	<b>Baoji Fufeng</b>	<b>IM Fufeng</b>	<b>Hulunbeir Fufeng</b>
Preferential tax rate	15% (Note1)	15% (Note 2)	15% (Note 2)	15% (Note 3)

Note 1: Shandong Fufeng was approved to be a high-technique enterprise, which is entitled to a preferential enterprise income tax rate of 15% for 2012.

Note 2: Baoji Fufeng and IM Fufeng have been approved to enjoy the new western development region tax preferential policy. They are entitled to a preferential tax rate of 15% from 2011 to 2020.

Note 3: Hulunbeir Fufeng has applied to entitle the new western development region tax preferential policy. The application almost completed at the end of July 2012. We expected Hulunbeir Fufeng will entitle to a preferential tax rate of 15% from 2012 to 2020.

### Outlook for second half of 2012

Despite the continued economic sluggishness in the PRC and the low consumer confidence, we believe that the elimination of a substantial amount of excess capacity in the MSG industry is close to an end and the demand and supply of the market are expected to balance. As a result, it is expected that the downward price trend of MSG lasted for over a year will be ended in the second half of 2012 and the price will rebound to a considerable level. This will enhance the operational efficiency of the Group. As the supply of xanthan gum is still unable to meet the demand, the price continues to increase. Thus, as a whole, the operation efficiency of the Group is expected to be improved in the second half of the year.

### **MSG segment**

The Group's annual MSG production capacity has reached 1,050,000 tonnes. The Group will adopt a more flexible operational strategy in the second half. Based on the changes on the supply and demand of the market and the cost of the major raw materials, we will timely adjust the selling price and actively lead the market demand to shift the operation focus from the production capacity and sale volume expansion to the improvement of price and efficiency. With the commencement of production of composite ammonia in the Inner Mongolia base as well as fully capitalisation of the production cost advantage after the full-scale operation of the production base in Hulunbeir, the Group's MSG products will achieve outstanding competitive advantages. With respect to the overall conditions of the industry, as the Group is one of the leading producers in the industry which has a relatively larger market share, it is expected that the MSG industry will be steadily released from the periodic market volatility and gradually emerge to stable development. The gross profit margin of the MSG business also tends to be stabilised.

### **Xanthan gum segment**

It is expected that the current trend of xanthan gum market will continue in the second half of 2012. Supply falls short of demand while the upward trend of the price continues. The Group will timely capture the market opportunities, adjust the price accordingly, and increase the production and sales of the higher price food-grade xanthan gum in order to optimise the efficiency of the products. At the same time, the production base in Xinjiang, which is under construction, will accelerate the construction of the new production capacities up to 10,000 tonnes. As the Xinjiang Plant targets to commence operation the end of this year, the Group's production capacity will exceed 50,000 tonnes per annum at the end of 2012.

In respect of the anti-dumping investigation conducted by the US Department of Commerce concerning the xanthan gum products exported to the US, the Group has appointed lawyers to make defence. Meanwhile, the Group initiates to develop new customer groups based on the existing overseas customers to reduce the customer concentration so as to disperse the risks and avoid possible adverse situation proactively.

### **Future plan and recent development**

#### **Development of amino acid products used in animal feed additives and construction of a new Xinjiang Plant**

In 2012, the Group steps 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 has started construction of a new high-end production base amino acid in Xinjiang in the first half of 2012 for developing high-end amino acid products with cost advantage and advantage of the abundant coal supply in Xinjiang. At the beginning, the production capacity of amino acid products is 10,000 tonnes per annum. We expected the construction will be completed at the end of 2012.

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 production and sales of high-end products.

### **Overseas market expansion**

The Group has increased the effort to develop the foreign MSG market. The Group has made vigorous efforts on market expansion by taking advantage of the establishment of the sales branches and offices. In the first half of 2012, the Group strengthened promotion activities in Middle East, Europe, Africa and South America by its sales office and sales organisations in those regions. The objective is to provide customers with better after-sale services, improve customer relationships, and increase customer reliability.

### **Liquidity and financial resources**

As at 30 June 2012, the Group's cash and cash equivalent and restricted bank deposits were RMB784.4 million (2011: RMB614.1 million) whereas current bank borrowings and current other borrowings were approximately RMB1,334 million and RMB995.7 million (2011: RMB704.0 million and Nil), respectively and non-current bank borrowings and non-current other borrowings (including the outstanding balances of senior notes and convertible bonds) were approximately Nil and RMB1,864.1 million (2011: Nil and RMB2,844.1 million), respectively.

For the above mentioned current other borrowings as at the end of 30 June 2012, the amount of RMB995.7 million represented the outstanding balance of convertible bonds issued on 13 April 2010. According to the term of the subscription agreement of the convertible bonds, the holders of the convertible bonds have a put option to request Fufeng to redeem all or only some of such holders' Bonds on 1 April 2013. Therefore, the outstanding balance of convertible bonds is classified as current liabilities in the financial statement. The Company is liaising on an arrangement of syndication bank loan for the purpose of the repayment of the convertible bonds. We have received written confirmations from participating banks confirming their willingness to join the syndication bank loan. We target to have the syndication bank loan available on or before the end of September 2012. However, it is subject to the signing of the syndication loan agreement which may or may not materialise by the end of September 2012.

In the meantime, several bankers in the PRC are in preparation to expand the Group's banking facilities.

### **Convertible bonds**

The Group issued RMB820.0 million convertible bonds with a coupon rate of 4.5% per year on 1 April 2010 together with bond options of RMB205.0 million on 22 April 2010. The bonds can be converted into Group shares any time on or after 12 May 2010 up to the close of business on 22 March 2015 at an initial conversion price of HKD7.03 per share, which represents a premium of approximately 20.0% over the closing price of the shares on 25 March 2010. Based on the initial conversion price of HKD7.03 and assuming full conversion of the bonds at the initial conversion price, the bonds will be converted into 165,742,524 Shares, representing approximately 9.55% of the existing issued share capital of the Group and approximately 8.72% of the enlarged issued share capital of the Group.

### **Senior Note**

The Company has issued USD300.0 million senior notes for five years on 12 April 2011. The fixed interest rate is 7.625% p.a.. The proceeds from the senior notes were transferred to our major subsidiary primarily to finance the construction of the new production facilities of Hulunbeir Plant phase 1 and phase 2 and used to supplement group's operating cash flow.

### **Material acquisition or disposal of subsidiary and associated company**

During the period, the Group had no material acquisition or disposal of the subsidiaries or associated companies for the six months ended 30 June 2012.

### **Employees**

As at 30 June 2012, the Group had approximately 3,100 employees. Employees' remunerations are paid in accordance with relevant PRC policies. Appropriate salaries and bonuses are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Schemes" under the "Other Information" section below for the share options granted to certain Directors and employees of the Group before and after the IPO.

### **Charges on assets**

As at 30 June 2012, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB37.8 million were pledged to certain banks to secure bank borrowings of RMB249.0 million of the Group.

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

### **Gearing ratio**

As at 30 June 2012, the total assets of the Group amounted to approximately RMB10,985.5 million (2011: RMB9,859.3 million) whereas the total borrowings amounted to RMB4,193.8 million (2011: RMB3,548.1 million). The gearing ratio was approximately 38.2% (2011: 36.0%). 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 that 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 the issuance of convertible bonds and senior notes. Such proceeds were subject to foreign exchange risk before receiving and converting them 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 using the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the period ended 30 June 2012.

### **American Depositary Receipt Facility**

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

### **Dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (1H 2011: HK10 cents).

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land payments	7	261,485	265,217
Property, plant and equipment	7	6,618,223	6,032,345
Intangible assets	7	–	–
Deferred income tax assets		34,109	29,079
		<b>6,913,817</b>	6,326,641
<b>Current assets</b>			
Inventories		1,107,673	1,179,863
Trade and other receivables	8	2,179,564	1,738,737
Short-term bank deposits		73,320	30,164
Cash and cash equivalents		711,126	583,917
		<b>4,071,683</b>	3,532,681
Total assets		<b>10,985,500</b>	9,859,322
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Shareholders</b>			
Share capital	9	175,486	174,097
Share premium	9	228,126	188,576
Other reserves		12,976	18,877
Retained earnings			
– Proposed final dividend		–	41,981
– Others		3,257,441	2,983,172
Total equity		<b>3,674,029</b>	3,406,703



## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		193,979	199,942
Borrowings	10	1,864,141	2,844,147
Deferred income tax liabilities		21,938	20,166
		<b>2,080,058</b>	3,064,255
<b>Current liabilities</b>			
Trade, other payables and accruals	11	2,856,377	2,630,637
Current income tax liabilities		45,364	53,727
Borrowings	10	2,329,672	704,000
		<b>5,231,413</b>	3,388,364
<b>Total liabilities</b>		<b>7,311,471</b>	6,452,619
<b>Total equity and liabilities</b>		<b>10,985,500</b>	9,859,322
<b>Net current (liabilities)/assets</b>		<b>(1,159,730)</b>	144,317
<b>Total assets less current liabilities</b>		<b>5,754,087</b>	6,470,958

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 June</b>	
		<b>2012</b>	2011
		<b>RMB'000</b>	RMB'000
		<b>Unaudited</b>	Unaudited
	Note		
Revenue	6	<b>5,539,921</b>	3,815,117
Cost of sales	13	<b>(4,715,113)</b>	(2,986,696)
<b>Gross profit</b>		<b>824,808</b>	828,421
Other income	12	<b>57,018</b>	68,279
Selling and marketing expenses	13	<b>(248,380)</b>	(188,466)
Administrative expenses	13	<b>(213,399)</b>	(183,639)
Other operating expenses	13	<b>(7,781)</b>	(8,638)
<b>Operating profit</b>		<b>412,266</b>	515,957
Finance costs		<b>(111,737)</b>	(48,753)
<b>Profit before income tax</b>		<b>300,529</b>	467,204
Income tax expense	14	<b>(26,260)</b>	(46,955)
<b>Profit for the period attributable to the Shareholders</b>		<b>274,269</b>	420,249
<b>Earnings per share for profit attributable to the Shareholders during the period</b>			
(expressed in RMB cent per share)			
– basic	15	<b>15.96</b>	24.45
– diluted		<b>15.90</b>	23.06
<b>Dividends</b>	16	–	141,018



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2012 RMB'000 Unaudited	2011 RMB'000 Unaudited
<b>Profit for the period</b>	<b>274,269</b>	420,249
<b>Other comprehensive income for the period</b>	<b>-</b>	-
<b>Total comprehensive income for the period</b>	<b>274,269</b>	420,249
<b>Total comprehensive income attributable to the Shareholders</b>	<b>274,269</b>	420,249

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Attributable to the Shareholders				Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	
<b>Balance at 1 January 2011</b>	174,097	546,664	(76,985)	2,501,489	3,145,265
Total comprehensive income for the six months	-	-	-	420,249	420,249
Employees share option scheme: - value of employee services	-	-	8,121	-	8,121
Dividends paid	-	(217,070)	-	-	(217,070)
<b>Balance at 30 June 2011</b>	<u>174,097</u>	<u>329,594</u>	<u>(68,864)</u>	<u>2,921,738</u>	<u>3,356,565</u>
<b>Balance at 1 January 2012</b>	<b>174,097</b>	<b>188,576</b>	<b>18,877</b>	<b>3,025,153</b>	<b>3,406,703</b>
Total comprehensive income for the six months	-	-	-	<b>274,269</b>	<b>274,269</b>
Employees share option scheme: - proceeds from shares issued	<b>1,389</b>	<b>39,550</b>	<b>(9,965)</b>	-	<b>30,974</b>
- value of employee services	-	-	<b>4,064</b>	-	<b>4,064</b>
Dividends paid	-	-	-	<b>(41,981)</b>	<b>(41,981)</b>
<b>Balance at 30 June 2012</b>	<u><b>175,486</b></u>	<u><b>228,126</b></u>	<u><b>12,976</b></u>	<u><b>3,257,441</b></u>	<u><b>3,674,029</b></u>

## INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>Unaudited</b>	Unaudited
<b>Cash flows from operating activities</b>		
Cash generated from operations	<b>385,382</b>	331,659
Interest paid	<b>(129,499)</b>	(31,872)
Income taxes paid	<b>(28,957)</b>	(31,210)
Net cash flows generated from operating activities	<b>226,926</b>	268,577
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	<b>(726,093)</b>	(1,172,858)
Purchases of leasehold land payments	<b>(735)</b>	(62,941)
Purchases of intangible assets	<b>(1,050)</b>	(42)
Government grants received	<b>2,790</b>	25,840
Proceeds from disposal of property, plant and equipment	<b>1,086</b>	-
Proceeds from reimbursement of leasehold land payments	<b>3,155</b>	-
Interest received	<b>2,137</b>	4,311
Net cash used in investing activities	<b>(718,710)</b>	(1,205,690)
<b>Cash flows from financing activities</b>		
Dividends paid to the Company's shareholders	<b>(41,981)</b>	(217,070)
Proceeds from issuance of senior notes	-	1,925,839
Proceeds from issuance of ordinary shares	<b>30,974</b>	-
Proceeds from bank borrowings	<b>987,000</b>	225,000
Repayments of bank borrowings	<b>(357,000)</b>	(470,000)
Net cash generated from financing activities	<b>618,993</b>	1,463,769
<b>Net increase in cash and cash equivalents</b>	<b>127,209</b>	526,656
Cash and cash equivalents at beginning of the period	<b>583,917</b>	767,951
<b>Cash and cash equivalents end of the period</b>	<b>711,126</b>	1,294,607

### 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, Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region of the PRC and sells mainly to customers located in the PRC.

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

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

#### Key Events

In February 2012, the Group set up Xinjiang Fufeng Bio-technology Company Limited in Urumqi, Xinjiang Uygur Autonomous Region. The new subsidiary's registered capital is RMB200,000,000. Its main business is engaged in the manufacture and sales of xanthan gum and amino acids. As at 30 June 2012, the company is still in progress of construction.

## 2. Basis of Preparation

This condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with HKFRSs.

### 2.1 Going-concern basis

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial statements.

### 3. Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

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

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

HKAS 1 (Amendment)	'Presentation of financial statements' <sup>1</sup>
HKFRS 10	'Consolidated financial statements' <sup>2</sup>
HKAS 13	'Fair value measurements' <sup>2</sup>
HKAS 19 (Amendment)	'Employee benefits' <sup>2</sup>
HKFRS 7 (Amendment)	'Financial instruments: Disclosures – Offsetting financial assets and financial liabilities' <sup>2</sup>
HKFRS 12	'Disclosures of interests in other entities' <sup>2</sup>
HKAS 32 (Amendment)	'Financial instruments: Presentation – Offsetting financial assets and financial liabilities' <sup>3</sup>
HKFRS 9	'Financial instruments' <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2015

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.

## 4. Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

## 5. Financial Risk Management

### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

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

### 5.2 Liquidity risk

According to the terms in the offering memorandum of convertible bonds issued on 25 March 2010, the bondholders have the option to redeem all or some only of such bonds on 1 April 2013. So such bonds with a balance of RMB995,672,000 is reclassified to current portion of borrowings.

Compared to year end, there were additional current borrowings of RMB630,000,000 in the contractual undiscounted cash out flows for financial liabilities.

## 5. Financial Risk Management *(Continued)*

### 5.3 Fair value estimation

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

## 6. Segment Information

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

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

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

Manufacturing and sale of:

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

Approximately 85% (30 June 2011: 82%) of the Group's revenue and business activities are conducted in the PRC.

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

## 6. Segment Information *(Continued)*

The revenue of the Group for the six months ended 30 June 2012 and 2011 are set out as following:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>Unaudited</b>	Unaudited
MSG	<b>3,394,687</b>	2,219,246
Corn refined products	<b>725,302</b>	474,602
Xanthan gum	<b>499,057</b>	399,414
Fertilisers	<b>468,203</b>	253,092
Starch sweeteners	<b>199,916</b>	210,527
Threonine	<b>76,327</b>	60,899
Corn oil	<b>53,598</b>	50,308
Glutamic acid	<b>49,786</b>	89,826
Others	<b>73,045</b>	57,203
	<b>5,539,921</b>	3,815,117

## 6. Segment Information *(Continued)*

The segment results for the six months ended 30 June 2012 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Revenue	<u>5,040,864</u>	<u>499,057</u>	<u>-</u>	<u>5,539,921</u>
Segment results	<b>242,503</b>	<b>178,371</b>	<b>(8,608)</b>	<b>412,266</b>
Finance costs				<u>(111,737)</u>
Profit before income tax				<b>300,529</b>
Income tax expenses				<u>(26,260)</u>
Profit for the period				<u><b>274,269</b></u>

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

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Depreciation	<b>236,157</b>	<b>16,172</b>	<b>662</b>	<b>252,991</b>
Amortisation of leasehold land payments	<u>977</u>	<u>292</u>	<u>43</u>	<u>1,312</u>
Capital expenditure	<u><b>580,523</b></u>	<u><b>260,873</b></u>	<u><b>296</b></u>	<u><b>841,692</b></u>

## 6. Segment Information (Continued)

The segment assets and liabilities at 30 June 2012 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Total assets	<u>9,159,824</u>	<u>1,724,601</u>	<u>101,075</u>	<u>10,985,500</u>
Total liabilities	<u>3,908,149</u>	<u>506,552</u>	<u>2,896,770</u>	<u>7,311,471</u>

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

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

## 6. Segment Information *(Continued)*

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

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

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

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

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

	<b>Leasehold land payments</b>	<b>Property, plant and equipment</b>	<b>Intangible assets</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000
	Unaudited	Unaudited	Unaudited	Unaudited

### Six months ended

30 June 2011

#### Opening net book amount

at 1 January 2011

	169,187	4,087,675	-	4,256,862
Additions	62,941	930,727	42	993,710
Disposals	-	(24)	-	(24)
Depreciation and amortisation	(1,293)	(153,560)	-	(154,853)
Impairment charge	-	-	(42)	(42)

#### Closing net book amount

at 30 June 2011

	230,835	4,864,818	-	5,095,653
--	---------	-----------	---	-----------

### Six months ended

30 June 2012

#### Opening net book amount

at 1 January 2012

	<b>265,217</b>	<b>6,032,345</b>	-	<b>6,297,562</b>
Additions	<b>735</b>	<b>839,907</b>	<b>1,050</b>	<b>841,692</b>
Disposals	-	(1,038)	-	(1,038)
Reimbursement	<b>(3,155)</b>	-	-	<b>(3,155)</b>
Depreciation and amortisation	<b>(1,312)</b>	<b>(252,991)</b>	-	<b>(254,303)</b>
Impairment charge	-	-	<b>(1,050)</b>	<b>(1,050)</b>

#### Closing net book amount

at 30 June 2012

	<b>261,485</b>	<b>6,618,223</b>	-	<b>6,879,708</b>
--	----------------	------------------	---	------------------

## 8. Trade and Other Receivables

	As at	
	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Trade receivable (a)	<b>317,338</b>	277,698
Less: provision for impairment of receivables	<b>(4,591)</b>	(4,586)
Trade receivable, net	<b>312,747</b>	273,112
Notes receivables (b)	<b>1,442,386</b>	1,151,917
Deposits and others	<b>35,870</b>	28,373
Value Added Tax recoverable	<b>265,590</b>	231,439
Trade and other receivables before prepayments	<b>2,056,593</b>	1,684,841
Prepayments for raw materials	<b>122,971</b>	53,896
	<b>2,179,564</b>	1,738,737

## 8. Trade and Other Receivables *(Continued)*

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

	<b>As at</b>	
	<b>30 June 2012 RMB'000 Unaudited</b>	31 December 2011 RMB'000 Audited
Within 3 months	<b>281,619</b>	239,831
3-12 months	<b>23,845</b>	26,259
Over 12 months	<b>11,874</b>	11,608
	<b>317,338</b>	277,698

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

- b) As at 30 June 2012, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB1,270,173,000 (2011: RMB1,047,599,000) applied for settling the amounts payable to the Group's suppliers.

## 9. Share Capital and Premium

	Number of authorised shares '000 Unaudited	Number of issued and fully paid shares '000 Unaudited	Amount		
			Ordinary shares RMB'000 Unaudited	Share premium RMB'000 Unaudited	Total RMB'000 Unaudited
<b>Opening balance at 1 January 2011</b>	10,000,000	1,718,686	174,097	546,664	720,761
Dividends paid	-	-	-	(217,070)	(217,070)
<b>At 30 June 2011</b>	10,000,000	1,718,686	174,097	329,594	503,691
<b>Opening balance at 1 January 2012</b>	<b>10,000,000</b>	<b>1,718,686</b>	<b>174,097</b>	<b>188,576</b>	<b>362,673</b>
Employee share option schemes: - Proceeds from shares issued	-	17,025	1,389	39,550	40,939
<b>At 30 June 2012</b>	<b>10,000,000</b>	<b>1,735,711</b>	<b>175,486</b>	<b>228,126</b>	<b>403,612</b>

## 10. Borrowings

	As at	
	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
<b>Non-current</b>		
- Convertible bonds	-	990,802
- Senior notes	<b>1,864,141</b>	1,853,345
	<b>1,864,141</b>	2,844,147
<b>Current</b>		
- Convertible bonds	<b>995,672</b>	-
- Bank borrowings	<b>1,334,000</b>	704,000
	<b>2,329,672</b>	704,000
	<b>4,193,813</b>	3,548,147

## 10. Borrowings (Continued)

Movements in borrowings is analysed as follows:

	RMB'000
	Unaudited
<b>Six months ended 30 June 2011</b>	
Opening amount as at 1 January 2012	1,536,458
New borrowings	225,000
Repayments of borrowings	(470,000)
Senior notes	1,927,702
Convertible bonds – liability component	4,606
Exchange differences	(27,820)
	<u>3,195,946</u>
<b>Closing amount as at 30 June 2011</b>	
<b>Six months ended 30 June 2012</b>	
Opening amount as at 1 January 2012	<b>3,548,147</b>
New borrowings	<b>987,000</b>
Repayments of borrowings	<b>(357,000)</b>
Senior notes	<b>3,728</b>
Convertible bonds – liability component	<b>4,870</b>
Exchange differences	<b>7,068</b>
	<u><b>4,193,813</b></u>
<b>Closing amount as at 30 June 2012</b>	

Interest expenses on borrowings and loans for the six months ended 30 June 2012 was RMB106,163,000(30 June 2011: RMB28,401,000).

## 11. Trade, Other Payables and Accruals

	As at	
	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Trade payable (a)	<b>1,173,758</b>	1,082,194
Advances from customers	<b>274,938</b>	246,518
Bank acceptance notes payable	<b>38,600</b>	–
Payables for leasehold land, property, plant and equipment	<b>1,092,255</b>	1,013,444
Salaries, wages and staff welfares payables	<b>113,538</b>	96,392
Interest payable – current portion	<b>47,702</b>	47,565
Unused government grants	<b>12,347</b>	5,462
Dividend payable	<b>407</b>	407
Other payables and accruals	<b>102,832</b>	138,655
	<b>2,856,377</b>	2,630,637

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

	As at	
	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Within 3 months	<b>647,717</b>	849,373
3 to 6 months	<b>507,767</b>	210,218
6 to 12 months	<b>7,241</b>	12,661
Over 12 months	<b>11,033</b>	9,942
	<b>1,173,758</b>	1,082,194

## 12. Other Income

	Six months ended 30 June	
	2012 RMB'000 Unaudited	2011 RMB'000 Unaudited
Interest income	2,137	4,311
Amortisation of deferred income	16,750	20,419
Sales of waste materials	34,832	40,374
Others	3,299	3,175
	<b>57,018</b>	<b>68,279</b>

## 13. Expenses by Nature

	Six months ended 30 June	
	2012 RMB'000 Unaudited	2011 RMB'000 Unaudited
Amortisation of leasehold land payments	1,312	1,293
Depreciation of property, plant and equipment	252,991	153,560
Value on employee services for the share option schemes	4,064	8,121
Foreign exchange losses	5,114	7,147
Write-down of inventories	–	102

## 14. Income Tax Expense

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>Unaudited</b>	Unaudited
Current income tax		
– PRC enterprise income tax ("EIT")	<b>29,518</b>	47,493
Deferred income tax	<b>(3,258)</b>	(538)
	<b>26,260</b>	46,955

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

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit in Hong Kong for the six months ended 30 June 2012 and 2011.

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

## 15. Earnings Per Share

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>Unaudited</b>	Unaudited
Earnings per share for profit attributable to the Shareholders (RMB cents per Share)		
– basic	<b>15.96</b>	24.45
– diluted	<b>15.90</b>	23.06

Earnings per share – basic and diluted for the first half of 2012 was RMB15.96 cents and RMB15.90 cents respectively (equivalent to HK19.58 cents and HK19.50 cents) (1H 2011: RMB24.45 cents and RMB23.06 cents (equivalent to HK29.40 cents and HK27.73 cents)).

## 16. Dividends

A 2011 final dividend of HK3 cents (equivalent to RMB2.44 cents) per Share, totalling HKD52,561,000 (equivalent to RMB41,981,000) was paid in May 2012.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (1H 2011: HK10 cents).

## 17. Contingent Liabilities – the Group

As at 30 June 2012 and 2011, the Group had no material contingent liabilities.

## 18. Related Party Transactions

Key management compensation is set out below:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>Unaudited</b>	Unaudited
Salaries and allowances	<b>7,786</b>	6,084
Pension costs-defined contribution plan	<b>414</b>	526
Share options granted	<b>1,409</b>	2,810
	<b>9,609</b>	9,420

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and executive officers.

## 19. Approval on the Condensed Consolidated Interim Financial Information

The condensed consolidated interim financial information was reviewed by the audit committee of the Company and approved by the board of Directors on 9 August 2012 and 14 August 2012, respectively.

## 20. Events Occurring After the Balance Sheet Date

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



## **OTHER INFORMATION**

### **Corporate governance**

The Company is committed to establishing and ensuring a high standard of corporate governance practices which places emphasis on the quality of the board of directors, sound and efficient internal controls and accountability as well as transparency to equity holders. The Directors are of the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules since the Listing Date to 30 June 2012.

The audit committee of the Company has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2012.

### **Model code for securities transactions by Directors**

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

### **Purchase, redemption or sale of securities of the Company**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

## Share option scheme

### Share options

The Company adopted two share option schemes on 10 January 2007, pursuant to which the Company is entitled to grant options prior to and after the IPO. According to the Pre-IPO Share Option Scheme, the Company granted options to subscribe for an aggregate of 96,000,000 Shares on 10 January 2007 to certain Directors and eligible employees. Details of the share options granted and outstanding under the Pre-IPO Share Option Scheme for the six months ended 30 June 2012 are as follows:

Directors and eligible employees	Number of share options			At 30 June 2012	Date of grant	Exercise price (HKD)	Exercise period
	At 1 January 2012	Exercised during the period	Lapsed during the 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	16,788,000	(11,115,000)	-	5,673,000	10/1/2007	2.23	8/8/2009 – 7/8/2012
	<u>22,698,000</u>	<u>(17,025,000)</u>	<u>-</u>	<u>5,673,000</u>			

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.

## OTHER INFORMATION

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 six months ended 30 June 2012, are as follows:

Director and eligible employees	Number of share options			At 30 June 2012	Date of grant	Exercise price (HKD)	Exercise period
	At 1 January 2012	Granted during the period	Lapsed during the period				
Chen Yuan (executive director)	5,000,000	-	-	5,000,000	9/11/2010	8.20	9/5/2013 – 9/5/2016
Eligible employees	48,270,000	-	(3,000,000)	45,270,000	14/7/2009	3.00	14/1/2012 – 13/1/2015
	<u>53,270,000</u>	<u>-</u>	<u>(3,000,000)</u>	<u>50,270,000</u>			

The total fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options granted under the Post-IPO Share Option Scheme as at the grant dates is approximately RMB55,963,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted under the Post-IPO Share Option Scheme	
	Granted on 9 November 2010	Granted on 14 July 2009
Average share price	HKD8.14	HKD2.81
Exercise price	HKD8.20	HKD3.00
Expected life of options	3.0–5.0 years	3.0–5.0 years
Expected volatility	51.30–55.63%	46.04–51.34%
Expected dividend yield	3.14%	3.56%
Risk free rate	0.506–1.021%	1.032–1.745%

## Interest of Directors and chief executive

### Directors' interests in Shares

The interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as at 30 June 2012, 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	46.25%
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 these Shares is held by Mr. Wang Longxiang, an executive Director of the Company.
- 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 six months ended 30 June 2012, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Interest of persons holding 5% or more interests

### Interests of person holding 5% or more interests

As at 30 June 2012, 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

<b>Name</b>	<b>Name of Group member</b>	<b>Capacity</b>	<b>Class and number of securities</b>	<b>Percentage of interests to total issued share capital (approximate)</b>
Motivator Enterprises Limited (Note 1)	The Company	Beneficial interests	802,781,000 Shares	46.25%
Shi Guiling (Note 2)	The Company	Interests of spouse	802,781,000 Shares	46.25%
Ever Soar Enterprises Limited (Note 3)	The Company	Beneficial interests	185,112,000 Shares	10.66%



## OTHER INFORMATION

### 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 six months ended 30 June 2012, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

## GLOSSARY

ASP	Average selling price(s)
Baoji 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 in Baoji City, Shaanxi Province, the PRC
Board	the board of Directors
CAGR	cumulative average growth rate
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Group	the Company and its subsidiaries
HKFRS	The Hong Kong Financial Reporting Standards
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir 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 in Hulunbeir, Inner Mongolia Autonomous Region, the PRC
IM Fufeng	內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Plant	the production plant of the Group located in Inner Mongolia Autonomous Region, the PRC
IPO	Initial public offering of the Shares on 8 February 2007

Listing Date	8 February 2007, the date on which the Company was listed on the Stock Exchange
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
MSG	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application
PRC	the People's Republic of China, which for the purpose of this report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Pre-IPO Share Option Scheme	the share option scheme adopted by the Company on 10 January 2007 for granting the share options to certain Directors and employees of the Company before IPO
Post-IPO Share Option Scheme	the share option scheme adopted by the Company on 10 January 2007 for granting the share options to certain Directors and employees of the Company after IPO
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shandong 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
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
Xinjiang Plant	the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region
HKD	Hong Kong dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of the PRC
USD	United States dollars, the lawful currency of the United States of America
%	per cent