Fufeng Group Limited
阜 豐 集 團 有 限 公 司

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

Annual Report 2009

Contents

Chairman's Statement

On behalf of the Board, I am pleased to present the annual report of the Group for the year ended 31 December 2009.

Record-breaking achievements

2009 was indeed a fruitful year for the Group. During the year, the Group achieved outstanding performance in many aspects. Both MSG business segment and Xanthan gum business segment achieved record high results, leading to a historical increase in net profit and a stronger development trend. The Group has further strengthened its market leading position in the MSG and xanthan gum markets in China as well as laid a solid foundation for future development.

During the year ended 31 December 2009, the Group's gross profit margin rose to 30.2% in 2009 as compared to 18.0% in 2008. Turnover and profit attributable to Shareholders grew by 29.2% and 215.0% respectively as compared to 2008. The Group's profit for the year ended 31 December 2009 stood at RMB928 million as compared to RMB3 million in 1999 when the Group was incorporated, representing a CAGR of close to 77.4% over the past decade. Considering such remarkable performance in 2009, the Board proposed the payment of a final dividend of HK15 cents per share to Shareholders in appreciation for their support. The sum of declared interim dividend and proposed final dividend for the year ended 31 December 2009 is HK25 cents per share.

Actively Grasp Opportunities to Expand the MSG Capacity

After industry consolidation in 2007, the MSG and glutamic acid market has been gradually returning to a balanced supply and demand situation with prices becoming more stabilised. During the year under review, ASP of the Group's MSG and glutamic acid increased by 11.9% and 10.2% respectively as compared to 2008. Meanwhile, the Chinese government actively encouraged a change of the structure of economic growth drivers, gradually shifting from an infrastructure investment driven to a more consumption driven economic growth. This resulted in strong domestic demand which warranted a powerful growth in the demand for MSG products in the China market.

In order to fully grasp such huge market opportunities, the Group continued to pursue its strategy of extending glutamic acid production to downstream MSG production thereby operating its MSG and glutamic acid production at their fullest capacity. During the year, the Group completed the construction of a 150,000 tonnes of MSG production line in its IM Plant and also completed the construction of a 70,000 tonnes of glutamic acid production line and a 100,000 tonnes of fertiliser production line in the Baoji Plant. All of these production lines started operation at the end of 2009. In addition, the re-engineering of the production process at Baoji Plant and IM Plant also increased the production capacity of MSG and glutamic acid by 110,000 tonnes and 40,000 tonnes respectively. As a result, the total production capacity of MSG and glutamic acid further increased to 540,000 tonnes and 460,000 tonnes. The Group's market leading position has given us the dominance in pricing and immense bargaining power that enabled us to transfer the increase in cost of corn to our customers and the Group's overall gross profit remained stable.

React to Changes Rationally, Lower Xanthan Gum's Costs

During the year under review, the global financial crisis and the falling oil prices impacted the worldwide demand for xanthan gum and its selling price. Not withstanding such challenging market conditions, the Group expanded its market share in a timely fashion and managed to boost sales during the second half of the year. The Group also increased its production capacity to achieve economies of scale, tightened cost control to offset the impact of falling prices on gross profit margin.

Chairman's Statement

In respect of the restructuring of production capacity and the completion of newly built production lines, the Group's total production capacity of xanthan gum at the IM Plant and Shandong Plant reached 32,000 tonnes in 2009 increased by about 50% when compared with that in 2008. Coal is the major raw material for production of xanthan gum, accounted for more than 30% of the production costs. Coal prices stood at a low level last year and by leveraging on the advantage of a vertically integrated production process, the cost of production of xanthan gum will be further decreased.

Among the most sought-after stocks in the capital market

With the outstanding performance of our share price, the Group has been in the spotlight in the capital market since its listing on the main board of the Stock Exchange of Hong Kong Limited in 2007. The Group has been included as a constituent stock of the Morgan Stanley Capital International (the "MSCI") Global Small Cap Indices on 29 May 2009 and then the Hang Seng Composite Index on 8 March 2010. This is an indication of the investor community's recognition of the Group's leading position in the PRC market and their confidence in our future.

Adopt a Sustainable Development Strategy and Protect Environment

The Group has been closely monitoring its production process to keep track of the possible impact it has on the environment, and at the same time implemented a strategy of sustainable development. On 30 April, 2009, the Baoji Plant adopted a flue gas treatment initiative to alleviate the impact of flue gas released during the production process by installing additional flue gas desulfurisation facilities. Certain facilities have been commissioned and have achieved the intended benefits. The success in flue gas treatment proves that the Group has the ability to provide a solution to the problem that has troubled the MSG industry for years. The Group is well positioned to become the pioneer in setting standards for flue gas treatment and environmental production process.

Plan for 2010

The outstanding achievements in 2009 are the cornerstone to the Group's on-going development. Looking forward, the Group believes that the MSG market in the mainland will maintain its balanced state in supply and demand with the prices of MSG further stabilising. Upon further industry consolidation, sizable manufacturers will have more pricing power. The Group will leverage on its marketing strength, cost advantages and economies of scale to position itself as a market leader in the consolidation process so as to realise the stated strategy in a positive and orderly manner.

Upon completion of the expansion of the IM Plant, the benefits of vertical integration began to materialise and production cost has been substantially reduced. In 2010, the IM Plant will be equipped with a new capacity of 80,000 tonnes of synthetic ammonia and 5,000 tonnes of fructose, a newly-built railway and an expanded thermal power plant that enjoys the benefit of low-cost coal supply. It is believed that this comprehensive revamp and the establishment of ancillary facilities will further lower the production and transportation costs of the IM Plant.

In addition, the Group has planned to establish new production lines in the Northeast China and a new manufacturing base is to be built in the transition of Inner Mongolia Autonomous Region and Heilongjiang Province. The project comprises production lines with a capacity of 200,000 tonnes of MSG, 160,000 tonnes of glutamic acid, 200,000 tonnes of fertilisers and 100,000 tonnes of synthetic ammonia running on a well-supported workflow, ranging from corn kernel processing to thermal power generating, chemical materials supply systems and a self-owned railway. The project will be well equipped to take advantage of the abundant corn supplies and the rich coal mines surrounding the area. Considering all these favorable conditions for the highly vertical integration of MSG production facility, the production costs is expected to be significantly decreased.

Chairman's Statement

The construction of the production facilities for the 12,000 tonnes of xanthan gum is expected to be completed and started operation in the first half of 2010. Upon completion, total annual production capacity of xanthan gum of the Group will reach 44,000 tonnes representing about 50% of the total production capacity in the world.

Review of the last ten years

For a decade, Fufeng remains committed to its objective of "flourishing people with nourishing resources" and has conducted its business activities in a responsible manner. It has developed a unique development mode.

The Group was established amid a major setback of the MSG industry across the country. The visionary management of the Group capitalised on the opportunities to acquire idling equipment and reorganise available resources. Within four years, the Group has established itself as the market leader. In 2003, notwithstanding such negative factors as higher of raw materials prices and oversupply threatening the market, the business of the Group remained on track to growth thanks to its solid foundation and dominating market position. In 2007, the consolidation in the MSG industry accelerated. Once again, the management exhibited exceptional insights by gaining the Group a listing status on the Stock Exchange, which has provided growth capital for the Group. The industry consolidation was drawing to a close towards the end of the first quarter of 2008 when superfluous and inefficient manufacturers of small-to-medium scale were phased out and a balanced supply and demand market environment returned. In addition, relocating our xanthan gum operation to IM Plant led to substantial energy savings. The Group turned many market challenges to opportunities in 2008 and recorded historical growth in 2009.

Prospect

The Group remains committed to becoming a leading supplier of MSG and glutamic acid as well as xanthan gum in the global markets.

As the domestic support from the Government has given rise to the strong growth in demand for MSG, the Group has grasped the golden opportunity to establish a nationwide sales network which further increased its presence in the MSG and glutamic acid market. To this end, the Group will continue to expand the scale of its operation and enhance its operation efficiency, reducing the cost of production, ability to handle risks as well as profitability.

Besides, the Group will continue its research and development efforts in new products. In addition to the existing research and develop new product lines, the Group will also improve its product mix. The Group will strengthen its cooperation with Shenhua Pharmaceutical, which will provide an important income stream for the Group and procure the Group's diversification.

Appreciation

While celebrating the Group's feats over the past ten years, I would like to take this opportunity to express my gratitude towards the members of the Board, the management team, staff of all levels, business partners, customers and all shareholders for their contribution and support. The Group will continue to introduce more favorable policies and adhere to the targets aiming at lowering costs and raising efficiency. We will also actively expand our market share and sharpen our competitive edge with the view of rewarding our shareholders with spectacular results.

Li Xuechun
Chairman

23 March 2010

Five-year Summary

	Year				
	2005	2006	2007	2008	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Operating results – Summary					
Turnover	1,296,408	1,787,247	2,445,652	3,585,343	**4,632,884**
Gross profit	317,616	355,142	249,666	644,332	**1,399,607**
Profit before income tax	236,280	249,808	45,485	325,380	**1,023,597**
Profit attributable to shareholders	236,167	240,483	45,069	294,706	**928,285**
Balance sheets – Summary					
Non-current assets	566,690	1,353,859	1,743,481	2,087,602	**2,653,219**
Current assets	404,276	570,485	1,138,354	1,174,863	**1,607,802**
Total assets	970,966	1,924,344	2,881,835	3,262,465	**4,261,021**
Current liabilities	393,182	1,034,645	1,095,170	1,170,225	**1,572,209**
Non-current liabilities	231,778	363,306	337,849	350,726	**295,101**
Net assets	346,006	526,393	1,448,816	1,741,514	**2,393,711**
Financial ratio					
Earning per share (Basic) (RMB Cent)	19.68	20.04	2.80	17.75	**55.92**
Gross profit ratio (%) *(Note 1)*	25	20	10	18	**30**
ROE (%) *(Note 2)*	68	46	3	17	**39**
Current ratio *(Note 3)*	1.03	0.55	1.04	1.00	**1.02**
Inventory turnover days (Day) *(Note 4)*	34	38	54	45	**63**
Debtors' turnover days (Day) *(Note 5)*	63	67	74	54	**47**
Trade receivable turnover days (Day) *(Note 6)*	9	17	10	8	**7**
Creditors' turnover days (Day) *(Note 7)*	64	65	76	63	**56**
Trade payable turnover days (Day) *(Note 8)*	63	58	74	63	**56**
Gearing ratio (%) *(Note 9)*	26	39	22	18	**14**

Notes:

1. Gross profit ratio is equal to gross profit divided by turnover.
2. Return on equity is equal to profit attributable to shareholders by total equity.
3. Current ratio is equal to current assets divided by current liabilities.
4. The number of inventory turnover days is equal to inventories at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
5. The number of debtors' turnover days is equal to accounts 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 accounts 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 accounts 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 accounts 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. Gong Qingli

Independent non-executive Directors
Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Liang Wenjun

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Beijing,
PRC

Principal Place of Business in Hong Kong
Suite 1101, 11th Floor, Chinachem Century Tower,
178 Gloucester Road, Wanchai,
Hong Kong

Company Secretary and Qualified Accountant
Mr. Lee Wai Yin *CPA FCCA*

Authorised Representatives
Mr. Li Xuechun
Mr. Lee Wai Yin

Website
www.fufeng-group.com

Audit Committee
Mr. Choi Tze Kit, Sammy *(Chairman)*
Mr. Chen Ning
Mr. Liang Wenjun

Remuneration Committee
Mr. Choi Tze Kit, Sammy *(Chairman)*
Mr. Li Xuechun
Mr. Chen Ning
Mr. Liang Wenjun

Principal Bankers in the PRC
China Construction Bank
Bank of China
Agricultural Bank of China

Principal Bankers in Hong Kong
ABN AMRO Bank
Hang Seng Bank Limited

Independent Auditor
PricewaterhouseCoopers

Investor Relations Consultant
Porda International (Finance) PR Group
Units 2009-2018, 20th Floor, Shui On Centre, 6-8 Harbour Road,
Wanchai,
Hong Kong

Legal Adviser
Kirkpatrick & Lockhart Preston Gates Ellis

Principal Share Registrar
Butterfield Fund Services (Cayman) Limited

Branch Share Registrar
Tricor Investor Services Limited

Biographies of Directors and Senior Management

Executive Directors

李學純 (Li Xuechun), aged 58, is the principal founder of the Group, the chairman of the Company and an executive Director. Mr. Li is also a director of Acquest Honour, Summit Challenge, Absolute Divine, Expand Base, Shandong Fufeng, Baoji Fufeng and IM Fufeng,. Mr Li is responsible for the strategic planning and formulation of overall corporate development policy of the Group. Mr. Li obtained a bachelor's degree in industrial fermentation from 山東輕工業學院 (Shandong Institute of Light Industry) in 1982. Mr. Li is 山東省第十一屆人大代表 (a member of the Shandong Province 11th People's Congress), as well as being honored with "Outstanding Achievement" by the government of Shandong Province in April 2003. In the same year, he was also labeled as "Model Labour" of Shandong Province. Mr. Li first joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1982 as the factory manager of the Junan County MSG Factory and then set up Shandong Fufeng in 1999. Mr. Li established the Group in June 1999 when he was appointed a director of Shandong Fufeng upon its establishment. He has 28 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 47.35% of the issued share capital of the Company and is a controlling shareholder of the Company. He is the brother-in-law of 李德衡 (Li Deheng) (an executive Director).

王龍祥 (Wang Longxiang), aged 48, is an executive Director and the general manager of the Group. 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 18 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 3.47% of the issued share capital of the Company. Mr. Wang was granted an option to subscribe for 16,000,000 Shares pursuant to the Pre-IPO Share Option Scheme, representing 0.96% of the issued share capital of the Company.

馮珍泉 (Feng Zhenquan), aged 40, is an executive Director and vice general manager of the Group. Mr. Feng is also a director of Shandong Fufeng, Baoji Fufeng and IM Fufeng. He is in charge of the operations of Baoji 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 16 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 11.15% of the issued share capital of the Company.

徐國華 (Xu Guohua), aged 41, is an executive Director and vice general manager of the Group who is responsible for the production and research and development of the Group. Mr. Xu is also a director of Shandong Fufeng, Baoji Fufeng and IM 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 19 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 11.15% of the issued share capital of the Company.

Biographies of Directors and Senior Management

李德衡 (Li Deheng), aged 41, is an executive Director and vice general manager of the Group who is responsible for the business operations of IM Fufeng. He is also a director of Shandong Fufeng, Baoji Fufeng and IM 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 9 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 11.15% of the issued share capital of the Company.

龔卿禮 (Gong Qingli), aged 42, is an executive Director and the chief financial officer of the Group who is responsible for financial management and who assists in strategic planning of the Group. He is also designated to manage and oversee the internal control and corporate governance systems of the Group. Mr. Gong obtained his accounting degree in 立信會計專科學校 (Shanghai Lixin Accounting College) in 1988. Mr. Gong is a member of the Chinese Institute of Certified Public Accountants. Prior to joining the Group in January 2007, Mr. Gong had over 20 years of experience in accounting, business advisory and risk management services, including some with an international accounting firm. Centerpoint Assets Management Limited, a company wholly and beneficially owned by Mr. Gong and at which Mr. Gong served as its sole director, was granted an option to subscribe for 16,000,000 Shares pursuant to the Pre-IPO Share Option Scheme.

Independent non-executive Director

蔡子傑 (Choi Tze Kit, Sammy), aged 47, was appointed as an independent non-executive Director in January 2007. Mr. Choi graduated from the Hong Kong Shue Yan College (presently known as Hong Kong Shue Yan University). He is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Choi is also a council member of the Society of Chinese Accountants and Auditors. He has over 21 years of experience in finance and auditing.

陳寧 (Chen Ning), aged 47, 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 ten 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 six academic textbooks and has written over 90 academic papers.

梁文俊 (Liang Wenjun), aged 46, was appointed as an independent non-executive Director in January 2007. Mr. Liang is an associate professor of financial management at the 石油化工管理幹部學院 (Sinopec Management Institute) since 1998. Mr. Liang has over 20 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.

Biographies of Directors and Senior Management

Senior Management

來鳳堂 (Lai Fengtang), aged 41, is a vice general manager of the Group. Mr. Lai graduated from 西北大學 (Northwest University of China) in 1998. He first joined Shandong Furui Brewery Group in 1991. Mr. Lai joined the Group in June 1999 and has over 18 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 3.47% of the issued share capital of the Company. Mr. Lai was granted an option to subscribe for 3,200,000 Shares pursuant to the Pre-IPO Share Option Scheme, representing 0.19% of the issued share capital of the Company.

沈德權 (Shen Dequan), aged 44, is a manager of the production department of the Group. 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 11 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 3.47% of the issued share capital of the Company.

鈕彩 (Niu Cai), aged 50, is a manager in administrative department of the Group. Ms. Niu attained her master's degree in politics and international relations from 北京師範大學研究生院 (the post graduate school of Beijing Teacher's University) in 2004. She is qualified as a statistician. Her primary responsibilities include personnel recruitment, training, evaluation and surveillance. Ms. Niu first joined Shandong Furui Brewery Group in 1977. Ms. Niu joined the Group in June 1999 and has 10 years of experience in business management. Ms. Niu is the sole director of and is interested in 14.3% of the issued share capital of Advanced Quality Limited, which in turn is interested in 57,600,000 Shares, representing 3.47% of the issued share capital of the Company.

李慧 (Li Hui), aged 43, is a manager of the international trade department of the Group. He obtained his bachelor's degree from 北京科技大學 (University of Science and Technology Beijing) in 1989. In 1999, Mr. Li completed a course in international trade at 對外貿易大學國際貿易專業 (University of International Business and Economics). He joined the Group in 2003 and is responsible for the Group's international market development and sales. He was granted an option to subscribe for 6,400,000 Shares pursuant to the Pre-IPO Share Option Scheme, representing 0.39% of the issued share capital of the Company.

肖勇 (Xiao Yong), aged 41, is a manager in the quality control department of the Group. Mr. Xiao obtained his bachelor's degree from 湖南大學 (Hunan University) in 1992, majoring in chemical industry. Before joining the Group in 2003, Mr. Xiao has accumulated 8 years of experience in quality control management and is primarily responsible for the Group's quality and production control. Mr. Xiao was granted an option to subscribe for 1,280,000 Shares pursuant to the Pre-IPO Share Option Scheme, representing 0.08% of the issued share capital of the Company.

葛文村 (Ge Wencun), aged 49, is a manager of operation department of the Group and has joined the Group since 1999. Mr. Ge obtained his bachelor's degree in 1986 from 山東輕工業學院 (Shandong Institute of Light Industry). Mr. Ge is currently responsible for the Group's domestic and international market development. Mr. Ge first joined Shandong Furui Brewery Group in 1992 and has over 17 years of experience in the fermentation industry. Mr. Ge was granted an option to subscribe for 1,120,000 Shares pursuant to the Pre-IPO Share Option Scheme, representing 0.07% of the issued share capital of the Company.

張元年 (Zhang Yuannian), aged 36, is a manager of the finance department of IM Plant. 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 15 years of experience in finance. Mr. Zhang was granted an option to subscribe for 1,280,000 Shares pursuant to the Pre-IPO Share Option Scheme, representing 0.08% of the issued share capital of the Company.

Biographies of Directors and Senior Management

徐令國 (Xu Lingguo), aged 35, is a manager in the glutamic acid sales department of the Group. Mr. Xu graduated in 1997 from 太原理工大學 (Taiyuan University of Technology) majoring in economic law. Mr. Xu joined the Group in 1999. Mr. Xu has 10 years of experience in the fermentation industry and is presently responsible for the Group's sales. Mr. Xu was granted an option to subscribe for 1,280,000 Shares pursuant to the Pre-IPO Share Option Scheme, representing 0.08% of the issued share capital of the Company.

Company Secretary and Qualified Accountant

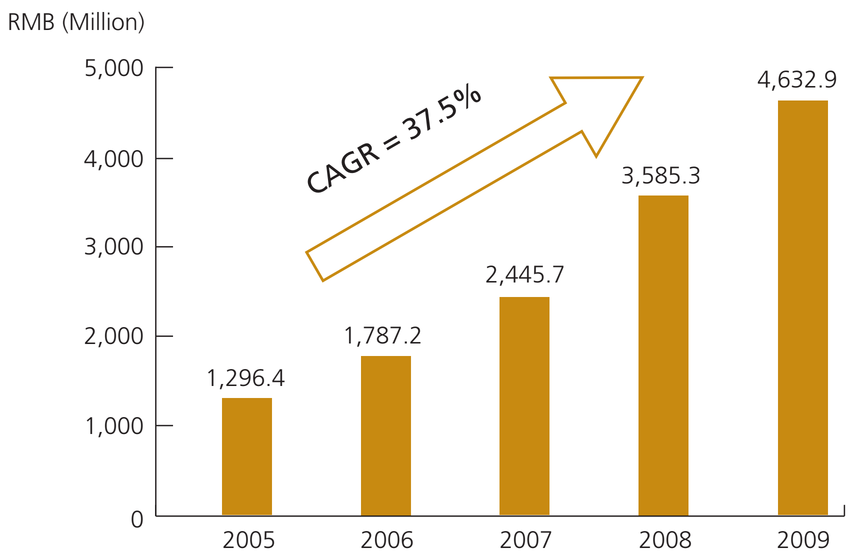
李偉然 (Lee Wai Yin), aged 40, is the qualified accountant and company secretary of the Company since August 2008. Mr.Lee graduated from the Hong Kong Shue Yan College (presently known as Hong Kong Shue Yan University) in 1993 with a diploma in accountancy and is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has more than 16 years of working experience in the field of 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

Overview

The Group is a leading corn-based biochemical products manufacturer in the PRC and aims at becoming the leading corn-based biochemical products manufacturer in the world. Currently, the Group principally operates in two business segments which are MSG segment and Xanthan gum segment. The Group's overall growth strategy entails the expansion of its market shares, the diversification of its product range, the boardening of its sales network and the strengthening of its research and development capabilities.

The Group recorded an increase of approximately RMB1,047.6 million or 29.2% in turnover to RMB4,632.9 million for the year 2009, as compared with that in the year 2008. The table below illustrates the continuous growth of the Group's turnover in the past 5 years:



Gross profit of the Group increased substantially from approximately RMB644.3 million in 2008 to approximately RMB1,399.6 million in 2009. Owing to the increase in ASP and sales volume of most of the Group's products resulted from the improved of business environment, overall gross profit margin improved significantly to 30.2% in 2009, representing a 12.2 percentage points increase from 18.0% in 2008.

Profit attributable to the Shareholders in 2009 was approximately RMB928.3 million, representing an increase of approximately RMB633.6 million or 215.0% as compared with that of 2008.

2009 was a fruitful year for the Group as it continued its success in 2008 and further made a big leap in its operating and financial results. The Group attributed the improved performance to the following factors:

– the Group's ability to sustain the growth momentum built up in 2008 and further strengthen its leading position in the MSG and xanthan gum markets with enhanced capacities and market coverage, as well as improved operational efficiencies;

– the improved business environment in the MSG industry driven by the strong domestic consumption market in the PRC, resulted in the increase in ASP and profit margin;

– the Group continued to enjoy significant raw material cost advantages at both Baoji Plant and IM Plant.

Management Discussion and Analysis

Segmental Review

The Group's products can be classified into two business segments, namely MSG segment and Xanthan gum segment. The MSG segment which includes MSG, glutamic acid, fertilisers, and other related products while the Xanthan gum segment represents the production and sale of xanthan gum. Key financials of these two segments in 2009 together with comparative figures in 2008 are set out in the following table:

	2009			2008			Increase / (Decrease)		
	MSG *RMB'000*	Xanthan gum *RMB'000*	Group *RMB'000*	MSG *RMB'000*	Xanthan gum *RMB'000*	Group *RMB'000*	MSG %	Xanthan gum %	Group %
Revenue	4,224,760	408,124	4,632,884	3,133,604	451,739	3,585,343	34.8	(9.7)	29.2
Gross profit	1,250,764	148,843	1,399,607	488,936	155,396	644,332	155.8	(4.2)	117.2
Gross profit margin	29.6%	36.5%	30.2%	15.6%	34.4%	18.0%	14.0 ppts.	2.1 ppts.	12.2 ppts.
Segment result	934,166	136,014		273,363	130,574		241.7	4.2	
Segment net assets									
Assets	3,530,535	689,624		2,560,470	626,257		37.9	10.1	
Liabilities	1,529,617	334,088		1,111,634	406,634		37.6	(17.8)	
Net assets	2,000,918	355,536		1,448,836	219,623		38.1	61.9	

MSG segment review

Business review

The MSG and glutamic acid market in the PRC became increasingly concentrated and is now dominated by a few major players. The Group has become one of the world's leaders in the MSG industry as it played a significant role in the industry consolidation process further expanding its market share. The industry also benefited from favorable macro environment with national policy shifted to boost internal consumption in the year.

When compared with 2008, the business environment of MSG industry further improved in 2009. After a phase of industry consolidation in 2008, the selling prices of MSG and glutamic acid products have been increasing continuously, most evidently in the fourth quarter of 2009. However, it is the opinion of the Directors that the sharp surge in the ASP of MSG and glutamic acid products in the fourth quarter of 2009 was unusual, and the ASP of MSG and glutamic acid products have returned to a reasonable level in the beginning of 2010.

Total production capacity of the Group's MSG increased from 171,667 tonnes in 2008 to 305,000 tonnes in 2009. Total production capacity of the Group's glutamic acid increased from 275,000 tonnes to 350,000 tonnes in 2009. Sales volume of glutamic acid decreased from 162,708 tonnes to 100,993 while sales volume of MSG nearly doubled, increased from 146,185 tonnes in 2008 to 292,369 tonnes in 2009. It is the strategy of the Group to expand its product offerings along the value chain towards the end-user market by migrating from a glutamic acid-focused to a more MSG-focused product portfolio. As a result, the Group significantly reduced external sales of glutamic acid while boosted the domestic consumption of glutamic acid to produce MSG in 2009.

Management Discussion and Analysis

The Group has also benefited from the full-year impact of cost reduction through the migration of part of its glutamic acid and MSG production facilities from the Shandong Plant to the Baoji Plant and IM Plant in 2008.

As for fertilisers, the selling price was stiill in a downward trend in 2009 following the price drop since the fourth quarter of 2008, which was in line with the market trend.

The ASPs of sweeteners and corn refined products increased in 2009, which was in line with the increase in the market price of cane sugar and the increase in demand from the breeding industry.

Following the recovery of commodity prices globally, the corn kernels average price saw a 25.8% increase from the first quarter to the fourth quarter in 2009. Owing to the market leading position, the Group in general was able to transfer the increase in corn kernels price to the customers in 2009.

The coal price in general dropped in 2009 as compared to 2008 was in line with the market trend in the first half of 2009. Coal price began to pick up slightly in the second half of 2009 following the recovery of global economy.

As a result of the Group's strategy of switching to producing more MSG, the decrease in raw material prices and the improved production efficiency, gross profit margin was enhanced substantially in 2009.

The Group will continue to lead market consolidation going forward. The Group finished expanding its production capacities of glutamic acid in Baoji Plant by 70,000 tonnes and that of fertilisers by 100,000 tonnes at the end of 2009. The Group has also completed the expansion of MSG production plant from the initial 100,000 tonnes to 250,000 tonnes in IM Plant. Re-engineering of production process in Baoji Plant and IM Plant also enhance the production capacity of MSG and glutamic acid by 110,000 tonnes and 40,000 tonnes respectively.

The Group expects that the internal consumption of glutamic acid will be further increased in year 2010, which is in line with the Group's strategy.

Management Discussion and Analysis

Financial review

Revenue

Revenue generated from the sale of the MSG segment products increased to RMB4,224.8 million in 2009, representing an increase of RMB1,091.2 million or 34.8%, as compared with that in year 2008, which was mainly attributed to the increase in the ASP and sales volume of MSG. Revenue breakdown by products in this segment for the years 2009 and 2008 are set out in the table below:

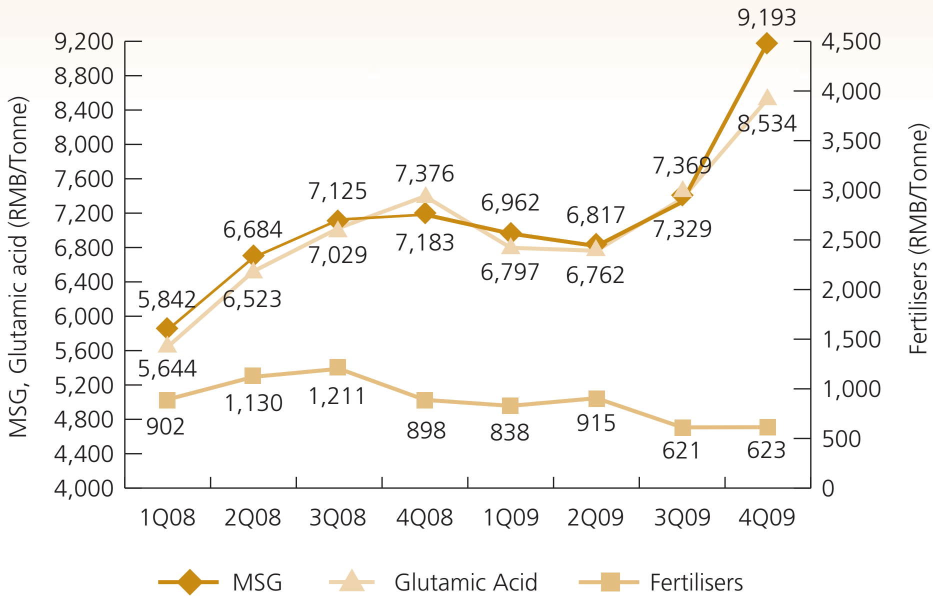
Product name	**2009** **RMB'000**	2008 RMB'000	% of change
MSG	**2,245,307**	1,004,381	123.6
Glutamic acid	**720,631**	1,053,298	(31.6)
Corn refined products	**557,523**	509,849	9.4
Fertilisers	**361,468**	380,097	(4.9)
Starch sweeteners	**245,168**	163,002	50.4
Others	**94,663**	22,977	312.0
	4,224,760	3,133,604	34.8

ASPs and sales volume

Set out below the ASPs of the Group's major products for the years 2009 and 2008:

Product name	**2009** **RMB/tonne**	2008 RMB/tonne	% of change
MSG	**7,680**	6,865	11.9
Glutamic acid	**7,135**	6,474	10.2
Fertilisers	**727**	1,026	(29.1)

The chart below illustrates the fluctuation of ASPs (in RMB/Tonne) of the Group's major products in this segment in 2008 and 2009:



MSG

The ASP of MSG increased from approximately RMB6,865 per tonne in 2008 to approximately RMB7,680 per tonne in 2009, representing on increase of about 11.9%; while turnover of MSG increased substantially by approximately 123.6%, as a result of the increase in production capacity of the Group. However, the sudden sharp surge of the ASP in the fourth quarter of 2009 was unusual, and ASP of MSG returned to a more reasonable level in the beginning of 2010.

As stated above, leveraging on its leading position in the market and benefited from the strong domestic consumption market in the PRC, the Group increased marketing effort to boost the sale of its MSG so as to enlarge its market share in 2009. As a result, the sales volume of MSG (in terms of tonne) increased by approximately 100.0% in 2009 from that of 2008.

Glutamic acid

The ASP of glutamic acid increased from approximately RMB6,474 per tonne in 2008 to approximately RMB7,135 per tonne in 2009, representing an increase of about 10.2%. Similar to MSG, the sudden sharp surge of the ASP in the fourth quarter of 2009 was unusual, and the ASP of glutamic acid returned to a more reasonable level in the beginning of 2010.

Due to the aforementioned strategy of focusing more on the MSG production, although the total production capacity of the Group increased, sales volume of glutamic acid dropped by 61,715 tonnes to 100,993 tonnes in 2009.

Fertilisers

ASP of fertilisers in general dropped by 29.1% from RMB1,026 per tonne in 2008 to RMB727 in 2009. It is in line with the price trend of urea.

Management Discussion and Analysis

Corn refined products

The revenue of corn refined products increased by about 9.4% in 2009 when compared with that in 2008. The ASP of corn refined products gradually increased since fourth quarter of 2008 and there was an increasing demand from ranches as the breeding industry recovered in 2009.

Starch sweeteners

The ASP of starch sweeteners increased from approximately RMB1,842 per tonne in 2008 to approximately RMB2,080 per tonne in 2009. Sales volume of starch sweeteners also increased by 33.2% as market demand and market recognition of the Group's products increased.

Cost of production

The breakdowns of cost of production of this segment are set out below:

	2009		2008		*% of*
	RMB'000	***%***	*RMB'000*	*%*	*change*
Major raw materials/Energy	**2,346,230**	**77.7**	2,103,892	80.6	11.5
– Corn kernels	**1,692,010**	**56.0**	1,304,277	50.0	29.7
– Liquid ammonia	**333,454**	**11.0**	331,430	12.7	0.6
– Sulphuric acid	**38,408**	**1.3**	183,919	7.0	(79.1)
– Coal	**282,358**	**9.4**	284,266	10.9	(0.7)
Depreciation	**143,007**	**4.7**	108,551	4.2	31.7
Employee benefit	**129,119**	**4.3**	87,412	3.3	47.7
Others	**401,254**	**13.3**	309,553	11.9	29.6
Total cost of production	**3,019,610**	**100.0**	2,609,408	100.0	15.7

Corn kernels

In 2009, cost of corn kernels accounted for approximately 56.0% (2008: 50.0%) of the total production cost of this segment. Such increase was mainly due to the decrease in cost of other raw materials such as liquid ammonia, sulphuric acid and coal as a percentage of the total production cost of this segment during 2009. Although the average unit cost of corn kernels significantly increased from about RMB1,223 per tonne in first quarter of 2009 to about RMB1,538 per tonne in fourth quarter of 2009, the average unit cost of corn kernels for the whole year slightly decreased to about RMB1,413 per tonne in 2009 (2008: RMB1,424 per tonne).

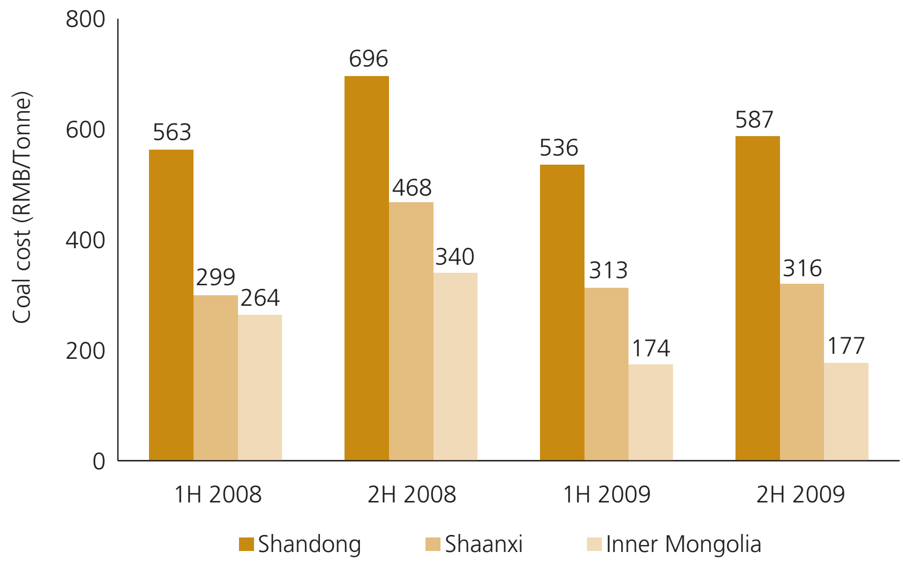
Liquid ammonia

Liquid ammonia accounted for approximately 11.0% (2008: 12.7%) of total production cost in this segment in 2009. Such decrease was mainly due to the decease in the average unit selling price of liquid ammonia. The average unit cost of liquid ammonia decreased to about RMB2,209 per tonne in 2009 (2008: RMB2,700 per tonne).

Sulphuric acid

In 2009, sulphuric acid accounted for 1.3% (2008: 7.0%) of the total production cost in this segment. Such significant decrease was mainly due to the decrease in the average unit selling price of sulphuric acid. The average unit cost of sulphuric acid decreased significantly to about RMB212 per tonne in 2009 (2008: RMB923 per tonne).

Coal



In 2009, coal accounted for 9.4% (2008: 10.9%) of the total production cost in this segment. Such decrease was mainly due to the decrease in the average unit selling price of coal and the cost advantage enjoyed by the Group in the IM plant. The average unit cost of coal decreased from about RMB369 per tonne in 2008 to about RMB254 per tonne in 2009.

Gross profit and gross profit margin

Gross profit of this segment increased from RMB488.9 million in 2008 to RMB1,250.8 million in 2009, representing an increase of RMB761.9 million or 155.8%. Such increase was mainly due to the increase in both sales volume and ASPs of the Group's MSG segment products and the decrease in average cost of production.

Gross profit margin of MSG segment jumped from 15.6% in 2008 to 29.6% in 2009, representing an increase of 14.0 percentage points. Such increase was mainly attributable to the increase of ASP of the Group's products, the Group's strategy of expanding its MSG sales, the improved production efficiency and the decrease in the costs of major raw materials in 2009.

Management Discussion and Analysis

Production

The annual designed production capacity of each of the major products as at the end of 2009 together with comparative figures for 2008 is as follows:

Product name	As at the end of		
	2009	2008	% of
	(Tonnes)	*(Tonnes)*	change
MSG	**540,000**	280,000	92.9
Glutamic acid	**460,000**	350,000	31.4
Fertilisers	**560,000**	460,000	21.7
Starch sweeteners	**100,000**	100,000	–

MSG

The annual designed production capacity of MSG increased to 540,000 tonnes at the end of 2009 from 280,000 tonnes in 2008. The significant increase in production capacity of MSG was mainly due to the construction of a new MSG production line of 150,000 tonnes per year in the IM Plant, which commenced production in November 2009. In addition, the re-engineering of the MSG production process completed by the end of 2009 which would enhance the production capacity of MSG of the Group by 110,000 tonnes.

Glutamic acid

The annual designed production capacity of glutamic acid increased to 460,000 tonnes at the end of 2009 from 350,000 tonnes in 2008. The Group completed the construction of a new glutamic acid production line of 70,000 tonnes at the end of 2009. In addition, the re-engineering of the glutamic acid production process completed by the end of 2009 which would enhance the production capacity of glutamic acid of the Group by 40,000 tonnes.

Fertilisers

The annual designed production capacity of fertilisers increased to 560,000 tonnes in 2009 from 460,000 tonnes in 2008. Such increase was mainly due to the construction of a new fertilisers production line of 100,000 tonnes per year in Baoji Plant. The new production line commenced production in December 2009.

The actual production output and the utilisation rate of each of the major products in 2009 together with the comparative figures in 2008 are as follows.

Product name	**2009 *(Tonnes)***	2008 *(Tonnes)*	% of change
Glutamic acid			
Annual designed production capacity *(Note)*	**350,000**	275,000	27.3
Actual production output	**354,638**	275,212	28.9
Utilisation rate	**101%**	100%	
MSG			
Annual designed production capacity *(Note)*	**305,000**	171,667	77.7
Actual production output	**302,572**	150,353	101.2
Utilisation rate	**99%**	88%	
Fertilisers			
Annual designed production capacity *(Note)*	**460,000**	405,000	13.6
Actual production output	**457,978**	380,531	20.4
Utilisation rate	**100%**	94%	
Starch sweeteners			
Annual designed production capacity *(Note)*	**100,000**	100,000	–
Actual production output	**106,194**	67,819	56.6
Utilisation rate	**106%**	68%	

Note: the annual production capacity is expressed on a pro-rata basis.

Referring to the table above, the utilisation of the Group's production facilities in 2009 have reached their maximum designed capacity.

Management Discussion and Analysis

Xanthan gum segment

Business review

Due to its exporting nature and high coherence with the oil market, the demand for xanthan gum had been heavily hit by the global financial crisis and the falling oil prices during 2009. Although the demand for xanthan gum gradually picked up in the second half of 2009, the Group recorded a slightly drop in sales of xanthan gum in 2009 as a whole. However, it still managed to achieve a slightly improved operating result for this segment.

During the year under review, the Group expanded its production capacity of xanthan gum in IM Plant and managed to capture additional market share to consolidate its leading position in the industry.

During 2009, the xanthan gum market was adversely affected by the poor global oil market, as a result of, among other things, the global economic downturn. Despite this, during the 2009, the Group was able to mitigate the negative impact of the drop in ASP of the xanthan gum by maintaining its sales volume while the Group continued to enjoy the reduced average cost of production as the production capacity of the IM Plant continued to increase.

Financial review

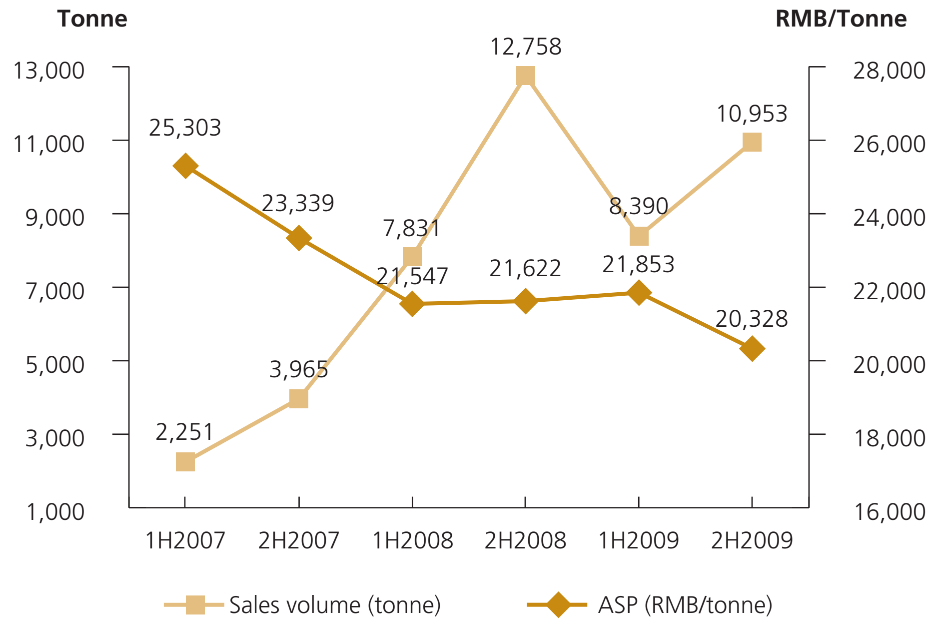
Revenue

Revenue generated from the sales of xanthan gum decreased to RMB408.1 million in 2009, representing a drop of RMB43.6 million or 9.7%, as compared to 2008. Such decrease was mainly due to the drop in ASP and sales volume of xanthan gum which was a direct result of weakened demand from the oil market due to the global economic recession.

In 2009, overseas sales of xanthan gum contributed 84.5% (2008: 85.2%) to the total sales of the xanthan gum.

ASP and sales volume

The chart below illustrates the fluctuation of ASP of xanthan gum in 2007, 2008 and 2009:



The ASP of xanthan gum decreased from RMB21,547 per tonne in the first half of 2008 to about RMB20,328 per tonne in the second half of 2009, representing a 5.7% drop.

The global economic downturn and the drop in oil price have adversely affected the xanthan gum business, causing the production capacity was not being fully absorbed by the market in 2009.

Cost of production

The breakdowns of the cost of production of this segment are set out below:

	2009		2008		*% of*
	RMB'000	***%***	*RMB'000*	*%*	*change*
Major raw materials/Energy	**225,597**	**66.7**	224,985	74.7	0.3
– Coal	**103,946**	**30.7**	127,360	42.3	(18.4)
– Corn kernels	**76,680**	**22.7**	51,033	17.0	50.3
– Starch	**22,314**	**6.6**	23,290	7.7	(4.2)
– Soy bean	**22,657**	**6.7**	23,302	7.7	(2.8)
Depreciation	**33,159**	**9.8**	25,141	8.4	31.9
Employee benefit	**27,276**	**8.1**	18,104	6.0	50.7
Others	**52,113**	**15.4**	32,782	10.9	59.0
Total cost of production	**338,145**	**100.0**	301,012	100.0	12.3

Coal

In 2009, coal accounted for approximately 30.7% (2008: 42.3%) of the total production cost of this segment. Such decrease was mainly due to decrease in coal price and the increase in other costs as a percentage of the total cost of production. The Group also enjoyed the lower average coal cost in Inner Mongolia Autonomous Region as a result of the expansion of its production capacity in the IM Plant. The IM Plant's average cost of coal was about RMB176 per tonne in 2009 (2008: RMB306 per tonne), which was significantly lower than that of compared to about RMB563 per tonne (2008: RMB628 per tonne) in Shandong Plant. During the year, the average cost of coal decreased by approximately 37.5% in this segment.

Corn Kernels/Starch

In 2009, corn kernels/starch accounted for approximately 29.3% (2008: 24.7%) of the total production cost of this segment. The increase in proportion was mainly due to the fall in the cost of other raw materials, most notably coal, as a percentage of the total cost of production.

Management Discussion and Analysis

Soy bean

In 2009, soy bean accounted for approximately 6.7% (2008: 7.7%) of the total production cost of this segment. The decrease in proportion was mainly due to the decrease in average unit selling price of soy bean from approximately RMB4,354 per tonne in the 2008 to approximately RMB3,512 per tonne in 2009, representing an decrease of 19.3%.

Gross profit and gross profit margin

The gross profit of xanthan gum decreased from RMB155.4 million in 2008 to RMB148.8 million in 2009, representing a decrease of RMB6.6 million or 4.2% drop. Such decrease was mainly due to drop in the ASP and sales volume of xanthan gum. Due to the aforementioned cost reduction and benefited from economies of scale as a result of the increased production capacity, the Group managed to improve the gross profit margin of xanthan gum from 34.4% in 2008 to 36.5% in 2009, or an increase of 2.1 percentage points.

Production

The annual design production capacity of xanthan gum in the year 2009 together with the comparative figures in the year 2008 was as follows:

	2009 **(*Tonnes*)**	2008 (*Tonnes*)	% of change
Annual designed production capacity at the end of year	**32,000**	32,000	–

The actual production output and the utilisation rate of xanthan gum in the year 2009 together with the comparative figures in the year 2008 were as follows:

	2009 **(*Tonnes*)**	2008 (*Tonnes*)	% of change
Annual designed production capacity *(Note)*	**32,000**	21,000	52.4
Actual production output	**28,232**	21,277	32.7
Utilisation rate	**88.2%**	101.3%	

Note: the annual production capacity is expressed on a pro-rata basis.

The drop in utilisation rate was due to weakened demand of xanthan gum as a result of the global economic downturn in 2009.

The construction of the production facilities for the 12,000 tonnes of xanthan gum have commenced in first half of 2009 as scheduled, which is expected to be completed in the first half of 2010.

Other financial information

Other income

Other income increased by approximately RMB19.6 million or 44.3% from RMB44.3 million in the year 2008 to RMB63.9 million in the year 2009. The increase was mainly due to the increase in sales of waste products and income from government grants.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB49.3 million or 29.6% from RMB166.4 million in the year 2008 to RMB215.7 million in the year 2009. Such increase was in line with the increase in the revenue .

Administrative expenses

Administrative expenses increased by approximately RMB52.9 million or 37.3% from RMB142.0 million in 2008 to RMB194.9 million in 2009. The increase was mainly due to the increase in administrative staffs and management salary, the amortisation of share option increase for the Pre-IPO and Post-IPO Share Option Scheme. In addition, research and development related expenses also increased as more research and development project was initiated during the year.

Finance costs

Finance costs are approximately amount to RMB25.3 million which is decreased by RMB17.4 million represented 40.8% as compared to 2008. The reduction of finance costs was mainly due to the decrease in average bank loan balance and the decrease in interest rate in 2009.

Staff cost

Staff cost of the Group increased by approximately RMB89.3 million or 52.5% from RMB170.3 million in 2008 to RMB259.6 million in 2009. The increase was mainly due to the increase in the staff costs resulted from the expansion of the Group's production and increase in the average salary of the staff. In addition, the amortisation of share options as a result of the increase in share price also attributed to the increase in staff cost.

Depreciation

Depreciation expense of the Group increased by approximately RMB37.8 million or 24.8% from RMB152.5 million in 2008 to RMB190.3 million in 2009. The increase was mainly due to the expansion and modification of the IM Plant and Baoji Plant.

Taxation

The income tax expenses for the year 2009 represented the PRC Enterprise Income Tax ("EIT").

Effective on 1 January 2009, in accordance to with the relevant tax laws, the EIT rate applicable to the subsidiaries incorporated in the PRC was 25% for those with original applicable EIT rates higher than 25%, or gradually increased to 25% in a 5-year period form 2008 to 2012 for those with original applicable EIT rates lower than 25%. However, the Group's subsidiaries will continue enjoying the existing tax preferential treatment up to the end of the tax holiday, after which the 25% standard rate will apply. The following table summaries the EIT rates applicable to the Group's subsidiaries:

	Shandong Fufeng	**Baoji Fufeng**	**IM Fufeng**
Standard/preferential tax rate	15% *(Note 2)*	15% *(Note 1)*	15% *(Note 1)*
Tax holiday			
Full exemption (year)	Already expired	Already expired	Already expired
50% exemption(year)	Already expired	2007 to 2009	2009 to 2011

Note 1: with the Opening Up of Western China policy, Baoji Fufeng and IM Fufeng are entitled to a preferential enterprise income tax rate of 15% until 31 December 2010.

Note 2: Shandong Fufeng was approved as a high-technique enterprise, which is entitled to a preferential enterprise income tax rate of 15% until 31 December 2010.

Other achievements

Research and Development

The Group is committed in research and development. The Group's research and development team applied for an additional 15 new patents in 2009. Total patents applied amounted to 68, out of which 22 have been granted.

As a result of the Group's effort in research and development six of our research results were accredited by the provincial government, including the high concentration ASND technology, corn-based crystallised fructose technology and the applied technology of fermentation of glutamic acid.

Furthermore, the Group's research and development centre was recognised as the national-grade laboratory qualification (國家認可實驗室資格).

The Group continued to improve the production process of its MSG and Xanthan gum segments, with an aim to improve efficiency and reduce energy consumption.

Meanwhile, the Group is going to commercialise two new products known as threonine and a series of new amino acid products such as valine, norleucine and isoleucine in 2010, which was developed in 2009, as well as the products of pharmaceutical, corn oil and chicken powder have been initially launched in 2008.

In view of the enormous potential of pharmaceutical fermentation industry, the Group will further extend the business opportunity and develop the pharmaceutical business of Shenhua Pharmaceutical.

As increasing of research and development projects, the expenditure for research and development in 2009 was approximately RMB36.2 million representing an increase of approximately RMB13.8 million or 61.5% as compared with that of 2008.

On 30 April, 2009, the Baoji Plant adopted a flue gas treatment initiative to alleviate the impact of flue gas released during the production process by installing additional flue gas desulfurisation facilities. Certain facilities have been commissioned and have achieved the intended benefits. The success in flue gas treatment proves that the Group has the ability to provide a solution to the problem that has troubled the MSG industry for years. The Group is well positioned to become the pioneer in setting standards for flue gas treatment and environmentally production process.

Future Plans and Outlook

Future plans

2009 represented a very successful year for the Group. This was considered by the Directors to be a remarkable accomplishment amidst the global economic downturn. After the continuous effort to increase production capacity over the past few years, the Group has become the genuine leader in the MSG markets and xanthan gum markets.

Looking ahead, its leading market position, established brand names, and the substantial cost advantage in its IM Plant has made the Group best positioned to benefit from future economic growth in China, which is increasingly in driven by the domestic consumption market. The Group will continue to strengthen its market leading position in MSG segment products and xanthan gum by steadily expanding its production capacity, broadening its market coverage, reduction of production cost, and product diversification via development of new products.

New production plant in Northeast China

The Group is planning to set up a new production plant in the transition of Inner Mongolia Autonomous Region and Heilongjiang Province. Construction work of such new production plant is scheduled to begin in the second quarter of 2010. The initial commercial production is expected to commence in the second half of 2011. The project comprises production lines with a capacity of 200,000 tonnes of MSG, 160,000 tonnes of glutamic acid, 200,000 tonnes of fertilisers and 100,000 tonnes of synthetic ammonia running on a well-supported workflow, ranging from corn kernel processing to thermal power generating, chemical materials supply systems and a self-owned railway. The project is well equipped to take advantage of the abundant corn supplies and the rich coal mines surrounding the area. Considering all these favorable conditions for the highly vertical integration of MSG production facility, the production costs will be significantly decreased.

Enhancement of the IM Plant

The Group will continue to enhance its IM Plant. The Group plans to make the investment on production cost reduction project of its IM Plant by a 80,000 tonnes of synthetic ammonia production capacity and related facility. The project is expected to be commenced by the end of 2010.

The Group will also invest a new 5,000 tonnes of fructose production capacity in IM Plant, which is expected to be commenced in the second half of 2010.

Developing new products and improving the production technologies

The Group is developing a series of new amino acid products and biomass based polymer products in order to enhance the Group's product mix and future growth driver.

Apart from developing new products, the Group is planning to re-engine its production process of its MSG segment products and xanthan gum, with an aim to improve efficiency and reduce energy consumption. Following such re-engineering, the Group is expected to increase the output of its existing production facilities of MSG segment without significant capital expenditure.

Strive to become the world's leading xanthan gum manufacturer

The Group's xanthan gum production facilities are primarily located in Inner Mongolia Autonomous Region, which enjoys advantage in low raw material costs. Leveraging on this competitive advantages, the Group will grasp the opportunity brought by market consolidation and strive to become the world's leading xanthan gum supplier. Along with the completion of the 12,000 tonnes of xanthan gum in the IM Plant in the first half of 2010, the Group will have increased the production capacity of xanthan gum of 44,000 tonnes in 2010, which is approximately 38% increased than in 2009.

Future Plans and Outlook

Further expansion of market network and marketing efforts

The Group strives to extend its domestic as well as international sales networks. Apart from establishing a leading position in the domestic market by building up a nationwide marketing network, the Group has also set up regional sales centres and logistic centres in order to provide market-oriented customer services. Meanwhile, the Group actively expands into the international market, with preliminarily plans to establish operations offices in the Middle East, North America and Europe to strengthen its xanthan gum and MSG export business.

In addition, the Group further promotes its brand name in the market by engaging brand spokesperson and enhances popularity of the enterprise and products in the market as well as extending to the retail end-users.

Outlook

MSG Segment

It is the Group's strategy to continue expanding the market shares of its MSG segment products. With the increased production capacity, the Group will further strengthen its market leading position. The Group's current strategy is to vertically expand along the product chain, by focusing on utilizing self-produced glutamic acid to product more MSG products,

The Group had a very successful year in 2009, as we saw significant increase in both the ASP and the profit margin of the MSG segment products. The Group will continue to closely monitor the price trend of the Group's products, the price trend of its raw materials, and the gross profit margin of MSG segment, and adopt appropriate sales and pricing strategy with an aim to maintain and improve the Group's profitability and leadership in the market.

Xanthan gum

2009 represented a challenging year for the Group's xanthan gum business, mainly attributable to the weakened oil market. Looking ahead, the Directors are optimistic towards the xanthan gum market. Following the global economic recovery since the second half of 2009, the market demand for xanthan gum is expected to grow with more end-users realising the advantages of using xanthan gum as an effective thickener, stabiliser or suspension agent applying in food, oil exploration, personal care products and pharmaceutical items. The Group will take full advantage of its cost effectively in its IM Plant and capture additional market share. As the Group has become one of the leading xanthan gum manufacturers in the world, the Directors believe that it will have better control of its selling price and hence the profit margin of its products.

Other Information

Other Information

Liquidity and financial resources

The Group maintained a healthy liquidity position throughout the year 2009. At 31 December 2009, the cash and cash equivalent and restricted bank deposits of the Group were RMB369 million (2008: RMB268 million). The current bank borrowings were approximately RMB418 million (2008: RMB276 million) and non-current bank borrowings were approximately RMB180 million (2008: RMB312 million). The Group may consider raising new financing through bank loans or debt issues to further strengthen its liquidity position.

Pledge of assets

At 31 December 2009, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB121 million (2008: RMB189 million) were pledged to certain banks to secure general banking facilities of the Group.

Foreign exchange exposure

During the year 2009, 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 from the export sales of products. Such proceeds were subject to foreign exchange risk before receiving and translating into RMB.

The foreign currencies received from export sales were translated into RMB upon receiving from the overseas customers.

Gearing ratio

At 31 December 2009, the total assets of the Group amounted to approximately RMB4,261 million (2008: RMB3,262 million) whereas the bank borrowings amounted to RMB598 million (2008: RMB588 million). The gearing ratio was approximately 14% (2008: 18%). The gearing ratio is calculated based on the Group's total interested bearing borrowings over total assets.

Employees

At 31 December 2009, the Group had approximately 2,200 employees. Employees' remuneration is paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses are paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share option schemes" under the "Directors' Report" for the share options granted to certain Directors and employees of the Group before and after the IPO.

Dividend and dividend policy

The Board recommended the declaration of a final dividend of HK15 cents per share, subject to shareholders' approval at the Annual General Meeting.

The final dividend will be payable on or before 31 May 2010 to shareholders whose names appear on the register of members of the Company on 6 May 2010.

Subject to the availability of the Company's cash and distributable reserves, the Group's investment requirements, and the cashflow and working capital requirements of the Group, the Directors intend to recommend annually distribution to Shareholders of not less than 30% of the Group's annual net profits as dividend in the foreseeable future. In addition, the Board will consider to pay dividend in the form of an interim and a final dividend for each financial year.

Other Information

American Depositary Receipt Facility

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

The ADRs is traded in the U.S. in an over-the-counter market.

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 31December 2009.

Corporate governance report

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company has complied with the code provision as set out in the Code since the listing of Shares.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2009, 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 Thursday, 6 May 2010 to Wednesday, 12 May 2010 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 5 May 2010.

Annual general meeting

The annual general meeting is expected to be held on Wednesday, 12 May 2010. A notice convening the annual general meeting will be despatched to the Shareholders in due course.

Other Information

Use of Proceeds

The Shares were listed on the Main Board of the Stock Exchange on 8 February 2007. The net listing proceeds from the share offer, including the exercise of over-allotment option on 12 February 2007, received by the Company was about HK$957 million. The progress on the use of proceeds is set out in the following table:

Project	Planned amount *HK$million*	Used up to 31 December 2009 *HK$million*
Construction of IM Plant	410	410
Construction of MSG plant in Baoji Plant	120	120
Enhancement of sales and marketing function	10	10
Improving Group's research and development capabilities	30	30
Potential acquisition of related business and facilities *(Note 1)*	39	39
Repayment of ABN AMRO loan	312	312
General working capital	36	36
	957	957

(Note 1) As stated in the Prospectus, the Group intends to use the net proceeds of HK$39 million for the potential acquisition of related business and facilities. After listing of the shares of the Company, the Group has been actively pursuing acquisition opportunities within the biochemical industry. However, no potential target is identified at the moment. As such, the Group decided to use such proceeds to finance the construction of the IM Plant, which has been stated in the Prospectus.

As at 31 December 2009, all net listing proceeds was used based on the planning which was stated in the Prospectus.

Corporate Governance Report

The Company is committed to establish and ensure a high standard of corporate governance practices which places emphasis on quality of the Board, sound and efficient internal control and accountability and transparency to the equity holders. The Directors are in the opinion that the Company has complied with the code provision as set out in the Code since the Listing Date.

The Company's corporate governance structure includes the Board and two committees under the Board, namely the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee"). The terms of reference of all committees specify clearly the power and responsibilities of the respective committees.

Board of Directors

The Board comprises (i) six executive Directors, Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng and Mr. Gong Qingli; and (ii) three independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun. Mr. Li Xuechun is the chairman of the Board and Mr. Wang Longxiang is the general manager of the Group. Mr. Li Xuechun is the brother-in-law of Mr. Li Deheng.

For details of the Directors' biographical information, please refer to the section headed "Biographies of Directors and Senior Management".

The principal function of the Board is to consider and approve the strategies, financial objectives, annual budget, investment proposals and assume the responsibilities of corporate governance of the Company. The day-to-day operations of the Group are delegated to the management of the Group.

The roles of the chairman and general manager are segregated. Mr. Li Xuechun, being chairman of the Group, is responsible for the orderly conduct and operation of the Board while Mr. Wang Longxiang, being the general manager of the Group, is responsible for the daily operations of the Group.

Independent non-executive Directors have been appointed for a term of two years.

Regular Board meetings will be held at least four times a year and the Board will convene other meetings when necessary. Before a Board meeting is convened, relevant documents will be sent to the Directors for their review pursuant to the Listing Rules and the Code. For the year ended of 31 December 2009, four regular Board meetings were held at which all Directors attended the meetings.

The Company has received from each of the independent non-executive Directors a confirmation of his independence in accordance with Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Model Code on securities transactions

The Company has adopted the Model Code. Having made specific enquiry of all Directors, the Directors have complied with the Model Code since the Listing Date.

Accountability and Auditor's remuneration

The Directors acknowledge their responsibility for preparation of consolidated financial statements of the Group. This responsibility has also been mentioned in the independent auditor's report on page 39.

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 auditor of the Group amounts to RMB3.7 million for the provision of audit services for the year ended 31 December 2009.

Audit Committee

The Audit Committee, established in compliance with the Code, comprises three independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun. Mr. Choi Tze Kit, Sammy is the chairman of the Audit Committee.

The principal functions of the Audit Committee are to review the Group's audit, interim and annual accounts of the Group and the system of internal control.

The Board and the Audit Committee have reviewed the effectiveness of its internal control systems on all major operations of the Group on a rotational basis by appointing a professional accounting firm on their behalf. The scope of review by the professional accounting firm has been determined and approved by the Audit Committee. The professional accounting firm has reported major internal control review findings to the Board and the Audit Committee. No major issue but area for improvement have been identified. All recommendations from the professional accounting firm will be properly followed up to ensure that they are implemented within a reasonable time. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

The Audit Committee meetings will be held at least twice a year. For year ended of 31 December 2009, three Audit Committee meetings were held with Mr. Choi Tze Kit, Sammy and Mr. Liang Wenjun attended all the meetings while Mr. Chen Ning attended two meetings. The Purpose of the meetings to review the Group's results for the year 2008, the interim results for the year 2009 and discuss the audit of the Group. The Group's 2008 annual report and 2009 interim report have been reviewed by the Audit Committee, which was of the opinion that such reports were prepared in accordance with the applicable accounting standards and requirements.

Remuneration Committee

The Remuneration Committee established in compliance with the Code, comprises an executive Director, Mr. Li Xuechun and three independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun. Mr. Choi Tze Kit, Sammy is the chairman of the Remuneration Committee.

The principal functions of the Remuneration Committee are to review, develop and approve the Group's policy on remuneration of all Directors and senior management for the purpose of retaining and attracting talent to manage the Group effectively. The Directors and their associates do not participate in the decisions in relation to their own remuneration.

The Remuneration Committee meetings will be held at least once a year. For year ended of 31 December 2009, two Remuneration Committee meetings were held.

The Remuneration committee consults the chairman and general manager about its proposals relating to the remuneration of other executive directors. During the year, a meeting of the Remuneration committee was duly held for reviewing and determination of the annual remuneration packages of the executive directors.

Nomination of Directors

The Company has not established a nomination committee. The Board is collectively responsible for the appointing of new directors either to fill casual vacancies or as additional Board members.

In nominating candidates for appointment of directors, the Board considers whether the candidates have the necessary expertise and experience to assist the Board to perform its duties.

Directors' Report

The Board has the pleasure in presenting the report and the audited financial statements of the Group for the year ended 31 December 2009.

Group Reorganisation

The Company was incorporated with limited liability in the Cayman Islands on 15 June 2005. Pursuant to the reorganisation of the Group in July 2006, the Company became the holding company of the companies now comprising the Group. The Shares were listed on the Main Board of the Stock Exchange on 8 February 2007.

Principal activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in note 31 to the consolidated financial statements.

Result and appropriations

Results of the Group for the year ended 31 December 2009 are set out under the consolidated income statement on page 43.

Interim dividend declared and paid after the interim period of HK10 cents (equivalent to RMB8.82 cents) (2008: Nil) per Share totaling HK$166,000,000 (equivalent to RMB146,411,000). The Board recommends the payment of a final dividend of HK15 cents per Share (equivalent to RMB13.21 cents per Share totaling HK$249,000,000 (equivalent to RMB219,240,000) for the year ended 31 December 2009.

Material acquisitions or disposal of subsidiaries and associated companies

On 2 April 2009, the Group acquired 100% of the share capital of Beijing Huijinhuaying, to purchase the building and land use right, which is located in Beijing.

Except for above, The Group had no material acquisitions or disposal of subsidiaries or associated companies for the year ended 31 December 2009.

Property, plant and equipment

Details of property, plant and equipment are set out in note 6 to the consolidated financial statements.

Share capital

Details of the movement in share capital of the Company are set out in note 13 to the consolidated financial statements.

Distributable reserves

As at 31 December 2009, the Company's reserves available for distribution to the Shareholders amounted to RMB1,011,207,000.

Directors' Report

Directors

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

Executive Directors

Mr. Li Xuechun *(Chairman)*
Mr. Wang Longxiang
Mr. Wu Xindong (resigned on 9 March 2010)
Mr. Yan Ruliang (resigned on 15 May 2009)
Mr. Feng Zhenquan
Mr. Xu Guohua
Mr. Li Deheng
Ms. Li Hongyu (resigned on 8 January 2010)
Mr. Gong Qingli

Independent Non-executive Directors

Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Liang Wenjun

Biographical details of the directors of the Group are set out in the section headed "Biographies of Directors and Senior Management".

According to Article 87 of the articles of association of the Company, Mr. Li Xuechun, Mr. Feng Zhenquan, Mr. Xu Guohua and Mr. Li Deheng should retire by rotation and, being eligible, consider to offer themselves for re-election at the forthcoming annual general meeting of the Company.

Each of the executive Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company for an initial term of three years commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day following the expiry of the then current term unless and until (i) terminated by either party there to giving not less than three months' prior written notice with the last day of the notice falling on the last day of the initial term or any time thereafter; or (ii) the Director not being re-elected as a Director or being removed by shareholders at general meeting of the Company in accordance with its articles of association.

As at 31 December 2009, 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' interest 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 2009, 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)*	786,000,000 Shares	47.35%
Wang Longxiang	The Company	Beneficial interests *(Note 2)*	16,000,000 Shares	0.96%
Gong Qingli	The Company	Interests of controlled corporation *(Note 3)*	16,000,000 Shares	0.96%
Li Hongyu	The Company	Beneficial interests *(Note 4)*	1,600,000 Shares	0.10%

Notes:

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

2. These Shares represent the Shares which might be allotted and issued to Mr. Wang Longxiang, an executive Director, upon the exercise in full of the option granted to him pursuant to the Pre-IPO Share Option Scheme.

3. These Shares represent the Shares which might be allotted and issued to Centerpoint Assets Management Limited, a company wholly and beneficially owned by Mr. Gong Qingli, an executive Director, upon the exercise in full of the option granted to Centerpoint Assets Management Limited pursuant to the Pre-IPO Share Option Scheme.

4. These Shares represent the Shares which might be alloted and issued to Ms. Li Hongyu, a former executive director who resigned with effect from 8 January 2010, upon the exercise in full of the option granted to her pursuant to the Post-IPO Share Option Scheme.

Save as disclosed above, for the year ended 31 December 2009, 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 persons holding 5% or more interests

As at 31 December 2009, 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	786,000,000 Shares	47.35%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	786,000,000 Shares	47.35%
Ever Soar Enterprises Limited *(Note 3)*	The Company	Beneficial interests	185,112,000 Shares *(Note 3)*	11.15%

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 786,000,000 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 Ms. Guo Yingxi.

Save as disclosed above, for the year ended 31 December 2009, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

Arrangements to purchase shares or debentures

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

Share options

The Company adopted two share option schemes on 10 January 2007, pursuant to which the Company is entitled to grant options prior to and after the IPO. According to the Pre-IPO Share Option Scheme, the Company granted options to subscribe for an aggregate of 96,000,000 Shares on 10 January 2007 to certain Directors and eligible employees. Details of the share options granted and outstanding under the Pre-IPO Share Option Scheme during the year ended 31 December 2009 are as follows:

Directors and eligible employees	Number of share options At 1 January 2009	Lapsed during the year	At 31 December 2009	Date of grant	Exercise price (HK$)	Exercise period
Mr. Wang Longxiang (executive Director)	16,000,000	–	16,000,000	10/1/2007	2.23	8/8/2009 – 7/8/2012
Centrepoint Assets Management Limited (a company wholly-owned Mr. Gong Qingli, an executive Director)	16,000,000	–	16,000,000	10/1/2007	2.23	8/8/2007 – 7/8/2011
Other eligible employees	49,440,000	–	49,440,000	10/1/2007	2.23	8/8/2009 – 7/8/2012
	81,440,000	–	81,440,000			

According to the Post-IPO Share Option Scheme, the Company granted options to subscribe for an aggregate of 64,110,000 Shares on 14 July 2009 to certain Director and eligible employees. Details of the share options granted and outstanding under the Post-IPO Share Option Scheme during the year ended 31 December 2009 are as follows:

Director and eligible employees	Number of share options At 1 January 2009	Number of share options granted during the year	Lapsed during the year	At 31 December 2009	Date of grant	Exercise price (HK$)	Exercise period
Ms. Li Hongyu (former executive director)	–	1,600,000	–	1,600,000	14/7/2009	3.00	14/1/2012 – 13/1/2015
Other eligible employees	–	62,510,000	(1,750,000)	60,760,000	14/7/2009	3.00	14/1/2012 – 13/1/2015
	–	64,110,000	(1,750,000)	62,360,000			

Interest in contracts

No contract of significance, to which the Company or subsidiaries was party and in which a Director had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, nor had there been any contract of significance entered into between the Group and a controlling shareholder of the Company during the year.

Major customers and suppliers

The aggregate sales attributable to the Group's five largest customers taken together were less than 30% of the total sales for the year 2009.

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 2009.

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 22 March 2010, 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 2009.

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 32 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

23 March 2010

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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 41 to 100, which comprise the consolidated and company balance sheets as at 31 December 2009, 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 notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

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 2009 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 the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2010

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	5	140,160	132,334
Property, plant and equipment	6	2,507,897	1,954,845
Deferred income tax assets	9	5,162	423
		2,653,219	2,087,602
Current assets			
Inventories	10	551,028	356,288
Trade and other receivables	11	687,782	548,355
Current income tax recoverable		–	2,654
Short-term bank deposits	12	26,310	42,860
Cash and cash equivalents	12	342,682	224,706
		1,607,802	1,174,863
Total assets		4,261,021	3,262,465
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	13	169,034	169,034
Share premium	13		
– Proposed final dividend		219,240	146,293
– Others		566,200	931,851
Other reserves	14	(171,080)	(247,904)
Retained earnings	16	1,610,317	742,240
Total equity		2,393,711	1,741,514
LIABILITIES			
Non-current liabilities			
Deferred income	17	90,880	27,798
Borrowings	18	180,000	312,000
Deferred income tax liabilities	9	24,221	10,928
		295,101	350,726
Current liabilities			
Trade, other payables and accruals	19	1,140,475	887,533
Current income tax liabilities		13,734	–
Current portion of deferred income	17	–	6,692
Borrowings	18	418,000	276,000
		1,572,209	1,170,225
Total liabilities		1,867,310	1,520,951
Total equity and liabilities		4,261,021	3,262,465
Net current assets		35,593	4,638
Total assets less current liabilities		2,688,812	2,092,240

The notes on pages 47 to 100 are an integral part of these consolidated financial statements.

The financial statements on page 41 to 100 were approved by the Board on 23 March 2010 and were signed on its behalf.

Li Xuechun
Director

Gong Qingli
Director

Company Balance Sheet

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**54**	134
Investment in a subsidiary	7	**407,831**	401,698
Loans to subsidiaries	7	**–**	176,281
		407,885	578,113
Current assets			
Loans to subsidiaries	7	**196,699**	–
Due from subsidiaries	7	**577,990**	578,886
Deposits and other receivables	11	**1,451**	2,118
Cash and cash equivalents	12	**7,403**	8,595
		783,543	589,599
Total assets		**1,191,428**	1,167,712
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	13	**169,034**	169,034
Share premium	13		
– Proposed final dividend		**219,240**	146,293
– Others		**566,200**	931,851
Other reserves	14	**46,482**	29,866
Retained earnings/(Accumulated losses)	16	**179,285**	(122,536)
Total equity		**1,180,241**	1,154,508
LIABILITIES			
Current liabilities			
Due to subsidiaries	7	**10,521**	10,521
Other payables and accruals	19	**666**	2,683
		11,187	13,204
Total liabilities		**11,187**	13,204
Total equity and liabilities		**1,191,428**	1,167,712
Net current assets		**772,356**	576,395
Total assets less current liabilities		**1,180,241**	1,154,508

The notes on pages 47 to 100 are an integral part of these financial statements.

The financial statements on page 41 to 100 were approved by the Board on 23 March 2010 and were signed on its behalf.

Li Xuechun
Director

Gong Qingli
Director

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Revenue	4	**4,632,884**	3,585,343
Cost of sales	21	**(3,233,277)**	(2,941,011)
Gross profit		**1,399,607**	644,332
Other income	20	**63,908**	44,300
Selling and marketing expenses	21	**(215,715)**	(166,407)
Administrative expenses	21	**(194,910)**	(141,961)
Other operating expenses	21	**(4,042)**	(12,222)
Operating profit		**1,048,848**	368,042
Finance costs	24	**(25,251)**	(42,662)
Profit before income tax		**1,023,597**	325,380
Income tax expense	25	**(95,312)**	(30,674)
Profit for the year and attributable to the Shareholders		**928,285**	294,706
Earnings per share for profit attributable to the Shareholders during the year (expressed in RMB cent per share)			
– basic	26	**55.92**	17.75
– diluted	26	**55.88**	17.75
Dividends	27	**219,240**	146,293

The notes on pages 47 to 100 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Profit for the year		**928,285**	294,706
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**928,285**	294,706
Total comprehensive income attributable to the Shareholders		**928,285**	294,706

The notes on pages 47 to 100 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

		Attributable to the Shareholders				
		Share capital	Share premium	Other reserves	Retained earnings	Total
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2008		169,034	1,091,673	(276,084)	464,193	1,448,816
Comprehensive Income						
Profit for the year	*16*	–	–	–	294,706	294,706
Total comprehensive income		–	–	–	294,706	294,706
Transactions with owners						
Profit appropriation	*14, 16*	–	–	16,659	(16,659)	–
Employee share options scheme:						
– Value of employee service	*14, 15*	–	–	11,521	–	11,521
Dividends	*13*	–	(13,529)	–	–	(13,529)
Total transactions with owners		–	(13,529)	28,180	(16,659)	(2,008)
Balance at 31 December 2008		169,034	1,078,144	(247,904)	742,240	1,741,514
Comprehensive Income						
Profit for the year	*16*	–	–	–	928,285	928,285
Total comprehensive income		–	–	–	928,285	928,285
Transactions with owners						
Profit appropriation	*14, 16*	–	–	60,208	(60,208)	–
Employee share options scheme:						
– Value of employee service	*14, 15*	–	–	16,616	–	16,616
Dividends	*13, 27*	–	(292,704)	–	–	(292,704)
Total transactions with owners		–	(292,704)	76,824	(60,208)	(276,088)
Balance at 31 December 2009		**169,034**	**785,440**	**(171,080)**	**1,610,317**	**2,393,711**

The notes on pages 47 to 100 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Cash generated from operations	28(a)	636,522	509,811
Interest paid	24	(25,251)	(42,662)
Income tax paid		(25,097)	(18,206)
Net cash flows generated from operating activities		586,174	448,943
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		–	(3,202)
Purchase of leasehold land payments		(10,800)	(46,846)
Purchases of property, plant and equipment		(217,754)	(355,624)
Proceeds from disposal of property, plant and equipment	28(b)	4,311	4,224
Interest received	20	1,502	2,152
Net cash used in investing activities		(222,741)	(399,296)
Cash flows from financing activities			
Dividends paid to the Company's shareholders	13	(292,704)	(13,529)
Government grants received		37,247	20,068
Proceeds from bank borrowings		646,000	750,000
Repayments of bank borrowings		(636,000)	(810,329)
Net cash used in financing activities		(245,457)	(53,790)
Net increase/(decrease) in cash and cash equivalents		117,976	(4,143)
Cash and cash equivalents at beginning of the year	12	224,706	228,849
Cash and cash equivalents at end of the year	12	342,682	224,706

	Note	2009 RMB'000	2008 RMB'000
Cash generated from operations	28(a)	636,522	509,811
Notes receivable endorsed to purchase property, plant and equipment	28(c)	320,766	–
Total		957,288	509,811
Purchases of property, plant and equipment by cash		(217,754)	(355,624)
Notes receivable endorsed to purchase property, plant and equipment	28(c)	(320,766)	–
Total		(538,520)	(355,624)

The notes on pages 47 to 100 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. General information

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

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 23 March 2010.

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 Group have been prepared in accordance with HKFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. However there are no critical estimates or judgements considered by the management for the year ended 31 December 2009.

Changes in accounting standards and interpretations

(a) New and amended standards adopted by the group

The Group has adopted the following new and amended HKFRS as of 1 January 2009:

- HKFRS 7 "Financial Instruments – Disclosures" (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting standards and interpretations (Continued)

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

- HKAS 1 (revised). "Presentation of financial statements" – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- HKFRS 2 (amendment), "Share-based payment" (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company have adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's or the Company's financial statements.

- HKFRS 8, "Operating segments" (effective 1 January 2009). HKFRS 8 replaces HKAS 14, "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. Adoption of HKFRS 8 has an impact on disclosure but does not have any effect of the Group's operating results, financial position or comprehensive income.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting standards and interpretations (Continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HK(IFRIC) 17 "Distribution of non-cash assets to owners" (effective on or after 1 July 2009). The interpretation is part of the HKICPA's annual improvements project published in May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and Company will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's or the Company's financial statements.

- HKAS 27 (revised), "Consolidated and separate financial statements", (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.

- HKFRS 3 (revised), "Business combinations" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- HKAS 38 (amendment), "Intangible Assets" (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in May 2009 and the Group and Company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or the Company's financial statements.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting standards and interpretations (Continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HKFRS 5 (amendment), "Measurement of non-current assets (or disposal groups) classified as held for sale". The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and Company will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKAS 1 (amendment), "Presentation of financial statements". The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- HKFRS 2 (amendments), "group cash-settled share-based payment transactions" (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, "Scope of HKFRS 2", and HK(IFRIC)-Int 11, "HKFRS 2 – group and treasury share transactions", the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

2.2 Consolidation *(Continued)*

(a) *Subsidiaries (Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses (Note 2.7). The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2.4 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 RMB, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Leasehold land payments

Leasehold land payments represent up-front prepayments made for the usage of leasehold land in the PRC less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the up-front prepayments for land over the remaining lease term.

Amortisation on leasehold land payments is calculated using the straight-line method to allocate their costs over their estimated useful lives (10 to 50 years).

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

2.6 Property, plant and equipment

Property, plant and equipment, comprising plant, machinery, furniture and fixtures, and vehicles, are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress includes plant under construction and machinery under installation and testing and which, upon completion, management intends to hold as property, plant and equipment. They are carried at cost which includes cost of construction, plant and equipment and other direct cost plus borrowing costs that used to finance these projects during the construction period less accumulated impairment losses if any. No depreciation is provided for construction in progress. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

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 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in the income statement under the other income and other operating expenses respectively.

2.7 Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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

2.8 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", "short-term bank deposits" and "cash and cash equivalents" in the balance sheet (Notes 2.10 and 2.11).

(b) Recognition and measurement

Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.10.

2.9 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 and marketing expenses.

2.10 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within "administrative expenses". When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expense in the income statement.

2.11 Cash and cash equivalents

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. Summary of significant accounting policies *(Continued)*

2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.13 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 payable 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.

2.14 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 income statement over the period of the borrowings using the effective interest method.

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.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

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.

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

2.15 Current and deferred income tax *(Continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

2.16 Employee benefits – pension

Group companies operate various pension schemes. In accordance with the rules and regulations in the PRC, the employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by Shandong Provincial, Shaanxi Provincial, Jiangsu Provincial and Inner Mongolia Autonomous Regional governments. The Shandong Provincial, Shaanxi Provincial, Jiangsu Provincial and Inner Mongolia Autonomous Regional governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plan described above. Contributions to these plans are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are charged to the income statement as incurred.

2.17 Share-based payments

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 income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiaries 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.

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

2.18 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.

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the acquisition of property, plant and equipment are included in liabilities as deferred income and are credited to the consolidated income statement over the periods and in the proportions in which depreciation on these assets is charged.

2.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset during the period of time that is required to complete and prepare the asset for its intended use.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

2.21 Revenue recognition *(Continued)*

(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.

2.22 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 income statement on a straight-line basis over the period of the lease.

2.23 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use;

(b) management intends to complete the intangible asset and use it;

(c) there is an ability to use the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.24 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, when 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 2009.

However, foreign currencies, mainly US$, are however received from sales of products to countries or areas outside the PRC ("Export Sales"). Foreign currencies received from Export Sales is approximately 11% (2008: 16%) of the Group's total turnover for the year ended 31 December 2009. The Group manages the currency risk arising from sales of products by customers paying in advance or keeping the credit period available to customers as short as possible in order to reduce the effect on the fluctuation between US$, EUR and RMB.

Since the listing of the Company's shares in the Main Board of the Stock Exchange in early 2007, the Group received listing proceeds denominated in HK$. The listing proceeds were mainly used for the expansion of the Group in the PRC. The Group manages foreign exchange risk arising from listing proceeds by remitting the necessary funds to PRC and translate into RMB as soon as practicable in order to reduce the effect on the fluctuation between HK$ and RMB.

The maximum exposures to the foreign exchange risks are disclosed in Note 11 and 12 respectively.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The following table summarises the sensitivity of the Group's financial assets to foreign exchange risk based on the assumption that RMB had strengthened/weakened by 10% against US$ and HK$ (pegged with US$) with all other variables held constant.

	Foreign exchange risk			
	+10%		-10%	
	Profit	**Equity**	**Profit**	**Equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2009				
Financial assets				
Cash and cash equivalents	(991)	(991)	991	991
Trade and other receivables	(7,670)	(7,670)	7,670	7,670
Total (decrease)/increase	(8,661)	(8,661)	8,661	8,661
31 December 2008				
Financial assets				
Cash and cash equivalents	(1,122)	(1,122)	1,122	1,122
Trade and other receivables	(6,355)	(6,355)	6,355	6,355
Total (decrease)/increase	(7,477)	(7,477)	7,477	7,477

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for bank deposits and balances, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its current borrowings. A portion of current borrowings bear variable rates and expose the Group to cash flow interest rate risk.

Fair value interest rate risk arises from long-term borrowings, which bear fixed interest rates. The carrying amounts and fair values of the non-current borrowings have been disclosed in Note 18. The Group has not used any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2009.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

The sensitivity analysis for interest rate risk is based on the assumption that: Interest rate had been 10% lower/higher from the year end rates with all other variables held constant:

		Interest rate risk			
		-10%		+10%	
	Carrying amount	Profit	Equity	Profit	Equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2009					
Financial liabilities					
Borrowings bear variable rates	250,000	885	885	(885)	(885)
31 December 2008					
Financial liabilities					
Borrowings bear variable rates	158,000	545	545	(545)	(545)

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, short term bank deposits, trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that deposits are put in reputable banks. For sales of goods, customers of the Group usually pay in advance before the delivery of products. Credit will only be granted to some customers with long term relationship. The Group performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral on trade receivables. Credit quality of the financial assets is disclosed in Note 8.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the available credit facilities to meet obligations when they arise.

Management monitors the funding requirements of the Group and the availability of credit facilities in order to ensure the liquidity of the Group.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*
The Group		
At 31 December 2009		
Borrowings	418,000	180,000
Interests payments on bank borrowings (i)	22,873	6,040
Trade, other payables and accruals	1,000,387	–
Total	1,441,260	186,040
At 31 December 2008		
Borrowings	276,000	312,000
Interests payments on bank borrowings (i)	8,711	34,873
Trade, other payables and accruals	776,688	–
Total	1,061,399	346,873

(i) The interests on borrowings are calculated based on borrowings held as at 31 December 2009 and 2008 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2009 and 2008 respectively.

3. Financial risk management *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is equal to total borrowings at the end of the year divided by total assets at the end of the corresponding year.

During 2009, the Group's strategy, which was unchanged from 2008, was to maintain the gearing ratio within 10% to 20%. The gearing ratios at 31 December 2009 and 2008 were as following:

	2009 ***RMB'000***	2008 *RMB'000*
Total borrowings *(Note 18)*	**598,000**	588,000
Total assets	**4,261,021**	3,262,465
Gearing ratio	**14.03%**	18.02%

The decrease in the gearing ratio for the year ended 31 December 2009 resulted primarily from the expansion of the Group while the borrowing scale was kept almost the same.

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, which is not currently relevant for the Group as the Group does not have any financial instruments that are measured in the balance sheet on fair value as at 31 December 2009.

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

4. Segment information

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

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

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

Manufacturing and sale of:

– MSG, including MSG, glutamic acid, corn refined products, fertilisers, starch sweeteners, corn oil, chicken powder, pharmaceuticals and bricks;

– Xanthan gum

Approximately 90% of the Group's revenue and business activities are conducted in the PRC.

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

The revenue of the Group for the years ended 31 December 2009 and 2008 are set out as following:

	2009 *RMB'000*	2008 *RMB'000*
MSG	**2,245,307**	1,004,381
Glutamic acid	**720,631**	1,053,298
Corn refined products	**557,523**	509,849
Xanthan gum	**408,124**	451,739
Fertilisers	**361,468**	380,097
Starch sweeteners	**245,168**	163,002
Others	**94,663**	22,977
	4,632,884	3,585,343

4. Segment information *(Continued)*

The segment information and capital expenditure for the year ended 31 December 2009 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	4,224,760	408,124	–	4,632,884
Segment results	934,166	136,014	(21,332)	1,048,848
Finance costs *(Note 24)*				(25,251)
Profit before income tax				1,023,597
Income tax expense *(Note 25)*				(95,312)
Profit for the year				928,285
Other segment items included in the income statement				
Depreciation *(Note 6)*	156,306	33,479	551	190,336
Amortisation of leasehold land payments *(Note 5)*	2,745	229	–	2,974
Reversal of write-down of inventories *(Note 10)*	(1,554)	–	–	(1,554)
Gain on disposal of property, plant and equipment *(Note 28)*	(2,925)	–	–	(2,925)
Capital expenditure *(Notes 5 and 6)*	635,337	96,600	23,637	755,574

The segment assets and liabilities at 31 December 2009 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	3,530,535	689,624	40,862	4,261,021
Total liabilities	1,529,617	334,088	3,605	1,867,310

4. Segment information *(Continued)*

The segment information and capital expenditure for the year ended 31 December 2008 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	3,133,604	451,739	–	3,585,343
Segment results	273,363	130,574	(49,499)	354,438
Negative goodwill gained from acquisition *(Note 20)*				9,657
Waiver of payables due to debt restructuring for a newly acquired subsidiary *(Note 20)*				3,947
Finance costs *(Note 24)*				(42,662)
Profit before income tax				325,380
Income tax expense *(Note 25)*				(30,674)
Profit for the year				294,706
Other segment items included in the income statement				
Depreciation *(Note 6)*	124,702	27,277	562	152,541
Amortisation of leasehold land payments *(Note 5)*	2,004	228	–	2,232
Write-down of inventories *(Note 10)*	1,338	–	–	1,338
Impairment provision for property, plant and equipment *(Note 6)*	2,008	–	–	2,008
Loss on disposal of property, plant and equipment *(Note 28)*	456	–	–	456
Capital expenditure *(Notes 5 and 6)*	354,934	223,942	10	578,886

The segment assets and liabilities at 31 December 2008 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	2,560,470	626,257	75,738	3,262,465
Total liabilities	1,111,634	406,634	2,683	1,520,951

4. Segment information *(Continued)*

The entity is domiciled in Mainland China. The result of its revenue from external customers in Mainland China is RMB4,141,402,000 (2008: RMB3,019,907,000) and the total of revenue from external customers from Hong Kong and other countries is RMB491,482,000 (2008: RMB565,436,000).

The total of non-current assets other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Mainland China is RMB2,648,003,000 (2008: RMB2,087,045,000), and the total of these non-current assets located in Hong Kong is RMB54,000 (2008: RMB134,000).

Revenues of approximately RMB375,304,000 (2008: RMB323,437,000) are derived from a single external customer. These revenues are attributable to the MSG segment.

5. Leasehold land payments – The Group

Leasehold land payments represent the prepaid operating lease payments for the medium term leasehold land (10 to 50 years) in the PRC located in Shandong Province, Shaanxi Province, Inner Mongolia Autonomous Region, Jiangsu Province and Beijing, and their net book values are analysed as follows:

	2009 ***RMB'000***	2008 *RMB'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**140,160**	132,334

As at 31 December 2009 and 2008, the net book value of leasehold land pledged as security for the Group's borrowings amounted to approximately RMB32,210,000 and RMB88,251,000 (Note 18), respectively.

	2009 ***RMB'000***	2008 *RMB'000*
Cost		
At beginning of the year	**141,922**	70,426
Additions	**10,800**	63,447
Acquisition of a subsidiary	**–**	8,049
At end of the year	**152,722**	141,922
Amortisation		
At beginning of the year	**(9,588)**	(7,356)
Charge for the year	**(2,974)**	(2,232)
At end of the year	**(12,562)**	(9,588)
Net book value		
At end of the year	**140,160**	132,334

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

6. Property, plant and equipment

The Group

	2009					
	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 2009	543,414	1,637,186	35,579	27,637	49,564	2,293,380
Additions	1,285	141,233	5,878	3,689	592,689	744,774
Transfer upon completion	118,522	284,285	–	–	(402,807)	–
Disposals	(112)	(122)	(15)	–	(2,781)	(3,030)
At 31 December 2009	663,109	2,062,582	41,442	31,326	236,665	3,035,124
Accumulated depreciation						
At 1 January 2009	(42,911)	(268,932)	(12,061)	(12,623)	–	(336,527)
Charge for the year	(26,006)	(153,899)	(7,054)	(3,377)	–	(190,336)
Disposals	21	47	14	–	–	82
At 31 December 2009	(68,896)	(422,784)	(19,101)	(16,000)	–	(526,781)
Provision for impairment loss						
At 1 January 2009	–	–	–	–	(2,008)	(2,008)
Disposals	–	–	–	–	1,562	1,562
At 31 December 2009	–	–	–	–	(446)	(446)
Net book value						
At 31 December 2009	594,213	1,639,798	22,341	15,326	236,219	2,507,897

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

The Group *(Continued)*

	2008					
	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 2008	380,057	1,293,417	22,133	19,535	206,843	1,921,985
Additions	–	186,091	12,845	10,298	253,332	462,566
Acquisition of a subsidiary	25,693	17,668	199	396	868	44,824
Transfer upon completion	137,711	273,365	403	–	(411,479)	–
Disposals	(47)	(133,355)	(1)	(2,592)	–	(135,995)
At 31 December 2008	543,414	1,637,186	35,579	27,637	49,564	2,293,380
Accumulated depreciation						
At 1 January 2008	(26,911)	(204,544)	(6,592)	(9,917)	–	(247,964)
Charge for the year	(16,005)	(126,689)	(5,470)	(4,377)	–	(152,541)
Disposals	5	62,301	1	1,671	–	63,978
At 31 December 2008	(42,911)	(268,932)	(12,061)	(12,623)	–	(336,527)
Provision for impairment loss						
At 1 January 2008	–	–	–	–	–	–
Charge for the year	–	–	–	–	(2,008)	(2,008)
At 31 December 2008	–	–	–	–	(2,008)	(2,008)
Net book value						
At 31 December 2008	500,503	1,368,254	23,518	15,014	47,556	1,954,845

As at 31 December 2009 and 2008, the net book values of plant and machinery pledged as security for the Group's borrowings amounted to approximately RMB89,254,000 and RMB100,625,000, respectively (Note 18).

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

	2009 ***RMB'000***	2008 *RMB'000*
Cost of sales	**177,364**	133,691
Administrative expenses	**12,972**	18,850
	190,336	152,541

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

The Company

	2009 Furniture and fixtures *RMB'000*	2008 Furniture and fixtures *RMB'000*
Cost		
At beginning of the year	**280**	270
Additions	**2**	10
At end of the year	**282**	280
Accumulated depreciation		
At beginning of the year	**(146)**	(53)
Charge for the year	**(82)**	(93)
At end of the year	**(228)**	(146)
Net book value		
At end of the year	**54**	134

7. Investment in and loans to subsidiaries – The Company

	2009 *RMB'000*	2008 *RMB'000*
Investment in a subsidiary (a)	**407,831**	401,698
Loans to subsidiaries (b)	**196,699**	176,281
Due from subsidiaries (c)	**577,990**	578,886
Due to subsidiaries (d)	**10,521**	10,521

7. Investment in and loans to subsidiaries – The Company *(Continued)*

(a) Investment in a subsidiary

	2009 *RMB'000*	2008 *RMB'000*
Unlisted shares, at cost	**407,831**	401,698

The particulars of the Company's directly and indirectly owned subsidiaries are disclosed in Note 31.

(b) Loans to subsidiaries

The current (2008: non-current) loans to subsidiaries, Summit Challenge and Expand Base as at 31 December 2009 and 2008, are unsecured, interest-free and repayable in 2010. As at 31 December 2009, the carrying amounts of the current loans to subsidiaries approximate their fair values. As at 31 December 2008, non-current loans to subsidiaries were initially recognised at fair value based on the present value of discounted cash flows using a discount rate of 7.47%, and were stated at amortised cost as at 31 December 2008.

(c) Due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand, and their carrying amounts approximate their fair values as at 31 December 2009 and 2008.

(d) Due to subsidiaries

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand, and their carrying amounts approximate their fair values as at 31 December 2009 and 2008.

8. 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

	2009 *RMB'000*	2008 *RMB'000*
Group 1	514,519	449,736
Group 2	74,480	69,816
Group 3	4,527	4,622
	593,526	524,174

Cash and bank balances

The management considers the credit risks in respect of cash and bank deposits are relatively minimum as each counter party either bears a high credit rating or is State-owned PRC bank. The management believes the State is able to support the State-owned PRC banks in the event of a crisis.

The Group categorises its cash in banks into the following:

Group 1 – Major international banks (Hang Seng Bank, ABN AMRO Bank N.V. and The Hong Kong and Shanghai Banking Corporation Limited.)
Group 2 – Top 4 banks in Mainland China (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China)
Group 3 – Other State-owned banks in mainland PRC

The Group

	2009 *RMB'000*	2008 *RMB'000*
Group 1	9,907	11,139
Group 2	264,129	137,972
Group 3	93,846	116,432
	367,882	265,543

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

The Company

	2009 RMB'000	2008 RMB'000
Group 1	7,402	8,594
Group 2	–	–
Group 3	–	–
	7,402	8,594

None of the financial assets that are fully performing has been renegotiated in the current or last year.

9. Deferred income tax – The Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax income assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	2009 RMB'000	2008 RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	2,150	–
– Deferred income tax assets to be recovered within 12 months	3,012	423
	5,162	423
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(24,176)	(10,883)
– Deferred income tax liabilities to be settled within 12 months	(45)	(45)
	(24,221)	(10,928)
Deferred income tax liabilities, net	(19,059)	(10,505)

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

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

	2009 *RMB'000*	2008 *RMB'000*
Beginning balance of the year	**(10,505)**	5,492
Income statement charge *(Note 25)*	**(14,915)**	(15,997)
Transferred to current income tax liabilities	**6,361**	–
Ending balance of the year	**(19,059)**	(10,505)

Deferred income tax is calculated on temporary differences under the liability method.

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:

	Tax losses *RMB'000*	Unrealised profit *RMB'000*	Deferred income *RMB'000*	Others *RMB'000*	Total *RMB'000*
1 January 2008	6,390	–	–	–	6,390
(Charged)/Credited to income statement *(Note 25)*	(6,390)	–	317	106	(5,967)
31 December 2008	–	–	317	106	423
Credited to income statement *(Note 25)*	–	2,456	1,444	839	4,739
31 December 2009	**–**	**2,456**	**1,761**	**945**	**5,162**

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profit is probable. For year ended 31 December 2008 the Group reversed deferred income tax assets of RMB6,390,000 that can be carried forward against future taxable income because it was uncertain whether there will be sufficient profit to be net off in the near future. For year ended 31 December 2009, no tax losses occurred.

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

Deferred income tax liabilities:

	Interest capitalisation *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
1 January 2008	898	–	898
Charged to income statement *(Note 25)*	30	10,000	10,030
31 December 2008	928	10,000	10,928
(Credited)/Charged to income statement *(Note 25)*	(46)	19,700	19,654
Credited to current income tax liabilities	–	(6,361)	(6,361)
31 December 2009	**882**	**23,339**	**24,221**

Deferred income tax liabilities of RMB19,700,000 (2008: RMB10,000,000) have been recognised for the withholding tax that would be payable on the estimate of earnings of certain subsidiaries incorporated in PRC for 2009 that are expected to be distributed in the foreseeable future. The Group has no plan to distribute remaining earnings of the subsidiaries incorporated in PRC as at 31 December 2009. Unremitted earnings of those subsidiaries amounted to RMB672,704,000 as at 31 December 2009 (2008: RMB315,117,000).

10. Inventories – The Group

	2009 *RMB'000*	2008 *RMB'000*
Raw materials	**222,083**	151,821
Work-in-progress	**39,182**	32,496
Finished goods	**289,763**	171,971
	551,028	356,288

As at 31 December 2009, finished goods included a write-down of RMB1,418,000 (2008: RMB2,972,000). For the year ended 31 December 2009, the Group reversed RMB1,554,000 (2008: RMB216,000) of a previous inventory write-down as the Group sold part of the goods that were written down to third parties. The amount of RMB1,554,000 reversed was included in "cost of sales" in the income statement (Note 21 and 28).

11. Trade and other receivables

The Group

	2009 RMB'000	2008 RMB'000
Trade receivables (a)	79,007	74,438
Less: provision for impairment of receivables (b)	(4,527)	(4,622)
Trade receivables, net	74,480	69,816
Notes receivables (c)	514,519	449,736
Prepayments for raw materials	30,265	13,473
Deposits and others	30,605	12,969
Value Added Tax recoverable	37,913	2,361
	687,782	548,355

(a) As at 31 December 2009 and 2008, the ageing analyses of trade receivables were as follows:

	2009 RMB'000	2008 RMB'000
Within 3 months	69,727	61,761
3–12 months	3,537	8,055
Over 12 months	5,743	4,622
	79,007	74,438

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

As at 31 December 2009, trade receivables of RMB3,601,000 (2008: RMB3,507,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The directors considered that trade receivables that are less than twelve months past due are not impaired. The ageing analyses of these trade receivables were as follows:

	2009 RMB'000	2008 RMB'000
Past due within 3 months	1,167	1,685
Past due in 3-12 months	2,434	1,822
	3,601	3,507

11. Trade and other receivables *(Continued)*

The Group *(Continued)*

(b) As of 31 December 2009, trade receivables of RMB4,527,000 (2008: RMB4,622,000) were impaired and fully provided for. The individually impaired receivables mainly relate to Shenhua Pharmacutical. It was assessed that none of these receivables is expected to be recovered. The ageing of these receivables is as follows:

	2009 RMB'000	2008 RMB'000
Past due over 12 months	4,527	4,622

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

	2009 RMB'000	2008 RMB'000
As at 1 January	4,622	–
Acquisition of a subsidiary	–	5,546
Reversal of amounts subsequently collected	(95)	(924)
As at 31 December	4,527	4,622

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

(c) As at 31 December 2009, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB499,831,000 (2008: RMB430,721,000) applied for settling the amounts payable to the Group's suppliers.

(d) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values.

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

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

	2009 RMB'000	2008 RMB'000
– RMB	611,083	484,807
– US$	75,582	63,548
– EUR	1,117	–
	687,782	548,355

11. Trade and other receivables *(Continued)*

The Company

	2009 RMB'000	2008 RMB'000
Deposits and other receivables	**1,451**	2,118

12. Cash and bank balances

The Group

	2009 RMB'000	2008 RMB'000
Cash and cash equivalents		
– Cash on hand	**1,110**	2,023
– Cash in bank	**341,572**	222,683
	342,682	224,706
Short-term bank deposits		
– Secured (a)	**26,310**	42,860
	368,992	267,566
Cash and bank balances denominated in		
– RMB	**359,084**	256,342
– US$	**48**	123
– HK$	**9,860**	11,101
	368,992	267,566

(a) The short-term bank deposits as at 31 December 2009 included restricted bank deposits of RMB25,000,000 (2008: RMB30,500,000) pledged as security for issuing bank acceptance notes to suppliers, and of RMB1,310,000 (2008: RMB860,000) pledged as security for issuing letters of credit and letters of guarantee;

(b) The Group's cash and bank balances denominated in RMB were deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(c) The weighted average effective interest rate on cash placed with banks and deposits by the Group were 0.47% and 0.86% per annum for the years ended 31 December 2009 and 2008, respectively.

12. Cash and bank balances *(Continued)*

The Company

	2009 *RMB'000*	2008 *RMB'000*
Cash and cash equivalents	**7,403**	8,595
Cash and bank balances denominated in		
– US$	**48**	123
– HK$	**7,355**	8,472
	7,403	8,595

The weighted average effective interest rates on cash placed with banks and deposits by the Company were 0.58% and 0.11% per annum for the years ended 31 December 2009 and 2008, respectively.

13. Share capital and premium

		Amount		
	Number of shares *(thousands)*	**Ordinary shares** *RMB'000*	**Share premium** *RMB'000*	**Total** *RMB'000*
At 1 January 2008	1,660,000	169,034	1,091,673	1,260,707
Dividends (a)	–	–	(13,529)	(13,529)
At 31 December 2008	1,660,000	169,034	1,078,144	1,247,178
Dividends (a)	–	–	(292,704)	(292,704)
At 31 December 2009	**1,660,000**	**169,034**	**785,440**	**954,474**

The total number of authorised ordinary shares is 10,000,000,000 shares with a par value of HK$0.10 per share as at 31 December 2009 and 2008.

(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, the dividends can be declared out of share premium account subject to a solvency test.

14. Other reserves

	The Group				The Company
	Capital reserve *(Note (a))* RMB'000	Statutory reserves *(Note (b))* RMB'000	Share-based payment reserve *(Note 15)* RMB'000	Total RMB'000	Share-based payment reserve *(Note 15)* RMB'000
1 January 2008	(370,760)	76,331	18,345	(276,084)	18,345
Profit appropriation	–	16,659	–	16,659	–
Employee share options scheme:					
– Value of employee services *(Note 15, 22)*	–	–	11,521	11,521	11,521
31 December 2008	(370,760)	92,990	29,866	(247,904)	29,866
Profit appropriation	–	60,208	–	60,208	–
Employee share options scheme:					
– Value of employee services *(Note 15, 22)*	–	–	16,616	16,616	16,616
31 December 2009	**(370,760)**	**153,198**	**46,482**	**(171,080)**	**46,482**

(a) Capital reserve

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

(b) Statutory reserves

In accordance with the PRC regulations and the Articles of the Association of the companies comprising the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the entity's share capital after such issuance.

15. Share-based payment – Group and Company

The Company adopted a Pre-IPO Share Option Scheme and a Post-IPO Share Option Scheme on 10 January 2007, pursuant to which the Company is entitled to grant options prior to and after the IPO.

(1) Pre-IPO Share Option Scheme

Pursuant to the share option scheme of the Company in relation to the grant of options under the Pre-IPO Share Option Scheme, the Company granted options to subscribe for an aggregate of 96,000,000 shares on 10 January 2007 to certain directors and eligible employees, and no further share options will be granted under the Pre-IPO share option scheme. These options vest in tranches over a period of up to 4.5 years.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2009		2008	
	Average exercise price in HK$ per share	Options (thousands)	Average exercise price in HK$ per share	Options (thousands)
At 1 January	2.23	81,440	2.23	93,600
Granted	2.23	–	2.23	–
Forfeited	2.23	–	2.23	(12,160)
At 31 December	2.23	81,440	2.23	81,440

Out of the 81,440,000 options (2008: 81,440,000), 33,595,200 options (2008: 8,000,000) were exercisable as at 31 December 2009. No options were exercised in 2009 and 2008.

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

Expiry date	Exercise price HK$ per share	Number of options (thousands) 2009	2008
7 August 2011	2.23	16,000	16,000
7 August 2012	2.23	65,440	65,440
		81,440	81,440

15. Share-based payment – Group and Company *(Continued)*

(1) Pre-IPO Share Option Scheme *(Continued)*

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 RMB44,506,000. 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	HK$1.98
Exercise price	HK$2.23
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 HK$1.98 was estimated by the management at the grant date.

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2009 was approximately RMB10,118,000 (2008: RMB11,521,000).

No option is being granted during the year ended 31 December 2009 and 2008 under the Pre-IPO Share Option Scheme.

(2) Post-IPO Share Option Scheme

Pursuant to the share option scheme of the Company in relation to the grant of options under the Post-IPO Share Option Scheme, options to subscribe for an aggregate of 64,110,000 shares of the Company were granted to certain director and eligible employees. 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:

	2009		2008	
	Average exercise price in HK$ per share	Options (thousands)	Average exercise price in HK$ per share	Options (thousands)
At 1 January	–	–	–	–
Granted	3.00	64,110	–	–
Forfeited	3.00	(1,750)	–	–
At 31 December	3.00	62,360	–	–

15. Share-based payment – Group and Company *(Continued)*

(2) Post-IPO Share Option Scheme *(Continued)*

Out of the 62,360,000 options (2008: nil), no options were exercisable as at 31 December 2009.

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

Expiry date	Exercise price HK$ per share	Number of options (thousands) 2009	2008
13 January 2015	3.00	**62,360**	–

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 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 Post-IPO Share Option Scheme
Average share price	HK$2.81
Exercise price	HK$3.00
Expected life of options	3.0-5.0 years
Expected volatility	46.04-51.34%
Expected dividend yield	3.56%
Risk free rate	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 2009 was approximately RMB6,498,000 (2008: nil).

16. Retained earnings/(Accumulated losses)

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**742,240**	464,193	**(122,536)**	(70,811)
Profit/(Loss) for the year	**928,285**	294,706	**301,821**	(51,725)
Profit appropriation to statutory reserves	**(60,208)**	(16,659)	**–**	–
At 31 December	**1,610,317**	742,240	**179,285**	(122,536)

17. Deferred income – The Group

	2009	2008
	RMB'000	*RMB'000*
Deferred income	**90,880**	34,490
Less: Current portion included in current liabilities	**–**	(6,692)
	90,880	27,798

Deferred income includes government grants related to purchase of qualified domestic manufactured equipment and acquisition of certain property, plant and equipment, environment protection and technology improvement.

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

It represents reduction in income tax granted to Shandong Fufeng in the year ended 31 December 2003, Baoji Fufeng in the year ended 31 December 2008 and IM Fufeng in the year ended 31 December 2009 respectively on purchase of certain qualified domestic manufactured equipment. It is recognised in the income statement over the periods and in the proportions in which depreciation on these assets is charged. The maturity profile of the government grant credit is as follows:

	2009	2008
	RMB'000	*RMB'000*
Within 10 years	**37,042**	5,528
Less: Current portion included in current liabilities	**–**	(1,222)
	37,042	4,306

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

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

The movements of the above government grant during the years ended 31 December 2009 and 2008 are as follows:

	2009 **RMB'000**	2008 RMB'000
At beginning of the year	**5,528**	3,492
Granted during the year	**37,304**	3,142
Amortised as income *(Note 20)*	**(5,790)**	(1,106)
At end of the year	**37,042**	5,528

(b) Government grants related to acquisition of certain property, plant and equipment, environment protection and technology improvement

They represent grants from the government relating to the acquisition of certain property, plant and equipment, environment protection and technology improvement. Grants received are recorded as deferred income and recognised in the income statement over the periods and in the proportions in which depreciation on these assets is charged or over the periods necessary to match them with the costs that they are intended to compensate. The maturity profile of these deferred government grants is as follows:

	2009 **RMB'000**	2008 RMB'000
Within 10 years	**53,838**	28,962
Less: Current portion included in current liabilities	**–**	(5,470)
	53,838	23,492

The movements of the above government grants for the year ended 31 December 2009 and 2008 are as follows:

	2009 **RMB'000**	2008 RMB'000
At beginning of the year	**28,962**	26,944
Granted during the year	**44,607**	14,275
Amortised as income *(Note 20)*	**(19,731)**	(12,257)
At end of the year	**53,838**	28,962

18. Borrowings – The Group

	2009 *RMB'000*	2008 *RMB'000*
Non-current		
Long-term bank borrowings, secured	**150,000**	232,000
Long-term bank borrowings, unsecured	**100,000**	80,000
	250,000	312,000
Less: Current portion of long-term bank borrowings, secured	**(70,000)**	–
	180,000	312,000
Current		
Short-term bank borrowings, secured	**–**	30,000
Short-term bank borrowings, unsecured	**348,000**	246,000
Current portion of long-term bank borrowings, secured	**70,000**	–
	418,000	276,000
Total borrowings	**598,000**	588,000

As at 31 December 2009, all the borrowings were denominated in RMB and included bank borrowings of RMB150,000,000 (2008: RMB262,000,000) secured by leasehold land (Note 5) and plant and machinery (Note 6).

As at 31 December 2009 and 2008, the Group's borrowings were repayable as follows:

	2009 *RMB'000*	2008 *RMB'000*
Within 1 year	**418,000**	276,000
Between 1 and 2 years	**180,000**	312,000
	598,000	588,000

18. Borrowings – The Group *(Continued)*

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

	2009	2008
Bank borrowings		
– RMB	**4.98%**	6.59%

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

	Carrying amounts	
	2009	2008
	RMB'000	*RMB'000*
Bank borrowings	**180,000**	312,000

	Fair values	
	2009	2008
	RMB'000	*RMB'000*
Bank borrowings	**178,169**	318,052

The fair values are based on cash flows discounted using a rate based on the primary rate published by the People's Bank of China of 5.40% per annum (2008: 5.40% per annum).

The carrying amounts of current borrowings approximate their fair values.

Interest rates of the bank borrowings denominated in RMB are reset periodically according to the primary rate announced by the People's Bank of China. The exposure of the Group's bank borrowings to interest-rate changes and the contractual re-pricing dates are as follows:

	2009	2008
	RMB'000	*RMB'000*
6 months or less	**100,000**	206,000
6 to 12 months	**318,000**	70,000
1 to 2 years	**180,000**	312,000
	598,000	588,000

19. Trade, other payables and accruals

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Trade payables (a)	**493,092**	506,894
Advances from customers (b)	**111,330**	91,675
Payables for leasehold land, property, plant and equipment	**430,991**	224,737
Salaries, wages and staff welfares payables	**52,303**	38,260
Other payables and accruals	**52,759**	25,967
	1,140,475	887,533

(a) As at 31 December 2009 and 2008, the ageing analyses of trade payables were as follows:

	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**465,313**	480,613
3 to 6 months	**11,644**	12,144
6 to 12 months	**4,751**	3,123
Over 12 months	**11,384**	11,014
	493,092	506,894

As at 31 December 2009, notes receivables of RMB499,831,000 (2008: RMB430,721,000) were applied for settling the amounts payable to the Group's suppliers.

(b) Advances from customers represented cash advances received from customers for purchase of the Group's products and would be applied for settlement when sales were incurred.

(c) Trade and other payables are unsecured and interest-free. The carrying amounts of trade and other payables approximate their fair values.

	The Company	
	2009	2008
	RMB'000	*RMB'000*
Other payables and accruals	**666**	2,683

20. Other income

	2009 RMB'000	2008 RMB'000
Interest income	**1,502**	2,152
Amortisation of deferred income *(Note 17)*	**25,521**	13,363
Sales of waste products	**32,774**	11,958
Negative goodwill gained from acquisition	**–**	9,657
Waiver of payables due to debt restructuring for a newly acquired subsidiary	**–**	3,947
Others	**4,111**	3,223
	63,908	44,300

21. Expense by nature

	2009 RMB'000	2008 RMB'000
Changes in inventories of finished goods and work in progress	**(122,924)**	30,590
Raw materials and consumables used	**3,047,748**	2,649,717
Employee benefit expenses *(Note 22)*	**259,587**	170,273
Depreciation *(Note 6)*	**190,336**	152,541
Amortisation of leasehold land payments *(Note 5)*	**2,974**	2,232
Impairment charges *(Note 6)*	**–**	2,008
Transportation expenses	**157,188**	143,761
Utilities purchased	**3,753**	10,511
Travelling and office expenses	**14,564**	12,476
(Reversal of write-down)/Write-down of inventories *(Note 10)*	**(1,554)**	1,338
Auditors' remuneration	**4,245**	3,838
Land use tax, real estate tax and other taxes	**24,457**	13,705
Advertisement fee	**20,794**	2,334
Others	**46,776**	66,277
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**3,647,944**	3,261,601

22. Employee benefit expenses including directors' emoluments

	2009 RMB'000	2008 RMB'000
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	224,299	150,639
– Pension costs-defined contribution plans *(Note (a))*	18,672	8,113
– Share options granted to directors and employees *(Note 15)*	16,616	11,521
	259,587	170,273

(a) Retirement benefit costs – defined contribution plans

The employees of the Group's subsidiaries established in the PRC participated in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group was required to make monthly contributions to these plans at the rate of 20%, 20%, 20% and 20% of the employees' basic salary for Shandong Province, Shaanxi Province, Inner Mongolia Autonomous Region and Jiangsu Province, respectively, for the year ended 31 December 2009 and 2008.

(b) Directors' emoluments

The emoluments of every director for the years ended 31 December 2009 and 2008, on a named basis, are set out as below:

	2009			
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	–	1,105	–	1,105
Wang, Longxiang	–	1,030	2,212	3,242
Wu, Xindong ***	–	530	–	530
Yan, Ruliang *	–	174	–	174
Feng, Zhenquan	–	636	–	636
Xu, Guohua	–	570	–	570
Li, Deheng	–	633	–	633
Li, Hongyu **	–	175	167	342
Gong, Qingli	–	250	1,072	1,322
Independent non-executive Directors:				
Choi, tze kit, Sammy	211	–	–	211
Chen, Ning	50	–	–	50
Liang, Wenjun	50	–	–	50
	311	5,103	3,451	8,865

* *Resigned on 15 May 2009.*
** *Resigned on 8 January 2010.*
*** *Resigned on 9 March 2010.*

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

(b) Directors' emoluments *(Continued)*

		2008		
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	–	797	–	797
Wang, Longxiang	–	728	2,806	3,534
Wu, Xindong	–	388	–	388
Yan, Ruliang	–	375	–	375
Feng, Zhenquan	–	453	–	453
Xu, Guohua	–	445	–	445
Li, Deheng	–	454	–	454
Li, Hongyu	–	128	–	128
Gong, Qingli	–	258	2,176	2,434
Independent non-executive Directors:				
Choi, tze kit, Sammy	218	–	–	218
Chen, Ning	50	–	–	50
Liang, Wenjun	50	–	–	50
	318	4,026	4,982	9,326

There was no bonus paid to the Directors for the years ended 31 December 2009 and 2008.

No director waived or agreed to waive any remuneration for the years ended 31 December 2009 and 2008.

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2009 and 2008 include two directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries and allowances	1,379	959
Pension costs-defined contribution plan	70	69
Share options granted to directors and employees	2,212	2,806
	3,661	3,834

For the years ended 31 December 2009 and 2008, 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 individuals for the year ended 31 December 2009 and 2008 fell within the following bands.

	Number of individuals	
	2009	2008
Emolument bands *(in HK dollar)*		
HK$1,000,001 – HK$1,500,000	2	1
HK$1,500,001 – HK$2,000,000	1	2

23. Research and development costs

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

	2009 RMB'000	2008 RMB'000
Research and non-capitalised development costs	36,203	22,418

All development costs arose from internal development.

24. Finance costs

	2009 RMB'000	2008 RMB'000
Interest expense		
Bank borrowings wholly repayable within 2 years	**25,251**	42,662
Finance costs	**25,251**	42,662

25. Income tax expense

	2009 RMB'000	2008 RMB'000
Current income tax		
- PRC enterprise income tax ("EIT")	**80,397**	14,677
Deferred income tax (Note 9)	**14,915**	15,997
	95,312	30,674

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 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 2009 and 2008.

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.

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.

25. Income tax expense *(Continued)*

Effective from 5 December 2008, Shandong Fufeng was approved to be a high-technique enterprise. In accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 5 December 2008, Shandong Fufeng was entitled to a three-year 50% tax reduction from PRC state EIT of 30% and a full exemption from local EIT of 3% during its approved operating period of twelve years. Accordingly, the effective tax rate for Shandong Fufeng for the year ended 31 December 2009 is 15% (2008: 12.5%).

Baoji Fufeng was set up on 24 September 2004 as a foreign-invested limited liability company in Baoji, Shaanxi Province. As Baoji Fufeng is registered in China's western development region and its registered category is encouraged by state, according to the Fiscal and Taxation (2001) No. 202 "The notice on the preferential tax policies of development of the western region issued by the Ministry of Finance, the State Administration of Taxation, General Administration of Customs", the applicable income tax rate is 15% from 2001 to 2010 for domestic and foreign invested enterprises set up in western region and encouraged by state. In addition, being a foreign-invested limited liability company and in accordance with the relevant tax laws and regulations and a local tax authority approval dated 31 May 2005, Baoji Fufeng is entitled to a two-year full exemption followed by a three-year 50% tax deduction from PRC state EIT, commencing from the first year with cumulative taxable profit since its establishment. Baoji Fufeng entered into its first profit making year during the year ended 31 December 2005. Besides, Baoji Fufeng was approved to be a high-technique enterprise. In accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 21 November 2008, Baoji Fufeng was entitled to a three-year 50% tax reduction from PRC state EIT of 30%. However, Baoji Fufeng chose to utilise the tax preference of "western development region". Accordingly, the effective tax rate for Baoji Fufeng for the years ended 31 December 2009 and 2008 is 7.5%.

IM Fufeng was set up as a foreign-invested limited liability company on 31 March 2006 in Hohhot, IM Autonomous Region. As IM Fufeng is registered in China's western development region and its registered category is encouraged by state, according to the Fiscal and Taxation (2001) No. 202 "The notice on the preferential tax policies of development of the western region issued by the Ministry of Finance, the State Administration of Taxation, General Administration of Customs", the applicable income tax rate is 15% from 2001 to 2010 for domestic and foreign invested enterprises set up in western region and encouraged by state. In addition, being a foreign-invested limited liability company and in accordance with the relevant tax laws and regulations and a local tax authority approval dated 16 April 2007, IM Fufeng is entitled to a two-year full exemption followed by a three-year 50% tax deduction from PRC state EIT, commencing from 2007. Besides, IM Fufeng was approved to be a high-technique enterprise. In accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 1 September 2009, IM Fufeng was entitled to a three-year 50% tax reduction from PRC state EIT of 30%. However, IM Fufeng chose to utilise the tax preference of "western development region". Accordingly, the effective tax rate for IM Fufeng for the year ended 31 December 2009 is 7.5% (2008: fully exempted).

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 2009 and 2008.

Shenhua Pharmaceutical was acquired on 25 January 2008 and became a foreign-invested limited liability company after that. It is entitled to a two-year full exemption followed by a three-year 50% tax deduction from PRC state EIT, commencing from 2008. Accordingly, Shenhua Pharmaceutical was fully exempted from income tax for the years ended 31 December 2009 and 2008.

25. Income tax expense *(Continued)*

Beijing Huijinhuaying is a domestic limited liability company. The effective tax rate for the year ended 31 December 2009 is 25%.

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:

	2009	2008
	RMB'000	*RMB'000*
Profit before income tax	**1,023,597**	325,380
Tax calculated at PRC statutory rate of 25%	**255,899**	81,345
Effect of tax exemption	**(175,567)**	(66,538)
Withholding tax on dividends from PRC subsidiaries *(Note 9)*	**19,700**	10,000
(Utilisation of previously unrecognised tax losses)/Reversal of deferred tax assets recognised in prior years	**(6,390)**	6,390
Effect of change of tax rate upon assessing deferred tax assets	**2,556**	30
Expenses not deductible for tax purposes	**183**	1,010
Income not subject to tax	**(1,069)**	(1,563)
	95,312	30,674

26. Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year.

	2009	2008
Profit attributable to the Shareholders (RMB'000)	**928,285**	294,706
Weighted average number of ordinary shares in issue (thousands)	**1,660,000**	1,660,000
Basic earnings per share (RMB cents per share)	**55.92**	17.75

26. 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's potentially dilutive ordinary shares comprised share options. The share options for 2008 are anti-dilutive and accordingly, the diluted earnings per share and basic earnings per share for 2008 are same.

	2009	2008
Profit attributable to the Shareholders (RMB'000)	**928,285**	294,706
Weighted average number of ordinary shares in issue (thousands)	**1,660,000**	1,660,000
Adjustments for share options (thousands)	**1,249**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,661,249**	1,660,000
Diluted earnings per share (RMB cents per share)	**55.88**	17.75

27. Dividends

	2009 *RMB'000*	2008 *RMB'000*
Interim, paid	**146,411**	–
Final, proposed	**219,240**	146,293

At a meeting held on 23 March 2010, the Board proposed a final dividend of HK$249,000,000 (equivalent to RMB219,240,000) (2008: HK$166,000,000 (equivalent to RMB146,293,000)), representing HK15 cents (equivalent to RMB13.21 cents) (2008: HK 10 cents (equivalent to RMB8.81 cents)) per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2010.

28. Notes to consolidated cash flow statement – The Group

(a) Cash generated from operations

	2009 RMB'000	2008 RMB'000
Profit before income tax	1,023,597	325,380
Adjustments for:		
– (Reversal of write-down)/ Write-down of inventories *(Note 10)*	(1,554)	1,338
– Reversal of provision for trade receivables *(Note 11)*	(95)	(924)
– Impairment provision for property, plant and equipment *(Note 6)*	–	2,008
– Depreciation *(Note 6)*	190,336	152,541
– Amortisation of leasehold land payments *(Note 5)*	2,974	2,232
– Amortisation of deferred income *(Note 17)*	(25,521)	(13,363)
– (Gain)/ Loss on disposal of property, plant and equipment *(Note (b))*	(2,925)	456
– Negative goodwill gained from acquisition	–	(9,657)
– Employee share option scheme *(Note 15, 22)*	16,616	11,521
– Interest income *(Note 20)*	(1,502)	(2,152)
– Interest expense *(Note 24)*	25,251	42,662
Changes in working capital:		
– Inventories	(193,186)	(27,416)
– Trade and other receivables	(469,332)	(18,243)
– Restricted bank deposits	16,550	(690)
– Trade, other payables and accruals	55,313	44,118
Cash generated from operations	636,522	509,811

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

	2009 RMB'000	2008 RMB'000
Net book amount *(Note 6)*	1,386	72,017
Less: Net book value transfer to construction in progress	–	(67,337)
Net book amount for sale	1,386	4,680
Gain/(Loss) on disposal of property, plant and equipment	2,925	(456)
Proceeds from disposal of property, plant and equipment	4,311	4,224

(c) Major non-cash transactions:

For the year ended 31 December 2009, the Group endorsed bank acceptance notes to the suppliers for purchase of property, plant and equipment amounting to approximately RMB320,766,000.

29. Commitments

The Group

Capital commitments

	2009 RMB'000	2008 RMB'000
Purchase of property, plant and equipment		
– Contracted but not yet incurred	175,522	12,958

Operating lease commitments – Group as lessee

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

	2009 RMB'000	2008 RMB'000
No later than 1 year	679	166
Later than 1 year and no later than 5 years	713	–
	1,392	166

The Company

As at 31 December 2009 and 2008, the Company had no material capital commitments.

Operating lease commitments – Company as lessee

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

	2009 RMB'000	2008 RMB'000
No later than 1 year	350	–
Later than 1 year and no later than 5 years	613	–
	963	–

30. Related party transactions and balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group

Key management compensation

	2009	2008
	RMB'000	*RMB'000*
Salaries and allowances	**8,135**	6,403
Pension costs-defined contribution plan	**457**	466
Share options granted to key management	**6,452**	8,658
	15,044	15,527

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.

The Comapny

Please refer to Note 7 for details for loans to subsidiaries and amounts due from/to subsidiaries.

31. Particulars of subsidiaries

As at 31 December 2009, 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 and place of operation
Directly held:			
Acquest Honour Holdings Limited ("Acquest Honour")	The British Virgin Islands ("BVI")	US$2	Investment holding in Hong Kong
Indirectly held:			
Summit Challenge Holdings Limited ("Summit Challenge")	BVI	US$1	Investment holding in Hong Kong
Absolute Divine Holdings Limited ("Absolute Divine")	BVI	US$1	Investment holding in Hong Kong
Expand Base Holdings Limited ("Expand Base")	BVI	US$1	Investment holding in Hong Kong
Profit Champion International Ltd. ("Profit Champion")	Hong Kong	HK$2	Investment holding in Hong Kong
Full Profit Investment (Group) Ltd. ("Full Profit")	Hong Kong	HK$2	Investment holding in Hong Kong
Trans-Asia Capital Resources Ltd. ("Trans-Asia")	Hong Kong	HK$2	Investment holding in Hong Kong
Shandong Fufeng	PRC	RMB220,500,000/ RMB205,020,000	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	HK$80,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers and other related products in the PRC.

31. Particulars of subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Registered/ Issued and paid capital	Principal activities and place of operation
IM Fufeng	PRC	HK$640,000,000	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	PRC	RMB 5,500,000	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	RMB 22,000,000	Manufacture and sales of eubacteria material medicine, preparations and food additives and other related products in the PRC
Beijing Huijinhuaying (a)	PRC	RMB21,000,000	Not available as it does not carry out any business activities

(a) On 29 February 2009, the Group acquired 100% equity interests in Beijing Huijinhuaying through Shandong Fufeng Biotechnologies, a wholly owned subsidiary of the Company.

32. Events after the balance sheet date

There is no significant event of the Group after the balance sheet date except for the proposed final dividend mentioned in Note 27.

Share Information

Stock Code	546
Board lot	2,000 shares

Price and turnover

	Share price		
2009	**High** *(HK$)*	**Low** *(HK$)*	**Turnover** *(Thousand Shares)*
January	0.54	0.38	18,322
February	0.64	0.43	28,790
March	1.27	0.63	220,623
April	1.45	1.05	90,766
May	1.80	1.09	85,928
June	2.95	1.76	124,380
July	3.29	2.75	106,187
August	3.35	2.84	116,797
September	3.08	2.72	45,786
October	4.06	2.80	115,414
November	5.15	3.63	123,469
December	5.59	4.64	201,301

Issued capital at 31 December 2009	1,660,000,000 shares
Closing price at 31 December 2009	HK$5.57 per share

Glossary

Absolute Divine	Absolute Divine Limited, an indirect wholly-owned subsidiary of the Company
Acquest Honour	Acquest Honour Holdings Limited, a wholly-owned subsidiary of the Company
ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Beijing Huijinhuaying	Beijing Huijinhuaying Commercial Co., Ltd, an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
CAGR	cumulative average growth rate
Centerpoint Assets	Centerpoint Assets Management Limited, a company which is wholly owned by Mr. Gong Qingli, an executive Director
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Directors	the director(s) of the Company
EIT Law	Enterprise Income Tax Law of the PRC which came into effect on 1 January 2008
Ever Soar	Ever Soar Enterprises Limited, a company with limited liability, the issued share capital of which is owned as to 25% by 吳欣東 (Wu Xindong), 15% by 嚴汝良 (Yan Ruliang), 15% by 馮珍泉 (Feng Zhenquan), 15% by 徐國華 (Xu Guohua), 15% by 李德衡 (Li Deheng), 15% by 郭英熙 (Guo Yingxi)
Expand Base	Expand Based Limited, an indirect wholly-owned subsidiary of the Company
Group	the Company and its subsidiaries
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

Glossary

HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	the Hong Kong Special Administrative Region of 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 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 Fufeng Biotechnologies	山東阜豐生物科技開發有限公司 (Shandong Fufeng Biotechnologies Development Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC

Glossary

Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Stock Exchange	the Stock Exchange of Hong Kong Limited
Summit Challenge	Summit Challenge Limited, an indirect wholly-owned subsidiary of the Company
RMB	Renminbi, the lawful currency of the PRC
HK$	Hong Kong dollars, the lawful currency of Hong Kong
US$	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
%	per cent