



Fufeng Group Limited

阜豐集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 546)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

HIGHLIGHTS OF 2008 INTERIM RESULTS

- Turnover increased to RMB1,630.4 million, representing an increase of 45.7% as compared with that in the corresponding period in 2007
- The increase was mainly due to the increase in sales volume and selling price of major products
- Gross profit increased by 108.3% to RMB237.7 million
- Gross profit margin reached 14.6%, a rise of 4.4 percentage points when compared to the same period last year
- Profit attributable to shareholders significantly increased by 161.7% to RMB85.9 million
- Earnings per share for the first half of 2008 amounted to RMB5.17 cents, representing an increase of 149.8%
- Continued to maintain its leading position in MSG and xanthan gum markets

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2008 together with comparative figures are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
	Note	2008 RMB'000 Unaudited	2007 RMB'000 Unaudited
Revenue	3	1,630,399	1,119,121
Cost of sales		(1,392,722)	(1,005,003)
Gross profit		237,677	114,118
Other income	4	27,822	17,768
Selling and marketing costs		(78,217)	(50,418)
Administrative expenses		(63,489)	(53,801)
Other operating expenses		(6,672)	(17,206)
Interest income from IPO subscription deposits		–	42,837
Finance costs		(22,380)	(18,819)
Profit before income tax		94,741	34,479
Income tax expense	6	(8,877)	(1,672)
Profit for the period attributable to shareholders		85,864	32,807
Earnings per share for profit attributable to the Shareholders during the period (expressed in RMB cent per share) – basic and diluted	7	5.17	2.07
Dividends		–	–

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	Note	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
ASSETS			
Non-current assets			
Leasehold land payments	9	99,393	63,070
Property, plant and equipment	9	1,775,797	1,674,021
Deferred income tax assets		6,390	6,390
		1,881,580	1,743,481
Current assets			
Inventories		344,436	326,351
Trade and other receivables	10	629,491	540,984
Current income tax recoverable		188	–
Short-term bank deposits		45,200	42,170
Cash and cash equivalents		223,192	228,849
		1,242,507	1,138,354
Total assets		3,124,087	2,881,835
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	13	169,034	169,034
Share premium		–	13,529
– Proposed final dividend		–	–
– Others		1,078,144	1,078,144
Other reserves		(269,075)	(276,084)
Retained earnings		550,057	464,193
Total equity		1,528,160	1,448,816
LIABILITIES			
Non-current liabilities			
Deferred income		22,458	24,951
Borrowings	12	362,000	312,000
Deferred income tax liabilities		898	898
		385,356	337,849

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		As at	
	Note	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
Current liabilities			
Trade, other payables and accruals	11	890,286	770,810
Current income tax liabilities		–	875
Current portion of deferred income		5,485	5,485
Borrowings	12	314,800	318,000
		1,210,571	1,095,170
Total liabilities		1,595,927	1,433,019
Total equity and liabilities		3,124,087	2,881,835
Net current assets		31,936	43,184
Total assets less current liabilities		1,913,516	1,786,665

NOTES TO THE CONDENSED FINANCIALS STATEMENTS

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim condensed financial report should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2007.

2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those described in the consolidated financial statements of the Group for the year ended 31 December 2007.

3. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of corn-based biochemical products including glutamic acid, MSG, fertilisers, xanthan gum, starch sweeteners, corn refined products, pharmaceuticals and bricks. Turnover and revenue represents gross sales, less discounts, returns and intra-group sales and is analysed as follows:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	Unaudited	Unaudited
Glutamic acid	619,455	528,071
MSG	298,755	261,446
Corn refined products	272,669	156,186
Fertilisers	197,023	97,312
Xanthan gum	168,740	56,960
Starch sweeteners	64,193	19,146
Pharmaceuticals	9,323	–
Bricks	241	–
	1,630,399	1,119,121

As at 30 June 2008, the Group is organised into two main business segments: MSG (which mainly includes the sales of glutamic acid, MSG, corn refined products, fertilisers, starch sweeteners, pharmaceuticals and bricks), and xanthan gum. There are no significant sales or other transactions between the two business segments.

The segment results for the six months ended 30 June 2008 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Revenue	1,461,659	168,740	–	1,630,399
Segment results	74,028	50,559	(21,370)	103,217
Negative goodwill gained from acquisition				9,957
Cancellation of indebtedness due to debt restructuring				3,947
Finance costs				(22,380)
Profit before income tax				94,741
Income tax expenses				(8,877)
Profit for the period				85,864

The segment results for the six months ended 30 June 2007 are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Revenue	1,062,161	56,960	–	1,119,121
Segment results	27,536	16,203	(33,278)	10,461
Interest income from IPO subscription deposits				42,837
Finance costs				(18,819)
Profit before income tax				34,479
Income tax expenses				(1,672)
Profit for the period				32,807

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

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Period ended 30 June 2008				
Depreciation	63,742	12,111	882	76,735
Amortisation of leasehold land payments	865	114	–	979
Gain on disposals of property, plant and equipment	(4)	–	–	(4)
Period ended 30 June 2007				
Depreciation	47,868	5,694	126	53,688
Amortisation of leasehold land payments	833	114	–	947
Write-down of inventories	790	–	–	790

The segment assets and liabilities at 30 June 2008 and capital expenditure for the period then ended are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Assets	2,546,430	503,194	74,463	3,124,087
Liabilities	1,199,322	395,096	1,509	1,595,927
Capital expenditure	108,361	54,662	10	163,033

The segment assets and liabilities at 30 June 2007 and capital expenditure for the period then ended are as follows:

	MSG RMB'000 Unaudited	Xanthan gum RMB'000 Unaudited	Unallocated RMB'000 Unaudited	Group RMB'000 Unaudited
Assets	2,237,381	260,381	282,310	2,780,072
Liabilities	1,168,693	179,474	2,489	1,350,656
Capital expenditure	178,827	41,414	–	220,241

4. OTHER INCOME

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	Unaudited	Unaudited
Interest income	1,074	6,262
Amortisation of deferred income	5,017	2,599
Sales of waste materials	6,107	5,617
Cancellation of indebtedness due to debt restructuring	3,947	–
Negative goodwill gained from acquisition	9,957	–
Others	1,720	3,290
	<u>27,822</u>	<u>17,768</u>

5. EXPENSES BY NATURE

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	Unaudited	Unaudited
Amortisation of leasehold land payments	979	947
Depreciation of property, plant and equipment	76,735	53,688
Value on employee services for the share option scheme	7,009	11,205
Foreign exchange losses	5,935	15,488
Provision for impairment of inventories	–	790

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	Unaudited	Unaudited
Current income tax		
– PRC enterprise income tax (“EIT”)	8,877	4,139
Deferred income tax	–	(2,467)
	<u>8,877</u>	<u>1,672</u>

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

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit in Hong Kong for the six months ended 30 June 2008 and 2007.

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

7. EARNINGS PER SHARE

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Basic earning per share (in RMB) cents	5.17	2.07

Basic earnings per share for each of the six months ended 30 June 2008 and 2007 is calculated by dividing the profit for the period attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

The diluted earnings per share is the same as basic earnings per share because the average market price of ordinary shares for the six months ended 30 June 2008 did not exceed the exercise prices of each tranche of the share options, hence the share options are anti-dilutive and are ignored in the calculation of the diluted earnings per share.

8. DIVIDENDS

A 2007 final dividend of 0.82 cents per ordinary share, totalling RMB13,529,000 was paid in June 2008. It was disclosed as proposed final dividend for the year ended 2007.

9. CAPITAL EXPENDITURE

	Leasehold land payments RMB'000 Unaudited	Property, plant and equipment RMB'000 Unaudited	Total RMB'000 Unaudited
Six months ended 30 June 2007			
Opening net book amount at 1 January 2007	64,918	1,288,340	1,353,258
Additions	120	220,121	220,241
Depreciation and amortisation	(947)	(53,688)	(54,635)
Closing net book amount at 30 June 2007	64,091	1,454,773	1,518,864
Six months ended 30 June 2008			
Opening net book amount at 1 January 2008	63,070	1,674,021	1,737,091
Additions	29,253	133,780	163,033
Acquisition of subsidiary	8,049	44,824	52,873
Disposal	–	(129)	(129)
Depreciation and amortisation	(979)	(76,735)	(77,714)
Depreciation disposal	–	36	36
Closing net book amount at 30 June 2008	99,393	1,775,797	1,875,190

10. TRADE AND OTHER RECEIVABLES

	As at	
	30 June	31 December
	2008	2007
	RMB'000	RMB'000
	Unaudited	Audited
Trade receivable (a)	88,557	67,164
Notes receivable (b)	488,840	426,214
Prepayments	20,018	12,695
Deposits and other receivables	32,076	34,911
	<u>629,491</u>	<u>540,984</u>

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

	As at	
	30 June	31 December
	2008	2007
	RMB'000	RMB'000
	Unaudited	Audited
Within 3 months	76,456	59,320
Over 3 months	12,101	7,844
	<u>88,557</u>	<u>67,164</u>

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

(b) As at 30 June 2008, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB454,825,000 (2007: RMB344,299,000) applied for negotiation with the Group's suppliers for settling the amounts payable to them.

11. TRADE, OTHER PAYABLES AND ACCRUALS

	As at	
	30 June	31 December
	2008	2007
	RMB'000	RMB'000
	Unaudited	Audited
Trade payable (a, c)	506,772	447,664
Notes payable (b)	4,000	8,950
Advances from customers	89,224	89,650
Payables for leasehold land, property, plant and equipment	217,850	181,065
Other payables and accruals	72,440	43,481
	<u>890,286</u>	<u>770,810</u>

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

	As at
	30 June
	2008
	RMB'000
	Unaudited
	31 December
	2007
	RMB'000
	Audited
Within 3 months	426,788
3 to 6 months	5,642
6 to 12 months	10,097
Over 1 year	5,137
	447,664
	506,772

- (b) Notes payables were all bank acceptance notes with maturity dates within six months and aged less than six months.
- (c) As at 30 June 2008, notes receivables of RMB454,825,000 (2007: RMB344,299,000) were applied for negotiation with the Group's suppliers for settling the amounts payable to them.

12. BORROWINGS

	As at
	30 June
	2008
	RMB'000
	Unaudited
	31 December
	2007
	RMB'000
	Audited
Non-current	312,000
Current	318,000
	630,000
	676,800

Movements in borrowings is analysed as follows:

	RMB'000
	Unaudited
Six months ended 30 June 2007	
Opening amount as at 1 January 2007	749,630
New borrowings	496,600
Amortisation of discount	6,702
Repayments of borrowings	(679,603)
Exchange differences	(7,929)
Closing amount as at 30 June 2007	565,400
Six months ended 30 June 2008	
Opening amount as at 1 January 2008	630,000
New borrowings	509,300
Acquisition of subsidiary	18,329
Repayments of borrowings	(480,829)
Closing amount as at 30 June 2008	676,800

Interest expenses on borrowings and loans for the six months ended 30 June 2008 was RMB22,380,000 (30 June 2007: RMB18,819,000).

13. SHARE CAPITAL

			Amount		
	Number of authorised shares '000 Unaudited	Number of issued and fully paid shares '000 Unaudited	Ordinary shares RMB'000 Unaudited	Share premium RMB'000 Unaudited	Total RMB'000 Unaudited
Opening balance at 1 January 2007	10,000,000	1,200,000	123,372	278,326	401,698
Increase Shares for the Listing	–	460,000	45,662	909,461	955,123
Dividends paid	–	–	–	(96,114)	(96,114)
At 30 June 2007	10,000,000	1,660,000	169,034	1,091,673	1,260,707
Opening balance at 1 January 2008	10,000,000	1,660,000	169,034	1,091,673	1,260,707
Dividends paid	–	–	–	(13,529)	(13,529)
At 30 June 2008	10,000,000	1,660,000	169,034	1,078,144	1,247,178

On 8 February 2007, 400,000,000 shares of HK\$0.10 each of the Company were listed on the Stock Exchange which were issued through a public offer in Hong Kong and an international placing with institutional and professional investors.

On 14 February 2007, additional 60,000,000 shares of HK\$0.10 each of the Company were listed on the Stock Exchange which were issued through exercising the over-allotment option by the underwriters in respect of the Listing.

14. BUSINESS COMBINATION – THE GROUP

On 25 January 2008, the Group acquired 100% of the share capital of Shenhua Pharmaceutical, a company which operates in the bio-chemical field by applying fermentation technology on its production. The acquired business contributed revenues of RMB9,323,000 and net profit of RMB3,221,000 to the Group for the period from 25 January 2008 to 30 June 2008. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 25 January 2008, together with the consequential tax effects.

For the acquisition, the Group has a negative goodwill of RMB9,957,000 which represents the excess of fair value of net assets acquired over the purchases consideration.

There were no acquisitions in the period ended 30 June 2007.

15. CONTINGENT LIABILITIES – THE GROUP

As at 30 June 2008 and 2007, the Group had no material contingent liabilities.

16. RELATED PARTY TRANSACTIONS

Key management compensation is set out below:

	Six months ended 30 June	
	2008 RMB'000 Unaudited	2007 RMB'000 Unaudited
Salaries and allowances	2,518	2,186
Pension costs-defined contribution plan	129	25
Share options granted	4,049	6,363
	<u>6,696</u>	<u>8,574</u>

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.

BUSINESS AND FINANCIAL REVIEW

Market overview

MSG segment

MSG segment mainly includes glutamic acid, MSG, fertilisers, and other related products.

Triggered by the oversupply in MSG market and unexpected increase in cost of raw materials in 2007, the MSG market experienced a severe market downturn, which has also sped up the industry consolidation. The overall MSG market showed a sign of recovery in the first half of 2008, especially the second quarter of 2008. According to our studies, the production volume of glutamic acid in the first half of 2008 dropped significantly as compared that in the first half of 2007. Meanwhile, the demands for glutamic acid and MSG in China remained stable in the first half of 2008. During the first half of 2008, the oversupply situation in MSG market in China had largely subsided, and as a result, the selling price of glutamic acid and MSG rebounded in the first half of 2008, and the increase was more significant in the second quarter of 2008.

With the significantly increased in the raw material and production cost of fertiliser, the selling price of fertiliser in both the international and domestic markets has been on an upward trend since the fourth quarter of 2007.

Xanthan gum segment

According to our studies, the global supply of xanthan gum remained stable in the first half of 2008. The market demand 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.

Price trend of corn kernel

After the soaring of corn kernel price in 2007, the average price of corn kernel of the Group gradually stabilised but yet maintained at a high level in the first half of 2008, approximately RMB1,415 per tonne (1H 2007: RMB1,352 per tonne). The stabilised corn kernel price was a result of the effective administrative measures implemented by the PRC government in 2007.

Operation review of the Group

Following the market downturn in the year 2007, the Group's performance in the first half of 2008 showed a strong sign of recovery, especially the second quarter of 2008, due to the improved operating environment. Certain indicative operational figures of the Group are set out below:

Turnover/Gross profit/Gross profit margin of the Group

	Six months ended 30 June 2008	2007	Change %
Turnover (RMB'000)	1,630,399	1,119,121	45.7
Gross profit (RMB'000)	237,677	114,118	108.3
Gross profit margin (%)	14.6	10.2	4.4 ppts.

The notable improvement in the performance of the Group are mainly due to the increase in sales volume and selling price of certain products. The reasons are discussed in details in the following sections.

Profit attributable to Shareholders

	Six months ended 30 June 2008 RMB'000	2007 RMB'000	Change %
As reported	85,864	32,807	161.7
Interest income from IPO proceeds	–	(42,837)	N/A
Profit attributable to Shareholders after excluding the interest income from IPO proceeds	85,864	(10,030)	N/A

The profit attributable to Shareholders after excluding the interest income from IPO proceeds increased significantly, mainly due to the improvement in the operating environment as mentioned above.

Segment Highlights

The Group's business can be classified into two major operating segments:

1. MSG
2. Xanthan gum

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

	Six months ended 30 June 2008			Six months ended 30 June 2007			Change		
	Xanthan		Group	Xanthan		Group	MSG	Xanthan	Group
	MSG	gum		MSG	gum				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	%	%	%
Revenue	1,461,659	168,740	1,630,399	1,062,161	56,960	1,119,121	38	196	46
Gross profit	180,441	57,236	237,677	93,899	20,219	114,118	92	183	108
Gross profit margin	12.3%	33.9%	14.6%	8.8%	35.5%	10.2%	3.5 ppts.	(1.6 ppts.)	4.4 ppts.
Segment results	74,028	50,559		27,536	16,203		169	212	
Segment net assets									
Assets	2,546,430	503,194		2,237,381	260,381		14	93	
Liabilities	1,199,322	395,096		1,168,693	179,474		3	120	
Net assets	1,347,108	108,098		1,068,688	80,907		26	34	

The sections below discuss the performance of each segment in details.

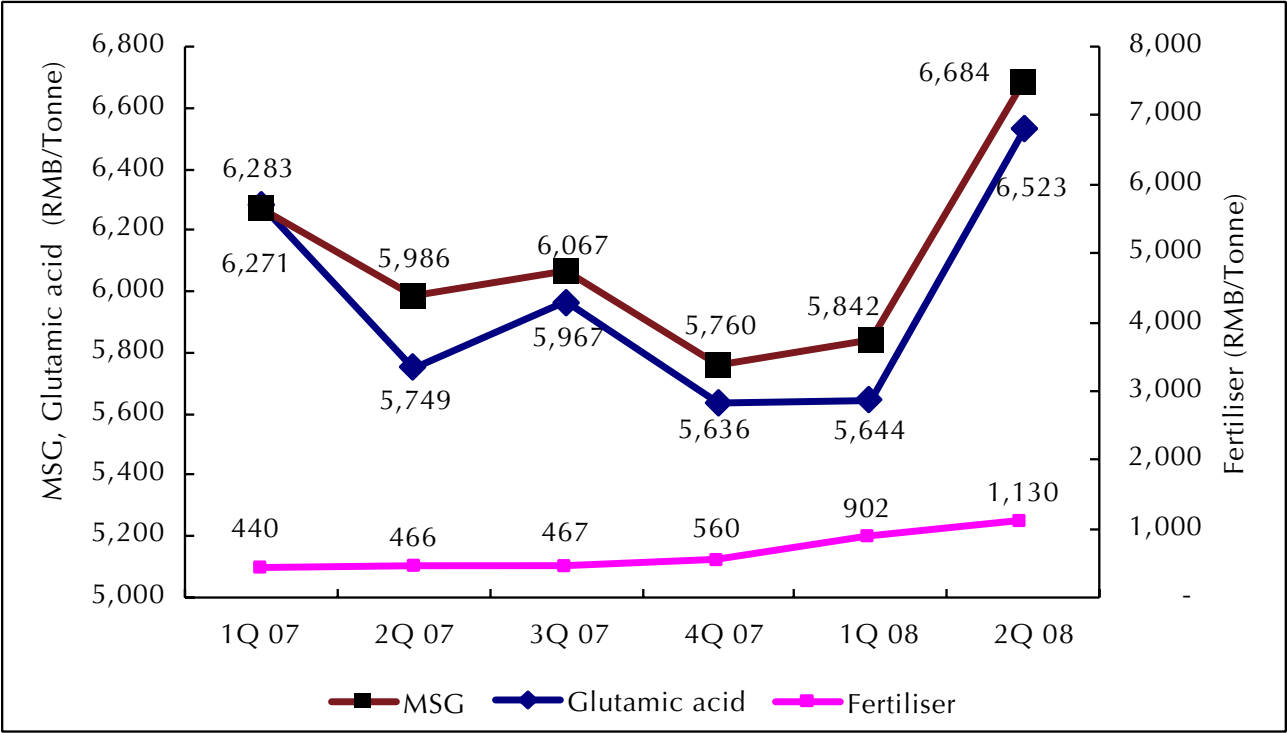
MSG segment

Operation results

The table below set out the sales amount of the products in this segment for the six months ended 30 June 2008 and 2007:

Product	Six months ended 30 June		Change
	2008	2007	
	RMB'000	RMB'000	%
Glutamic acid	619,455	528,071	17.3
MSG	298,755	261,446	14.3
Fertilisers	197,023	97,312	102.5
Corn refined products	272,669	156,186	74.6
Sweeteners	64,193	19,146	235.3
Pharmaceuticals	9,323	—	N/A
Bricks	241	—	N/A
	1,461,659	1,062,161	37.6

Set out below is the chart of ASP per tonne of the major products in this segment of each quarter from the first quarter of 2007 to the second quarter of 2008:



Glutamic acid

After the continuous decrease of glutamic acid price and the market consolidation, the glutamic acid price has rebounded completely in the second quarter of 2008. The ASP of glutamic acid increased from approximately RMB5,964 per tonne in the first half of 2007 to approximately RMB6,048 per tonne in the first half of 2008, representing an increase of about 1.4%. During the six months ended 30 June 2008, the ASP of glutamic acid increased from approximately RMB5,644 per tonne in the first quarter of 2008 to approximately RMB6,523 per tonne in the second quarter of 2008, representing an increase of about 15.6%. Furthermore, the ASP of glutamic acid increased from approximately RMB5,650 per tonne in early 2008 to approximately RMB6,800 per tonne at the end of June 2008, representing an increase of about 20%. The increase was primarily because the drop in supply of glutamic acid, the market restructuring came into effect and the small and medium size manufacturers either closed down or shifted their production to other products in early 2008.

The Group managed to maintain its leading position and enlarged its market share in glutamic acid after market consolidation, and its sales volume of glutamic acid increased by approximately 15.6% in the first half of 2008 when compared to that in the first half of 2007.

MSG

Following the same pattern and reasons as that of glutamic acid, the ASP of MSG increased from approximately RMB6,106 per tonne in the first half of 2007 to approximately RMB6,257 per tonne in the first half of 2008, representing an increase of about 2.5%. The ASP of MSG increased from approximately RMB5,842 per tonne in the first quarter of 2008 to approximately RMB6,684 per tonne in the second quarter of 2008, representing an increase of 14.4%. Furthermore, the ASP of MSG increased from approximately RMB5,800 per tonne in the early 2008 to approximately RMB6,900 per tonne at the end of June 2008, representing an increase of 19%.

With the Group's strategy of moving from glutamic acid to MSG, the sales volume of MSG continued to increase by approximately 11.5% in the first half of 2008 from that of 2007. The Directors believe that the Group was increasing its market share in China at the same time. The Group will continue pursuing such strategy.

Fertilisers

Since the fourth quarter of 2007, the ASP of fertilisers has been increasing continuously due to the sustained growing prices in the international and PRC fertiliser markets. The ASP of fertilisers increased from approximately RMB452 per tonne in the first half of 2007 to approximately RMB1,009 per tonne in the first half of 2008, representing an increase of about 123.2%. The ASP of fertilisers increased from approximately RMB902 per tonne in the first quarter of 2008 to approximately RMB1,130 per tonne in the second quarter of 2008, representing an increase of 25.3%. Furthermore, the ASP of fertilisers increased from approximately RMB800 per tonne in early 2008 to approximately RMB1,100 per tonne at the end of June 2008, representing an increase of 37.5%.

Corn refined products

The increase in selling price of pork since 2007 led to the increase in demand for corn-based animal feed which continued pushing up the sales volume and amount of corn refined products in the first half of 2008.

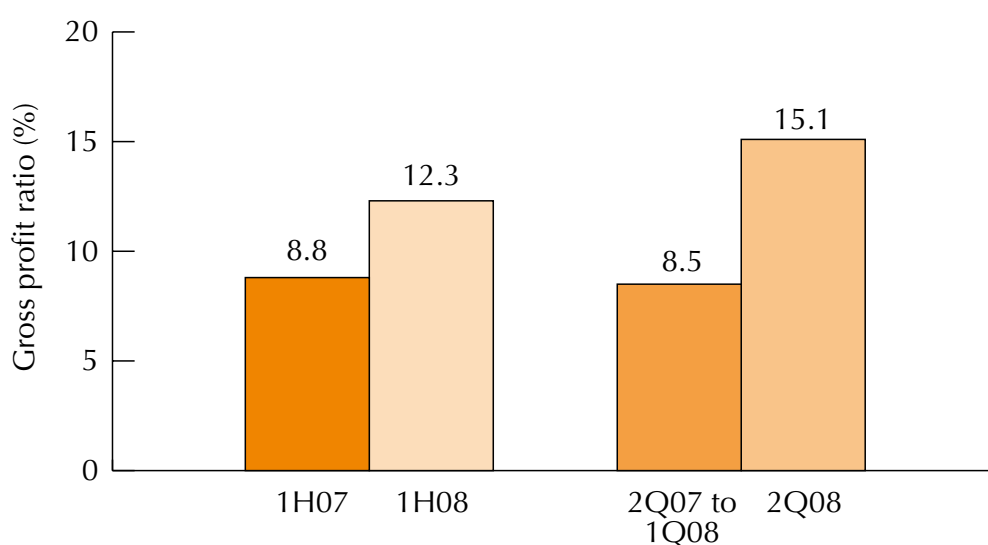
Sweeteners

Although there was not much change in the ASP of sweeteners in the first half of 2008 from that of 2007, the increase in market recognition increased the sales volume of the Group's sweeteners in the first half of 2008.

Gross profit and gross profit margin

	Six months ended 30 June		Change %
	2008	2007	
Gross profit (RMB'000)	180,441	93,899	92.2
Gross profit margin (%)	12.3	8.8	3.5 ppts.

The chart below shows the gross profit margin in different period:



The increase in gross profit of MSG segment by 92.2% was mainly due to the increase in sales volume and ASP of various products in the first half of 2008 in this segment. The gross profit margin of MSG segment has rebounded from 8.5% in the period between the second quarter of 2007 and first quarter of 2008 to 15.1% in the second quarter of 2008, representing an increase of 6.6 percentage points. The strong recovery in MSG segment since the second quarter of 2008 was the market consolidation in 2007 had further strengthened the Group's market position.

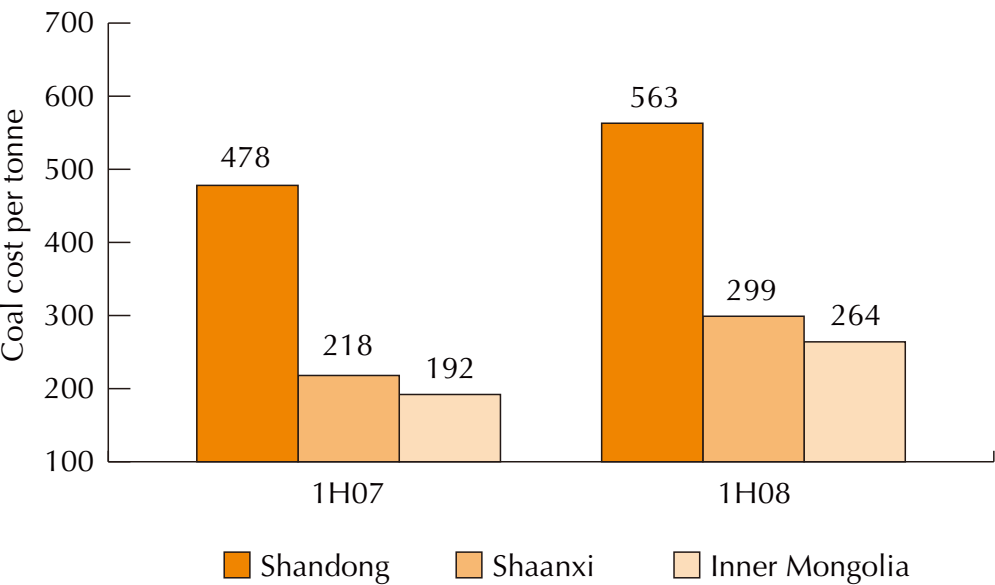
Production cost

	Six months ended 30 June				Change %
	2008		2007		
	RMB'000	%	RMB'000	%	
Major raw materials/Energy					
• Corn kernels	656,647	51.5	590,759	56.5	11.2
• Liquid Ammonia	152,610	12.0	123,347	11.8	23.7
• Sulphuric Acid	126,338	9.9	35,904	3.4	251.9
• Coal	114,147	9.0	94,778	9.1	20.4
Depreciation	54,535	4.3	42,135	4.0	29.4
Employee benefit	46,982	3.7	24,402	2.3	92.5
Others	121,591	9.6	133,907	12.9	(9.2)
Total cost of production	1,272,850	100.0	1,045,232	100.0	21.8

During the first half of 2008, corn kernels represented approximately 51.5% (1H 2007: 56.5%) of the total production cost of this segment. The average cost of corn kernels for the first half of 2008 had been stabilised but still remained at a high level as that of the end of 2007 which was approximately RMB1,415 per tonne (1H 2007: RMB1,352 per tonne).

Another two major raw materials, liquid ammonia and sulphuric acid represented approximately 12.0% (1H 2007: 11.8%) and 9.9% (1H 2007: 3.4%) respectively to the total production cost in this segment. The cost of these two raw materials increased gradually since 2007. The main reason for the increase in cost of liquid ammonia was the increase in coal price while the main reason for the increase in cost of sulphuric acid was the increase in market price of sulphur. For liquid ammonia, the average cost for the first half of 2008 was approximately RMB2,505 per tonne, which represent an increase of approximately RMB638 per tonne or 34% from that of 2007. For sulphuric acid, the average cost in the first half of 2008 was approximately RMB1,068 per tonne, which represent an increase of approximately RMB777 per tonne or 267% from that of 2007.

The average cost of coal kept increasing from RMB241 per tonne in the first half of 2007 to RMB315 per tonne in the first half of 2008. Given that the Group’s plants are strategically located in Shaanxi Province and Inner Mongolia Autonomous Region of the PRC, the Group can enjoy relatively lower coal cost which is one of its competitive advantages. The chart below shows the coal cost at each plant:



The increase in cost of employee benefit was mainly because of the Group provided additional benefit to staff in order to comply the new Labour Contract Law enacted on 1 January 2008.

Production

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

Product	Six months ended 30 June		Change %
	2008 Tonnes	2007 Tonnes	
Glutamic acid (Note C)			
Annual design production capacity	120,000	140,000	(14.3)
Actual production output	136,654	138,243	(1.1)
Utilisation rate	113.9%	98.7%	
MSG (Note B)			
Annual design production capacity	65,000	37,500	73.3
Actual production output	52,925	34,961	51.4
Utilisation rate	81.4%	93.2%	
Fertilisers (Note C)			
Annual design production capacity	200,000	245,000	(18.4)
Actual production output	185,364	188,756	(1.8)
Utilisation rate	92.7%	77.0%	

Note:

- A. All the annual design production capacity is expressed on pro-rata basis.
- B. The significant increase in production capacity of MSG was mainly due to the full operation of MSG production line in IM plant.
- C. The decrease in production capacity of glutamic acid and fertilisers was mainly due to the closure of Shandong production facilities.

Xanthan gum segment

Operation results

The table below set out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the six months ended 30 June 2008 and 2007:

	Six months ended 30 June		Change
	2008	2007	%
Sales amount (RMB'000)	168,740	56,960	196.2
ASP (RMB/tonne)	21,547	25,303	(14.8)
Gross profit (RMB'000)	57,236	20,219	183.1
Gross profit margin (%)	33.9	35.5	(1.6 ppts.)
Annual design production capacity (tonnes)	9,000	4,000	125
Actual production output (tonnes)	9,805	3,818	156.8
Utilisation rate	108.9%	95.5%	

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

With the commencement of production of xanthan gum in December 2007 in IM Plant, the annual production capacity of the Group in xanthan gum, on pro-rata basis, increased from 4,000 tonnes for the first half of 2007 to 9,000 tonnes in the first half of 2008.

Sales and ASP

With the outstanding effort of the sales team, the increase in production capacity of xanthan gum was mostly absorbed by the sales for the first half of 2008. Hence, the sales volume of xanthan gum increased by approximately 247.9% to 7,831 tonnes while the sales amount increased by approximately 196% to RMB168.7 million. During the first half of 2008, overseas sales of xanthan gum contributed 80% (1H 2007: 81%) to the total sales of the xanthan gum.

The decrease in ASP in the first half of 2008 of xanthan gum by RMB3,756 per tonne or 14.8% was mainly due to two folds:

- (1) the expansion of production capacity in the overall market which has driven down the selling price of xanthan gum; and
- (2) the Group intentionally offered discount to certain new customers in order to enlarge the market share of the Group in xanthan gum market.

Gross profit and gross profit margin

The increase in gross profit of xanthan gum in the first half of 2008 was mainly due to the increase in sale volume and the maintained high level of gross profit margin. The gross profit margin maintained at high level with a slight adjustment of 1.6 percentage points in the first half of 2008 despite the decrease in ASP by approximately 15%. It was mainly brought by the cost advantage of producing xanthan gum with lower cost of coal in IM plant.

Production cost

	Six months ended 30 June				Change %
	2008 RMB'000	%	2007 RMB'000	%	
Major raw materials/Energy					
• Corn kernels/Starch	35,718	26.4	11,702	19.3	205.2
• Soy bean	11,734	8.7	3,474	5.7	237.8
• Coal	55,282	40.9	28,984	47.9	90.7
Depreciation	12,061	8.9	5,661	9.4	113.1
Employee benefit	9,381	6.9	2,466	4.1	280.4
Others	11,003	8.2	8,263	13.6	33.2
Total cost of production	135,179	100.0	60,550	100.0	123.3

During the first half of 2008, corn kernels/starch represented approximately 26.4% (2007: 19.3%) of the total production cost of this segment. The increase in production cost proportion was mainly because after the closure of the Junan Plant Phase I in 2008, the Group stopped the production of starch by itself in Shandong but purchased from outsiders. This in return increased the cost when compared to that of produced by itself.

Soy bean is another major raw material of xanthan gum. During the first half of 2008, soy bean represented approximately 8.7% (1H 2007: 5.7%) of the total production cost of this segment. The increase in proportion was mainly due to the increase in soy bean price from approximately RMB2,749 per tonne in the first half of 2007 to approximately RMB4,577 per tonne in the first half of 2008, representing an increase of 66.5%.

During the first half of 2008, coal represented approximately 40.9% (1H 2007: 47.9%) of the total production cost of this segment. Such decrease was because during the period approximately 50% of the production was done by the plant in Inner Mongolia where the cost of coal was RMB264 per tonne compared to RMB563 per tonne in Shandong. In the first half of 2007, all the Group's xanthan gum was produced in the Junan Plant with coal cost at RMB478 per tonne. As such, the cost portion has significantly decreased in the first half of 2008.

The increase in cost of depreciation and employee benefit was mainly due to the increased production capacity of xanthan gum in IM Plant. Furthermore, the Group provided additional benefit to staff in order to comply with the new Labour Contract Law enacted on 1 January 2008.

Recent Development

Further expansion of xanthan gum production in IM Plant

The construction of the second phase xanthan gum production facilities in the IM Plant with an annual production capacity of 10,000 tonnes is in progress. The Group expects the new facilities will commence production in the end of 2008. Upon completion of the second phase xanthan gum production facilities in IM Plant, the Group's total annual production capacity of xanthan gum will reach 28,000 tonnes. The Group will enjoy better economies of scale and efficiency and cost advantage in raw materials and energy.

70,000 tonnes MSG in Baoji Plant

The acquisition of a piece of land near Baoji Plant for the construction of 70,000 tonnes MSG is still under negotiation with the government. To avoid the delay in the commencement of production of MSG, the MSG production is now constructed inside the original plot of Baoji Plant and is expected to complete in October 2008. The Group is considering whether to continue the negotiation with government in acquisition of that piece of land.

Reengineering project of glutamic acid and MSG in IM Plant

Part of the reengineering project of glutamic acid and MSG in IM Plant has been completed in early August 2008. This improvement will further lower production cost of MSG segment. Furthermore, an annual production capacity of glutamic acid of 40,000 tonnes will be increased in late 2008 by this reengineering project.

Close down of Junan Plant Phase I

Junan Plant Phase I was closed down in February 2008. The removal of machinery and equipment to Baoji Plant and IM Plant is still underway and is expect to be completed in late 2008. By then, after reallocation and reengineering, the annual production capacity of glutamic acid and fertilisers in IM Plant will be increased by 40,000 tonnes and 100,000 tonnes respectively; the annual production capacity of 20,000 tonnes MSG will be reallocated to the Baoji Plant.

Corn oil

Corn germ produced during the production of starch was sold to third party in the past. Since 2008, the Group has considered new ways of improving the efficiency and profit margin. The Group is planning to make use of the corn germ to produce corn oil, which is perceived to be relatively healthy edible oil. The Group started the construction of corn oil plant in May 2008 in Junan Plant Phase II in Shandong and is expected to commence production in November 2008 with annual production capacity of 35,000 tonnes. The total investment of the plant is approximately RMB60 million.

Chicken powder

To further develop new value added products along the production chain, the Group is planning to make use of the MSG to produce chicken powder since early 2008. The Group commenced the construction of chicken powder production line in Junan Plant Phase II, Shandong in June 2008, which is expected to commence production in November 2008 with annual production capacity of 10,000 tonnes. The total investment of the production line is approximately RMB11 million.

Branding and business promotion plan

The Company will strengthen its marketing effort on its branding and promotion of its products by continuously participating in a number of exhibitions. In addition, the company will increase promotional campaigns including strengthening market research and advertisement in relevant magazines of the industry.

Other financial information

Selling and marketing expenses

The substantial increase in selling and marketing expenses is mainly due to the increase in transportation cost as the majority of the products are produced in IM Plant which is further away from our customers.

Administrative expenses

Administrative expenses maintained at similar level for the first half of 2008 as that of 2007. This explains that the Group's administrative activities were operated smoothly.

Finance cost

The finance costs of the Group for the six months ended 2008 increased by approximately RMB4 million when compared with that of 2007. Actually, the interest expenses are decreased by approximately RMB4 million since there was an exchange gain of approximately RMB8 million related to the bank borrowing denominated in US\$ was offset in the finance cost during the six months ended 30 June 2007.

The major reason for the decrease in interest expenses was the reduction of borrowings during the first five months in first half of 2008. Since some new borrowings are made in June 2008, the borrowings increased as at 30 June 2008 when compared with that of 2007.

Outlook for second half of 2008

MSG segment

The Directors expect the market consolidation in MSG market to continue in the second half of 2008. Small manufacturers with annual production capacity 30,000 tonnes or below are likely to be running out of business due to the increased in costs. Meanwhile, the market consolidation of medium manufacturers with annual production capacity below 100,000 tonnes is in progress. It is expected that following the market restructuring, glutamic acid and MSG supplies will be further stabilised, hence the selling price of glutamic acid and MSG will be more stabilised. The sales volume of the Group's MSG is expected to increase following the commencement of production of the Group's 70,000 tonnes new MSG plant in October 2008.

With regard to the current market restructuring in MSG market, the ASPs of glutamic acid and MSG reached the high price in June 2008 and the Group expects the ASPs will maintain at the high level for the second half of 2008.

In light of the current market environment of fertilisers, the Directors believe that the selling price of fertilisers will maintain at the current high level in the second half of 2008.

Xanthan gum segment

In view of the favourable market environment of Xanthan gum and together with the Group's advantages of low production cost in its IM plant, the Group will further expand its xanthan gum's annual production capacity to 28,000 tonnes before the end of 2008. By then, the Directors believe that the Group will further solidify its leading position in the global xanthan gum market. Although the Directors expect the selling price of xanthan gum will continue to drop, the Group is confident of maintaining its gross profit margin in xanthan gum segment. Two-third of xanthan gum will be produced in IM plant upon the completion of the 10,000-tonne annual production capacity of the second phase xanthan gum production facilities. The Group will be able to enjoy greater cost advantage by then.

Liquidity and financial resources

The Group maintained a healthy liquidity position throughout the period under review. As at 30 June 2008, the Group's cash and cash equivalent and restricted bank deposits were RMB268 million (2007: RMB271 million) whereas current bank borrowings were approximately RMB315 million (2007: RMB318 million) and non-current bank borrowings were approximately RMB362 million (2007: RMB312 million).

Material acquisitions or disposal of subsidiaries and associated companies

Except for the disclosure in note 14 business combination of the Group, the Group had no other material acquisition or disposal of the subsidiaries or associated companies for the six months ended 30 June 2008.

Employees

As at 30 June 2008, the Group had approximately 1,700 employees. Employees' remuneration was paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

Charges on assets

As at 30 June 2008, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB330 million were pledged to certain banks to secure bank borrowings of RMB242 million of the Group.

Gearing ratio

As at 30 June 2008, the total assets of Group amounted to approximately RMB3,124 million (2007: RMB2,882 million) whereas the bank borrowings amounted to RMB677 million (2007: RMB630 million). The gearing ratio was approximately 22% (2007: 22%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings divided by total assets.

Foreign exchange exposure

During the six months ended 30 June 2008, most of the revenue and operation cost of the Group were denominated in RMB. Most of the Listing Proceeds, which were denominated in Hong Kong dollar, has been translated into RMB for the use stipulated in prospectus of the Company dated 25 January 2007 during the period. Hence, the management expects that the appreciation of RMB will not have significant effect to the Group.

OTHER INFORMATION

Corporate governance

The Company is committed to establishing and ensuring a high standard of corporate governance practices which place emphasis on quality of the board, sound and efficient internal control and accountability as well as transparency to equity holders. The Directors are in the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) since the Listing Date to 30 June 2008.

The audit committee of the Company has reviewed the Group’s unaudited interim financial statements for the six months ended 30 June 2008.

Model code for securities transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions during the period under review.

Purchase, redemption or sale of securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2008.

By order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Hong Kong, 14 August 2008

As at the date of this announcement, the Board comprises: (1) Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Wu Xindong, Mr. Yan Ruliang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng, Ms. Li Hongyu and Mr. Gong Qingli as executive Directors; (2) Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun as independent non-executive Directors.

GLOSSARY

ASP	Average selling price(s)
Baoji Plant	the production plant of the Group located in Baoji City, Shaanxi Province, the PRC
Board	the board of Directors
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Group	the Company and its subsidiaries
HKFRS	the Hong Kong Financial Reporting Standards
Hong Kong	the Hong Kong Special Administrative Region of the PRC
IM Plant	the production plant of the Group located in Inner Mongolia Autonomous Region, the PRC
IPO	Initial public offering of the Shares on 8 February 2007
Junan Plant	the production plant of the Group located in Junan County (莒南縣), Shandong Province, the PRC
Junan Plant Phase I	phase I of the Junan Plant which commenced commercial production in June 1999
Junan Plant Phase II	phase II of the Junan Plant which commenced commercial production in November 2003
Listing	listing of the Shares on the Stock Exchange
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 results announcement exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Shenhua Pharmaceutical	Shenhua Pharmaceutical Co. Ltd, a company with limited liability established in Jiangsu Province of the PRC
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 United States
%	per cent