Fufeng Group Limited

阜豐集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 546)

INTERIM REPORT 2013

CONTENTS

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ADRs Information

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

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Business and Financial Review

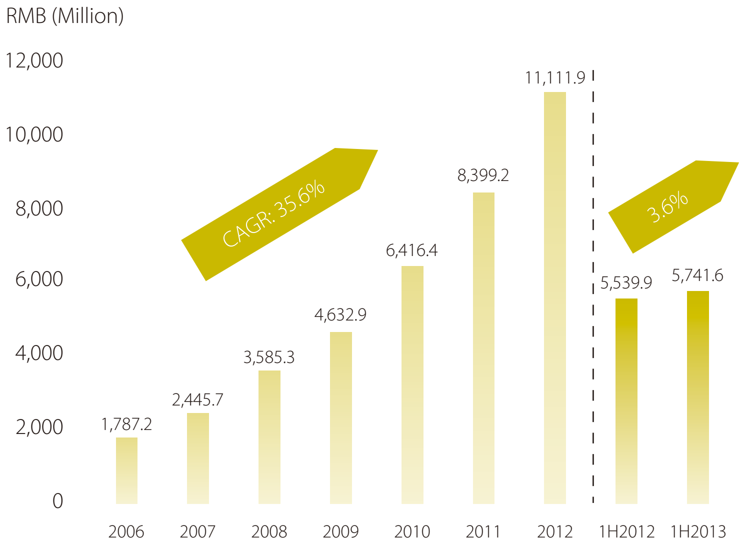
Overview

In the first half of 2013, the Group continued to be confronted with unfavorable factors, including but not limited to, still ongoing industry consolidation and China's domestic macro-control measures. In addition, even though the Group remains committed to making necessary ongoing investments for implementation of its long-term development strategy, the Group also has to actively implement cost control in order to address these challenges.

In terms of the MSG business, the Group faced lackluster conditions in the domestic catering and consumer market as well as pricing pressure due to market competition. Despite this market conditions, the Group was able to increase its market share and sales volume by leveraging its cost advantages to adopt competitive pricing. As a result, slight decrease in revenue for its MSG business, the Group registered a decrease in MSG's gross profit and gross profit margin. In terms of the Xanthan gum business, another main segment of the Group, strong market demand resulted in a continuous increase in the average price of xanthan gum and a significant increase in gross profit. In addition, high-end amino acid products, another relatively new product of the Group, has also commenced commercial production in the new Xinjiang Plant at the end of 2012.

For the period of six months ended 30 June 2013, the Group recorded an increase of approximately 3.6% in revenue to approximately RMB5,741.6 million from approximately RMB5,539.9 million in the first half of 2012. The revenue growth was primarily attributable to the increase in sales volume of MSG and xanthan gum products driven by growth in market demand. Such increase in sales volume was achieved as we were able to expand the production capacity of the Group, particularly with the commencement of operations of Hulunbeir Plant Phase 2 and Xinjiang Plant, in the second quarter and the fourth quarter of 2012, respectively.

The table below illustrates the growth trend of the Group's revenue:



The Group's gross profit increased from approximately RMB824.8 million in the first half of 2012 to approximately RMB926.2 million in the first half of 2013. It represented an increase of 12.3%, primarily due to an increase in gross profit of the Group's Xanthan gum business increase.

In the first half of 2013, the average selling price of the Group's MSG decreased by 16.2% compared to the corresponding period of 2012. On the other hand, the ASP of the Group's xanthan gum increased by about 41.2% as compared to the corresponding period of 2012. Production costs of the Group, including the prices of corn kernels, coal and chemical products, were stable as compared with the corresponding period in 2012. The Group's overall gross profit margin increased from about 14.9% in the first half of 2012 to about 16.1% in the first half of 2013 primarily due to increase in gross profit margin of its Xantham gum business from about 39.2% in the first half of 2012 to about 58.7% in the first half of 2013 and the relatively higher profitability level of our high-end amino acid products.

In view of the challenging market conditions, the Group also has to actively implement cost controls. We believe that the Group has the ability to leverage on its economies of scale and production capability to manage its costs effectively. For example, the Group's ability to internally produce and use synthetic ammonia was instrumental in reducing the cost of chemical materials the Group used in the first half of 2013, offsetting the pressure of other rising costs in 2013.

The production and sales volume of MSG increased by about 18.2% and about 10.7% in the first half of 2013 as compared to the same period in 2012, respectively. The production volume of MSG increased mainly as a result of the production capacity of MSG in the Hulunbeir Plant Phase 2 being fully operational from the second half of 2012. The production and sales volume of xanthan gum increased by about 30.1% and about 5.4% in the first half of 2013 over the same period in 2012, respectively. The production volume of xanthan gum increased mainly as we were able to start production of xanthan gum in the Xinjiang Plant since the fourth quarter of 2012. The diversity of the Group's product portfolio allowed the Group to maintain its overall revenue growth momentum in the first half of 2013.

High-end Amino Acid Business

The high-end amino acid business is the Group's new growth driver and is included in our MSG business segment. The Group is able to develop high-end amino acid products as it is able to develop different type of corn-based biochemical products with its fermentation technology. The high-end amino acid products included valine (纈氨酸), leucine (亮氨酸), isoleucine (異亮氨酸) and glutamine (谷氨醯胺) etc. During the period, the total sales amount of high-end amino acid products was approximately RMB94.0 million. Our high-end amino acid products generally enjoy a higher profitability margin and focus on healthcare and pharmaceutical materials industries.

In 2012, the Group set up a plant in Xinjiang to mainly produce xanthan gum and high-end amino acid products, enabling it to tap the rich local coal resources to quickly develop its high-end amino acid products with cost advantage. The short-term goal of the Group is to become one of the world's main producers and suppliers by market share for several of its key amino acid products type. The development and production of these products will further diversify the Group's product and revenue mix. The Group also plans to extend its business scope from the production and sales of typical amino acid products for bulk trade to those of high-end amino acid products.

In addition, we also continued with the development of threonine and lysine products. Threonine and lysine are different types of amino acid which are used as animal feed additives. In the first half of 2013, the Group sold 13,856 tonnes of threonine as compared to the sales volume of 7,742 tonnes in the same period of 2012, representing a growth of 79.0%.

The group has completed the new production capacity of xanthan gum and high-end amino acid with 15,000 tonnes and 1,500 tonnes respectively in Xinjiang Plant at the end of 2012. During the first half of 2013, the Group started constructing an additional 1,500 tonnes production capacity of high-end amino acid in Xinjiang Plant. The annual production capacity of high-end amino acid is expected to reach 3,000 tonnes in the third quarter of 2013.

Market Overview

The Group continued to face challenges in both internal operations and external market environment in the first half of 2013. The overall demand growth in the industry of MSG in the first half of 2013 slowed down whilst the market demand of xanthan gum increased substantially in early 2013 due to the strong demand from the oil industry. Costs of major raw materials including corn kernels and coal remained relatively stable during the period as compared to the first half of 2012. The Group will continue to review and adjust its pricing strategy and production capacity planning in order to further its market share going forward.

MSG segment

The MSG segment mainly includes the production and sales of MSG, fertilisers, threonine, high-end amino acid products and other related products.

The MSG market in the PRC has become increasingly concentrated and the Group has adopted a competitive pricing strategy and utilised its production capacity scale to win market share in recent years, and has become the world's leading producer in the MSG industry.

Xanthan gum segment

The global market demand for xanthan gum has increased continuously in recent years. The Group has increased its production capacity and continues to increase its market share since 2009. The total supply of the top three xanthan gum producers continued to dominate this market.

Operational Review of the Group

The new Hulunbeir Plant has been fully commenced operational since the second half of 2012, allowing the Group to achieve record level of sales in the first half of 2013 as a result of the increase in production capacity. Certain indicative operational figures of the Group are set out below:

Turnover/Gross profit/Gross profit margin of the Group

	Six months ended 30 June		Change
	2013	2012	**%**
Turnover (RMB'000)	**5,741,553**	5,539,921	3.6
Gross profit (RMB'000)	**926,237**	824,808	12.3
Gross profit margin (%)	**16.1**	14.9	1.2ppts.

The improvement in the performance of the Group is mainly due to the increase in sales volume and selling prices of xanthan gum and high-end amino acid products. On the other hand, the ASP of MSG decreased significantly as a result of competitive pricing amidst market consolidation. These are discussed in more details in the following sections.

Profit attributable to the Shareholders

	Six months ended 30 June		
	2013	2012	**Change**
	RMB'000	RMB'000	**%**
As reported	**206,326**	274,269	(24.8)

As a result of increased borrowings level, expansion of sales distribution network and increased transportation costs, total administrative costs (including selling and marketing expenses, administrative expenses and finance costs) increased by 32.9%.

As a result of the foregoing, profit attributable to Shareholders decreased by about 24.8%.

Segment Highlights

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

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

	Six months ended 30 June 2013			Six months ended 30 June 2012			Increase/(Decrease)		
	MSG	**Xanthan gum**	**Group**	MSG	Xanthan gum	Group	MSG	Xanthan gum	Group
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	%	%	%
	Unaudited	**Unaudited**	**Unaudited**	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenue	**4,998,521**	**743,032**	**5,741,553**	5,040,864	499,057	5,539,921	(0.8)	48.9	3.6
Gross profit	**490,317**	**435,920**	**926,237**	628,966	195,842	824,808	(22.0)	122.6	12.3
Gross profit ratio	**9.8%**	**58.7%**	**16.1%**	12.5%	39.2%	14.9%	(2.7) ppts.	19.5ppts.	1.2ppts.
Segment results	**2,108**	**392,227**		242,503	178,371		(99.1)	119.9	
Segment net assets									
Assets	**10,431,097**	**1,998,112**		9,159,824	1,724,601		13.9	15.9	
Liabilities	**5,087,037**	**330,572**		3,908,149	506,552		30.2	(34.7)	
Net assets	**5,344,060**	**1,667,540**		5,251,675	1,218,049		1.8	36.9	

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

MSG Segment

Revenue and average selling price ("ASP")

Revenue generated from the sales of the MSG segment products decreased to approximately RMB4,998.5 million in the first half of 2013, representing an decrease of RMB42.4 million or 0.8%, as compared with that in the corresponding period of 2012, which was mainly attributed to the decrease in the ASP of MSG. The sales volume of MSG was approximately 508,382 tonnes in the first half of 2013, representing an increase of 10.7%, as compared with that in the corresponding period of 2012, mainly attributed to production capacity increased and a strategic decision to maintain its competitive pricing policies in order to win market share.

The table below sets out the revenue of the products in this segment for the six months ended 30 June 2013 and 2012:

	Six months ended 30 June		
Product	**2013**	2012	**Change**
	RMB'000	RMB'000	**%**
MSG	**3,151,313**	3,394,687	(7.2)
Glutamic acid	**29,830**	49,786	(40.1)
Fertilisers	**468,869**	468,203	0.1
Corn refined products	**873,148**	725,302	20.4
Starch sweeteners	**193,452**	199,916	(3.2)
Threonine	**131,598**	76,327	72.4
High-end amino acid products	**94,007**	43,209	117.6
Corn oil	**20,081**	53,598	(62.5)
Compound seasoning	**3,002**	2,703	11.1
Others	**33,221**	27,133	22.4
	4,998,521	5,040,864	(0.8)

MSG

The Group maintained its market leadership in the MSG segment through expanding production capacity, stepping up marketing efforts and maintaining competitive pricing. While the ASP of MSG decreased by significantly 16.2%, from RMB7,382 per tonne in the first half of 2012 to RMB6,189 per tonne in the first half of 2013, the turnover of MSG in the first half of 2013 decreased by 7.2% and sales volume increased by 10.7% to 508,382 tonnes as compared with the corresponding period of 2012.

In the first half of 2013, the Group also strengthened the export of MSG products and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers. The export of MSG in term of sales volume increased by 13.2% in the first half of 2013. The export of MSG from about RMB364.3 million in the first half of 2012 slightly decreased to about RMB344.4 million in the first half of 2013.

Fertilisers

Our new Hulunbeir Plant commenced full operation in the second half of 2012, resulting in the increase of the annual production capacity of fertilisers to 1,100,000 tonnes for the six months ended 30 June 2013. The sales volume increased by about 17.2% compared to the first six months of 2012. But the ASP of fertilisers decreased from approximately RMB840 per tonne in the first half of 2012 to approximately RMB709 per tonne in the first half of 2013, representing a decrease of about 15.6%, which is in line with prevailing market conditions.

Corn refined products

In line with the cost of corn, the ASP of corn refined products remained fairly stable during the period. The revenue of corn refined products increased by about 20.4% for the six months ended 30 June 2013 as compared with that in 2012, as a result of increased sales volume.

Starch sweeteners

Turnover of starch sweeteners decreased by about 3.2% in the first half of 2013 primarily because the ASP decreased by about 5.1% to approximately RMB3,026 per tonne in the first half of 2013 from approximately RMB3,189 per tonne in the corresponding period of 2012, whilst the demand for our starch sweetener remained fairly stable.

Threonine

Threonine is a relatively new product of the Group. The annual threonine production capacity is approximately 40,000 tonnes. Threonine is an essential amino acid which maintains body protein balance and is mainly used as animal feed additives. The revenue of threonine amounted to approximately RMB131.6 million in the first half of 2013.

High-end amino acid products

The new high-end amino acid products commenced production in new Xinjiang Plant at the end of 2012 with annual production capacity of high-end amino acid at 1,500 tonnes.

The total sales amount of high-end amino acid products including valine, leucine, isoleucine and glutamine, increased to approximately RMB94.0 million in the first half of 2013 compared with the same period in 2012. The Group is striving to continuously develop these new products. Our objective is to strengthen the brand name of the Group and also continue developing new products for the industrial and retail markets, with a view to enhance market recognition of the Group's products and generate higher demand for such products.

Gross Profit and Gross Profit Margin

The gross profit of this segment is set out below:

	Six months ended 30 June		
	2013	2012	**Change**
Gross profit (RMB'000)	**490,317**	628,966	(22.0)%
Gross profit margin (%)	**9.8**	12.5	(2.7) ppts.

The lower ASP of MSG products resulted in lower gross profit margins during the period. Gross profit decreased to RMB490.3 million and gross profit margin fell by 2.7 percentage points to 9.8%.

The lower ASP of MSG was a key factor affecting gross profit margin. The Group has maintained its competitive pricing strategy in order to win market share. As oversupply condition gradually returns to normal, we believe that ASP for MSG is stabilising due to a reversal in ASP seen in July 2013.

The Group expects that pricing power and leading market position for MSG will maintain or improve from the current levels in the second half of 2013.

Production costs

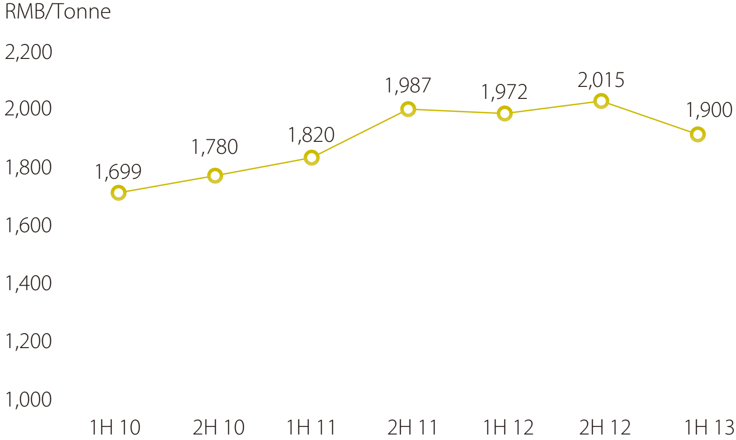
	Six months ended 30 June				
	2013		2012		Change
	RMB'000	%	RMB'000	%	%
Major raw materials					
Corn kernels	2,739,526	58.5	2,465,335	55.3	11.1
Liquid ammonia	199,369	4.3	342,466	7.7	(41.8)
Sulphuric acid	109,729	2.3	95,161	2.1	15.3
Energy					
Coal	540,579	11.5	485,022	10.9	11.5
Depreciation	279,367	6.0	219,736	4.9	27.1
Employee benefits	222,994	4.8	206,404	4.6	8.0
Others	590,400	12.6	643,076	14.5	(8.2)
Total cost of production	4,681,964	100.0	4,457,200	100.0	5.0

Corn kernels

During the first half of 2013, corn kernels accounted for approximately 58.5% (1H 2012: 55.3%) of the total production cost of this segment. Market demand remained stable whilst the price of corn kernels decreased during the first six months of 2013. The average cost of corn kernels for the first half of 2013 was approximately RMB1,900 per tonne, which represents an decrease of approximately RMB72 per tonne or 3.7% from that of the corresponding period in 2012.

The average cost of corn kernels has been returned to stable. In addition, the production capacity of composite ammonia has been fully operated since the second half of 2012, thereby reducing a significant proportion of liquid ammonia in the production cost component. The cost of corn kernels as a percentage of total production costs increased by 3.2%.

Price Trend of Corn Kernels



Liquid ammonia

Liquid ammonia accounted for approximately 4.3% (1H 2012: 7.7%) of total production cost in this segment in the first half of 2013. As a result of the stable market demand, the average unit cost of liquid ammonia for the first half of 2013 decreased to approximately RMB2,495 per tonne, which represents a decrease of approximately RMB439 per tonne or 15.0% from that of 2012. In addition, the Group has additional capacity of composite ammonia that was able to counteract the higher prices of liquid ammonia. Therefore, the cost of liquid ammonia as a percentage of total production costs decreased by 3.4%.

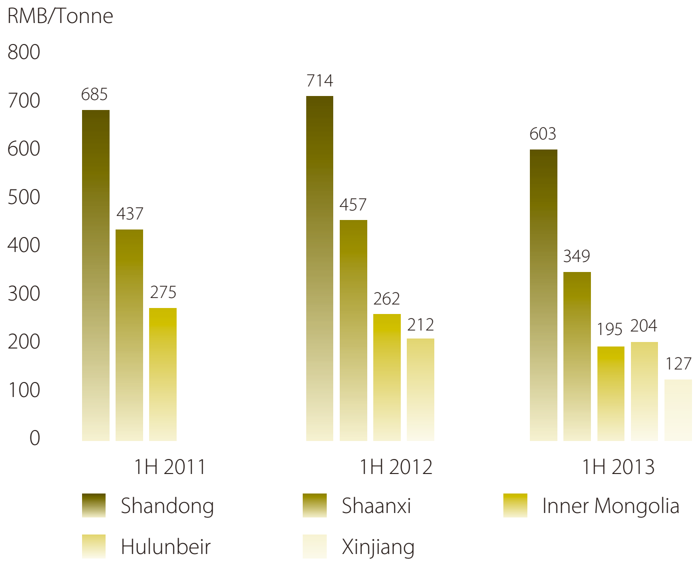
Sulphuric acid

Sulphuric acid accounted for approximately 2.3% (1H 2012: 2.1%) of total production cost in this segment in the first half of 2013. As compared with the average unit cost of sulphuric acid in the first half of 2012, the average unit cost of sulphuric acid decreased to approximately RMB362 per tonne, which represents decrease of approximately RMB108 per tonne or 23.0%.

Coal

Coal accounted for about 11.5% of total production cost in this segment in the first half of 2013 (1H 2012: 10.9%). The average unit cost of coal for the first half of 2013 was RMB220 per tonne, a decrease of RMB71 per tonne or 24.4% from the first half of 2012. The decrease in coal prices reflected a general downward trend in commodity prices during the period.

The Group's major production bases in Inner Mongolia, Hulunbeir and Xinjiang, with access to lower-cost coal, are instrumental in strengthening the Group's pricing power. The chart below shows coal costs at each of our plants in Shandong, Shaanxi, Inner Mongolia, Hulunbeir and Xinjiang:



Other production costs

The increase in cost of depreciation and employee benefits was mainly due to the completion of enhancing production capacity in the Hulunbeir Plant Phase 2 and Xinjiang Plant since the second half of 2012.

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	Six months ended 30 June 2013 Tonnes	2012 Tonnes	Change %
MSG			
Annual designed production capacity (Note)	**525,000**	483,333	8.6
Actual production output	**540,408**	457,053	18.2
Utilisation rate	**102.9%**	94.6%	
Glutamic acid			
Annual designed production capacity (Note)	**410,000**	376,667	8.8
Actual production output	**445,658**	378,574	17.7
Utilisation rate	**108.7%**	100.5%	
Fertilisers			
Annual designed production capacity (Note)	**550,000**	508,333	8.2
Actual production output	**555,601**	501,714	10.7
Utilisation rate	**101.0%**	98.7%	
Starch sweeteners			
Annual designed production capacity (Note)	**70,000**	70,000	–
Actual production output	**59,353**	56,914	4.3
Utilisation rate	**84.8%**	81.3%	

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

Utilisation rates increased slightly in the first half of 2013, as the Group was able to increase its actual production output to meet market demand resulted in increased market share. Except for starch sweeteners, utilisation rates for the other products of the Group are now over 100%, reflecting the Group's ability to utilise its additional production capacity it has built in recent period.

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 six months ended 30 June 2013 and 2012:

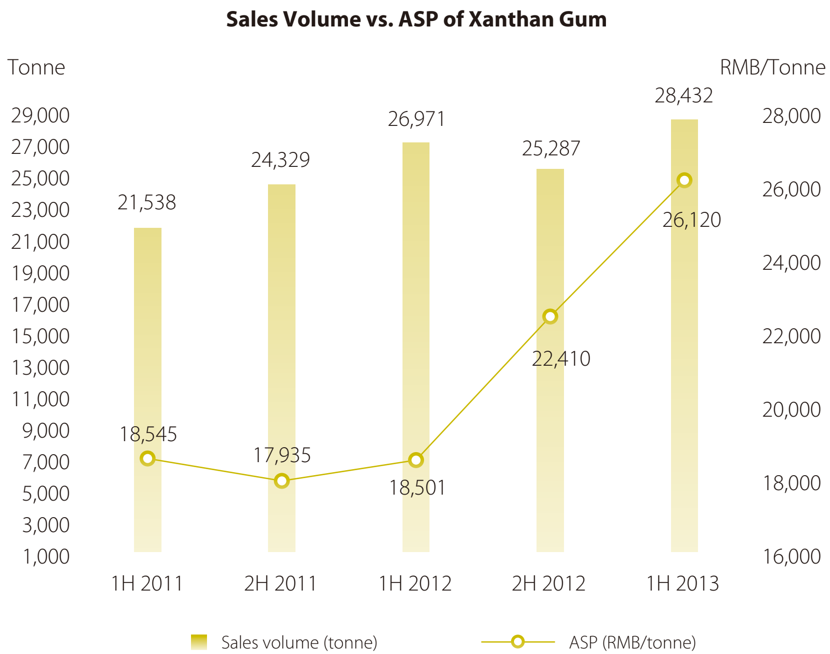
	Six months ended 30 June		Change
	2013	2012	**%**
Sales amount (RMB'000)	**743,032**	499,057	48.9
ASP (RMB/tonne)	**26,120**	18,501	41.2
Gross profit (RMB'000)	**435,920**	195,842	122.6
Gross profit margin (%)	**58.7**	39.2	19.5ppts.
Annual designed production capacity (tonnes) (Note)	**29,500**	22,000	34.1
Actual production output (tonnes)	**29,978**	23,040	30.1
Utilisation rate	**101.6%**	104.7%	

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

Revenue generated from xanthan gum increased by 48.9% to RMB743.0 million in the first half of 2013, from RMB499.1 million in the first half of 2012. The significantly increase in revenue was due to growth in market demand and the higher ASP since the second half of 2012.

The Group's export of xanthan gum steadily increased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed approximately 87.6% and 90.5% of total sales of xanthan gum in the first half of 2012 and 2013, respectively.

Sales volume and ASP



Sales volume increased by 5.4% in the first half of 2013, reflecting expanded production capacity, while sales amount increased by 48.9% over the same period. A significant increase in the ASP of xanthan gum was the main driver for the increase in revenue of xanthan gum during the period due to a supply shortage in the industry.

Global industry-wide demand growth has been a strong driver in the higher sales volume of xanthan gum in the first half of 2013, and we expect this to continue in the foreseeable future as demand continues to grow in the edible oil industry as well as other sectors.

Gross profit and gross profit margin

Gross profit of the Xanthan gum segment increased by about 122.6% from approximately RMB195.8 million in the first half of 2012 to approximately RMB435.9 million in the first half of 2013. Gross profit margin increased as well, by 19.5 percentage points in the first half of 2013, reflecting our pricing ability and our competitive costs advantage at the IM Plant and new Xinjiang Plant.

Production costs

	Six months ended 30 June				
	2013		2012		**Change**
	RMB'000	**%**	RMB'000	%	**%**
Major raw materials					
Corn kernels	**142,271**	**44.1**	104,602	39.5	36.0
Soybeans	**27,445**	**8.5**	18,561	7.0	47.9
Energy					
Coal	**64,465**	**20.0**	83,314	31.4	(22.6)
Depreciation	**21,657**	**6.7**	15,789	6.0	37.2
Employee benefit	**25,621**	**7.9**	22,126	8.4	15.8
Others	**41,002**	**12.8**	20,538	7.7	99.6
Total cost of production	**322,461**	**100.0**	264,930	100.0	21.7

Corn kernels

During the first half of 2013, corn kernels represented approximately 44.1% (1H 2012: 39.5%) of the total production cost of this segment. Corn kernels increased by 36.0% was in line with increasing production output volume during the period as the production of xanthan gum in Xinjiang Plant commenced operation since the fourth quarter of 2012. The corn kernels price decreased from approximately RMB1,954 per tonne in the first half of 2012 to approximately RMB1,900 per tonne in the first half of 2013, representing a decrease of 2.8%.

Soybeans

During the first half of 2013, soybeans accounted for approximately 8.5% (1H 2012: 7.0%) of the total production cost of this segment. The increase in proportion was mainly due to the increase in soybeans price from approximately RMB4,063 per tonne in the first half of 2012 to approximately RMB4,583 per tonne in the first half of 2013, representing an increase of 12.8%.

Coal

During the first half of 2013, coal accounted for approximately 20.0% (1H 2012: 31.4%) of the total production cost of this segment. The Group took full advantage of the relatively low coal cost that the Group was able to utilise in its IM Plant and Xinjiang Plant. The average unit cost of coal for the first half of 2013 was approximately RMB191 per tonne, which represents a decrease of approximately RMB71 per tonne or 27.1% from that of the first half of 2012.

Other production costs

The cost of depreciation in the first half of 2013 increased significantly compared with the corresponding period of 2012 mainly due to the new Xinjiang Plant, which became operational in the second half of 2012.

Other Financial Information

Selling and marketing expenses

A substantial increase in selling and marketing expenses was mainly due to an increase in the transportation costs and was in line with the increase in sales.

Administrative expenses

Administrative expenses increased by approximately RMB33.5 million or 15.7% for the six months ended 30 June 2013. The increase was mainly due to increased depreciation and staff costs at the new Xinjiang Plant that started operations in the second half of 2012.

Finance costs (net)

The Company has successfully raised USD150 million through a syndicated bank loan at the end of 2012, which was mainly used for repurchase of the 4.5% convertible bonds.

The finance costs (net) of the Group for the six months ended 30 June 2013 increased by approximately RMB15.6 million or about 13.9% when compared with the first six months of 2012 due to increase in bank borrowings increase the incurred for the expansion of business. On the other hand, the average interest rate of the PRC borrowings was however slightly lower during the first half of 2013 as compared to the same period in 2012.

Income tax expense

The income tax expenses for the six months end of 2013 represented the PRC Enterprise Income Tax ("EIT").

The following table summarises the EIT rates applicable to the Group's major subsidiaries:

	Shandong Fufeng	Baoji Fufeng	IM Fufeng	Hulunbeir Fufeng	Xinjiang Fufeng
Preferential tax rate	15% (Note 1)	15% (Note 2)	15% (Note 2)	15% (Note 2)	15% (Note 2)

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 2013.

Note 2: Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang 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.

Outlook for the Second Half of 2013

For the second half of 2013, it is expected that the economic situation in the PRC will remain sluggish as a whole. The lack of consumer confidence and the slowdown in the growth of economy will continue to affect the catering industry. However, as the short-term impact arising from negative factors including "Avian Influenza" incident and restrictions of "3 Public Consumptions" policy was over, it is anticipated that the catering industry will gradually become stable in the second half of this year. The Group expects the operating environment to be slightly better than the first half of the year.

MSG segment

After more than two years of industry consolidation and price competition, the MSG industry has widely completed the elimination of excess production capacities, resulting in numerous uncompetitive medium-and-small-sized enterprises and capacities leaving the industry. The market share is dominated by several leading enterprises, and it appears that the long-standing oversupply situation is being improved. The Group will keep abreast of the market and seize opportunities to continue to increase our market share by leveraging on its economies of sale of the MSG business. As a market leader, the Group would strive to play its part in creating a sustainable competitive environment for the MSG industry.

Xanthan gum segment

With the commencement of production of xanthan gum in Xinjiang Plant Phase 2, the annual production capacity of xanthan gum of the Group will reach 70,000 tonnes at the end of 2013. With market demand remaining strong, the Group expects the ASP of xanthan gum to hold up in the foreseeable future.

On 5 June 2012, CP Kelco U.S., Inc, on behalf of the U.S. xanthan gum industry, submitted an application to the United State Department of Commerce and the United States International Trade Commission for launching an anti-dumping investigation against China's and Austria's xanthan gum products.

Recently, the Group has received a notice from the United State Department of Commerce concerning the tax rate of arbitration of anti-dumping against xanthan gum. The Group is the only one enterprise of all the Chinese exporters that has to pay the lowest tax rate of 12.9% as the Group is deemed to genuinely possess a lower average cost of production due to its economies of scale, vertically integrated business model and production capability. The tax rate of its main competitor is 128.3% while that of the remaining four enterprises is 70.7%, and the general tax rate of Chinese enterprises is 154.1%. To date, the anti-dumping case of xanthan gum, which lasted for over a year, has come to an end. With the lowest tax rate in Chinese xanthan gum industry, the Group has won a valuable victory in the U.S. market that the taxes payable will be far lower than that of the other competitors in the same industry and the Group is expected to enjoy a significant competitive advantage in the U.S.. With such tax advantages, the Group will seize this opportunity and actively expand the U.S. market, increasing the proportion of high-end xanthan gum products in order to further increase its market share. We also expect this advantage to have a very positive influence on the expansion and extension of xanthan gum in other markets and the enhancement of the international reputation of the Group.

Coupled with additional xanthan gum production capacity from the new Xinjiang Plant, the Group will continue to develop the xanthan gum business as one of the more important growth drivers of the Group.

Future Plan and Recent Development

Development of amino acid products

In 2013, the Group steps up its effort on developing the market for amino acid products. It has launched a series of high-end amino acid products such as valine, leucine, isoleucine and glutamine.

The Group has commenced the operation of a new production base for the high-end amino acid products in Xinjiang in the second half of 2012 with cost advantage and advantage of the abundant coal supply in Xinjiang. At the end of the first half of 2013, the annual production capacity of amino acid products reached 1,500 tonnes. The Group is in the process of installing a new production line of high-end amino acid products in the new Xinjiang Plant. Upon completion towards the end of third quarter of 2013, the total annual production capacity of high-end amino acid products will reach 3,000 tonnes.

Such amino acid products will increase the product mix and diversity of the Group. This will enable us to provide more diversified biochemical products, shifting the Group's focus from production and sales of typical amino acid products for bulk trade to those of high-end amino acid products.

Overseas market expansion

The Group has increased the effort to develop the foreign MSG and xanthan gum market. The Group has made vigorous efforts on market expansion by establishing overseas sales branches and offices. In the first half of 2013, the Group strengthened promotion activities in Middle East, Europe, Africa and South America. The objective is to provide customers with better after-sales service, improve customer relationships, and enhance our reputation.

Liquidity and Financial Resources

As at 30 June 2013, the Group's cash and cash equivalent and restricted bank deposits were RMB919.5 million (2012: RMB550.4 million) whereas current bank borrowings and convertible bonds were approximately RMB1,740.9 million and Nil (2012: RMB2,230.6 million and RMB177.0 million) and non-current bank borrowings and non-current other borrowings (including the balances of senior notes, convertible bonds and medium-term notes) were approximately RMB576.4 million and RMB2,436.8 million (2012: RMB188.6 million and RMB1,856.4 million), respectively.

During the period, the Company successfully issued 348,209,600 rights shares on 2 May 2013. The net proceeds amount to approximately HKD618.5 million after expenses, which are mainly used for repayment of bank borrowings and working capital.

The Directors believe that the Group's liquidity position is still relatively stable and that the Group has sufficient banking facilities to repay or renew existing short term bank loans.

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. 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. The current outstanding balance of convertible bonds is amount to RMB13.2 million.

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 30 June 2013, the Company had drawn down an amount to USD150 million. For hedging the interest risk of syndication bank loan, the company has made total USD150 million interest rate swap contract with banks. The interest SWAP contracts have fixed the interest rate to 4.5% to 4.58% p.a..

Material Acquisition or Disposal of Subsidiary and Associated Company

During the period, the Group had no other material acquisition or disposal of the subsidiaries or associated companies for the six months ended 30 June 2013.

Employees

As at 30 June 2013, the Group had approximately 3,800 employees. Employees' remunerations are paid in accordance with relevant PRC policies. Appropriate salaries and bonuses are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Schemes" under the "Other Information" section below for the share options granted to certain Directors and employees of the Group before and after the IPO.

Charges on Assets

As at 30 June 2013, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB166.9 million were pledged to certain banks to secure bank borrowings of RMB96.5 million of the Group.

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

Gearing Ratio

As at 30 June 2013, the total assets of the Group amounted to approximately RMB12,675.3 million (2012: RMB11,971.0 million) whereas the total borrowings amounted to RMB4,754.0 million (2012: RMB4,452.6 million). The gearing ratio was approximately 37.5% (2012: 37.2%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign Exchange Exposure

The Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were, however, received for the export sales of products and the issuance of convertible bonds and senior notes. Such proceeds were subject to foreign exchange risk before receiving and converting them into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of convertible bonds and senior notes by remitting the necessary funds to the PRC and using the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the period ended 30 June 2013.

American Depositary Receipt Facility

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

Dividend

The Board has resolved to pay an interim dividend of HK2 cents per share for the six months ended 30 June 2013, payable on or before 30 September 2013 to the shareholders whose names appear on the register of members of the Company on 13 September 2013.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 9 September 2013 to Friday, 13 September 2013 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 6 September 2013.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
ASSETS			
Non-current assets			
Leasehold land payments	7	**398,732**	366,764
Property, plant and equipment	7	**7,406,551**	7,258,851
Intangible assets	7	**53**	54
Deferred income tax assets		**52,397**	40,012
		7,857,733	7,665,681
Current assets			
Inventories		**1,642,586**	1,415,225
Trade and other receivables	8	**2,255,481**	2,339,600
Short-term bank deposits		**56,730**	69,320
Cash and cash equivalents		**862,738**	481,126
		4,817,535	4,305,271
Total assets		**12,675,268**	11,970,952
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	9	**203,779**	175,921
Share premium	9	**705,842**	240,518
Other reserves		**45,820**	58,972
Retained earnings			
– Proposed interim dividend		**33,259**	–
– Others		**3,498,459**	3,319,597
Total equity		**4,487,159**	3,795,008

	Note	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
LIABILITIES			
Non-current liabilities			
Deferred income		**338,440**	352,436
Borrowings	10	**3,013,170**	2,044,960
Deferred income tax liabilities		**22,157**	19,826
		3,373,767	2,417,222
Current liabilities			
Trade, other payables and accruals	11	**3,035,197**	3,303,957
Current income tax liabilities		**38,288**	47,085
Borrowings	10	**1,740,857**	2,407,680
		4,814,342	5,758,722
Total liabilities		**8,188,109**	8,175,944
Total equity and liabilities		**12,675,268**	11,970,952
Net current assets/(liabilities)		**3,193**	(1,453,451)
Total assets less current liabilities		**7,860,926**	6,212,230

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
	Note	**Unaudited**	Unaudited
Revenue	6	**5,741,553**	5,539,921
Cost of sales	13	**(4,815,316)**	(4,715,113)
Gross profit		**926,237**	824,808
Other income	12	**64,631**	57,018
Selling and marketing expenses	13	**(339,820)**	(248,380)
Administrative expenses	13	**(246,932)**	(213,399)
Other operating expenses	13	**(21,704)**	(7,781)
Other gain		**936**	–
Operating profit		**383,348**	412,266
Finance income		**48,061**	–
Finance costs		**(175,362)**	(111,737)
Finance costs – net		**(127,301)**	(111,737)
Profit before income tax		**256,047**	300,529
Income tax expense	14	**(49,721)**	(26,260)
Profit for the period and attributable to the Shareholders		**206,326**	274,269
Earnings per share for profit attributable to the Shareholders during the period			
(expressed in RMB cent per share)			
– basic	15	**11.12**	15.96
– diluted	15	**11.08**	15.90
Dividends	16	**33,259**	–

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Profit for the period	**206,326**	274,269
Other comprehensive income for the period	**–**	–
Total comprehensive income for the period	**206,326**	274,269
Total comprehensive income attributable to the Shareholders	**206,326**	274,269

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Attributable to the Shareholders				
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2012	174,097	188,576	18,877	3,025,153	3,406,703
Total comprehensive income for the six months	–	–	–	274,269	274,269
Employees share option scheme:					
– proceeds from shares issued	1,389	39,550	(9,965)	–	30,974
– value of employee services	–	–	4,064	–	4,064
Dividends paid	–	–	–	(41,981)	(41,981)
Balance at 30 June 2012	175,486	228,126	12,976	3,257,441	3,674,029
Balance at 1 January 2013	**175,921**	**240,518**	**58,972**	**3,319,597**	**3,795,008**
Total comprehensive income for the six months	**–**	**–**	**–**	**206,326**	**206,326**
Employees share option scheme:					
– value of employee services	**–**	**–**	**771**	**–**	**771**
Issue of ordinary shares	**27,858**	**465,324**	**–**	**–**	**493,182**
Purchase of treasury shares	**–**	**–**	**–**	**(3,104)**	**(3,104)**
Redemption of convertible bonds	**–**	**–**	**(13,923)**	**8,899**	**(5,024)**
Balance at 30 June 2013	**203,779**	**705,842**	**45,820**	**3,531,718**	**4,487,159**

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Cash flows from operating activities		
Cash generated from operations	**486,708**	385,382
Interest paid	**(164,554)**	(129,499)
Income taxes paid	**(65,691)**	(28,957)
Net cash flows generated from operating activities	**256,463**	226,926
Cash flows from investing activities		
Purchases of property, plant and equipment	**(699,985)**	(726,093)
Payments of leasehold land	**(36,294)**	(735)
Purchases of intangible assets	**(805)**	(1,050)
Assets-related government grants received	**28,732**	2,790
Proceeds from disposal of property, plant and equipment	**10,276**	1,086
Refund from overpaid leasehold land payments	**–**	3,155
Interest received	**3,320**	2,137
Payment for term deposits	**1,090**	–
Net cash used in investing activities	**(693,666)**	(718,710)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	**501,452**	30,974
Payments of issuance costs of ordinary shares	**(8,270)**	–
Purchase of treasury shares	**(3,104)**	–
Proceeds from issuance of medium-term notes	**594,690**	–
Proceeds from bank borrowings	**1,542,347**	987,000
Repayments of bank borrowings	**(1,639,670)**	(357,000)
Redemption of convertible bonds	**(168,630)**	–
Dividends paid to the Company's shareholders	**–**	(41,981)
Net cash generated from financing activities	**818,815**	618,993
Net increase in cash and cash equivalents	**381,612**	127,209
Cash and cash equivalents at beginning of the period	**481,126**	583,917
Cash and cash equivalents at end of the period	**862,738**	711,126

1. General Information

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is mainly engaged in the manufacture and sales of fermentation-based food additive and biochemical products and starch-based products. The Group has manufacturing plants in Shandong Province, Shaanxi Province, Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region of the PRC and sells mainly to customers located in the PRC.

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

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

Key Events

(a) In March and April 2013, the Company redeemed convertible bonds with a par value of RMB168,000,000. Total consideration and transaction costs paid for the redemption of convertible bonds are of RMB168,630,000.

(b) On 11 April 2013, the Company implemented a rights issue scheme to raise approximately HKD626,777,000 by way of issuing 348,209,600 rights shares at a subscription price of HKD1.80 each.

(c) On 25 June 2013, the Company acquired 1,697,000 of its own shares through purchases on the Hong Kong Stock Exchange. The total amount paid to acquire the shares was HKD3,888,000 and has been deducted from retained earnings within shareholders' equity. The shares are held as 'Treasury shares'.

2. Basis of Preparation

This condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with HKAS 34, "Interim financial reporting". The condensed consolidated interim financial statements shall be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with HKFRSs.

2.1 Going-concern basis

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

3. Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

HKAS 16 (Amendment) 'Property, plant and equipment'. The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.

3. Accounting Policies *(Continued)*

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

The amendment requires the group to reclassify spare parts which meet the definition of property, plant and equipment amounted RMB839,000 as at 30 June 2013 (31 December 2012: RMB994,000) from inventory to property, plant and equipment. The effect of the change in accounting policy on the balance sheet and the statement of cash follows was immaterial.

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

(b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted:

HKAS 32 (Amendment)	'Financial instruments: Presentation – Offsetting financial assets and financial liabilities'[1]
HKAS 36 (Amendment)	'Recoverable amount disclosures for non-financial assets'[1]
HK (IFRIC) Interpretation 21	'Levies'[1]
HKFRS 9	'Financial Instruments'[2]
HKFRS 7 and HKFRS 9 (Amendment)	'Mandatory effective date and transition disclosures'[2]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 January 2015

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

4. Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.

5. Financial Risk Management

5.1 Financial Risk Factors

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and shall be read in conjunction with the Group's annual financial statements for the year ended 31 December 2012.

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

5.2 Liquidity Risk

Compared to year end of 2012, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

5. Financial Risk Management *(Continued)*

5.3 Fair Value Estimation

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

6. Segment Information

The chief operating decision-maker has been identified as the 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 organized under the following business segments.

Manufacturing and sale of:

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

– Xanthan gum

Approximately 82% (30 June 2012: 85%) 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 financial statements.

6. Segment Information *(Continued)*

The revenue of the Group for the six months ended 30 June 2013 and 2012 are set out as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
MSG	**3,151,313**	3,394,687
Corn refined products	**873,148**	725,302
Xanthan gum	**743,032**	499,057
Fertilisers	**468,869**	468,203
Starch sweeteners	**193,452**	199,916
Threonine	**131,598**	76,327
High-end amino acid products	**94,007**	43,209
Glutamic acid	**29,830**	49,786
Corn oil	**20,081**	53,598
Others	**36,223**	29,836
	5,741,553	5,539,921

6. Segment Information *(Continued)*

The segment results for the six months ended 30 June 2013 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Revenue	4,998,521	743,032	–	5,741,553
Segment results	2,108	392,227	(10,987)	383,348
Finance costs – net				(127,301)
Profit before income tax				256,047
Income tax expenses				(49,721)
Profit for the period				206,326

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

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Depreciation of property, plant and equipment	313,885	22,663	797	337,345
Amortisation of leasehold land payments and intangible assets	3,936	348	43	4,327

The segment assets and liabilities at 30 June 2013 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Total assets	10,431,097	1,998,112	246,059	12,675,268
Total liabilities	5,087,037	330,572	2,770,500	8,188,109

6. Segment Information *(Continued)*

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

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

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

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Depreciation of property, plant and equipment	236,157	16,172	662	252,991
Amortisation of leasehold land payments and intangible assets	977	292	43	1,312

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

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

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

	Leasehold land payments RMB'000 Unaudited	Property, plant and equipment RMB'000 Unaudited	Intangible assets RMB'000 Unaudited	Total RMB'000 Unaudited
Six months ended 30 June 2012				
Opening net book amount at 1 January 2012	265,217	6,032,345	–	6,297,562
Additions	735	839,907	1,050	841,692
Disposals	–	(1,038)	–	(1,038)
Refund	(3,155)	–	–	(3,155)
Depreciation and amortisation	(1,312)	(252,991)	–	(254,303)
Impairment charge	–	–	(1,050)	(1,050)
Closing net book amount at 30 June 2012	261,485	6,618,223	–	6,879,708
Six months ended 30 June 2013				
Opening net book amount at 1 January 2013	**366,764**	**7,258,851**	**54**	**7,625,669**
Additions	**36,294**	**491,609**	**805**	**528,708**
Disposals	**–**	**(6,564)**	**–**	**(6,564)**
Depreciation and amortisation	**(4,326)**	**(337,345)**	**(1)**	**(341,672)**
Impairment charge	**–**	**–**	**(805)**	**(805)**
Closing net book amount at 30 June 2013	**398,732**	**7,406,551**	**53**	**7,805,336**

8. Trade and Other Receivables

	As at	
	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Trade receivables (a)	**353,711**	267,986
Less: provision for impairment of trade receivables	**(4,523)**	(4,510)
Trade receivables, net	**349,188**	263,476
Notes receivables (b)	**1,388,712**	1,642,363
Deposits and others	**68,559**	29,475
Value-added tax for future deduction	**296,576**	325,825
Trade and other receivables excluding prepayments	**2,103,035**	2,261,139
Prepayments for raw materials	**152,446**	78,461
	2,255,481	2,339,600

8. Trade and Other Receivables *(Continued)*

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

	As at	
	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Within 3 months	**320,812**	231,357
3–12 months	**25,797**	28,021
Over 12 months	**7,102**	8,608
	353,711	267,986

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

b) As at 30 June 2013, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB1,115,563,000 (31 December 2012: RMB1,209,634,000) applied for settling the amounts payable to the Group's suppliers.

9. Share Capital and Premium

	Number of authorised shares '000 Unaudited	Number of issued and fully paid shares '000 Unaudited	Amount: Ordinary shares RMB'000 Unaudited	Amount: Share premium RMB'000 Unaudited	Amount: Total RMB'000 Unaudited
Opening balance at 1 January 2012	10,000,000	1,718,686	174,097	188,576	362,673
Employee share option schemes:					
– Proceeds from shares issued	–	17,025	1,389	39,550	40,939
At 30 June 2012	10,000,000	1,735,711	175,486	228,126	403,612
Opening balance at 1 January 2013	**10,000,000**	**1,741,048**	**175,921**	**240,518**	**416,439**
Issue of ordinary shares	**–**	**348,210**	**27,858**	**465,324**	**493,182**
At 30 June 2013	**10,000,000**	**2,089,258**	**203,779**	**705,842**	**909,621**

10. Borrowings

	As at	
	30 June 2013	31 December 2012
	RMB'000	RMB'000
	Unaudited	Audited
Non-current		
– Bank borrowings, unsecured	**576,377**	–
– Bank borrowings, secured	**–**	188,565
– Convertible bonds	**12,961**	–
– Senior notes	**1,828,807**	1,856,395
– Medium-term notes	**595,025**	–
	3,013,170	2,044,960
Current		
– Bank borrowings, unsecured	**1,644,357**	2,181,145
– Bank borrowings, secured	**96,500**	49,500
– Convertible bonds	**–**	177,035
	1,740,857	2,407,680
	4,754,027	4,452,640

10. Borrowings *(Continued)*

Movements in borrowings were analysed as follows:

	RMB'000 Unaudited
Six months ended 30 June 2012	
Opening amount as at 1 January 2012	3,548,147
New borrowings	987,000
Repayments of borrowings	(357,000)
Amortisation of transaction cost	
– Senior notes	3,728
– Convertible bonds – liability component	4,870
Exchange differences	7,068
Closing amount as at 30 June 2012	4,193,813
Six months ended 30 June 2013	
Opening amount as at 1 January 2013	**4,452,640**
New borrowings	**2,137,037**
Repayments of borrowings	**(1,804,212)**
Amortisation of transaction cost	
– Senior notes	**4,008**
– Convertible bonds – liability component	**467**
– Syndicated bank loan	**11,328**
– Medium-term notes	**335**
Exchange differences	**(47,576)**
Closing amount as at 30 June 2013	**4,754,027**

Interest expenses on borrowings for the six months ended 30 June 2013 were RMB175,362,000 (30 June 2012: RMB106,163,000).

11. Trade, Other Payables and Accruals

	As at	
	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Trade payables (a)	**1,294,125**	1,417,579
Advances from customers	**520,390**	594,833
Payables for leasehold land, property, plant and equipment	**807,174**	1,024,471
Salaries, wages and staff welfares payables	**158,393**	135,969
Bank acceptance notes payable	**51,843**	–
Other taxes	**42,980**	29,052
Interest payable – current portion	**42,355**	39,579
Government grants received in advance	**31,997**	10,337
Dividends payable	**407**	407
Other payables and accruals	**85,533**	51,730
	3,035,197	3,303,957

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

	As at	
	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Within 3 months	**967,680**	1,071,231
3 to 6 months	**273,987**	224,292
6 to 12 months	**26,343**	107,392
Over 12 months	**26,115**	14,664
	1,294,125	1,417,579

12. Other Income

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Amortisation of government grants related to assets	**25,024**	16,750
Sales of waste products	**24,336**	34,832
Government grants related to expenses	**3,896**	–
Others	**11,375**	5,436
	64,631	57,018

13. Expenses by Nature

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Amortisation of leasehold land payments and intangible assets	**4,327**	1,312
Depreciation of property, plant and equipment	**337,345**	252,991
Value on employee services for the share option schemes	**771**	4,064
Foreign exchange losses	**15,255**	5,114
Write-down of inventories	**(35)**	–

14. Income Tax Expense

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Current income tax		
– PRC enterprise income tax ("EIT")	**59,775**	29,518
Deferred income tax	**(10,054)**	(3,258)
	49,721	26,260

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

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit in Hong Kong for the six months ended 30 June 2013 and 2012.

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

15. Earnings Per Share

	Six months ended 30 June	
	2013	2012
	Unaudited	Unaudited
Earnings per share for profit attributable to the Shareholders (RMB cents per Share)		
– basic	**11.12**	15.96
– diluted	**11.08**	15.90

Basic earnings per share is calculated by dividing the profit attributable to the Shareholders of the Company by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Company and held as treasury shares. 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.

Earnings per share – basic and diluted for the first half of 2013 was RMB11.12 cents and RMB11.08 cents respectively (equivalent to HK13.96 cents and HK13.91 cents) (1H 2012: RMB15.96 cents and RMB15.90 cents (equivalent to HK19.58 cents and HK19.50 cents)).

16. Dividends

An interim dividend of HK2 cents (equivalent to RMB1.59 cents) (2012: Nil) per Share was declared by the Board on 13 August 2013. It is payable on or before 30 September 2013 to Shareholders who are on the register at 13 September 2013. This interim dividend, amounting to HKD41,751,000 (equivalent to RMB33,259,000), has not been recognised as liability in this interim financial information. It will be reflected as an appropriation of retained earnings for the year ending 31 December 2013.

17. Contingent Liabilities – the Group

As at 30 June 2013 and 2012, the Group had no material contingent liabilities.

18. Related Party Transactions

Key management compensation is set out below:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Salaries and allowances	**8,040**	7,786
Pension costs-defined contribution plan	**281**	414
Share options granted	**1,262**	1,409
	9,583	9,609

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

19. Events Occurring After the Balance Sheet Date

Except for the proposed interim dividend mentioned in Noted 16, the significant event of the Group after the balance sheet date is as follow:

On 10 July 2013, the Group cancelled 1,697,000 of the treasury shares which were purchased on 25 June 2013.

20. Approval on the Condensed Consolidated Interim Financial Information

The condensed consolidated interim financial information was reviewed by the audit committee of the Company and approved by the board of Directors on 9 August 2013 and 13 August 2013, respectively.

Corporate Governance

The Company is committed to establishing and ensuring a high standard of corporate governance practices which place emphasis on quality of the board, sound and efficient internal control and accountability as well as transparency to equity holders. The Directors are in the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules since the Listing Date to 30 June 2013.

The audit committee of the Company has reviewed the Group's unaudited interim financial statements for the six months ended 30 June 2013.

Model Code for Securities Transactions by Directors

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

Purchase, Redemption or Sale of Securities of the Company

The Company has bought back 1,697,000 shares by the total cash consideration amount to HKD3,888,000 during the period. It is represented 0.081% of issued ordinary share capital of the Company. Except for the above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2013.

Share Option Scheme

Share Options

The Company adopted two share option schemes on 10 January 2007, pursuant to which the Company is entitled to grant options prior to and after the IPO. The Pre-IPO Share Option Scheme has fully completed and closed on the last day of exercise period of the Pre-IPO Share Option Scheme on 7 August 2012.

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. As the Rights issue completed on 2 May 2013, in accordance with the respective terms of the Share Options granted on 14 July 2009 and Share Options granted on 9 November 2010 and in compliance with Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005, the exercise price and the number of Shares to be allotted and issued upon full exercise of the outstanding Share Options was adjusted. Details of the share options granted and outstanding under the Post-IPO Share Option Scheme for the six months ended 30 June 2013, are as follows:

	Number of share options							
Director and eligible employees	At 1 January 2013	Granted during the period	Adjustment during the period	Lapsed during the period	At 30 June 2013	Date of grant	Adjusted Exercise price (HKD)	Exercise period
Chen Yuan (executive director)	5,000,000	–	355,224	–	5,355,224	9/11/2010	7.66	9/5/2013 – 9/5/2016
Eligible employees	45,270,000	–	3,216,197	(2,677,612)	45,808,585	14/7/2009	2.80	14/1/2012 – 13/1/2015
	50,270,000	–	3,571,421	(2,677,612)	51,163,809			

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

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

Interest of Directors and Chief Executive

Directors' Interests in Shares

The interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as at 30 June 2013, 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)	963,342,461 Shares	46.11%
Wang Longxiang	The Company	Beneficial interests (Note 2)	8,292,000 Shares	0.40%
Chen Yuan	The Company	Beneficial interests (Note 3)	5,355,224 Shares	0.26%

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.

2. The interest in these Shares is held by Mr. Wang Longxiang, an executive Director of the Company.

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

Save as disclosed above, for the six months ended 30 June 2013, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interest of Persons Holding 5% Or More Interests

Interests of Person Holding 5% or More Interests

As at 30 June 2013, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position

Name	Name of Group member	Capacity	Class and number of securities	Percentage of interests to total issued share capital (approximate)
Motivator Enterprises Limited (Note 1)	The Company	Beneficial interests	963,342,461 Shares	46.11%
Shi Guiling (Note 2)	The Company	Interests of spouse	963,342,461 Shares	46.11%
Ever Soar Enterprises Limited (Note 3)	The Company	Beneficial interests	222,134,400 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 963,342,461 Shares held by Motivator Enterprises Limited, which in turn is also deemed to be interested by Mr. Li Xuechun under the SFO.

3. Ever Soar Enterprises Limited is owned as to 15% by Mr. Feng Zhenquan, 15% by Mr. Xu Guohua, 15% by Mr. Li Deheng (all of whom are executive Directors), 25% by Mr. Wu Xindong (a former executive Director who resigned with effect from 9 March 2010), 15% by Mr. Yan Ruliang (a former executive Director who resigned with effect from 15 May 2009) and 15% by Mr. Guo Yingxi.

Save as disclosed above, for the six months ended 30 June 2013, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

GLOSSARY

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

Listing Date	8 February 2007, the date on which the Company was listed on the Stock Exchange
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
MSG	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application
PRC	the People's Republic of China, which for the purpose of this 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
Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Stock Exchange	The Stock Exchange of Hong Kong Limited
Xinjiang Fufeng	新疆阜豐生物科技有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), and indirect wholly-owned subsidiary of the Company)

Xinjiang Plant	the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region
HKD	Hong Kong dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of the PRC
USD	United States dollars, the lawful currency of the United States of America
%	per cent