Fufeng Group Limited
阜豐集團有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 546)

ANNUAL REPORT 2012

FUFENG

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Contents

Chairman's Statement

Dear Shareholders, on behalf of the board of Directors, I would like to present the annual report of the Group for 2012.

Fufeng Group Limited ("Fufeng" or the "Group") is a leading enterprise in the biological fermentation industry in China, providing market and consumers with a variety of biochemical products. Among which, we believe that in terms of production and sales volume of monosodium glutamate ("MSG") products and xanthan gum products, the Group is the largest supplier in the world. In addition, the Group also manufactures and supplies products such as amino acid products used in animal feed additives, fertilisers and soil nutrition additives as well as high-end amino acid products. The portfolio of Group's products currently covers the food, agriculture, breeding and healthcare industries. Our long-term corporate mission is to become a leading global biochemical products enterprise.

2012 was an important year in the development history of the Group. On one hand, we reached the target of 1 million tonnes for our MSG annual production capacity, which allowed us to further strengthen our leading position in the industry undergoing consolidation. On the other hand, whilst we managed to take advantage of ongoing industry restructuring to consolidate our market leading position, we had to consistently adopt a more competitive pricing strategy in order to boost sales volume against the backdrop of declining global and Chinese macro-economies and falling consumers' confidence in general. Such decrease in selling price of our MSG products was one of the key reasons that directly resulted in the lower profitability for the Group in 2012.

MSG Business

During the year, with the commencement of production in the Hulunbeir Plant Phase 2 in Hulunbeir in May 2012, the annual production capacity of MSG reached the target of 1 million tonnes. Actual production volume of MSG in 2012 was approximately 970,000 tonnes, representing an increase of approximately 49% as compared to 2011, whilst sales volume was approximately 940,000 tonnes, representing an increase of approximately 53% as compared to 2011. Despite signs of weakness in the domestic consumer market, particularly in the fourth quarter of 2012, we continued to adopt a more competitive pricing strategy in an attempt to capture more market share from our competitors. As a result, the price of MSG registered a notable drop of approximately 11% as compared to 2011 and negatively affected the profit margin of our MSG business as well. However, notwithstanding that, our market share of the domestic MSG market reached a new height in 2012. In 2012, as a result of increase in the production and sales volume of MSG, MSG business with other related by-products (such as fertilisers and corn refined by-products) also managed to attained year-on-year growth. Sales of such by-products not only enriches the overall product mix of the Group, but also to a certain extent, offsets fall in profitability arising from the decrease in the price of MSG.

Over the last two years of industry restructuring and consolidation, we noted that the number of enterprises of domestic MSG industry has decreased significantly. We believe that a major portion of production capacity in Northern China and Eastern China has been eliminated and that the restructuring of the domestic MSG industry has basically completed. Remaining MSG enterprises with necessary competitiveness and production capacity are now mostly located in the north-eastern, north-western and Inner Mongolia regions, which are areas with geographical advantages in terms of sourcing of raw materials and supply of energy. We believe that the MSG industry is currently dominated by a group of relatively more competitive and fundamentally stronger enterprises, with the balance between industry supply and demand increasingly being restored.

Xanthan Gum Business

The performance of the Group's xanthan gum business was satisfactory in 2012, with increase in both product price and sales volume. The annual production capacity of xanthan gum reached approximately 59,000 tonnes as at 31 December 2012, representing an increase of 34% compared to 2011. The sales volume exceeded 52,000 tonnes, representing an increase of approximately 14% from 2011. Xanthan gum was in short supply during the year as the demand for polymer biological additives was strong from the overseas oil and gas exploitation industry. The average selling prices of the product also recorded a substantial rise, representing an increase of approximately 12% as compared to 2011. We believe that the Group has further strengthened its leading position as the largest supplier of xanthan gum in the world.

The Group has made adequate preparation to seize the opportunity in the global xanthan gum market, including establishing a production base in Xinjiang. At the end of 2012, phase one of the production base of xanthan gum in Xinjiang has commenced production and we are in the process of installing production lines in phase 2. We believe that by leveraging on the advantages of resources in Xinjiang, our xanthan gum products will become more competitive and possess cost advantages over other competitors which would better positioned the Group to further grow the PRC and global markets. As mentioned in the 2012 interim report of the Group, the anti-dumping investigation against China's xanthan gum products launched by the U.S. Department of Commerce has released its initial judgment in January 2013. The Group was in a relatively good position among all enterprises of xanthan gum in China. The anti-dumping duties were far below that bore by the other counterparts in China.

High-end Amino Acid Products

In addition to xanthan gum, our Xinjiang production base is also used for the production of high-end amino acid products (valine, arginine, leucine and isoleucine), a new product range of the Group. Production capacity for such products will reach an annual capacity of 5,000 tonnes and we will commence to launch them to the market at the end of first half of 2013. Such products are mainly sold to enterprises in the health care and pharmaceutical materials industry. We are confident that these new products can quickly capture market share due to the unique resource and cost advantages we enjoy in our Xinjiang production base. We believe that high-end amino acid products enriches the diversity of our products portfolio, enabling the Group to target new customers with different types of modified amino acid products in addition to the typical amino acid products for bulk trade.

Repurchase of Convertible Bonds

In November 2012, the Group successfully repurchased convertible bonds of approximately USD 140 million from the market by mainly utilising the funds raised from a 3 years syndicated bank loan. Over the past two years, the Group has increased its level of borrowings to accelerate capital expenditure to expand its production capacity in strategic locations in order to strengthen and consolidate its market leading position. With industry consolidation believed to be nearing end, the Group expects to slow down its capital expenditure in the foreseeable future and the management will also work on improving the capital structure of the Group going forward.

Prospects and Development Strategy

After three years of rapid capacity expansion, the production capacity of MSG and xanthan gum of the Group has reached 1,050,000 tonnes and 59,000 tonnes respectively in 2012. In 2013, the Group would seek to fully leverage our production strength to further increase our market share for our two major products and at the same time, we continue to strive towards translating our market leading position into higher profitability and returns for our Shareholders.

As aforementioned, we believe that consolidation in the domestic MSG industry is nearing its end and weaker competitors with lesser competitive advantages have been largely eliminated. The next stage of competition in the industry would be mainly between larger and fundamentally stronger enterprises and we expect industry supply and demand to gradually return to normal. On one hand, the Group is confident that, with its competitive advantages, it can further increase its market share under improving market conditions. On the other hand, the global and domestic economic situation and consumers' confidence has not been fully restored, thereby still posing challenges in terms of operating environment. The Group would actively monitor the market changes closely and adjust our product prices according to prevailing market conditions as the Group continues to persevere through to the completion of the industry consolidation whilst striving to improve our competitiveness and profitability.

In 2013, the Group would continue to focus on areas, including but not limited strengthening management capability, improving operating efficiency and staff quality and establishing a management and human resources system suitable for long-term sustainable development. After fourteen years of rapid development, the Group is currently facing restrictions and pressure on areas such as human resources, talent reserve and information system. In order to upgrade our management capability to international standard, this year, the Group will put more effort, internally and externally, on staff training and putting in place a more tailor-made and attractive remuneration, appraisal and evaluation system.

Dear Shareholders, although in 2012, our MSG business and the overall profitability of the Group has been negatively impacted due to the acceleration of MSG industry consolidation in particular, we believe that we have successfully navigated such industry restructuring and as a result, have built a strong foundation for the long-term growth and development of the Group. We believe that as the industry entered a new development phase and with the gradual recovery in the global and China's macro-economy and signs of rebound in consumer confidence in general, the Group is well positioned to fully benefit from the investment and sacrifices we have made over the past two years of hard work and to deliver consistent and sustainable growth and profitability for our Company and Shareholders going forward.

Appreciation

I am deeply grateful to all our staff and management for their contribution to a very good set of results. On behalf of the Company, I also want to thank all our customers and suppliers for their continued support. And, finally, my sincere thanks to our Board members for their insightful guidance during the year.

Li Xuechun
Chairman

28 March 2013

Five-year Summary

	Year				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	**2012 RMB'000**
Operating results – Summary					
Turnover	3,585,343	4,632,884	6,416,425	8,399,246	**11,111,920**
Gross profit	644,332	1,399,607	1,565,054	1,519,673	**1,637,455**
Profit before income tax	325,380	1,023,597	1,071,329	716,436	**490,213**
Profit attributable to Shareholders	294,706	928,285	966,051	604,137	**426,553**
Balance sheets – Summary					
Non-current assets	2,087,602	2,653,219	4,277,621	6,326,641	**7,665,681**
Current assets	1,174,863	1,607,802	2,442,644	3,532,681	**4,305,271**
Total assets	3,262,465	4,261,021	6,720,265	9,859,322	**11,970,952**
Current liabilities	1,170,225	1,572,209	2,424,699	3,388,364	**5,758,722**
Non-current liabilities	350,726	295,101	1,150,301	3,064,255	**2,417,222**
Net assets	1,741,514	2,393,711	3,145,265	3,406,703	**3,795,008**
Financial ratio					
Earnings per share (Basic) (RMB Cents)	17.75	55.92	57.75	35.15	**24.66**
Gross profit ratio (%) *(Note 1)*	18	30	24	18	**15**
ROE (%) *(Note 2)*	17	39	31	18	**11**
Current ratio *(Note 3)*	1.00	1.02	1.01	1.04	**0.75**
Inventory turnover days (Day) *(Note 4)*	45	63	54	63	**55**
Debtors' turnover days (Day) *(Note 5)*	54	47	38	63	**63**
Trade receivable turnover days (Day) *(Note 6)*	8	7	10	12	**9**
Creditors' turnover days (Day) *(Note 7)*	63	56	58	58	**55**
Trade payable turnover days (Day) *(Note 8)*	63	56	47	58	**55**
Gearing ratio (%) *(Note 9)*	18	14	23	36	**37**

Notes:

1. Gross profit ratio is equal to gross profit divided by turnover.

2. Return on equity is equal to profit attributable to shareholders divided 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
Ms. Zheng Yu (Appointed on 31 December 2012)

Registered Office
Cricker 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-Technologucal Development Area
Bejing, 101111
PRC

Principal Place of Business in Hong Kong
Suite 1102, 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
Ms. Zheng Yu (Appointed on 31 December 2012)

Remuneration Committee
Mr. Choi Tze Kit, Sammy *(Chairman)*
Mr. Li Xuechun
Mr. Chen Ning
Mr. Liang Wenjun
Ms. Zheng Yu (Appointed on 31 December 2012)

Nomination Committee
Mr. Li Xuechun *(Chairman)*
Mr. Wang Longxiang
Mr. Choi Tze Kit, Sammy
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 PLC
Hang Seng Bank Limited

Independent Auditor
PricewaterhouseCoopers

Principal Share Registrar
Royal Bank of Canada Trust Company (Cayman) Limited

Branch Share Registrar
Tricor Investor Services Limited

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

Stock Code
546

Website
www.fufeng-group.com

Hulunbeir Plant

IM Plant

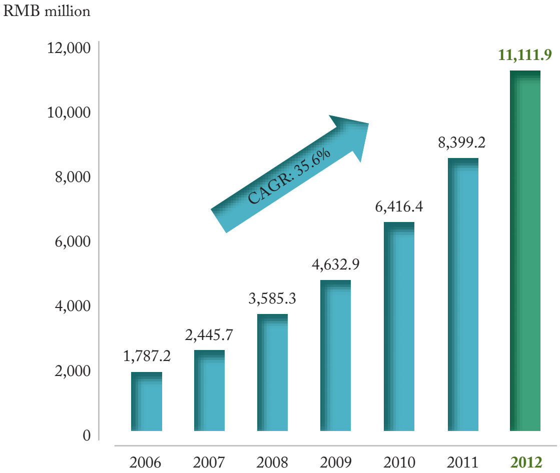
Shandong Plant

Baoji Plant

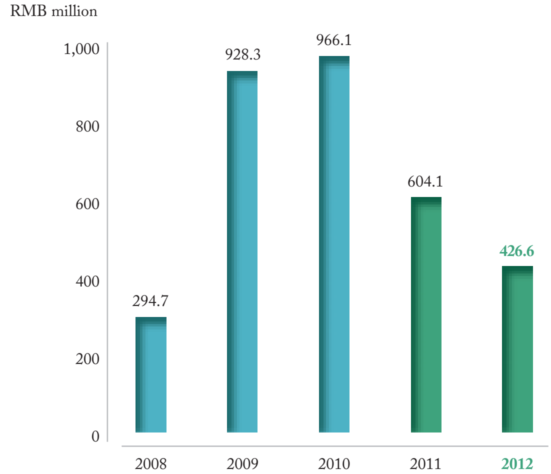
Xinjiang Plant

Financial Highlights

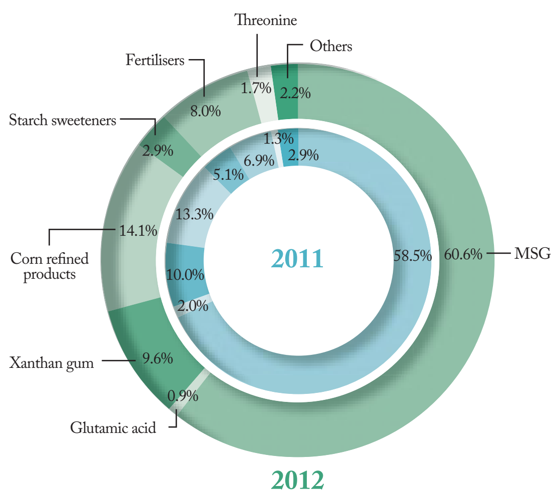
Turnover Growth



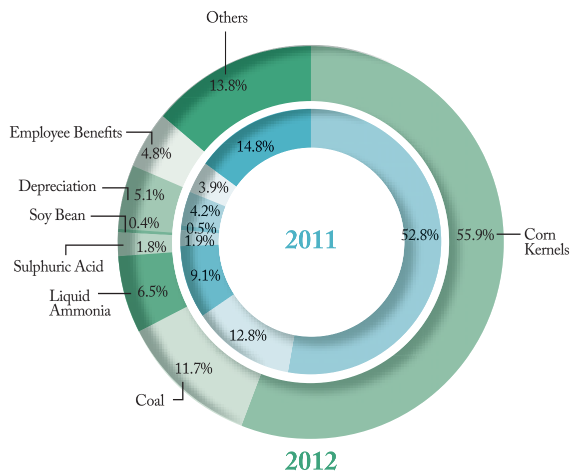
Profit attributable to Shareholders



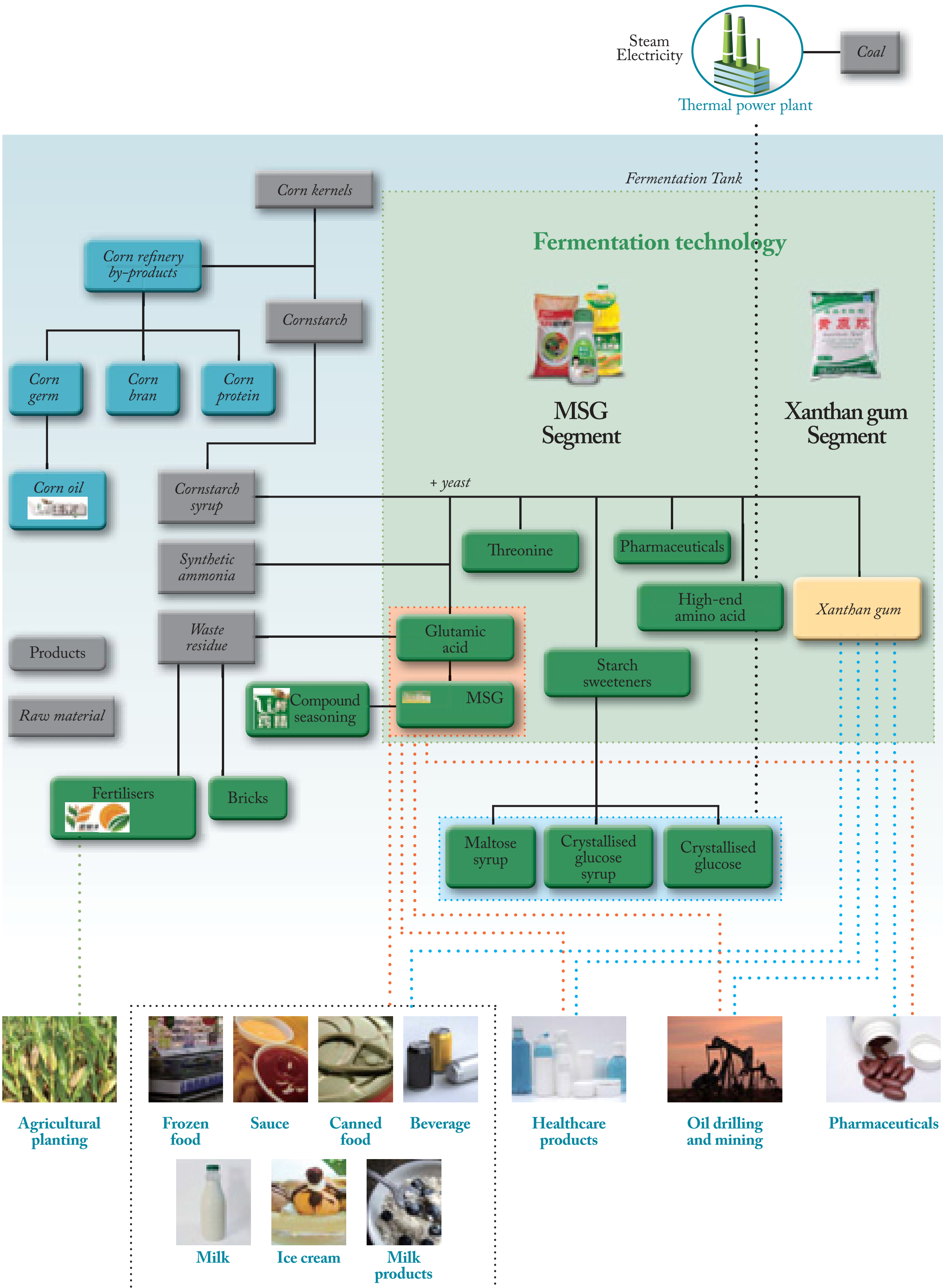
Revenue Analysis



Production Cost Analysis



Major Products Processing Map



Biographies of Directors and Senior Management

Executive Directors

李學純 (Li Xuechun), aged 61, 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, Fufeng Singapore, Shandong Fufeng, Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang 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 山東省第十二屆人大代表 (a member of the Shandong Province 12th People's Congress), as well as being honored with "Outstanding Achievement" by the government of Shandong Province in April 2003. In the same year, he was also labeled as "Model Labour" of Shandong Province. Mr. Li first joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1982 as the factory manager. Mr. Li established the Group starting by set up Shandong Fufeng in June 1999. He was appointed a director of Shandong Fufeng upon its establishment. He has 31 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 46.11% 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 51, is an executive Director and the general manager of the Group. Mr. Wang is also a director of Shandong Fufeng, Baoji Fefeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang 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 21 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 3.31% of the issued share capital of the Company. In addition, Mr. Wang is interested in 6,910,000 Shares which are held by Mr. Wang directly, representing 0.40% of issued share capital of the Company.

馮珍泉 (Feng Zhenquan), aged 43, 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 19 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 10.63% of the issued share capital of the Company.

徐國華 (Xu Guohua), aged 44, is an executive Director and vice general manager of the Group who is responsible for Shenhua Pharmaceutical and the research and development 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 22 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 10.63% of the issued share capital of the Company.

李德衡 (Li Deheng), aged 44, is an executive Director and a vice general manager of the Group who is responsible for the general operation of production and purchasing 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 12 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 10.63% of the issued share capital of the Company.

陳遠 (Chen Yuan), aged 43, 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 matters, and assists the Group to develop strategic planning and long-term development plan. Mr. Chen obtained a bachelor degree of accountancy from Xiamen University in 1991 and then received his Master in business administration degree from Birmingham Business school of University of Birmingham in 2001. Mr. Chen joined the Group in September 2010 and has over 20 years of experience in the corporate finance, corporate development and investor relations 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.

李廣玉 (Li Guangyu), aged 34, 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 7 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 50, 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, a fellow Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors. Mr. Choi is also a council member of the Society of Chinese Accountants and Auditors. He has over 27 years of experience in finance and auditing.

陳寧 (Chen Ning), aged 50, 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 49, 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 23 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.

鄭豫 (Zheng Yu), aged 45, was appointed as an independent non-executive Director on 31 December 2012. Ms. Zheng was a Managing Director at PineBridge Investments (formerly known as the AIG Global Investments), in charge of private equity investment in Greater China from 2008 to 2011. She also has over 15 years experience in the management consulting industry through her service at the Boston Consulting Group and then at Roland Berger Strategy Consultants as its senior partner responsible for the industrial and automotive industries practice in Greater China. Ms. Zheng has extensive experience in various management practices including strategy development, brand management, organizational restructuring, global sourcing, joint venture strategy, and project management for both global and Chinese clients. Her industry experience includes automotive, industrial goods, consumer electronics, retail and fast moving consumer goods, education, media and publishing, etc. Prior to her investment and management consulting career, she has also worked in the computer industry in both China and the United States. Ms. Zheng received bachelor's degree of science in Computer Science in Beijing Normal University and her Master of Business Administration from the University of Texas at Austin in the US. Ms. Zheng does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company. Ms. Zheng is also a non-executive director of Minth Group Limited (Stock code: 425) and Hengdeli Holdings Limited (Stock code: 3389) in current, save as disclosed above, she did not have any directorships in other listed public companies in the last three years nor has held any other position with the Company and any of its subsidiaries. As at 31 December 2012, Ms. Zheng does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Senior Management

來鳳堂 (Lai Fengtang), aged 44, is a vice general manager of the Group. Mr. Lai graduated from 中國西北大學 (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 21 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 3.31% of the issued share capital of the Company.

沈德權 (Shen Dequan), aged 47, 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 14 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 3.31% of the issued share capital of the Company.

徐令國 (Xu Lingguo), aged 38, 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 13 years of experience in the fermentation industry and is presently responsible for the Group's logistic operation.

李慧 (Li Hui), aged 46, is a 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.

肖勇 (Xiao Yong), aged 44, is a manager in the quality control department of Xinjiang Fufeng. 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.

葛文村 (Ge Wencun), aged 52, is a manager of operation department of Hulunbeir Fufeng 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 20 years of experience in the fermentation industry.

張元年 (Zhang Yuannian), aged 39, 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 18 years of experience in finance.

Company Secretary and Qualified Accountant

李偉然 (Lee Wai Yin), aged 43, 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 19 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

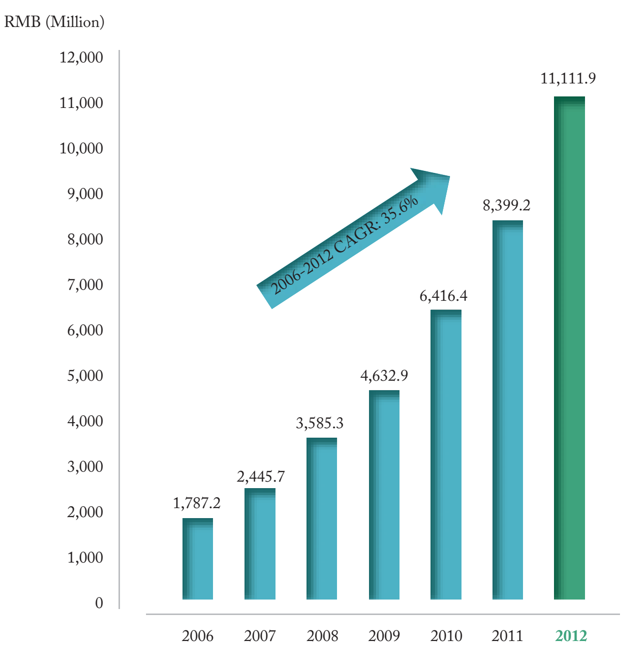
Business and Financial Review
Overview

Since the second half of 2011, while implementing its long term development strategy confronted with unfavorable factors, the Group also had to actively strengthen its cost advantages in order to address major challenges including, among others, industry consolidation, domestic macro-control measures in the PRC and the European debt crisis.

Despite such challenges, the Group was able to increase market share primarily by expanding production capacity, strengthening research and development capabilities, and further expanding product range.

For the year ended 31 December 2012, the Group recorded an increase of approximately 32.3% in revenue to approximately RMB11,111.9 million from approximately RMB8,399.2 million in 2011. Such an increase was primarily attributable to increase in sales volume of MSG and xanthan gum products driven by growth in market demand. To cope with the increase in sales volume, the production capacity of the Group has also been expanded with the commencement of operations of Hulunbeir Plant Phase 1 and Phase 2 and Xinjiang Plant, in the second half of 2011, in the second quarter and the fourth quarter of 2012, respectively.

The table below illustrates the historical revenue growth of the Group from 2006 to 2012:



The Group's gross profit increased by approximately 7.8% from approximately RMB1,519.7 million in 2011 to approximately RMB1,637.5 million in 2012. However, the increase in gross profit of 7.8% was lower than the increase in revenue of approximately 32.3%, which was mainly due to a reduction in the ASP of our MSG products in particular, despite a significant increase in sales volume.

To successfully navigate the industry consolidation which started in the second half of 2011 and continued into 2012, the Group had to consistently adopt a competitive pricing strategy for its MSG products in particular in order to capture additional market share. As a result, the ASP of the Group's MSG decreased by approximately 10.6% compared to 2011. Meanwhile, the Group's production costs continued to increase, mainly due to increase in key raw material costs, with the prices of corn increasing by approximately 4.3%. As a result, the Group's gross profit margin decreased from 18.1% in 2011 to 14.7% in 2012.

Despite the decrease in gross profit margin, the Group was in a relatively good position to more effectively control its cost as its leading market position and the Group enjoyed economies of scale derived from the scale of its production capacity. To further strengthen its vertically integrated production process with the aim of better controlling costs, the Group has also built and started production of synthetic ammonia production line in IM Plant and Hulunbeir Plant in order to further reduce the cost of liquid ammonia through internal production and consumption in 2012.

The Group's MSG business recorded a significant growth and reached new heights for the year ended 31 December 2012 in terms of both revenue and sales volume. Production and sales volume of MSG increased by 49.1% and 53.1% respectively, and the revenue of MSG increased by 37.1% to approximately RMB6,738.4 million as a result of such sales volume growth. The Group's xanthan gum, another of its major business drivers, also recorded encouraging growth, with production and sales volume increasing by 13.1% and 13.9% respectively. The strong sales of MSG products and xanthan gum were the key revenue drivers behind the Group's growth momentum in the 2012.

It is expected that the food industry will benefit from the continuous development of the domestic consumer market in the PRC. The Group continued to develop and promote its products with its own brand name for both industrial and retail sectors. The Group also intends to further expand its international MSG markets. During the year, exports of MSG products increased to approximately RMB833.2 millions, representing an increase of approximately RMB205.4 million or approximately 32.7%, as compared with 2011.

In line with the Group's development plan, the main construction of the Hulunbeir Plant Phase 2, which is located in Inner Mongolia Autonomous Region and closed to the border with Heilongjiang, was completed during the second quarter of 2012. As a result, the Group's MSG production capacity increased to 1,050,000 tonnes per year, strengthening the Group's economies of scale and cost advantages. In addition, the construction of Xinjiang Plant Phase 1 was also completed in the fourth quarter of 2012. As a result, the production capacity of xantham gum of the Group increased to 59,000 tonnes per year.

Amino acid is the third key growth driver for the Group in addition to its mainstay businesses of MSG and xanthan gum. Threonine, a type of amino acid, is used as animal feed additives for piglets, pigs, chicken, prawns and eels, and others. During 2012, the Group sold 18,299 tonnes of threonine. The Group also started to produce and sell other types of high-end amino acid products as the Group continued to enrich its portfolio of corn-based biochemical products by leveraging on its advanced fermentation technology.

In 2012, the Group has completed the set-up of the Xinjiang Plant for the production of certain high-end amino acid products and xanthan gum. This will enable the Group to utilise the relatively more abundant and cheaper coal resources in Xinjiang to enhance its cost advantages and allow the Group to quickly establish a foothold in this market sector. The goal of the Group is to become one of the world's top three producers and suppliers of such amino acid products by market share in the next three to five years. Such new products will enrich the diversity of the Group's product mix, allowing the Group to meet the diversified demands of the market.

On 17 November 2012, the Company successfully obtained a loan facility of USD150 million from a syndicate of banks, for a term of three years at a floating interest rate of 3-month USD LIBOR plus 4.0% per annum. The fund is to be used exclusively for the repurchase of our 4.5% convertible bonds issued on 1 April 2010. As at 31 December 2012, the Company had drawn down USD129.3 million to repurchase the convertible bonds and still had approximately RMB181.2 million in principal amount of the convertible bonds outstanding.

Market Overview

The Group has been facing challenges in terms of production and overall operations since the second half of 2011. Despite the economic slowdown and ongoing industry consolidation in the PRC in 2012, we have seen an increase in overall demand for MSG and xanthan gum products, especially for xanthan gum. Demand for MSG products is mainly driven as a result of competitive pricing and we have also seen cost of major raw materials such as corn kernels continued increasing in 2012. The Group's strategy is to extend its leading market position through expanding its production capacity and offering competitive pricing for its key MSG products as it continued to benefit from ongoing industry consolidation. Going forward, we believe the consolidation in the MSG industry in the PRC is nearing its end and the balance between demand and supply is beginning to return to normal levels.

Segmental Review

MSG Segment

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

The Group has become the world's leading producer in the MSG industry as the MSG market in the PRC became increasingly concentrated, and it took advantage of the industry consolidation to further expand its market share. To achieve that, the Group has leveraged its economies of scale to strategically maintained its product prices at a competitive level in order to increase its sales volume, by fully utilising the additional production capacity from the Hulunbeir Plant Phase 2 which commenced operation in the first half of 2012.

Xanthan Gum Segment

The global market demand for xanthan gum continued to increase in 2012 and the Group registered increases in both sales volume and ASP for its xanthan gum products. The Group has managed to increase both production capacity and market share gradually since 2009. The global xanthan gum market is concentrated, with the top three xanthan gum producers continuing to dominate the market.

Financial Review of the Group

Following the completion of the construction of Hulunbeir Plant Phase 2 and Xinjiang Plant in the second quarter and fourth quarter of 2012, respectively, the Group achieved a new record in terms of production volume and sales turnover in 2012 on the back of such increase in 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
	2012	2011	%
Turnover (RMB'000)	**11,111,920**	8,399,246	32.3
Gross profit (RMB'000)	**1,637,455**	1,519,673	7.8
Gross profit margin (%)	**14.7**	18.1	(3.4) ppts.

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 primarily as a result of the Group's strategy to increase its market share to drive industry consolidation. As a result, the gross profit margin of the Group decreased from 18.1% of 2011 to 14.7% of 2012. Please see more details in the following sections.

Profit attributable to the Shareholders

	Year ended 31 December 2012 RMB'000	2011 RMB'000	Change %
As reported	**426,553**	604,137	(29.4)

Profit attributable to the Shareholders decreased by about 29.4% for the year ended 31 December 2012 as compared to the same period in 2011. Increase in revenue led by increase in sales volume due to increase in market share in our key markets was negatively impacted by decrease in ASP of our key MSG products and also increase in major raw material costs. Besides the increase in major raw material costs, administrative costs increased mainly because of the commencement of operations of the new Hulunbeir Plant Phase 1 and Phase 2 in the second half of 2011 and the first half of 2012 respectively. In addition, due to increased levels of borrowings, finance costs also increased in 2012, further impacting the profit attributable to the Shareholders.

Segment Highlights

The Group's products are organised into two business segments, namely the MSG segment and the Xanthan gum segment. The 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 2012			Year ended 31 December 2011			Increase/(Decrease)		
	MSG RMB'000 audited	Xanthan gum RMB'000 audited	Group RMB'000 audited	MSG RMB'000 audited	Xanthan gum RMB'000 audited	Group RMB'000 audited	MSG % audited	Xanthan gum % audited	Group % audited
Revenue	10,045,614	1,066,306	11,111,920	7,563,484	835,762	8,399,246	32.8	27.6	32.3
Gross profit	1,146,475	490,980	1,637,455	1,217,515	302,158	1,519,673	(5.8)	62.5	7.8
Gross profit ratio	11.4%	46.0%	14.7%	16.1%	36.2%	18.1%	(4.7) ppts.	9.8 ppts.	(3.4) ppts.
Segment results	307,558	434,002		497,790	249,886		(38.2)	73.7	
Segment net assets									
Assets	10,004,401	1,875,725		8,721,294	1,036,954		14.7	80.9	
Liabilities	4,550,774	600,615		3,359,969	195,881		35.4	206.6	
Net assets	5,453,627	1,275,110		5,361,325	841,073		1.7	51.6	

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 RMB10,045.6 million in 2012, representing an increase of RMB2,482.1 million or 32.8%, as compared with the corresponding year of 2011. This was mainly attributable to the increase in sales volume of MSG products due to higher MSG production capacity after commencement of production of the Hulunbeir Plant.

The table below sets out the revenue of the products in this segment for the years ended 31 December 2012 and 2011:

	Year ended 31 December		
Product	**2012**	2011	Change
	RMB'000	*RMB'000*	*%*
MSG	**6,738,424**	4,915,408	37.1
Glutamic acid	**100,012**	167,457	(40.3)
Fertilisers	**893,169**	582,893	53.2
Corn refined products	**1,561,284**	1,113,473	40.2
Starch sweeteners	**322,836**	430,341	(25.0)
Threonine	**183,668**	108,960	68.6
Branched-chain amino acid	**85,938**	34,581	148.5
Corn oil	**91,535**	133,349	(31.4)
Compound seasoning	**5,495**	5,581	(1.5)
Others	**63,253**	71,441	(11.5)
	10,045,614	7,563,484	32.8

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 2010 to the fourth quarter of 2012:

MSG

The decrease in ASP of MSG and increase in raw materials cost continued to contribute to the need for industry consolidation in 2012, with many smaller scale production facilities being closed or facing closure. The Group was able to maintain its market leadership in the MSG segment through expanded production capacity, increased marketing efforts, and competitive pricing. The ASP decreased by about 10.6%, from approximately RMB7,984 per tonne in 2011 to approximately RMB7,134 per tonne in 2012, whilst revenue of MSG in 2012 increased by about 37.1%, which was attributable to the increase of sales volume by about 53.1% to approximately 942,729 tonnes compared to the year of 2011. The sales volume growth was driven by increased market share and growing market demand in 2012 as the Group was able to increase its production capacity.

In 2012, the Group also focused on strengthening exports of MSG products and sale of its brand name U Fresh Series products to end market retail customers. The Group increased exports of MSG products from approximately RMB627.8 million in 2011 to approximately RMB833.2 million in 2012. The operating results of the U Fresh Series products were generally in line with management's expectations.

Fertilisers

After the new Hulunbeir Plant Phase 1 and Phase 2 commenced operation in the second half of 2011 and the first half of 2012 respectively, the production capacity of fertilisers increased to 1,100,000 tonnes per year for the year ended 31 December 2012. Both market demand and the ASP of fertilisers increased during 2012. The ASP of fertilisers increased from approximately RMB698 per tonne in 2011 to approximately RMB866 per tonne in 2012, representing an increase of about 24.1%.

Corn refined products

The ASP of corn refined products increased in 2012 which was in line with the price of corn kernels. The revenue of corn refined products increased by about 40.2% for the year ended of 31 December 2012 as compared to the year of 2011. The increase in revenue was mainly due to the increased consumption volume and increased ASP.

Starch sweeteners

The revenue of starch sweeteners decreased by approximately 25.0% in 2012, as a result of the decrease in ASP of starch sweeteners by about 8.6% to approximately RMB3,147 per tonne in 2012 from approximately RMB3,444 per tonne in 2011 due to the reduction in sugar demand.

Threonine

Threonine is a new product of the Group. The annual production capacity of threonine has been increased to 40,000 tonnes since March 2012. Threonine is an essential amino acid which maintains body protein balance and is mainly used as animal feed additives. The revenue and sales volume of threonine amounted to approximately RMB183.7 million and approximately 18,299 tonnes respectively in 2012.

Others

Branched-chain amino acid and other high-end amino acid products ("高檔氨基酸") are also relatively new products of the Group, used mainly in animal feed. The revenue of these high-end amino acid products increased to amount RMB85.9 million in 2012, or approximately 148.5% as compared to 2011.

As part of the Group's long term strategy to enrich its product portfolio and increase market recognition for our brand name products, the Group will continue to develop new products for both industrial and retail end markets.

Gross Profit and Gross Profit Margin

The gross profit of this segment is set out below:

	Years ended 31 December		
	2012	2011	Change
Gross profit (RMB'000)	**1,146,475**	1,217,515	(5.8%)
Gross profit margin (%)	**11.4**	16.1	(4.7) ppts.

Gross profit decreased to RMB1,146.5 million and gross profit margin fell by 4.7 percentage points to 11.4%, primarily due to lower ASP of MSG products and rising raw material cost.

Lower ASP has been a key factor affecting gross profit margin of the Group, as the Group has strategically maintained its product prices at a competitive level in order to increase its sales volume, including fully utilising the additional production capacity at Hulunbeir Plant. Notwithstanding the slight recovery in the selling price of MSG in the third quarter of 2012, demand for MSG reduced in the corresponding period. In order to further increase its market share, the Group revised downward the average selling price of MSG in the fourth quarter of 2012, further exacerbating the decrease in the annualised gross profit margin of the Group's MSG products.

The Group believes that the industry consolidation is nearing its end, and expects the pricing power and ASP of MSG products will be stabilised or gradually improved from the current levels starting in the second quarter of 2013.

Production costs

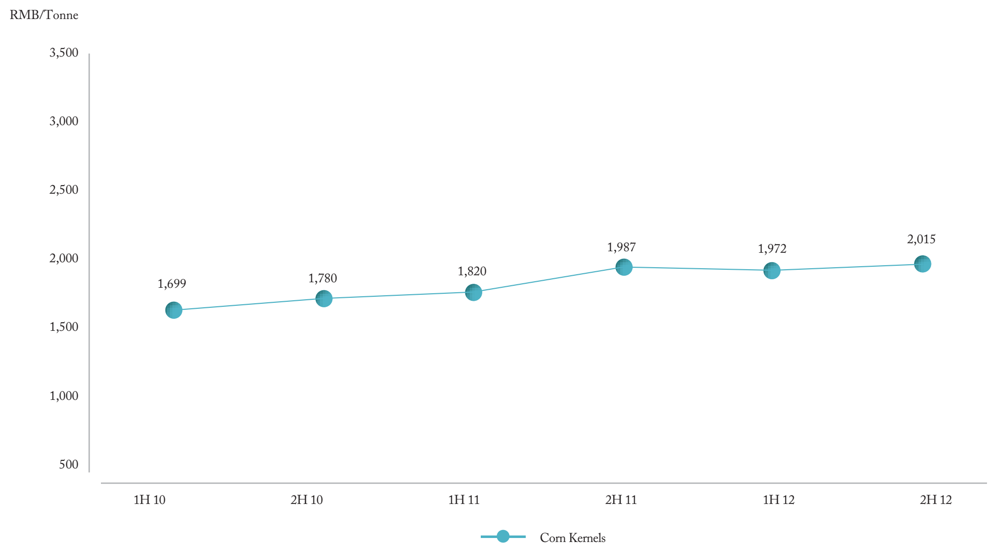
	Years ended 31 December				
	2012		2011		Change
	RMB'000	%	*RMB'000*	%	%
Major raw materials					
• Corn kernels	**5,179,714**	**56.8**	3,577,070	53.7	44.8
• Liquid ammonia	**629,496**	**6.9**	647,175	9.7	(2.7)
• Sulphuric acid	**171,575**	**1.9**	136,230	2.0	25.9
Energy					
• Coal	**987,905**	**10.8**	753,147	11.3	31.2
Depreciation	**456,840**	**5.0**	292,568	4.4	56.1
Employee benefits	**421,352**	**4.6**	242,805	3.6	73.5
Others	**1,273,571**	**14.0**	1,007,951	15.3	26.4
Total cost of production	**9,120,453**	**100.0**	6,656,946	100.0	37.0

Corn kernels

During 2012, corn kernels accounted for approximately 56.8% (2011: 53.7%) of the total production costs of this segment. The price of corn kernels has continuously increased since 2009 and remained high in 2012 due to strong market demand. However, the rate of increase has shown signs of slowing down during 2012. The average cost of corn kernels for 2012 was approximately RMB1,994 per tonne, which represents an increase of approximately RMB82 per tonne or 4.3% from 2011.

The following chart shows the price trend of corn kernels from the first half of 2010 to the second half of 2012:

Price Trend of Corn Kernels



Liquid ammonia

Liquid ammonia accounted for approximately 6.9% (2011: 9.7%) of total production costs of this segment in 2012.

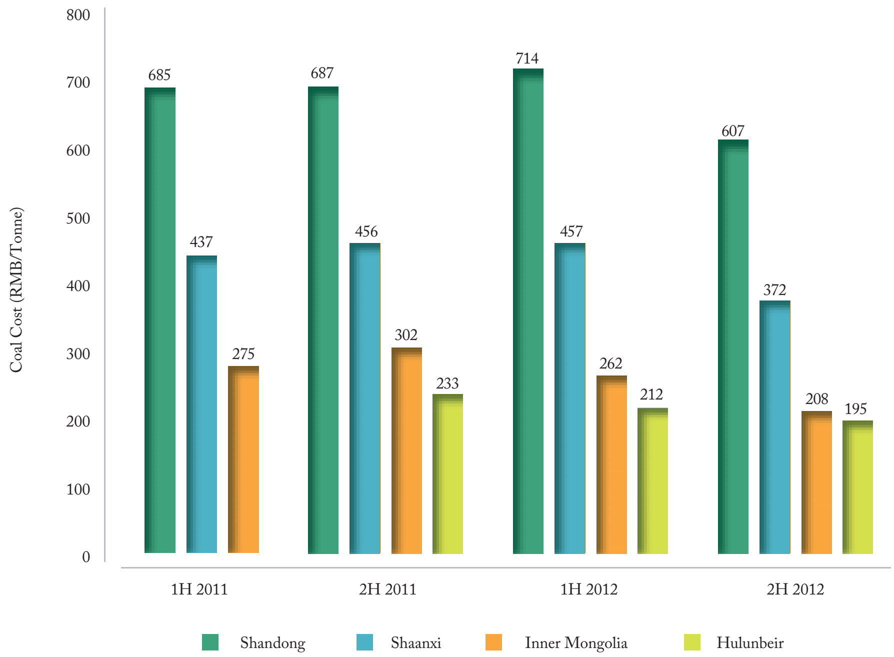
The average unit cost of liquid ammonia for 2012 decreased to approximately RMB2,875 per tonne, which represents a decrease of approximately RMB81 per tonne or approximately 2.7% from 2011. Such decrease in average unit cost is primarily due to the Group's ability to manufacture and use its own composite ammonia at lower cost, thereby reducing its reliance of externally procuring liquid ammonia at higher prices.

Sulphuric acid

Sulphuric acid accounted for approximately 1.9% (2011: 2.0%) of total production costs of this segment in 2012. The average unit cost of sulphuric acid has decreased during the year, as market demand began to stabilise in 2012. Compared with the average unit cost of sulphuric acid in 2011, the average unit cost of sulphuric acid decreased to approximately RMB436 per tonne, which represents a decrease of approximately RMB50 per tonne or approximately 10.3%.

Coal

Coal accounted for approximately 10.8% of total production costs of this segment in 2012 (2011: 11.3%) and the average unit cost was RMB257 per tonne, representing a decrease of RMB83 per tonne or approximately 24.4% from 2011. The decrease in coal prices validates the Group's strategy in establishing our production facilities in the IM Plant and Hulunbeir Plant at strategic areas such as coal-producing regions of Northeast of China and Inner Mongolia. Such decrease in cost would also help to strengthen the Group's pricing power. The chart below shows coal cost at each plant of the Group 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 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 for this segment were as follows:

Product	Years ended 31 December 2012 Tonne	2011 Tonne	Change %
MSG			
Annual designed production capacity *(Note)*	**1,008,333**	606,667	66.2
Actual production output	**965,896**	648,025	49.1
Utilisation rate	**95.8%**	106.8%	
Glutamic acid			
Annual designed production capacity *(Note)*	**786,667**	513,333	53.2
Actual production output	**802,140**	552,197	45.3
Utilisation rate	**102.0%**	107.6%	
Fertilisers			
Annual designed production capacity *(Note)*	**1,058,333**	643,333	64.5
Actual production output	**1,077,427**	757,562	42.2
Utilisation rate	**101.8%**	117.8%	
Starch sweeteners			
Annual designed production capacity	**140,000**	140,000	–
Actual production output	**103,523**	130,326	(20.6)
Utilisation rate	**73.9%**	93.1%	

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

Despite slight decrease in utilisation rates for key products in 2012 as a result of significant ramp up in production capacity during the year, utilisation rates for main products except for starch sweeteners remained above 95%, reflecting continued increase in market share for the Group's key products such as MSG.

Xanthan Gum Segment

Operation results

The table below set out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the years ended 31 December 2012 and 2011:

	Years ended 31 December		
	2012	2011	Change %
Revenue (RMB'000)	**1,066,306**	835,762	27.6
ASP (RMB/tonne)	**20,392**	18,222	11.9
Gross profit (RMB'000)	**490,980**	302,158	62.5
Gross profit margin (%)	**46.0**	36.2	9.8 ppts.
Annual designed production capacity (tonnes) *(Note)*	**46,500**	44,000	5.7
Actual production output (tonnes)	**48,923**	43,242	13.1
Utilisation rate	**105.2%**	98.3%	6.9 ppts

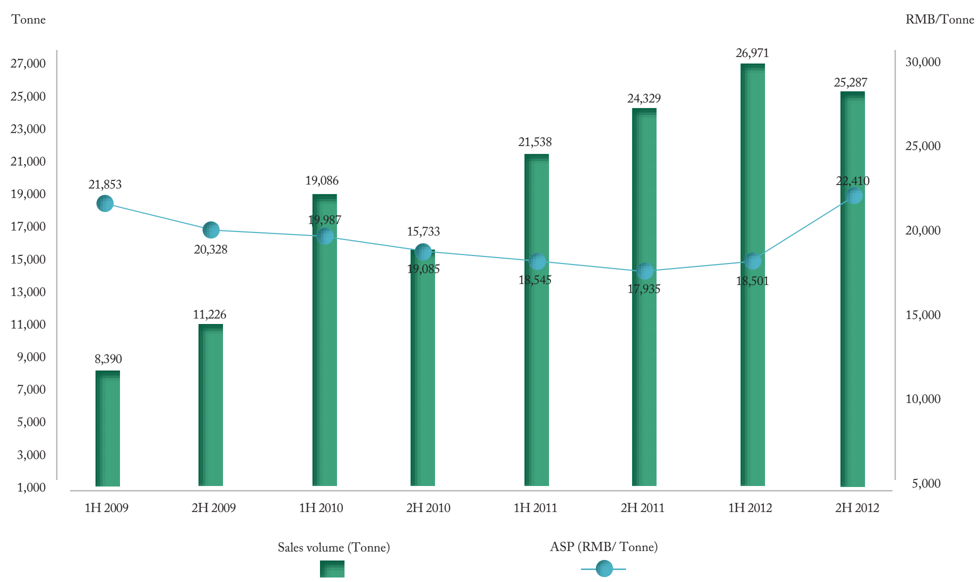
Note: The annual designed production capacity is expressed on pro-rata basis.

Revenue generated from xanthan gum increased by approximately 27.6% to approximately RMB1,066.3 million in 2012 from approximately RMB835.8 million in 2011. The significant increase in revenue was due to increase in sales volume and ASP driven by relatively strong market demand.

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 86.4% of total sales of xanthan gum in 2012 (2011: 88.5%).

Sales volume and ASP

Sales Volume vs. ASP of Xanthan Gum



Sales volume increased by 13.9% in 2012, as the Group was able to expand production capacity to meet the increased market demand and as a result of higher ASP as well, sales amount increased by 27.6% over the same period of 2011. The ASP increased to RMB22,410 per tonne in the second half of 2012 as compared to RMB18,501 in the first half of 2012 due to strong market demand.

Despite continued weakness in the global economy, the Group registered satisfactory growth in the sales volumes of xanthan gum in 2012. Going forward, the Group expects the a more favorable operating environment for its xanthan gum business, in terms of sales volume as well as ASP in 2013.

Gross profit and gross profit margin

Gross profit of the Xanthan gum segment increased by about 62.5% from approximately RMB302.2 million in 2011 to approximately RMB491.0 million in 2012. Gross profit margin increased as well, by 9.8 percentage points in 2012, reflecting the Group's competitive costs advantage at the IM Plant and the new Xinjiang Plant.

Production costs

	Years ended 31 December				
	2012		2011		Change
	RMB'000	*%*	*RMB'000*	*%*	*%*
Major raw materials					
• Corn kernels	**229,096**	**41.7**	186,157	39.7	23.1
• Soy bean	**39,974**	**7.3**	32,401	6.9	23.4
Energy					
• Coal	**141,079**	**25.7**	161,649	34.5	(12.7)
Depreciation	**34,885**	**6.3**	38,042	8.1	(8.3)
Employee benefit	**43,986**	**8.0**	32,855	7.0	33.9
Others	**60,863**	**11.0**	17,600	3.8	245.8
Total cost of production	**549,883**	**100.0**	468,704	100.0	17.3

Corn kernels

During 2012, corn kernels represented approximately 41.7% (2011: 39.7%) of the total production costs of this segment. The increase in proportion was mainly due to the increasing percentage of the cost price of corn kernels. The corn kernels price increased by 3.6% from approximately RMB1,915 per tonne in 2011 to approximately RMB1,984 per tonne in 2012.

Soy bean

During 2012, soy bean accounted for approximately 7.3% (2011: 6.9%) of the total production costs of this segment. The increase in proportion was mainly due to the increase in soy bean price from approximately RMB3,907 per tonne in 2011 to approximately RMB4,230 per tonne in 2012.

Coal

During 2012, coal accounted for approximately 25.7% (2011: 34.5%) of the total production costs of this segment. The proportion decreased was mainly due to the relocation of all production capacity of xanthan gum to IM Plant since the second half of 2011, which enjoys a lower unit cost of coal. The average unit cost of coal in 2012 was approximately RMB233 per tonne, which represents a decrease of approximately RMB72 per tonne or 23.6% from 2011.

Other production costs

The depreciation expenses in 2012 significantly decreased than that in 2011 primarily as a result of closure of the old production plant of xanthan gum in Shandong at the end of 2011.

The employee benefit increased from RMB32.9 million in 2011 to RMB44.0 million in 2012, or approximately 33.9%. It is mainly due to the additional staffs required at our new Xinjiang Plant which has commenced operation since the fourth quarter of 2012.

Other Financial Information

Selling and marketing expenses

The substantial increase in selling and marketing expenses was mainly due to the increase in transportation costs, which is generally in line with the increase in sales. Marketing and promotion expenses also increased as a result of increased marketing efforts to promote the brand name of the Group's products.

Administrative expenses

Administrative expenses increased by approximately RMB66.4 million or approximately 17.8% in 2012. The increase was mainly due to increase in research and development related expenses as more research and development projects have been initiated as the Group continued to enrich its product portfolio. Staff costs also increased during the year due to increase in the minimum salaries level increased in the PRC. Increased expenses incurred at the new Hulunbeir Plant Phase 2 and new Xinjiang Plant which have started operations in the second quarter and the fourth quarter of 2012 respectively, also contributed to the increase in administrative expenses.

Finance costs

The Company successfully issued senior notes for five years with a principal amount of USD300 million on 13 April 2011 with a fixed interest rate of 7.625% p.a..

The finance costs of the Group for the year ended 31 December 2012 increased by approximately RMB115.4 million or about 84.9% when compared with 2011, which was primarily due to the increase in the level of borrowings of the Group, including domestic loans and the issuance of US Dollar senior notes in April 2011. Such increase in borrowings was necessary for the expansion of the Group's business and rising working capital needs, in particular for the construction of Hulunbeir Plant and Xinjiang Plant as the Group continued to enhance and consolidate its scale and position in its key markets.

Staff cost

Staff cost of the Group increased by approximately RMB231.0 million or approximately 52.5% from approximately RMB440.0 million in 2011 to approximately RMB671.0 million in 2012. The increase was mainly due to the increase in number of staffs due to the expansion of the Group's production facilities and the increase in the average salary of the senior management and staffs.

Depreciation

Depreciation expense of the Group increased by approximately RMB162.9 million or approximately 44.5% from approximately RMB365.7 million in 2011 to approximately RMB528.6 million in 2012. The increase was mainly due to the commencement of production at Hulunbeir Plant Phase 2 and Xinjiang Plant in the second quarter and the fourth quarter of 2012 respectively.

Taxation

The income tax expenses for the year 2012 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	Xinjiang Fufeng
Standard/preferential tax rate	15% *(Note 1)*	15% *(Note 2)*	15% *(Note 2)*	15% *(Note 2)*	15% *(Note 3)*

Note 1: Shandong Fufeng was re-approved to be a new and high-technology enterprise in 2011, which is entitled to a preferential enterprise income tax rate of 15% for the year ended 31 December 2012.

Note 2: Baoji Fufeng, IM Fufeng and Hulunbeir Fufeng meet the requirement of the tax preferential policy of "Western region development", and accordingly are entitled to a preferential enterprise income tax rate of 15% from 2011 to 2020.

Note 3: Xinjiang Fufeng is registered in China's western development region and meets the requirement of the tax preferential policy of "Western region development", and is entitled to a preferential enterprise income tax rate of 15% from 2011 to 2020.

Outlook

Looking ahead to 2013, the domestic economy of the PRC is expected to continue its steady growth, and as the overall living standards continues improve, we expect that the food and beverage industry will achieve a certain degree of growth. The Group's main products, such as MSG and xanthan gum, are common raw materials and additives products used in the preparation of food and beverages, and therefore we expect demand of our products to grow as well. The Group will continue to leverage its cost advantage to further expand its market share. ASP of MSG has being negatively affected by the ongoing industry consolidation since 2011, and the Group expects that ASP of MSG will remain at a relatively low level in the first quarter of 2013 as the industry consolidation is at its tail end. Based on the Group's current assessment of the operating environment, the Group expects the ASP of MSG to be stabilised or gradually improve in the second quarter of 2013.

As for xanthan gum, the Group expects market demand for xanthan gum and pricing power to remain strong in 2013. The Group will continue to invest in the development of the xanthan gum business, and to further expand its sales network in order to increase market share. In addition, based on the preliminary findings of the U.S. anti-dumping lawsuits against Chinese enterprises (including the Group) regarding the import of xanthan gum 2012, the Group is considered to be involved in a relatively less serious case by the U.S. Government. Therefore the Group expects future opportunity to continue the opportunity to develop the U.S. market in the future.

Future Plan and Recent Development

Flexible deployment of existing production capacity and continued development of amino acid products used in animal feed additives

The Group has set up a new production plant in Xinjiang, and has commenced operation in the fourth quarter of 2012. The production capacity of xanthan gum at Xinjiang Plant Phase 1 is approximately 15,000 tonnes per year. In addition, the construction of production lines of xanthan gum Phase 2 and different types of high-end amino acid products have started in Xinjiang Plant. The annual production capacity of xanthan gum and high-end amino acid products will increase by about 15,000 tonnes and 5,000 tonnes respectively. It is expected to commence testing operation in the middle of 2013. Such new products would enrich the Group's product portfolio and enable the Group to provide more diversified biochemical products, representing a key move by the Group into high-end biochemical products with higher profit margins.

Enhancement of corporate management structure

To achieve the coming objectives, the Group would continue to focus on strengthening management capability, improving operating efficiency and staff quality and establishing a management and human resources system suitable for long-term sustainable development.

Other Information

Liquidity and financial resources

As at 31 December 2012, the Group's cash and cash equivalent and restricted bank deposits were RMB550.4 million (2011: RMB614.1 million) whereas current bank borrowings and convertible bonds were approximately RMB2,230.6 million and RMB177.0 million (2011: RMB704.0 million and Nil) and non-current bank borrowings and non-current other borrowings (including the balances of senior notes and convertible bonds) were approximately RMB188.6 million and RMB1,856.4 million (2011: Nil and RMB2,844.1 million).

The balance of syndicated bank loan as at 31 December 2012 amounted to RMB758.1 million, of which RMB682.3 million was reclassified as current liabilities as at 31 December 2012 due to one of the terms of financial covenant in relation to the amount of capital expenditure in 2012 was higher than the limitation defined in the facility agreement. However, as at 15 March 2013, the Company has obtained the consent from the bank borrowers to waive the relevant financial covenant. After the waiver, borrowing of RMB682,330,000 was deemed as a long term borrowing.

The Directors believe that the Group's liquidity position is still relatively stable. The Company has sufficient banking facilities to repay or roll over existing short term bank loans and in addition, on 25 March 2013 (after trading hours), the Company entered into an underwriting agreement with a group of underwriters to implement a proposed rights issue (the "Rights Issue"). Pursuant to the Rights Issue, the Company proposes to issue not less than 348,209,600 rights shares but not more than 354,644,468 Rights Shares and expects to raise approximately HK$627 million to HK$638 million before expenses. The completion of the Rights Issue will further strengthen our capital base and improve the Group's financial position. For details, please refer to the announcement of the Company on 26 March 2013 in relation to the Rights Issue.

Convertible bonds

The Group issued RMB820.0 million in convertible bonds with a fixed rate of 4.5% per year on 1 April 2010 together with bond options of RMB205.0 million on 22 April 2010. On November 2012, the Company has repurchased a principal amount of RMB843.8 million of the convertible bonds resulting in an outstanding balance of the convertible bonds is RMB181.2 million as at 31 December 2012. The holders of the outstanding convertible bonds has a put option to sell the convertible bonds to the Company on 1 April 2013. On 1 March 2013, certain holders of the convertible bonds have irrevocably exercised their right to request the Company to redeem RMB167 million principal amount of convertible bonds on 2 April 2013.

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 raised 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.

Syndicated bank loan

The Company obtained a loan facility of USD150 million from a syndicate of banks in November 2012. The funds are to be exclusively used to repurchase the above mentioned 4.5% convertible bonds. The interest rate of the syndicated bank loan is 3-month USD Libor plus 4.0% p.a.. As at 31 December 2012, the Company had drawn down an amount to USD129.3 million. On 25 March 2013, the Company has made drawdown request to the syndicated bank loan trustee to draw down the remaining amount to USD20.7 million as part of the fund for the repayment of convertible bonds.

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 2012.

Employees

As at 31 December 2012, the Group had approximately 3,400 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share option schemes" under the "Directors' Report" for the share options granted to certain Directors and employees for the Group pursuant to the Pre-IPO and Post-IPO Share Option Schemes.

Contingent Liabilities

As at 31 December 2012, the Group had no material contingent liabilities.

Charges on assets

As at 31 December 2012, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB53.1 million were pledged to certain banks to secure bank borrowings of RMB49.5 million of the Group.

Gearing ratio

As at 31 December 2012, the total assets of the Group amounted to approximately RMB11,971.0 million (2011: RMB9,859.3 million) whereas the total borrowings amounted to RMB4,452.6 million (2011: RMB3,548.1 million). The gearing ratio was approximately 37.2% (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 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 senior notes and USD bank borrowings. 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 senior notes and bank loans by remitting the necessary funds to the PRC and redemption of convertible bonds to utilise the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2012.

On 17 January 2013, the Group enters into floating to fixed interest rate swap to hedge the fair value interest rate risk of syndicated bank loan. The contracted fixed interest rate is 4.5%.

Dividend

The Board does not recommend any final dividend for the year ended of 31 December 2012.

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 2012.

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's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. During the year of 2012, the Company has complied with the Code Provisions of the Former CG Code for the period from 1 January 2012 to 31 March 2012 and of the Revised CG Code for the period from 1 April 2012 to 31 December 2012 except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Chen Ning and Mr. Liang Wenjun did not attend the annual general meeting of the Company held on 8 May 2012. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of shareholders.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises four 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 2012, including the accounting principles and practices adopted by the Group.

Closure of register of members

The register of members of the Company will be closed from 16 May 2013 to 23 May 2013 (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 23 May 2013, 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 15 May 2013.

Annual general meeting

The annual general meeting is expected to be held on 23 May 2013. A notice convening the annual general meeting will be dispatched to the Shareholders in due course.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance practices. Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices.

Corporate Governance Code

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. During the year of 2012, the Company has complied with the Code Provisions of the Former CG Code for the period from 1 January 2012 to 31 March 2012 and of the Revised CG Code for the period from 1 April 2012 to 31 December 2012 except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Chen Ning and Mr. Liang Wenjun did not attend the annual general meeting of the Company held on 8 May 2012. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of shareholders.

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) four independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning, Mr. Liang Wenjun and Ms. Zheng Yu. 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 Board is collectively responsible for promoting the success and interest of the Group through its leadership and supervision. The principal tasks of the Board are to:

– provide entrepreneurial leadership for the Company with a framework of prudent and effective controls which enables risks to be assessed and managed;

– set the Company's strategic aims, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives and review its management performance; and

– set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

No event or condition of material uncertainties was found that may cast significant doubt about the Company's ability to continue as a going concern during the Year. The Directors were responsible for the preparation and the true and fair presentation of the financial statements of the Company, in all material respects, in accordance with applicable regulatory requirements.

The Division of Responsibilities Between the Chairman and the Chief Executive Officer (General Manager) (internally designated as General Manager of the Group)

The roles of the Chairman and the Chief Executive Officer (General Manager) (internally designated as General Manager of the Group) should be separate. 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. The division of responsibilities between the Chairman and the General Manager is clearly established.

The main duties of the Chairman include providing leadership for and overseeing the functioning of the Board; formulating overall strategies and policies of the Company; ensuring that all directors of the Board are properly briefed on issues arising at Board meetings and giving each director an opportunity to express his view at board meetings; ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner; ensuring that the Board works effectively and discharges its responsibilities; ensuring that all key and appropriate issues are discussed by the Board in a timely manner; drawing up and approving the agenda for each board meeting taking into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda; taking responsibility for ensuring that good corporate governance practices and procedures are established; encouraging all directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Company; ensuring that appropriate steps are taken to provide effective communication with Shareholders and that views of Shareholders are communicated to the Board as a whole; and facilitating the effective contribution of directors and ensuring constructive relations between executive directors and non-executive directors.

The duties of the General Manager include taking responsibility for the Group's operation and management; implementing decisions and plans approved by the Board; making day-to-day operational and managerial decision; and coordinating overall business operations.

Independent Non-Executive Directors

Ms. Zheng Yu has been appointed as independent non-executive director of the Company with effect from 31 December 2012.

Independent non-executive Directors have been appointed for a term of two years. They are subject to retirement and re-election in accordance with the Company's Articles of Association.

In accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules, the Board is of the view that all independent non-executive directors are independent and the Company has received an annual confirmation of independence from each of the independent non-executive directors of the Company pursuant to the Listing Rules. As the four Independent Non-Executive Directors, representing over one-third of the Board, constituted a proper balance of power maintaining full and effective control of both the Group and its executive management.

Company Secretary

The Company Secretary is a full time employee of the Company and reports to the Chairman of the Board and the General Manager. He is responsible for advising the Board on governance matters. For the year under review, the Company Secretary has more than 19 years of working experience in finance and accounting including over 8 years experience as company secretary of Hong Kong Listing Company. He confirmed he has taken no less than 15 hours of relevant professional training.

Skills, Knowledge, Experience and Attributes of Directors

All Directors of the Board had served in office during the year. Every Director commits to give sufficient time and attention to the affairs of the Company. The Directors also demonstrate their understanding and commit to high standards of corporate governance. The Executive Directors brings their perspectives to the Board through their deep understanding of the Group's business. The Independent Non-Executive Directors contribute their own skills and experience, understanding of local and global economies, and knowledge of capital markets to the Group's business. The Company is responsible for arranging and funding suitable continuous professional development programmes for all Directors to hone and refresh their knowledge and skills.

Directors' Induction and Continuous Professional Development

Upon appointment to the Board, each newly appointed Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enrol in a wide range of professional development courses or and seminars relating to the Listing Rules, companies ordinance or act and corporate governance practices organised by professional bodies and independent auditors so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written materials to develop and refresh their professional skills; the company secretary also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the year:

	Corporate Governance/ Updates on laws, rules and regulations	
	Read materials	Attend workshops
Executive Directors		
Li Xuechun	✓	✓
Wang Longxiang	✓	✓
Feng Zhenquan	✓	✓
Xu Guohua	✓	✓
Li Deheng	✓	✓
Chen Yuan	✓	✓
Li Guangyu	✓	✓
Independent non-executive Directors		
Choi Tze Kit, Summy	✓	✓
Chen Ning	✓	✓
Liang Wenjun	✓	✓
Zheng Yu	✓	✓

Board Meetings

The chairman is responsible for the leadership of the Board, ensuring the effectiveness of the Board in all aspects of its role, setting agenda for board meetings, and taking into account any matters proposed by other Directors for inclusion in the agenda. Agenda and related board papers are circulated at least 7 days before the time of a board or committee meeting where possible.

The chairman is also responsible for making sure all Directors are properly briefed on issues arising at board meetings. The chairman also ensures that the Directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Company through their initial induction, ongoing participation at board and committee meetings, and through meeting key people at head office and in the divisions.

All Directors have access to the services of the company secretary who regularly updates the Board on governance and regulatory matters. Any Director, who wishes to do so in the furtherance of his or her duties, may seek independent professional advice through the chairman at the Company's expense. The availability of professional advice extends to the Audit, Remuneration and other Committees.

Minutes of Board meetings are taken by the company secretary or the secretary to the Board and, together with any supporting Board papers, are available to all Board members. Board meetings are structured to encourage open and frank discussions to ensure the non-executive Directors provide effective enquiries to each executive Director. When necessary, the independent non-executive Directors meet privately to discuss matters which are relevant to their specific responsibility.

In furtherance of good corporate governance, the Board has established three committees: Audit Committee, Nomination Committee and Remuneration Committee. All committees have its terms of reference which fulfill the principles set out in the CG Code. The secretary of the Board takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

Directors' and Officers' Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. Throughout the Year, no claim had been made against the Directors and the officers of the Company.

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 2012, six regular Board meetings were held. Individual attendance of each director at the Board meeting during 2012 is set out below:

Attendance/Number of Board Meetings in 2012

Director	Attendance/ Number of Board Meetings
Executive Directors	
Mr. Li Xuechun *(Chairman)*	6/6
Mr. Wang Longxiang	6/6
Mr. Feng Zhenquan	6/6
Mr. Xu Guohua	6/6
Mr. Li Deheng	6/6
Mr. Chen Yuan	6/6
Mr. Li Guangyu	6/6
Independent Non-executive Directors	
Mr. Choi Tze Kit, Sammy	6/6
Mr. Chen Ning	4/6
Mr. Liang Wenjun	6/6
Ms. Zheng Yu (appointed on 31 Dec 2012)	N/A

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 45.

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	5,252
Non-audit services	500
	5,752

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

Audit Committee

The Audit Committee, established in compliance with the Code, comprises four independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning, Mr. Liang Wenjun and Ms. Zheng Yu. 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 2012, 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. Since Ms. Zheng Yu is appointed as the member of Audit Committee on 31 December 2012. Ms. Zheng did not attend any meeting of Audit Committee during 2012. The purpose of the meetings to review the Group's results for the year 2011, the interim results for the year 2012 as well as discussing the internal control review and the audit of the Group. The Group's 2011 annual report and 2012 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 four independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning, Mr. Liang Wenjun and Ms. Zheng Yu. 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 2012, one Remuneration Committee meetings were held. All Remuneration committee members attended the meeting except for Ms. Zheng Yu as Ms. Zheng Yu is appointed as the member of Remuneration committee effective from 31 December 2012. 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 Committee

The Company has established a Nomination committee on 20 March 2012 in compliance with the Code. The Nomination Committee is responsible for the appointing of new directors either to fill casual vacancies or as additional Board members. The Nomination Committee comprises two executive Directors, Mr. Li Xuechun and Mr. Wang Longxiang and 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 Nomination Committee.

For year ended of 31 December 2012, one Nomination Committee meetings were held. All Nomination committee members attended the meeting. The meeting of the Nomination committee was duly held for discussion and the appointment of new independent non-executive director during the year.

Shareholders' Rights

The Company recognizes the importance of good communications with the Shareholders and the investment community and also recognizes the value of providing current and relevant information to Shareholders and the investors. The Board has established a Shareholders' communication policy setting out the principles of the Company in relation to the Shareholders' communication, with the objective of ensuring the Shareholders and investors are provided with ready, equal and timely access to current and relevant information about the Company.

The Company maintains on-going dialogue with Shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered Shareholders are notified by post for the Shareholders' meetings. Notice of meeting contains agenda, proposed resolutions and postal voting form.

All registered Shareholders are entitled to attend annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Annual and interim reports offer comprehensive operational and financial performance information to Shareholders and the annual general meeting of the Company provides a forum for Shareholders to exchange views directly with the Board, which together help enhance and facilitate communication with Shareholders. Shareholders who are unable to attend a general meeting may complete and return to the Company's Share Registrar the proxy form enclosed with notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

Investor Relations and Communications

The Company recognizes the importance of efficient and effective communications with the investor community. Briefings and meetings with institutional investors are conducted regularly to provide them with up-to-date and comprehensive information about the Group's development. Besides, the Company facilitates the initiation and coverage of the Company published by research analysts of well-received investment banks which are instrumental in providing investors with independent and professional evaluations of the Company. Moreover, the Group participates in different international forums and overseas non-deal roadshows to elaborate on the Group's business development plans to global investors. Furthermore, the Company arranges site visits for investors to our main plants in China. Last but not least, the Company has established a function dedicated to investor relations and engaged an external public relations company to take care of investor relations matters. The Company also maintains a website (http://www.fufeng-group.com) which renders Shareholders, investors and the general public direct access to the information of the Company on a timely basis.

In order to enable shareholders to exercise their rights in an informed manner, and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders may at any time send their enquiries and concerns to the Company via the Company's website at www.fufeng-group.com. Shareholders may also make enquiries with the Board at the general meetings of the Company.

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 2012.

Principal activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in note 35 to the consolidated financial statements.

Result and appropriations

Results of the Group for the year ended 31 December 2012 are set out under the consolidated income statement on page 50.

No interim dividend was declared and paid after the interim period (2011: HK10 cents (equivalent to RMB8.20 cents) per Share). The Board does not pay any final dividend for the year ended 31 December 2012.

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 2012.

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 2012, the Company's reserves available for distribution to the Shareholders amounted to RMB369,014,000 (2011: RMB425,931,000).

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. Li Guangyu

Independent Non-executive Directors

Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Liang Wenjun
Ms. Zheng Yu (appointed on 31 Dec 2012)

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. Li Xuechun, Mr. Chen Yuan, Mr. Li Guangyu and Ms. Zheng Yu 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. Li Xuechun, Mr. Chen Yuan and Mr. Li Guangyu, 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, 9 November 2010 and 31 March 2010 respectively and renewable automatically for successive terms of one year each commencing from the day following the expiry of the then current term unless and until (i) terminated by either party there to giving not less than three months' prior written notice with the last day of the notice falling on the last day of the initial term or any time thereafter; or (ii) the Director not being re-elected as a Director or being removed by shareholders at general meeting of the Company in accordance with its articles of association.

The new independent non-executive Director proposed for re-election at the forthcoming annual general meeting has made into a service contract with the Company for two years commencing form 31 December 2012 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 2012, 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 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	46.11%
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 year ended 31 December 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.

Interests of person holding 5% or more interests

As at 31 December 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

Name	Name of Group member	Capacity	Number and class of securities	Percentage of interests to total issued share capital (approximate)
Motivator Enterprises Limited *(Note 1)*	The Company	Beneficial interests	802,781,000 Shares	46.11%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	802,781,000 Shares	46.11%
Ever Soar Enterprises Limited *(Note 3)*	The Company	Beneficial interests	185,112,000 Shares	10.63%

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 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.

Arrangements to purchase shares or debentures

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

Share option scheme

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 2012 are as follows:

	Number of share options						
Directors and eligible employees	At 1 January 2012	Exercised during the year	Lapsed during the year	At 31 December 2012	Date of grant	Exercise price *(HKD)*	Exercise period
Mr. Wang Longxiang (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	(16,452,000)	(336,000)	–	10/1/2007	2.23	8/8/2009–7/8/2012
	22,698,000	(22,362,000)	(336,000)	–			

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 2012, are as follows:

	Number of share options						
Director and eligible employees	At 1 January 2012	Granted during the year	Lapsed during the year	At 31 December 2012	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	48,270,000	–	(3,000,000)	45,270,000	14/7/2009	3.00	14/1/2012–13/1/2015
	53,270,000	–	(3,000,000)	50,270,000			

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 largest customer and five largest customers taken together were less than 30% of the total sales for the year 2012.

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 2012.

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 28 March 2013, 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 2012.

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 36 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

28 March 2013

Independent Auditor's Report

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 47 to 120, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 2012 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, 28 March 2013

Consolidated Balance Sheet

As at 31 December 2012

		As at 31 December	
	Note	2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	6	**366,764**	265,217
Property, plant and equipment	7	**7,258,851**	6,032,345
Intangible assets	8	**54**	–
Deferred income tax assets	11	**40,012**	29,079
		7,665,681	6,326,641
Current assets			
Inventories	12	**1,415,225**	1,179,863
Trade and other receivables	13	**2,339,600**	1,738,737
Short-term bank deposits	14	**69,320**	30,164
Cash and cash equivalents	14	**481,126**	583,917
		4,305,271	3,532,681
Total assets		**11,970,952**	9,859,322
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	**175,921**	174,097
Share premium	15	**240,518**	188,576
Other reserves	16	**58,972**	18,877
Retained earnings	18		
– Proposed final dividend		**–**	41,981
– Others		**3,319,597**	2,983,172
Total equity		**3,795,008**	3,406,703
LIABILITIES			
Non-current liabilities			
Deferred income	19	**352,436**	199,942
Borrowings	20	**2,044,960**	2,844,147
Deferred income tax liabilities	11	**19,826**	20,166
		2,417,222	3,064,255

Consolidated Balance Sheet *(Continued)*
As at 31 December 2012

		As at 31 December	
	Note	**2012** **RMB'000**	2011 RMB'000
Current liabilities			
Trade, other payables and accruals	*21*	**3,303,957**	2,630,637
Current income tax liabilities		**47,085**	53,727
Borrowings	*20*	**2,407,680**	704,000
		5,758,722	3,388,364
Total liabilities		**8,175,944**	6,452,619
Total equity and liabilities		**11,970,952**	9,859,322
Net current (liabilities)/assets		**(1,453,451)**	144,317
Total assets less current liabilities		**6,212,230**	6,470,958

The notes on pages 54 to 120 are an integral part of these consolidated financial statements.

The financial statements on pages 47 to 120 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

Li Xuechun
Director

Chen Yuan
Director

Company Balance Sheet

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	359	27
Investment in subsidiaries	9	426,574	422,576
		426,933	422,603
Current assets			
Loans to subsidiaries	9	1,932,066	1,931,817
Due from subsidiaries	9	1,215,798	1,155,706
Deposits and other receivables	13	15,079	1,582
Cash and cash equivalents	14	47,459	76,368
		3,210,402	3,165,473
Total assets		3,637,335	3,588,076
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	175,921	174,097
Share premium	15	240,518	188,576
Other reserves	16	54,288	81,087
Retained earnings	18		
– Proposed final dividend		–	41,981
– Others		128,496	195,374
Total equity		599,223	681,115
LIABILITIES			
Non-current liabilities			
Borrowings	20	1,856,395	2,844,147
Current liabilities			
Borrowings	20	935,180	–
Due to subsidiaries	9	14,174	14,174
Loan from a subsidiary	9	188,565	–
Other payables and accruals	21	43,798	48,640
		1,181,717	62,814
Total liabilities		3,038,112	2,906,961
Total equity and liabilities		3,637,335	3,588,076
Net current assets		2,028,685	3,102,659
Total assets less current liabilities		2,455,618	3,525,262

The notes on pages 54 to 120 are an integral part of these financial statements.

The financial statements on pages 47 to 120 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

Li Xuechun
Director

Chen Yuan
Director

Consolidated Income Statement

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	5	**11,111,920**	8,399,246
Cost of sales	23	**(9,474,465)**	(6,879,573)
Gross profit		**1,637,455**	1,519,673
Other income	22	**129,317**	117,619
Selling and marketing expenses	23	**(570,487)**	(421,328)
Administrative expenses	23	**(440,143)**	(373,703)
Other operating expenses	23	**(37,039)**	(64,296)
Other gain	26	**15,976**	–
Operating profit		**735,079**	777,965
Finance income	27	**6,447**	74,412
Finance costs	27	**(251,313)**	(135,941)
Finance costs – net	27	**(244,866)**	(61,529)
Profit before income tax		**490,213**	716,436
Income tax expense	28	**(63,660)**	(112,299)
Profit for the year and attributable to the Shareholders		**426,553**	604,137
Earnings per share for profit attributable to the Shareholders during the year (expressed in RMB cents per share)			
– basic	29	**24.66**	35.15
– diluted	29	**24.64**	33.55

The notes on pages 54 to 120 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Dividends	31	**–**	182,999

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Year ended 31 December	
	2012 *RMB'000*	2011 *RMB'000*
Profit for the year	**426,553**	604,137
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**426,553**	604,137
Total comprehensive income attributable to the Shareholders	**426,553**	604,137

The notes on pages 54 to 120 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

		Attributable to the Shareholders				
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2011		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
Comprehensive Income						
Profit for the year	*18*	–	–	–	426,553	426,553
Total comprehensive income		–	–	–	426,553	426,553
Transactions with owners						
Profit appropriation	*16, 18*	–	–	66,894	(66,894)	–
Employee share options schemes:						
– Value of employee service	*16, 17*	–	–	8,127	–	8,127
– Shares issued	*15, 16*	1,824	51,942	(13,090)	–	40,676
Redemption of convertible bonds	*16, 18*	–	–	(21,836)	(23,234)	(45,070)
Dividends	*18*	–	–	–	(41,981)	(41,981)
Total transactions with owners		1,824	51,942	40,095	(132,109)	(38,248)
Balance at 31 December 2012		175,921	240,518	58,972	3,319,597	3,795,008

The notes on pages 54 to 120 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	*32(a)*	**1,144,196**	457,632
Interest paid		**(283,779)**	(147,757)
Income tax paid		**(99,982)**	(61,627)
Net cash flows generated from operating activities		**760,435**	248,248
Cash flows from investing activities			
Payments of leasehold land		**(106,074)**	(98,940)
Purchases of property, plant and equipment		**(1,709,522)**	(2,131,861)
Purchases of intangible assets		**(1,084)**	(1,482)
Assets-related government grants received		**113,725**	94,062
Proceeds from disposal of property, plant and equipment	*32(b)*	**825**	3,752
Proceeds from disposal of leasehold land payments	*32(c)*	**–**	373
Interest received	*22*	**6,232**	10,061
Payments for term deposits		**(2,000)**	–
Net cash used in investing activities		**(1,697,898)**	(2,124,035)
Cash flows from financing activities			
Proceeds from Shares issued		**40,676**	–
Proceeds from issuance of senior notes	*20*	**–**	1,925,885
Dividends paid to the Company's shareholders		**(41,981)**	(358,088)
Proceeds from bank borrowings		**2,683,470**	929,000
Repayments of bank borrowings		**(960,500)**	(780,000)
Redemption of convertible bonds	*20*	**(852,037)**	–
Proceeds from restricted bank deposits of bank borrowings		**5,044**	–
Restricted bank deposits paid for bank borrowings		**(40,000)**	(25,044)
Net cash generated from financing activities		**834,672**	1,691,753
Net decrease in cash and cash equivalents		**(102,791)**	(184,034)
Cash and cash equivalents at beginning of the year	*14*	**583,917**	767,951
Cash and cash equivalents at end of the year	*14*	**481,126**	583,917

The notes on pages 54 to 120 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. General information

Fufeng Group Limited (the "Company") and its subsidiaries (together, the "Group") manufacture and sell 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 People's Republic of China (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 shares listed 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 of Directors (the "Board") on 28 March 2013.

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 Hong Kong Financial Reporting Standards ("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.

2.1.1 Going concern

As at 31 December 2012, the Group's current liabilities exceeded its current assets by approximately RMB1,453,451,000. Its current liabilities as at the same date included bank borrowings of approximately RMB2,407,680,000, which included a syndicated bank loan of approximately RMB682,330,000 with contractual maturity beyond 31 December 2013 but has been reclassified into a current liability because the Group did not meet one of the loan covenants as at 31 December 2012 (Note 20(a)). These conditions indicated the existence of an uncertainty that may cast doubt about the Group's ability to continue as a going concern.

Subsequent to 31 December 2012, the Group has obtained a waiver from a majority of the lenders of the syndicated bank loan in March 2013 such that the loan will no longer be repayable on demand (Note 36(i)). In addition, in March 2013 the Company announced that it plans to raise additional equity financing through a rights issue as described in Note 36(ii) which, if successful, will raise gross proceeds of no less than HKD627 million. The directors will continue their efforts to secure additional sources of financing. Together with continuing operating cash inflows and its existing undrawn banking facilities of RMB1,250 million as described in Note 20(a), the directors believe that the Group will be able to meet its debts and commitments as they fall due at least within the coming twelve months and accordingly, have prepared the consolidated financial statements on a going concern basis.

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

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amended standard is mandatory for the first time for the financial year beginning on 1 January 2012.

Amendment to HKFRS 7 "Disclosures – Transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The adoption of this amendment will result in additional disclosures where necessary.

(b) New standards, amendments and interpretations have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2012 and have not been early adopted by the Group

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

- HKAS 1 (Amendment), 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. HKAS 1 (Amendment) is effective for the accounting period beginning on or after 1 July 2012.

- 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. HKFRS 10 is effective for 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. HKFRS 12 is effective for the accounting period beginning on or after 1 January 2013.

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

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards, amendments and interpretations have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2012 and have not been early adopted by the Group *(Continued)*

- 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. HKFRS 13 is effective for the accounting periods beginning on or after 1 January 2013.

- HKAS 19, 'Employee benefits', was amended in June 2011. The impact on the Group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). HKAS 19 is effective for the accounting periods beginning on or after 1 January 2013.

- HKAS 27 (revised 2011), 'Separate financial statements', includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. HKAS 27 (revised 2011) is effective for the accounting periods beginning on or after 1 January 2013.

- HKFRS 7 (Amendment), 'Financial instruments: Disclosures' on asset and liability offsetting. The amendments also require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. HKFRS 7 (Amendment) is effective for the accounting period beginning on or after 1 January 2013.

- HKAS 32 (Amendment), 'Financial instruments: Presentation' on asset and liability offsetting. These amendments are to the application guidance in HKAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. HKAS 32 (Amendment) is effective for the accounting period beginning on or after 1 January 2014.

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

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards, amendments and interpretations have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2012 and have not been early adopted by the Group *(Continued)*

- HKFRS 9 (Amendment), '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 HKFRS 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 the 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. HKFRS 9 (Amendment) is effective for the accounting period beginning on or after 1 January 2015.

- Annual improvements 2011, HKICPA has issued the annual improvements project (2011) which addresses several issues in the 2009-2011 reporting cycle, and includes changes to the following standards.

		Effective for annual periods beginning on or after
HKFRS 1	First time adoption	1 January 2013
HKAS 1	Financial statement presentation	1 January 2013
HKAS 16	Property plant and equipment	1 January 2013
HKAS 32	Financial instruments: Presentation	1 January 2013
HKAS 34	Interim financial reporting	1 January 2013

The Group will apply the new/revised standards described above when they become effective. The Group is in the process of making an assessment of the impact of these new/revised standards and does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position when these standards become effective.

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

2.2 Subsidiaries

(a) Consolidation

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. 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. Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

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. Summary of significant accounting policies *(Continued)*

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 executive directors that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in 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 consolidated income statement.

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

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 (40 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. The relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses when they become available for their intended use.

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 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.

2.8 Impairment of non-financial assets

Assets that are subject to amortisation 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.

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

2.9 Financial Assets

(a) Classification

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

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

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date-the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently 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.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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.

2.11 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.

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

2.11 Trade and other receivables *(Continued)*

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.

The Group assesses at the end of each reporting period whether there are objective evidence that trade and other receivables are impaired. Impairment losses of trade and other receivables are incurred only if there are objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of trade and other receivables that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement within "administrative expenses".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated 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 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.

2.17 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, which is included in shareholders' equity in other reserves. 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.

Liability component of a convertible instrument is classified as current 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. Summary of significant accounting policies *(Continued)*

2.17 Compound financial instruments *(Continued)*

When convertible bonds are early redeemed or repurchased in which the original conversion privileges are unchanged, the consideration paid and any transaction costs for the repurchase or redemption are allocated to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the company when the convertible instrument was issued. The amount of gain or loss relating to the liability component is recognised in 'other gain'. The amount of consideration related to the equity component is recognised in equity.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated 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 for deferred tax liabilities 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)*

2.19 Employee benefits – pension

The companies within the Group 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 the various local PRC governments. These local PRC governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's operating entities in Hong Kong participate in a mandatory provident fund ("MPF scheme") for its employees in Hong Kong. Both the entities and the employees are required to contribute 5% of the salaries of the employees', up to a maximum of HKD1,250 per head per month. The assets of MPF scheme are held separately from those of the entities in an independent administrated fund.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans and MPF Scheme are recognised as employee benefit expense when incurred.

2.20 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)*

2.21 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.

2.22 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 related 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 related to the acquisition of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return 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. Summary of significant accounting policies *(Continued)*

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.

2.26 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (related 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. Summary of significant accounting policies *(Continued)*

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 2012.

However, foreign currencies, mainly USD and HKD, are received from sales of products to countries or areas outside the PRC ("Export Sales"), issuance of senior notes and obtaining bank borrowings. Export sales denominated in foreign currencies amount to approximately 15% (2011: 18%) of the Group's total turnover for the year ended 31 December 2012. The Group manages the currency risk arising from sales of products by requesting the customers to pay 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 senior notes and obtaining bank borrowings by utilising the proceeds as soon as possible.

The exposures to the foreign exchange risks are disclosed in Notes 13, 14 and 20 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 or weakened by 10% against USD and HKD (pegged with USD) with all other variables held constant.

	Foreign exchange risk			
	+10%		–10%	
	Profit *RMB'000*	Equity *RMB'000*	Profit *RMB'000*	Equity *RMB'000*
31 December 2012				
Financial assets				
Cash and cash equivalents	(5,729)	(5,729)	5,729	5,729
Trade and other receivables	(19,545)	(19,545)	19,545	19,545
Total (decrease)/increase	(25,274)	(25,274)	25,274	25,274
Financial liabilities				
Borrowings	280,310	280,310	(280,310)	(280,310)
Trade, other payables and accruals	3,595	3,595	(3,595)	(3,595)
Total increase/(decrease)	283,905	283,905	(283,905)	(283,905)
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)

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(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 borrowings. A portion of borrowings bear variable rates and expose the Group to cash flow interest rate risk.

Fair value interest rate risk arises from convertible bonds, senior notes and bank borrowings 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 2012.

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 *RMB'000*	Profit *RMB'000*	Equity *RMB'000*	Profit *RMB'000*	Equity *RMB'000*
31 December 2012					
Financial liabilities					
Borrowings bear variable rates	1,602,710	4,161	4,161	(4,161)	(4,161)
31 December 2011					
Financial liabilities					
Borrowings bear variable rates	524,000	2,175	2,175	(2,175)	(2,175)

(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 placed with reputable banks. For sales of goods, customers of the Group usually pay in advance before delivery of products. Credit will only be granted to 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.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(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.

The table below analysis 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 2012			
Borrowings	2,466,549	188,565	1,885,650
Interests payments on bank borrowings, convertible bonds and senior notes (i)	227,619	147,986	215,671
Trade, other payables and accruals (excluding non-financial liabilities)	2,460,448	–	–
Total	5,154,616	336,551	2,101,321
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 (excluding non-financial liabilities)	2,259,537	–	–
Total	3,186,506	190,258	3,344,790
The Company			
At 31 December 2012			
Borrowings	994,049	–	1,885,650
At 31 December 2011			
Borrowings	–	–	2,915,270

(i) The interests on borrowings are calculated based on bank borrowings, convertible bonds and senior notes held as at 31 December 2012 and 2011 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2012 and 2011 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 divided by total assets at the end of the corresponding year.

The Group's strategy is to maintain the gearing ratio below 40% (2011: 40%). The gearing ratios at 31 December 2012 and 2011 were as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Total borrowings *(Note 20)*	**4,452,640**	3,548,147
Total assets	**11,970,952**	9,859,322
Gearing ratio	**37.20%**	35.99%

The increase in the gearing ratio for the year ended 31 December 2012 resulted primarily from additional bank borrowings for expansion of the Group.

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As of 31 December 2012 and 2011, the Group did not have any financial instruments carried at fair value.

The carrying value less impairment provision of trade and other receivables, cash and cash equivalents and short-term bank deposits approximated 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 RMB461,000 (2011: RMB4,433,000) arose to the specific assets which were mainly used by different cash-generating units of MSG production during the year ended 31 December 2012, 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 related to the acquisition of property, plant and equipment, the periodic credits to consolidated income statement will also be increased under the above mentioned circumstances when such grants are credited to the consolidated income statement over the assets' remaining useful lives.

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 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

A full impairment charge of RMB1,030,000 (2011: RMB1,482,000) arose in the patents purchased during the year ended 31 December 2012, resulting in the carrying amount of these assets being written down to zero.

4. Critical accounting estimates and judgements *(Continued)*

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 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 recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the tax and deferred tax provisions in the period in which such determination is made.

5. Segment information

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

The executive directors consider the business from a product perspective and accordingly, the Group's operations are mainly organised under the following business segments:

Manufacturing and sales of:

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

– Xanthan gum.

Approximately 85% (2011: 82%) of the Group's revenue are generated from the PRC.

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

5. Segment information *(Continued)*

The revenue of the Group for the years ended 31 December 2012 and 2011 are set out as follows:

	2012	2011
	RMB'000	*RMB'000*
MSG	**6,738,424**	4,915,408
Corn refined products	**1,561,284**	1,113,473
Xanthan gum	**1,066,306**	835,762
Fertilisers	**893,169**	582,893
Starch sweeteners	**322,836**	430,341
Threonine	**183,668**	108,960
Glutamic acid	**100,012**	167,457
Corn oil	**91,535**	133,349
Branched – chain amino acid	**85,938**	34,581
Others	**68,748**	77,022
	11,111,920	8,399,246

The segment information for the year ended 31 December 2012 is as follows:

	MSG	**Xanthan gum**	**Unallocated**	**Group**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Revenue	**10,045,614**	**1,066,306**	**–**	**11,111,920**
Segment results	**307,558**	**434,002**	**(6,481)**	**735,079**
Finance costs – net *(Note 27)*				**(244,866)**
Profit before income tax				**490,213**
Income tax expense *(Note 28)*				**(63,660)**
Profit for the year				**426,553**
Other segment items included in the consolidated income statement				
Depreciation *(Note 7)*	**497,958**	**29,702**	**959**	**528,619**
Amortisation of leasehold land payments *(Note 6)*	**3,942**	**585**	**–**	**4,527**
Gain on disposal of property, plant and equipment *(Note 32)*	**55**	**466**	**–**	**521**

5. Segment information *(Continued)*

The segment assets and liabilities at 31 December 2012 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	**10,004,401**	**1,875,725**	**90,826**	**11,970,952**
Total liabilities	**4,550,774**	**600,615**	**3,024,555**	**8,175,944**

The segment information for the year ended 31 December 2011 is 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 27)*				(61,529)
Profit before income tax				716,436
Income tax expense *(Note 28)*				(112,299)
Profit for the year				604,137
Other segment items included in the consolidated 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 32)*	349	–	–	349
Gain on disposal of leasehold land payments *(Note 32)*	49	–	–	49

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

Unallocated assets mainly comprise cash and cash equivalents, property, plant and equipment and other receivables held by non-PRC established companies and Beijing Huijinhuaying Commercial Company Limited ("Beijing Huijinhuaying").

Unallocated liabilities mainly comprise bank borrowings, liability component of convertible bonds, senior notes, operating liabilities held by non-PRC established companies.

The Group's revenue from its external customers in the PRC is RMB9,422,557,000 (2011: RMB6,929,126,000) and the total revenue from external customers from Hong Kong and other countries is RMB1,689,363,000 (2011: RMB1,470,120,000).

The Group's total non-current assets located in the PRC other than deferred income tax assets are RMB7,625,299,000 (2011: RMB6,297,535,000), and the total non-current assets located in Hong Kong and Singapore other than deferred income tax assets are RMB370,000 (2011: RMB27,000).

Revenues of approximately RMB275,434,000 (2011: RMB219,981,000) 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 (40 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:

	2012	2011
	RMB'000	*RMB'000*
Outside Hong Kong, held on:		
Leases from 40 to 50 years	**366,764**	265,217

As at 31 December 2012 and 2011, the net book value of leasehold land pledged as security for the Group's borrowings amounted to approximately RMB29,420,000 and RMB65,084,000 (Note 20), respectively.

	2012	2011
	RMB'000	*RMB'000*
Cost		
At beginning of the year	**277,354**	178,795
Additions	**106,074**	98,940
Disposals	**–**	(381)
At end of the year	**383,428**	277,354
Amortisation		
At beginning of the year	**(12,137)**	(9,608)
Charge for the year *(Note 23)*	**(4,527)**	(2,586)
Disposals	**–**	57
At end of the year	**(16,664)**	(12,137)
Net book value		
At end of the year	**366,764**	265,217

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

As at 31 December 2012, the Group was still in the process of applying for the certificate of the leasehold land with a carrying amount of RMB53,091,000 (2011: RMB147,578,000).

7. Property, plant and equipment

The Group

	2012					
	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 2012	1,327,706	4,302,911	169,153	44,849	1,317,431	7,162,050
Additions	106,887	225,731	22,833	5,847	1,394,592	1,755,890
Transfer upon completion	872,937	1,363,296	1,130	–	(2,237,363)	–
Disposals	(102)	(237)	(204)	(579)	–	(1,122)
At 31 December 2012	2,307,428	5,891,701	192,912	50,117	474,660	8,916,818
Accumulated depreciation						
At 1 January 2012	(132,901)	(924,809)	(43,089)	(24,473)	–	(1,125,272)
Charge for the year *(Note 23)*	(68,231)	(425,467)	(30,184)	(4,737)	–	(528,619)
Disposals	42	87	202	487	–	818
At 31 December 2012	(201,090)	(1,350,189)	(73,071)	(28,723)	–	(1,653,073)
Provision for impairment loss						
At 1 January 2012	–	(4,292)	(72)	(69)	–	(4,433)
Impairment charge *(Note 23)*	–	(461)	–	–	–	(461)
At 31 December 2012	–	(4,753)	(72)	(69)	–	(4,894)
Net book value						
At 31 December 2012	2,106,338	4,536,759	119,769	21,325	474,660	7,258,851

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

The Group *(Continued)*

	2011					
	Plant	Machinery	Furniture and fixtures	Vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 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 *(Note 23)*	(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 *(Note 23)*	–	(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

(a) As at 31 December 2012, no plant and machinery was pledged as security for the Group's borrowings (2011: RMB13,809,000) (Note 20).

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

	2012	2011
	RMB'000	*RMB'000*
Cost of sales	**491,725**	330,610
Administrative expenses	**36,894**	35,079
	528,619	365,689

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

The Group *(Continued)*

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

	2012 *RMB'000*	2011 *RMB'000*
Borrowing cost capitalised	**35,342**	57,174
Average borrowing rate	**6.10%**	6.12%

The Company

	2012 **Furniture and fixtures** *RMB'000*	2011 Furniture and fixtures *RMB'000*
Cost		
At beginning of the year	**334**	334
Additions	**370**	–
Disposals	**(125)**	–
At end of the year	**579**	334
Accumulated depreciation		
At beginning of the year	**(307)**	(277)
Charge for the year	**(38)**	(30)
Disposals	**125**	–
At end of the year	**(220)**	(307)
Net book value		
At end of the year	**359**	27

8. Intangible assets – The Group

	Patents *RMB'000*
At 1 January 2011	
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)*	(1,482)
Closing net book amount	–
At 31 December 2011	
Cost	15,484
Impairment	(15,484)
Net book amount	–
Year ended 31 December 2012	
Opening net book amount	–
Additions	1,084
Impairment charge *(Notes 23)*	(1,030)
Closing net book amount	54
At 31 December 2012	
Cost	16,568
Impairment	(16,514)
Net book amount	54

The carrying amount of the patents has been reduced to its recoverable amount through recognition of an impairment loss. This loss has been included in 'administrative expenses' in the consolidated income statement.

9. Investment in and balances with subsidiaries – The Company

	2012 RMB'000	2011 RMB'000
Investment in subsidiaries (a)	426,574	422,576
Loans to subsidiaries (b)	1,932,066	1,931,817
Due from subsidiaries (c)	1,215,798	1,155,706
Due to subsidiaries (d)	14,174	14,174
Loan from a subsidiary (e)	188,565	–

(a) Investment in subsidiaries

	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	426,574	422,576

The particulars of the Company's directly and indirectly owned subsidiaries are disclosed in Note 35.

(b) Loans to subsidiaries

	2012 RMB'000	2011 RMB'000
With interests	1,750,922	1,750,707
Interests free	181,144	181,110
	1,932,066	1,931,817

Loans to subsidiaries are unsecured and repayable on demand as at 31 December 2012 and 2011. Their carrying amounts approximate their fair values as at 31 December 2012 and 2011. Interest rate of the loan with interests was 7.625% as at 31 December 2012 (2011: 7.625%).

(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 2012 and 2011.

(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 2012 and 2011.

(e) Loan from a subsidiary

Loan from a subsidiary is unsecured and repayable on demand. The carrying amount approximates its fair value as at 31 December 2012. Interest rate of the loan is 3-month USD LIBOR plus 2.95% as at 31 December 2012.

10. Credit quality of financial assets

Trade receivables and notes receivables

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

Group 1 – Bank acceptance notes for which the repayments are guaranteed by large state-owned banks.

Group 2 – Trade receivables due from customers with no defaults in the past.

Group 3 – Trade receivables due from customers with some defaults in the past.

The Group

	2012 *RMB'000*	2011 *RMB'000*
Group 1	**1,642,363**	1,151,917
Group 2	**263,476**	273,112
Group 3	**4,510**	4,586
	1,910,349	1,429,615

Cash and bank balances

The management considers the credit risks in respect of cash and bank deposits are relatively minimal as each counter party either has a high credit rating or is a state-owned PRC bank. The management believes the PRC government is able to support the state-owned PRC banks in the event of a liquidity difficulty.

The Group categorises 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, The Royal Bank of Scotland, Citi Bank and United Overseas Bank)

- Group 2 – Top 4 banks in the 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 the Mainland China

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

The Group

	2012 RMB'000	2011 RMB'000
Group 1	62,818	77,592
Group 2	188,152	172,465
Group 3	299,008	362,745
	549,978	612,802

The Company

	2012 RMB'000	2011 RMB'000
Group 1	47,458	76,367

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 deferred tax assets and liabilities are as follows:

	2012 RMB'000	2011 RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	25,382	13,083
– Deferred income tax assets to be recovered within 12 months	14,630	15,996
	40,012	29,079
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(19,522)	(19,843)
– Deferred income tax liabilities to be settled within 12 months	(304)	(323)
	(19,826)	(20,166)
Deferred income tax assets, net	20,186	8,913

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

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

	2012 RMB'000	2011 RMB'000
Beginning balance of the year	**8,913**	(6,274)
Credited to consolidated income statement *(Note 28)*	**11,273**	2,687
Transfer to current income tax liabilities	**–**	12,500
Ending balance of the year	**20,186**	8,913

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 2011	2,466	12,406	2,953	2,184	750	20,759
(Charged)/Credited to consolidated income statement	(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
(Charged)/Credited to consolidated income statement	(1,343)	(4,340)	4,249	15,043	(2,676)	10,933
At 31 December 2012	**831**	**8,706**	**9,855**	**19,391**	**1,229**	**40,012**

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise the deferred income tax assets in respect of losses amounting to RMB4,558,000 as at 31 December 2012 (2011: RMB6,864,000), 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. Such tax losses as at 31 December 2012 amounting to RMB1,256,000, RMB1,700,000 and RMB1,602,000 will expire in 2017, 2016 and 2015, respectively.

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

Deferred income tax liabilities:

	Borrowing costs capitalisation *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2011	3,694	23,339	27,033
(Credited)/Charged to consolidated income statement	(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
(Credited)/Charged to consolidated income statement	(340)	–	(340)
At 31 December 2012	**3,176**	**16,650**	**19,826**

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% to 10% 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 2012 of RMB142,132,000 (2011: RMB111,497,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC, totalling RMB2,842,647,000 (2011: RMB2,229,942,000). 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

	2012 ***RMB'000***	2011 *RMB'000*
Raw materials	**540,003**	534,511
Work-in-progress	**144,485**	87,797
Finished goods	**730,737**	557,555
	1,415,225	1,179,863

As at 31 December 2012, finished goods included a written-down of RMB35,000 (2011: RMB299,000). For the year ended 31 December 2012, the Group has reversed a previous inventory written-down of RMB264,000 (2011: RMB540,000) as the Group sold the underlying goods to third parties. The amount of RMB264,000 (2011: RMB540,000) reversed was included in "cost of sales" in the consolidated income statement (Note 23).

The cost of inventories recognised as expense and included in cost of sales and administrative expenses amounted to RMB9,575,733,000 (2011: RMB6,358,253,000).

13. Trade and other receivables

The Group

	2012 *RMB'000*	2011 *RMB'000*
Trade receivables (a)	**267,986**	277,698
Less: provision for impairment of trade receivables (b)	**(4,510)**	(4,586)
Trade receivables – net	**263,476**	273,112
Notes receivables (c)	**1,642,363**	1,151,917
Deposits and others	**29,475**	28,373
Value-added tax for future deduction	**325,825**	231,439
Trade and other receivables excluding prepayments	**2,261,139**	1,684,841
Prepayments for raw materials	**78,461**	53,896
	2,339,600	1,738,737

(a) As at 31 December 2012 and 2011 the ageing analysis of trade receivables was as follows:

	2012 *RMB'000*	2011 *RMB'000*
Within 3 months	**231,357**	239,831
3–12 months	**28,021**	26,259
Over 12 months	**8,608**	11,608
	267,986	277,698

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

13. Trade and other receivables *(Continued)*

The Group *(Continued)*

(a) *(Continued)*

As at 31 December 2012, trade receivables of RMB9,390,000 (2011: RMB9,356,000) 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 analysis of these trade receivables is as follows:

	2012 RMB'000	2011 RMB'000
Past due within 3 months	1,826	2,258
Past due in 3–12 months	7,564	7,098
	9,390	9,356

(b) As of 31 December 2012, trade receivables of RMB4,510,000 (2011: RMB4,586,000) were impaired and fully provided for. The individually impaired receivables mainly relate to Jiangsu Shenhua Pharmaceutical Company Limited ("Shenhua Pharmaceutical"), a wholly-owned subsidiary. It was assessed that none of these receivables are expected to be recovered as they existed before the Group acquired Shenhua Pharmaceutical in 2008, which are long overdue and relate to individual customers with doubtful repayment ability. The ageing of these receivables is as follows:

	2012 RMB'000	2011 RMB'000
Past due over 12 months	4,510	4,586

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

	2012 RMB'000	2011 RMB'000
As at 1 January	4,586	4,231
Impairment provision	–	355
Reversal of amounts subsequently collected	(76)	–
As at 31 December	4,510	4,586

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

13. Trade and other receivables *(Continued)*

The Group *(Continued)*

(c) As at 31 December 2012, notes receivables were all bank acceptance notes aged less than six months, including a total amount of RMB1,209,634,000 (2011: RMB1,047,599,000) that have been endorsed to settle 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 excluding prepayments are denominated in the following currencies:

	2012 *RMB'000*	2011 *RMB'000*
– RMB	2,065,625	1,506,067
– USD	195,452	176,704
– SGD	62	2,070
	2,261,139	1,684,841

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

The Company

	2012 *RMB'000*	2011 *RMB'000*
Deposits and others	15,079	1,582

14. Cash and bank balances

The Group

	2012 RMB'000	2011 RMB'000
Cash and cash equivalents		
– Cash on hand	468	1,279
– Cash in bank	480,658	582,638
	481,126	583,917
Short-term bank deposits		
– Restricted bank deposits (a)	67,320	30,164
– Term deposits over 3 months	2,000	–
	69,320	30,164
	550,446	614,081
Cash and bank balances denominated in		
– RMB	488,042	517,886
– USD	11,650	83,423
– HKD	45,637	12,706
– SGD	5,117	66
	550,446	614,081

(a) The restricted bank deposits were used for the following purposes:

	2012 RMB'000	2011 RMB'000
Bank borrowings	40,000	25,044
Issuing bank acceptance notes	24,000	1,800
Issuing letters of credit and letters of guarantee	2,800	2,800
Tenders	520	520
	67,320	30,164

(b) The Group's cash and bank balances denominated in RMB were deposited with banks in the PRC. 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 was 0.40% per annum for the year ended 31 December 2012 (2011: 0.41%).

14. Cash and bank balances *(Continued)*

The Company

	2012 *RMB'000*	2011 *RMB'000*
Cash and cash equivalents		
– Cash on hand	**1**	1
– Cash in bank	**47,458**	76,367
	47,459	76,368

The weighted average effective interest rate on cash and deposits placed with banks by the Company was 0.01% per annum for the year ended 31 December 2012 (2011: 0.01%).

15. Share capital and premium – The Group and The Company

		Amount		
	Number of shares *(thousands)*	Ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2011	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
Employee share option schemes:				
– Shares issued	22,362	1,824	51,942	53,766
At 31 December 2012	**1,741,048**	**175,921**	**240,518**	**416,439**

The total number of authorised ordinary shares of the Company was 10,000,000,000 shares with a par value of HKD0.10 each as at 31 December 2012 and 2011.

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

16. Other reserves

	The Group`				
	Convertible bonds *(Note 20)* RMB'000	Capital reserve *(Note (a))* RMB'000	Statutory reserve *(Note (b))* RMB'000	Share-based payment reserve *(Note 17)* RMB'000	Total RMB'000
1 January 2011	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
Profit appropriation *(Note 18)*	–	–	66,894	–	66,894
Employee share options schemes					
– Value of employee services *(Notes 17, 24)*	–	–	–	8,127	8,127
– Shares issued	–	–	–	(13,090)	(13,090)
Redemption of convertible bonds *(c)*	(21,836)	–	–	–	(21,836)
31 December 2012	**15,017**	**(370,760)**	**375,444**	**39,271**	**58,972**

	The Company		
	Convertible bonds *(Note 20)* RMB'000	Share-based payment reserve *(Note 17)* RMB'000	Total RMB'000
1 January 2011	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
Employee share options schemes:			
– Value of employee services *(Notes 17, 24)*	–	8,127	8,127
– Shares issued	–	(13,090)	(13,090)
Redemption of convertible bonds *(c)*	(21,836)	–	(21,836)
31 December 2012	**15,017**	**39,271**	**54,288**

16. Other reserves *(Continued)*

(a) Capital reserve

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

(b) Statutory reserve

In accordance with the PRC regulations and the articles of the association of the PRC 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, provided that the balance of such reserve is not less than 25% of the entity's registered capital after the bonus issue.

(c) The Company redeemed convertible bonds with a par value of RMB843,800,000 in 2012. Total consideration and transaction costs paid for the redemption of convertible bonds are RMB852,037,000, which has been allocated to the liability component of RMB806,967,000 and the equity component of RMB45,070,000 by using the same method as that on initial recognition. The difference between the consideration and transaction costs allocated to the liability component and its carrying value of RMB15,976,000 is recognised in other gain (Note 26). The amount of consideration and transaction costs allocated to equity component is recognised in equity.

17. Share-based payment – The Group and The 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 ordinary shares on 10 January 2007 to certain directors and eligible employees, and no further share options have been granted under the Pre-IPO share option scheme since then. 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:

	2012		2011	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**2.23**	**22,698**	2.23	22,754
Forfeited	**2.23**	**(336)**	2.23	(56)
Exercised	**2.23**	**(22,362)**	–	–
At 31 December	**–**	**–**	2.23	22,698

No options (2011: 22,698,000) were exercisable as at 31 December 2012 as all the granted options have been exercised. Options exercised in 2012 resulted in 22,362,000 ordinary shares being issued at a weighted average price of HKD2.23 each. The related weighted average share price at the time of exercise was HKD2.80 per share.

17. Share-based payment – The Group and The 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	**2012**	2011
7 August 2012	2.23	–	22,698

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 was 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.

No attributable amount were charged to the consolidated income statement during the year ended 31 December 2012 (2011: RMB1,500,000).

17. Share-based payment – The Group and The 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 ordinary shares of the Company were granted to certain eligible employees in 2009 and an aggregate of 5,000,000 ordinary shares of the Company were granted to a 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:

	2012		2011	
	Average exercise price in HKD per share	**Options (thousands)**	Average exercise price in HKD per share	Options (thousands)
At 1 January	**3.48**	**53,270**	3.46	56,110
Granted	**–**	**–**	–	–
Forfeited	**3.00**	**(3,000)**	3.00	(2,840)
At 31 December	**3.52**	**50,270**	3.48	53,270

Out of the 50,270,000 options (2011: 53,270,000), 14,939,000 options (2011: no options) were exercisable as at 31 December 2012.

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	**2012**	2011
13 January 2015	3.00	**45,270**	48,270
09 May 2016	8.20	**5,000**	5,000
		50,270	53,270

17. Share-based payment – The Group and The 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 was 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 2012 was approximately RMB8,127,000 (2011: RMB13,889,000).

18. Retained earnings

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**3,025,153**	2,501,489	**237,355**	97,863
Profit/(Loss) for the year	**426,553**	604,137	**(43,644)**	139,492
Profit appropriation to statutory reserves	**(66,894)**	(80,473)	**–**	–
Dividends	**(41,981)**	–	**(41,981)**	–
Redemption of convertible bonds *(Note 16(c))*	**(23,234)**	–	**(23,234)**	–
At 31 December	**3,319,597**	3,025,153	**128,496**	237,355

19. Deferred income – The Group

	2012 RMB'000	2011 RMB'000
Deferred income:		
Government grants relating to purchase of domestic manufactured equipment (a)	**101,396**	112,094
Government grants relating to purchase of environment protection and technology improvement equipment (b)	**251,040**	87,848
	352,436	199,942

Deferred income represented government grants related to purchase of assets.

(a) Government grants related to purchase of certain qualified domestic manufactured equipment which can reduces enterprise income tax

It represented reduction in income tax granted to Shandong Fufeng Fermentation Co., Ltd. ("Shandong Fufeng"), Baoji Fufeng Biotechnologies Co., Ltd. ("Baoji Fufeng"), Neimenggu Fufeng Biotechnologies Co., Ltd. ("IM Fufeng") on purchase of certain qualified domestic manufactured equipment. Such income tax reduction is recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets. The maturity profile of the government grant credit is as follows:

	2012 RMB'000	2011 RMB'000
Within 10 years	**101,396**	112,094

The movements of the above government grant during the years ended 31 December 2012 and 2011 are as follows:

	2012 RMB'000	2011 RMB'000
At beginning of the year	**112,094**	81,817
Granted during the year	**8,924**	49,657
Amortised as income *(Note 22)*	**(19,622)**	(19,380)
At end of the year	**101,396**	112,094

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

(b) Government grants related to acquisition of certain equipment used for environment protection and technology improvement

These represented grants from the government related to the acquisition of certain equipment used for environment protection and technology improvement. Grants received are recorded as deferred income and amortised in the consolidated income statement on a straight-line basis over the expected lives of the related assets. The maturity profile of these deferred government grants is as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 10 years	**251,040**	87,848

The movements of the above government grants for the years ended 31 December 2012 and 2011 are as follows:

	2012	2011
	RMB'000	*RMB'000*
At beginning of the year	**87,848**	59,993
Granted during the year	**181,350**	38,955
Amortised as income *(Note 22)*	**(18,158)**	(11,100)
At end of the year	**251,040**	87,848

20. Borrowings

The Group

	2012 RMB'000	2011 RMB'000
Non-current		
Bank borrowings, secured (a)	188,565	–
Convertible bonds (b)	–	990,802
Senior notes (c)	1,856,395	1,853,345
	2,044,960	2,844,147
Current		
Bank borrowings, unsecured (a)	2,181,145	394,000
Bank borrowings, secured (a)	49,500	310,000
Convertible bonds (b)	177,035	–
	2,407,680	704,000
Total Borrowings	4,452,640	3,548,147

The Company

	2012 RMB'000	2011 RMB'000
Non-current		
Convertible bonds (b)	–	990,802
Senior notes (c)	1,856,395	1,853,345
	1,856,395	2,844,147
Current		
Bank borrowings, unsecured (a)	758,145	–
Convertible bonds (b)	177,035	–
	935,180	–
	2,791,575	2,844,147

20. Borrowings *(Continued)*

(a) Borrowings

At 31 December 2012, the Group's borrowings were repayable as follows:

	The Group			
	Bank borrowings		Other loans	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**2,230,645**	704,000	**177,035**	–
Between 1 and 2 years	**188,565**	–	**–**	–
Between 2 and 5 years	**–**	–	**1,856,395**	2,844,147
	2,419,210	704,000	**2,033,430**	2,844,147

	The Company			
	Bank borrowings		Others loans	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**758,145**	–	**177,035**	–
Between 1 and 2 years	**–**	–	**–**	–
Between 2 and 5 years	**–**	–	**1,856,395**	2,844,147
	758,145	–	**2,033,430**	2,844,147

As at 31 December 2012, the bank borrowings included: (i) RMB49,500,000 secured by leasehold land (Note 6); (ii) RMB188,565,000 guaranteed by a standby letter of credit for RMB200,000,000 issued by China Merchants Bank Shenzhen Wenjindu Sub-branch and secured by the Group's restricted bank deposits of RMB40,000,000 (Note 14(a)).

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

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

	2012	2011
Bank borrowings	**4.88%**	6.98%

The carrying amounts of bank borrowings approximate their fair value.

20. Borrowings *(Continued)*

(a) Borrowings *(Continued)*

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
6 months or less	**1,116,710**	300,000	**758,145**	–
6 to 12 months	**1,302,500**	404,000	**–**	–
1 to 5 years	**2,033,430**	2,844,147	**2,033,430**	2,844,147
	4,452,640	3,548,147	**2,791,575**	2,844,147

The carrying amounts and fair value of the non-current borrowings are denominated as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**1,649,535**	1,694,802	**177,035**	990,802
USD	**2,803,105**	1,853,345	**2,614,540**	1,853,345
	4,452,640	3,548,147	**2,791,575**	2,844,147

Reclassification of syndicated bank loan

In November 2012, the Company obtained a syndicated bank loan facility of USD150,000,000 with a floating interest rate of 3-month USD LIBOR plus 4% per annum, to support its redemption of the outstanding convertible bonds. The loan facility has a three year term. The Company will repay the loan on a semi-annual instalment basis from November 2013. On 29 November 2012, a loan of USD129,321,000 was drawn down under the facility and the value of the liability, taking into account of the transaction cost of USD8,591,000, was determined at the initial recognition.

As at 31 December 2012, the balance of approximately RMB682,330,000 of the syndicated bank loan, which had been recorded as non-current liabilities, was reclassified to current liability because the Group exceeded the maximum amount of capital expenditure for the year ended 31 December 2012 as set out in one of the loan covenants in the loan agreement.

As further disclosed in Note 36, subsequent to the year end on 15 March 2013, the Group obtained a one-off waiver from a majority of the lenders of the syndicated bank loan and accordingly the above-mentioned loan of RMB682,330,000 is no longer considered as repayable on demand.

Undrawn bank borrowings facilities

As at 31 December 2012, the Group had undrawn bank borrowing facilities of RMB1,250 million which would be expiring beyond one year. Such facility can be used to finance the Group's working capital or its capital expenditures.

20. Borrowings *(Continued)*

(b) Convertible bonds

The Company issued convertible bonds with a total par value of RMB1,025,000,000 in April 2010 at a fixed interest rate of 4.5%. The bonds mature in five years from the issue date at their nominal value of RMB1,025,000,000 or can be converted into the Company's ordinary 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 costs of RMB25,679,000, were determined upon issuance of the bonds.

The fair value of the liability components, which were 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).

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

	The Group and The Company *RMB'000*
Liability component at 1 January 2011	**992,989**
Including:	
– Interest payable – current portion	11,531
– Carrying amount at 1 January 2011	981,458
Liability component at 1 January 2011	992,989
Interest expense on convertible bonds *(Note 27)*	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
Liability component at 1 January 2012	1,002,333
Interest expense on convertible bonds *(Note 27)*	52,138
Interest paid	(52,454)
Redemption of convertible bonds	(822,943)
Liability component at 31 December 2012	**179,074**
Including:	
– Interest payable – current portion	2,039
– Carrying amount at 31 December 2012	177,035

The Company redeemed convertible bonds with a par value of RMB843,800,000 in October and November 2012, by paying total consideration and transaction costs of RMB852,037,000.

The fair value of the liability component of the outstanding convertible bonds at 31 December 2012 amounted to RMB176,091,000 (2011: RMB965,754,000). According to redemption term set out in the convertible bonds offering memorandum, the issuer will, at the option of the holder of any bond, redeem all or some of such holder's bonds on 1 April 2013. As a result, the outstanding balance of the convertible bonds has been transferred to current liability at 31 December 2012.

20. Borrowings *(Continued)*

(c) Senior notes

In April 2011, the Group issued senior notes with a total par value of USD300,000,000, which were denominated in USD with a fixed interest rate of 7.625%. 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 ("Acquest Honour"), Summit Challenge Limited ("Summit Challenge"), Absolute Divine Limited ("Absolute Divine") and Expand Base Limited ("Expand Base"). The guarantors are all intermediate holding companies that collectively control the operation and assets of the PRC subsidiaries of the Group. The values of the liability, taking into account of the transaction costs of USD6,706,000, were determined upon issuance of the notes.

The fair value of the senior notes at 31 December 2012 amounted to RMB1,885,650,000 (2011: RMB1,531,119,000).

21. Trade, other payables and accruals

The Group

	2012 *RMB'000*	2011 *RMB'000*
Trade payables (a)	**1,417,579**	1,082,194
Advances from customers (b)	**594,833**	246,518
Payables for leasehold land, property, plant and equipment	**1,024,471**	1,013,444
Salaries, wages and staff welfares payables	**135,969**	96,392
Interest payables – current portion	**39,579**	47,565
Government grants received in advance	**10,337**	5,462
Dividends payable	**407**	407
Other payables and accruals	**80,782**	138,655
	3,303,957	2,630,637

(a) As at 31 December 2012 and 2011, the ageing analysis of trade payables was as follows:

	2012 *RMB'000*	2011 *RMB'000*
Within 3 months	**1,071,231**	849,373
3 to 6 months	**224,292**	210,218
6 to 12 months	**107,392**	12,661
Over 12 months	**14,664**	9,942
	1,417,579	1,082,194

21. Trade, other payables and accruals *(Continued)*

The Group *(Continued)*

(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 occur.

(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

	2012	2011
	RMB'000	*RMB'000*
Interest payables – current portion	**37,984**	47,565
Dividends payable	**407**	407
Other payables and accruals	**5,407**	668
	43,798	48,640

22. Other income

	2012	2011
	RMB'000	*RMB'000*
Sales of waste products	**76,021**	62,036
Amortisation of deferred income *(Note 19)*	**37,780**	30,480
Government grants relating to expenses	**1,693**	6,676
Interest income	**6,232**	10,061
Others	**7,591**	8,366
	129,317	117,619

23. Expense by nature

	2012 RMB'000	2011 RMB'000
Changes in inventories of finished goods and work in progress	(229,606)	(245,537)
Raw materials and consumables used	8,826,089	6,603,790
Employee benefit expenses *(Note 24)*	671,000	440,010
Depreciation *(Note 7)*	528,619	365,689
Amortisation of leasehold land payments *(Note 6)*	4,527	2,586
Impairment charges for property, plant and equipment *(Note 7)*	461	4,433
Impairment charges for intangible assets *(Note 8)*	1,030	1,482
Transportation expenses	421,098	302,909
Utilities purchased	22,860	29,802
Travelling and office expenses	36,613	20,698
Reversal of inventories provision *(Note 12)*	(264)	(540)
(Reversal of provision)/Provision for trade receivables *(Note 13)*	(76)	355
Auditors' remuneration	5,252	4,899
Land use tax, real estate tax and other taxes	85,213	58,804
Advertisement fees	18,952	15,911
Foreign exchange losses *(Note 30)*	6,381	49,995
Others	123,985	83,614
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	10,522,134	7,738,900

24. Employee benefit expenses including directors' emoluments

	2012 RMB'000	2011 RMB'000
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	596,399	390,555
– Pension costs-defined contribution plans *(a)*	66,474	34,066
– Share options granted to directors and employees *(Note 17)*	8,127	15,389
	671,000	440,010

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

(a) Pension 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 percentages of the employees' monthly salaries and wages, subject to certain ceilings.

(b) Directors' emoluments

The emoluments of every director for the years ended 31 December 2012 and 2011, on a named basis, are set out as below:

	2012			
Name of Director	Fees *RMB'000*	Salaries, allowances and pension costs *RMB'000*	Fair value of employee share options granted *RMB'000*	Total *RMB'000*
Executive Directors:				
Li, Xuechun	–	2,221	–	2,221
Wang, Longxiang	–	1,974	–	1,974
Chen, Yuan	–	1,365	2,698	4,063
Feng, Zhenquan	–	1,316	–	1,316
Li, Deheng	–	1,313	–	1,313
Xu, Guohua	–	1,134	–	1,134
Li, Guangyu	–	714	–	714
Independent Non-executive Directors:				
Choi, Tze Kit, Sammy	236	–	–	236
Chen, Ning	67	–	–	67
Liang, Wenjun	67	–	–	67
Zheng, Yu (i)	–	–	–	–
	370	10,037	2,698	13,105

(i) Appointed on 31 December 2012.

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

(b) Directors' emoluments *(Continued)*

	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

There was no bonus paid to the directors of the Company for the years ended 31 December 2012 and 2011.

No director waived or agreed to waive any remuneration for the years ended 31 December 2012 and 2011.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 are all directors (2011: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2011 are as follows:

	2012	2011
	RMB'000	*RMB'000*
Salaries and allowances	–	718
Pension costs – defined contribution plans	–	31
Share options granted to employees	–	208
	–	957

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

(c) Five highest paid individuals *(Continued)*

For the years ended 31 December 2012 and 2011, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

The remunerations paid to the above non-director individual for the years ended 31 December 2012 and 2011 fell within the following bands.

	Number of individuals	
	2012	2011
Emolument bands (in HK dollar)		
HKD1,000,001 – HKD1,500,000	–	1

25. Research and development costs

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

	2012 *RMB'000*	2011 *RMB'000*
Raw materials and consumables used	**84,916**	81,087
Employee benefit expenses	**20,071**	24,904
Depreciation	**7,353**	6,114
Others	**13,438**	26,969
	125,778	139,074

All these development costs arose from internal development.

26. Other gain

	2012 *RMB'000*	2011 *RMB'000*
Gain on redemption of convertible bonds *(Note 16(c))*	**15,976**	–

27. Finance costs – net

	2012 *RMB'000*	2011 *RMB'000*
Interest expense:		
Bank borrowings	88,362	27,056
Convertible bonds *(Note 20)*	52,138	55,469
Senior notes	152,086	116,060
Finance costs	292,586	198,585
Less: amounts capitalised on qualifying assets	(41,273)	(62,644)
Finance costs	251,313	135,941
Finance income:		
Foreign Exchange gains on financial activities	(12,378)	(79,882)
Less: amounts credited to the finance costs capitalised on qualifying assets	5,931	5,470
Finance income	(6,447)	(74,412)
Net finance costs	244,866	61,529

28. Taxation

(a) Income tax expense

	2012 *RMB'000*	2011 *RMB'000*
Current income tax		
– PRC enterprise income tax ("EIT")	74,933	114,986
Deferred income tax *(Note 11)*	(11,273)	(2,687)
	63,660	112,299

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 2012 and 2011.

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.

28. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

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

Effective from 5 December 2008, Shandong Fufeng was approved to be a new and high-technology enterprise and entitled to a 15% tax rate from 2008 to 2010. In 2011, its new and high-technology enterprise qualification was further extended for another three years. Accordingly, the effective tax rate for Shandong Fufeng for the year ended 31 December 2012 is 15% (2011: 15%).

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財稅[2011]58號"關於深入實施西部大開發戰略有關稅收政策問題的通知"), companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government will be entitled to a preferential tax rate of 15%.

Some of the Group's subsidiaries in the PRC, namely Baoji Fufeng, IM Fufeng, Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd. ("Hulunbeir Fufeng") and Xinjiang Fufeng Biotechnologies Co., Ltd. ("Xinjiang Fufeng"), were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate.

Baoji Fufeng was also approved to be a new and high-technology enterprise in accordance with the relevant tax laws and regulations in the PRC, and is entitled to a 15% tax rate from 2011 to 2013. The effective tax rate for Baoji Fufeng for the year ended 31 December 2012 is 15% (2011: 15%).

In addition to IM Fufeng's 15% effective tax rate for the year ended 31 December 2012, IM Fufeng was confirmed in 2012 to be entitled to a 50% tax reduction on the above preferential tax rate for 2011 which brought the effective tax rate down to 7.5% for the year ended 31 December 2011. The tax effect, being the difference between IM Fufeng's reduced tax rate of 7.5% for 2011 and its previously determined rate of 12.5% (being 50% reduction from the standard EIT rate of 25%), was recorded in the consolidated income statement for the year ended 31 December 2012.

28. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

Hulunbeir Fufeng was approved to be entitled to the above preferential tax rate from 2012, so the effective tax rate for Hulunbeir Fufeng for the year ended 31 December 2012 is 15% (2011: 25%).

Xinjiang Fufeng was set up as a domestic limited liability company on 15 February 2012 and was verbally confirmed by the local tax authority of its provisional entitlement of the above preferential tax rate. Accordingly, its applicate EIT rate is estimated to be 15% for the year ended 31 December 2012.

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 2012 and 2011.

Shenhua Pharmaceutical was acquired by the Group on 25 January 2008 and became a foreign-invested limited liability company since then. It is entitled to a two-year full exemption followed by a three-year 50% reduction of EIT, commencing from 2008. Shenhua Pharmaceutical was also approved to be a new and high-technology enterprise in accordance with the relevant tax laws and regulations in the PRC, and is entitled to a 15% tax rate from 2011 to 2013. The effective tax rate for Shenhua Pharmaceutical for the year ended 31 December 2012 is 12.5% by chosing 50% reduction from the standard EIT rate of 25% (2011: 12.5%).

Beijing Huijinhuaying is a domestic limited liability company. The effective tax rate is 25% for the years ended 31 December 2012 and 2011.

Jiangsu Fufeng Biotechnologies Company Limited ("Jiangsu Fufeng") was set up as a domestic limited liability company on 11 October 2011 in Jinhu, Jiangsu Province. The effective tax rate is 25% for the years ended 31 December 2012 and 2011.

28. 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:

	2012	2011
	RMB'000	*RMB'000*
Profit before income tax	**490,213**	716,436
Tax calculated at PRC statutory rate of 25%	**122,553**	179,109
Effect of tax exemption	**(53,444)**	(71,845)
Withholding tax on dividends from PRC subsidiaries	**–**	5,811
Unrecognised tax losses	**314**	536
Utilisation of previously unrecognised tax losses	**(445)**	–
Effect of change in tax rate upon assessing deferred tax assets	**–**	3,466
Expenses not deductible for tax purposes	**2,119**	721
Income not subject to tax	**(7,437)**	(5,499)
	63,660	112,299

(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 payable/(recoverable) is the net difference between output VAT and deductible input VAT.

29. Earnings per share

(a) Basic

Basic earnings per share for the years ended 31 December 2012 and 2011 are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year.

	2012	2011
	RMB'000	*RMB'000*
Profit attributable to the Shareholders	**426,553**	604,137
Weighted average number of ordinary shares in issue (thousands)	**1,729,552**	1,718,686
Basic earnings per share (RMB cents per share)	**24.66**	35.15

29. 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.

In 2012, convertible bonds are anti-diluted which are not included in calculation of diluted EPS.

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit attributable to the Shareholders	**426,553**	604,137
Interest expense on convertible debt (net of tax)	**–**	37,677
Profit used to determine diluted earnings per share	**426,553**	641,814
Weighted average number of ordinary shares in issue (thousands)	**1,729,552**	1,718,686
Adjustments for:		
– Assumed conversion of convertible debt (thousands)	**–**	165,743
– Share options (thousands)	**1,515**	28,725
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,731,067**	1,913,154
Diluted earnings per share (RMB cents per share)	**24.64**	33.55

30. Net foreign exchange gains/(losses)

	2012	2011
	RMB'000	*RMB'000*
Other expenses *(Note 23)*	**(6,381)**	(49,995)
Finance income *(Note 27)*	**6,447**	74,412
	66	24,417

31. Dividends

	2012 RMB'000	2011 RMB'000
Interim, paid	–	141,018
Final, proposed	–	41,981
	–	182,999

The final dividends paid in 2012 and 2011 were HKD51,561,000 (equivalent to RMB41,981,000) and HKD257,803,000 (equivalent to RMB217,070,000) respectively, representing HKD3 cents (equivalent to RMB2.44 cents) per share in 2012 and HKD15 cents (equivalent to RMB12.63 cents) per share in 2011.

At a meeting of the Board held on 28 March 2013, no final dividend in respect of the year ended 31 December 2012 was proposed.

32. Notes to consolidated cash flow statement

(a) Cash generated from operations

	2012 RMB'000	2011 RMB'000
Profit before income tax	490,213	716,437
Adjustments for:		
– Reversal of write-down of inventories *(Note 12)*	(264)	(540)
– (Reversal of provision)/Provision for trade receivables *(Note 13)*	(76)	355
– Impairment charge for property, plant and equipment *(Note 7)*	461	4,433
– Impairment charge for intangible assets *(Note 8)*	1,030	1,482
– Depreciation *(Note 7)*	528,619	365,689
– Amortisation of leasehold land payments *(Note 6)*	4,527	2,586
– Amortisation of deferred income *(Note 22)*	(37,780)	(30,480)
– Gain on disposal of property, plant and equipment *(b)*	(521)	(349)
– Gain on disposal of leasehold land prepayments *(c)*	–	(49)
– Employee share option schemes *(Notes 17, 24)*	8,127	15,389
– Gain on redemption of convertible bonds *(Note 26)*	(15,976)	–
– Interest income *(Note 22)*	(6,232)	(10,061)
– Interest expenses *(Note 27)*	251,313	135,941
– Foreign exchange gains on financing activities *(Note 27)*	(6,447)	(74,412)
Changes in working capital:		
– Inventories	(235,098)	(468,628)
– Trade and other receivables	(573,458)	(922,319)
– Restricted bank deposits	(2,200)	142,105
– Trade, other payables and accruals	737,958	580,053
Cash generated from operations	1,144,196	457,632

32. Notes to consolidated cash flow statement *(Continued)*

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

	2012 *RMB'000*	2011 *RMB'000*
Net book amount for sale *(Note 7)*	304	3,403
Gain on disposal of property, plant and equipment	521	349
Proceeds from disposal of property, plant and equipment	825	3,752

(c) Proceeds from disposal of leasehold land payments

	2012 *RMB'000*	2011 *RMB'000*
Net book amount for sale *(Note 6)*	–	324
Gain on disposal of leasehold land payments	–	49
Proceeds from disposal of leasehold land payments	–	373

33. Commitments

The Group

Capital commitments

	2012 *RMB'000*	2011 *RMB'000*
Purchase of property, plant and equipment – Contracted but not yet incurred	213,318	797,283

Operating lease commitments – the Group as lessee

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

	2012 *RMB'000*	2011 *RMB'000*
No later than 1 year	2,789	1,727
Later than 1 year and no later than 5 years	1,838	12
	4,627	1,739

33. Commitments *(Continued)*

The Company

As at 31 December 2012 and 2011, the Company had no material capital commitments.

Operating lease commitments – the Company as lessee

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

	2012 *RMB'000*	2011 *RMB'000*
No later than 1 year	715	284
Later than 1 year and no later than 5 years	1,223	–
	1,938	284

34. Related party transactions and balances

The Group

(a) Key management compensation

	2012 *RMB'000*	2011 *RMB'000*
Salaries and allowances	17,509	12,491
Pension costs – defined contribution plan	828	624
Share options granted to key management	2,818	4,627
	21,155	17,742

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.

35. Particulars of subsidiaries

As at 31 December 2012, 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	Hong Kong	HKD2	Investment holding in Hong Kong
Shandong Fufeng	PRC	RMB370,500,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweetener and other related products in the PRC
Baoji Fufeng	PRC	HKD250,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers and other related products in the PRC

35. 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 sweetener and other related products, autoclaved aerated concrete block in the PRC
Shandong Fufeng Biotechnologies Development Company Limited	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	Own and operate self-used office building
Hulunbeir Fufeng (b)	PRC	RMB1,000,000,000	Manufacture and sales of starch, starch sweeteners, amino acids, monosodium glutamate, xanthan gum, fertilisers, and other related products in the PRC
Fufeng (Singapore) Pte. Ltd. ("Fufeng Singapore") (c)	Singapore	SGD1,300,000	Sales of monosodium glutamate and other related products in the Southeast Asia
Jiangsu Fufeng	PRC	RMB5,000,000	Biological techniques research and development, promotion and industrialisation of new biological techniques and achievements, information services of biological technique. Sales of xanthan gum, amino acids and starch sweetener in the PRC

35. Particulars of subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Registered/ Issued and paid capital	Principal activities & place of operation
Hulunbeir Shengmin Agriculture Development Company Limited	PRC	RMB10,000,000	Does not carry out any business activities currently
Xinjiang Fufeng (a)	PRC	RMB400,000,000	Manufacture and sales of amino acid, xanthan gum, and other related products in the PRC

(a) Xinjiang Fufeng was established on 15 February 2012, with a registered capital of RMB400,000,000. It is held 60% by IM Fufeng and 40% by Baoji Fufeng.

(b) The registered capital of Hulunbeir Fufeng was increased to RMB1,000,000,000 on 14 May 2012.

(c) The registered capital of Fufeng Singapore was increased to SGD1,300,000 on 10 January 2012.

36. Events after the balance sheet date

Significant events of the Group after the balance sheet date are as follows:

i) As described in Note 20(a), a syndicated bank loan of approximately RMB682,330,000 with contractual maturity beyond 31 December 2013 has been reclassified as a current liability because the Group did not meet one of the loan covenants as at 31 December 2012. On 15 March 2013, the Group received a one-off consent from a majority of the lenders of the syndicated loan to revise the relevant covenant as described in Note 20(a) and to waive the Group's compliance with the original term. As a result, the syndicated bank loan of RMB682,330,000 is no longer considered as repayable on demand, and will become wholly repayable after May 2014 in accordance with the original loan agreement.

ii) On 25 March 2013, the Company entered into an underwriting agreement with certain joint underwriters to implement a rights issue scheme, under which no less than 348,209,600 rights shares will be issued at a subscription price of HKD1.80 each on the basis of one rights share for every five existing shares held on the record date. The Company plans to raise approximately HKD627 million to HKD638 million before expenses by way of such a rights issue.

Share Information

Stock Code 546

Board lot 1,000 shares

Price and turnover

2012	Share price High (HKD)	Share price Low (HKD)	Turnover Share ('000)
January	4.14	3.56	51,948
February	4.30	3.67	103,701
March	3.92	3.32	52,422
April	3.55	2.99	31,633
May	3.21	2.80	34,227
June	3.20	2.61	48,848
July	3.13	2.32	27,287
August	2.98	2.35	49,391
September	2.89	2.52	24,450
October	3.15	2.54	50,341
November	3.47	2.90	67,869
December	3.44	2.90	70,909

Issued capital at 31 December 2012 1,741,048,000 shares

Closing price at 31 December 2012 HKD3.42 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
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
Fufeng Singapore	Fufeng (Singapore) Pte. Ltd, an indirect wholly-owned subsidiary of the Company
Group	the Company and its subsidiaries

Hero Elite	Hero Elite Limited, a company with limited liability, the issued share capital of which is owned as the 14.3% by 王龍祥 (Wang Longxiang), 14.3% by 來鳳堂 (Lai Fengtang), 14.3% by 劉振余 (Liu Zhenyu), 14.3% by 趙蘭坤 (Zhao Lankun), 10.7% by 王俊任 (Wang Junren), 10.7% by 嚴紅偉 (Yan Hongwei), 10.7% by 李曼山 (Li Manshan) and 10.7% by 沈德權 (Shen Dequan)
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd), an indirect wholly-owned subsidiary of the Company
Hulunbeir Plant	the production plant of the Group located at Hulunbeir, Inner Monogolia Autonomous Region, the PRC
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

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
U.S.	the United States of America
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