

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Fufeng Group Limited **阜豐集團有限公司**

(incorporated in the Cayman Islands with limited liability)

(Stock code: 546)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

HIGHLIGHTS OF GROUP RESULTS

- In 2010, the Group continued to set new records in both production and operation
- The production and sale volumes of MSG and xanthan gum reached historical new records for the year
- Revenue increased by 38.5% to about RMB6,416.4 million (2009: RMB4,632.9 million). The significant growth was driven by the increase in sales volumes and the increased production capacity which expanded its market share
- Gross profit increased from approximately RMB1,399.6 million in 2009 to approximately RMB1,565.1 million in 2010
- Due to the significant increases in raw materials prices and coal prices, gross profit margin for the Group decreased to about 24.4% (2009: 30.2%). The gross profit margin of MSG segment decreased to 22.7% (2009: 29.6%) while the gross profit margin of Xanthan gum segment increased to 38.8% (2009: 36.5%)
- Profit attributable to the Shareholders increased by about 4.1% to approximately RMB966.1 million (2009: RMB 928.3 million)
- Earnings per share (Basic) was RMB57.75 cents (2009: RMB55.92 cents)
- Return on Equity was 30.7% (2009: 38.8%)
- Final dividend of HK15 cents (2009: HK15 cents) per share has been recommended by the Board
- The sum of paid interim dividend and proposed final dividend is HK26 cents per share (2009: HK25 cents)

ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group prepared under HKFRS for the year ended 31 December 2010, together with the comparative figures for the year ended 31 December 2009, as follows:

Consolidated Income Statement

	Note	2010 RMB'000	2009 RMB'000
Revenue	3	6,416,425	4,632,884
Cost of sales		(4,851,371)	(3,233,277)
Gross profit		1,565,054	1,399,607
Other income		110,550	63,908
Selling and marketing expenses		(272,008)	(215,715)
Administrative expenses		(277,697)	(194,910)
Other operating expenses		(22,187)	(4,042)
Operating profit		1,103,712	1,048,848
Finance costs		(32,383)	(25,251)
Profit before income tax		1,071,329	1,023,597
Income tax expense	4	(105,278)	(95,312)
Profit for the year and attributable to the Shareholders		966,051	928,285
Earnings per share for profit attributable to the Shareholders during the year (expressed in RMB cents per share)			
– basic	5	57.75	55.92
– diluted	5	53.68	55.88
Dividends	6	217,070	219,240

The Group has no other comprehensive income for the years ended 31 December 2010 and 2009.

Consolidated Balance Sheet

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments		169,187	140,160
Property, plant and equipment		4,087,675	2,507,897
Intangible assets		–	–
Deferred income tax assets		20,759	5,162
		4,277,621	2,653,219
Current assets			
Inventories		710,695	551,028
Trade and other receivables	7	816,773	687,782
Short-term bank deposits		147,225	26,310
Cash and cash equivalents		767,951	342,682
		2,442,644	1,607,802
Total assets		6,720,265	4,261,021
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		174,097	169,034
Share premium			
– Proposed final dividend		217,070	219,240
– Others		329,594	566,200
Other reserves		(76,985)	(171,080)
Retained earnings		2,501,489	1,610,317
Total equity		3,145,265	2,393,711
LIABILITIES			
Non-current liabilities			
Deferred income		141,810	90,880
Borrowings	8	981,458	180,000
Deferred income tax liabilities		27,033	24,221
		1,150,301	295,101
Current liabilities			
Trade, other payables and accruals	9	1,839,022	1,140,475
Current income tax liabilities		30,677	13,734
Borrowings	8	555,000	418,000
		2,424,699	1,572,209
Total liabilities		3,575,000	1,867,310
Total equity and liabilities		6,720,265	4,261,021
Net current assets		17,945	35,593
Total assets less current liabilities		4,295,566	2,688,812

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. Basis of preparation

The consolidated financial statements of the Company 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

Changes in accounting standards and interpretations

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification.

(b) *New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)*

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners', effective on or after 1 July 2009.
- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009.
- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009.
- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009.
- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010.
- HKAS 1 (amendment), 'Presentation of financial statements'.
- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010.
- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective 1 January 2010.
- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations', effective 1 January 2010.

1. Basis of preparation *(Continued)*

Changes in accounting standards and interpretations **(Continued)**

(c) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted.*

- HKFRS 9, 'Financial instruments', issued in November 2009.
- HKAS 24 (revised), 'Related party disclosures', issued in November 2009.
- 'Classification of rights issues' (amendment to HKAS 32), issued in October 2009.
- HK (IFRIC) 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010.
- 'Prepayments of a minimum funding requirement' (amendments to HK (IFRIC) 14).

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

2.1 Estimated impairment of intangible assets

The Group tests annually whether intangible asset has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

A full impairment charge of RMB14,002,000 arose in the patents purchased during the year ended 31 December 2010, resulting in the carrying amount of the patents being written down to zero.

2.2 Borrowing costs eligible for capitalisation

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

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

2.3 PRC taxes

The Group is mainly subject to different taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the tax and deferred tax provisions in the period in which such determination is made.

3. 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, threonine, branched-chain amino acid, pharmaceuticals and bricks;
- Xanthan gum

Approximately 87% (2009: 90%) of the Group's revenue are generated from 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 2010 and 2009 are set out as following:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
MSG	3,892,506	2,245,307
Glutamic acid	153,633	720,631
Corn refined products	773,563	557,523
Xanthan gum	681,725	408,124
Fertilisers	369,649	361,468
Starch sweeteners	356,704	245,168
Corn oil	103,680	61,575
Threonine	28,145	–
Others	56,820	33,088
	6,416,425	4,632,884

3. Segment information *(Continued)*

The segment information and capital expenditure for the year ended 31 December 2010 are as follows:

	MSG RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Revenue	5,734,700	681,725	–	6,416,425
Segment results	922,741	219,628	(38,657)	1,103,712
Finance costs				(32,383)
Profit before income tax				1,071,329
Income tax expense <i>(Note 4)</i>				(105,278)
Profit for the year				966,051
Other segment items included in the income statement				
Depreciation	214,394	36,383	518	251,295
Amortisation of leasehold land payments	2,421	229	–	2,650
Loss on disposal of property, plant and equipment	(6,752)	–	–	(6,752)
Gain on disposal of leasehold land payment	1,836	–	–	1,836
Capital expenditure	1,824,396	86,014	1,928	1,912,338

The segment assets and liabilities at 31 December 2010 are as follows:

	MSG RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Segment assets and liabilities				
Total assets	5,467,764	747,285	505,216	6,720,265
Total liabilities	2,408,595	173,673	992,732	3,575,000

3. 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				(25,251)
Profit before income tax				1,023,597
Income tax expense (Note 4)				(95,312)
Profit for the year				928,285
Other segment items included in the income statement				
Depreciation	156,306	33,479	551	190,336
Amortisation of leasehold land payments	2,745	229	–	2,974
Reversal of write-down of inventories	(1,554)	–	–	(1,554)
Gain on disposal of property, plant and equipment	(2,925)	–	–	(2,925)
Capital expenditure	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

Unallocated assets mainly comprise cash and cash equivalents, property, plant and equipment and other receivables held by non-PRC established companies and Beijing Huijinhua for the Group as a whole.

Unallocated liabilities mainly comprise liability component of convertible bonds, operating liabilities held by non-PRC established companies for the Group as a whole.

3. Segment information *(Continued)*

The result of its revenue from external customers in the PRC is RMB5,562,690,000 (2009: RMB4,141,402,000) and the total of revenue from external customers from Hong Kong and other countries is RMB853,735,000 (2009: RMB491,482,000).

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 the PRC is RMB4,256,805,000 (2009: RMB2,648,003,000), and the total of these non-current assets located in Hong Kong is RMB57,000 (2009: RMB54,000).

Revenues of approximately RMB172,021,000 (2009: RMB375,304,000) are derived from a single external customer. These revenues are attributable to the MSG segment.

4. Income tax expense

	2010 RMB'000	2009 RMB'000
Current income tax		
– PRC enterprise income tax ("EIT")	118,063	80,397
Deferred income tax	(12,785)	14,915
	105,278	95,312

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 2010 and 2009.

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.

5. Earnings per share

(a) Basic

Basic earnings per share for the years ended 31 December 2010 and 2009 are calculated by dividing the profit attributable to the Shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010 RMB'000	2009 RMB'000
Profit attributable to the Shareholders	966,051	928,285
Weighted average number of ordinary shares in issue (thousands)	1,672,801	1,660,000
Basic earnings per share (RMB cents per share)	57.75	55.92

5. Earnings per share *(Continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming the conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Profit attributable to the Shareholders	966,051	928,285
Interest expense on convertible bonds (net of tax)	17,786	–
Profit used to determine diluted earnings per share	983,837	928,285
Weighted average number of ordinary shares in issue (thousands)	1,672,801	1,660,000
Adjustments for:		
– Assumed conversion of convertible bonds (thousands)	122,967	–
– Share options (thousands)	37,083	1,249
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,832,851	1,661,249
Diluted earnings per share (RMB cents per share)	53.68	55.88

6. Dividends

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Interim, paid	159,775	146,411
Final, proposed	217,070	219,240

At a meeting held on 21 March 2011, the Board proposed a final dividend of HKD257,803,000 (equivalent to RMB217,070,000) (2009: HKD249,000,000 (equivalent to RMB219,240,000)), representing HK15 cents (equivalent to RMB12.63 cents) (2009: HK15 cents (equivalent to RMB13.21 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 2011.

7. Trade and other receivables

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade receivables (a)	162,584	79,007
Less: provision for impairment of receivables (b)	(4,231)	(4,527)
Trade receivables, net	158,353	74,480
Notes receivables (c)	501,332	514,519
Deposits and others	43,365	30,605
Value-added tax recoverable	78,863	37,913
Trade and other receivables before prepayments	781,913	657,517
Prepayments for raw materials	34,860	30,265
	816,773	687,782

(a) As at 31 December 2010 and 2009, the ageing analyses of trade receivables were as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 3 months	153,067	69,727
3–12 months	3,927	3,537
Over 12 months	5,590	5,743
	162,584	79,007

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 2010, trade receivables of RMB4,117,000 (2009: RMB3,601,000) 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:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Past due within 3 months	817	1,167
Past due in 3–12 months	3,300	2,434
	4,117	3,601

7. Trade and other receivables *(Continued)*

- (b) As of 31 December 2010, trade receivables of RMB4,231,000 (2009: RMB4,527,000) were impaired and fully provided for. The individually impaired receivables mainly relate to Shenhua Pharmaceutical. It was assessed that none of these receivables is expected to be recovered as they existed before the Group acquired Shenhua Pharmaceutical in 2008, and are long overdue, and they relate to individual customers with doubtful repayment ability. The ageing of these receivables is as follows:

	2010 RMB'000	2009 <i>RMB'000</i>
Past due over 12 months	4,231	4,527

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

	2010 RMB'000	2009 <i>RMB'000</i>
As at 1 January	4,527	4,622
Reversal of amounts subsequently collected	(296)	(95)
As at 31 December	4,231	4,527

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 2010, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB471,952,000 (2009: RMB499,831,000) 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 before prepayments are denominated in the following currencies:

	2010 RMB'000	2009 <i>RMB'000</i>
– RMB	675,255	580,818
– USD	105,911	75,582
– EUR	747	1,117
	781,913	657,517

8. Borrowings

	2010 RMB'000	2009 RMB'000
Non-current		
Long-term bank borrowings, secured	–	150,000
Long-term bank borrowings, unsecured	–	100,000
Convertible bonds	981,458	–
	981,458	250,000
Less: Current portion of long-term bank borrowings, secured	–	(70,000)
	981,458	180,000
Current		
Short-term bank borrowings, guaranteed and secured	30,000	–
Short-term bank borrowings, secured	30,000	–
Short-term bank borrowings, unsecured	495,000	348,000
Current portion of long-term bank borrowings, secured	–	70,000
	555,000	418,000
Total borrowings	1,536,458	598,000

(a) *Bank borrowings*

As at 31 December 2010, all the bank borrowings were denominated in RMB and included: (i) RMB30,000,000 guaranteed by Mr. Li Xuechun and secured by leasehold land and plant; (ii) RMB30,000,000 pledged by restricted bank deposits of RMB2,500,000.

As at 31 December 2009, all the bank borrowings were denominated in RMB and included bank borrowings of RMB150,000,000 secured by leasehold land and plant and machinery.

The carrying amounts of current bank borrowings approximate their fair values.

(b) *Convertible bonds*

The Company issued 8,200 and 2,050 4.5% convertible bonds at a par value of the total amounted to RMB1,025,000,000 settled in USD on 1 April 2010 and 22 April 2010 respectively. The bonds mature five years from the issue date at their nominal value of RMB1,025,000,000 or can be converted into shares at the holder's option at the rate of HKD7.03 per share. The values of the liability component and the equity conversion component, net off transaction cost of RMB25,679,000, were determined at issuance of the bonds.

The fair value of the liability component, included in non-current borrowings, was calculated using a market interest rate of 5.08% for an equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

The fair value of the liability component of the convertible bonds at 31 December 2010 amounted to RMB981,458,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 5.64%.

9. Trade, other payables and accruals

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade payables (a)	614,194	493,092
Advances from customers (b)	147,604	111,330
Bank acceptance notes payable	149,945	–
Payables for leasehold land, property, plant and equipment	743,499	430,991
Salaries, wages and staff welfares payables	58,313	52,303
Interest payable – current portion	11,531	–
Unused government grants	29,702	4,312
Dividend payable	407	–
Other payables and accruals	83,827	48,447
	1,839,022	1,140,475

(a) As at 31 December 2010 and 2009, the ageing analyses of trade payables were as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 3 months	575,781	465,313
3 to 6 months	23,959	11,644
6 to 12 months	5,594	4,751
Over 12 months	8,860	11,384
	614,194	493,092

As at 31 December 2010, notes receivables of RMB471,952,000 (2009: RMB499,831,000) were applied for settling the amounts payable to the Group's suppliers.

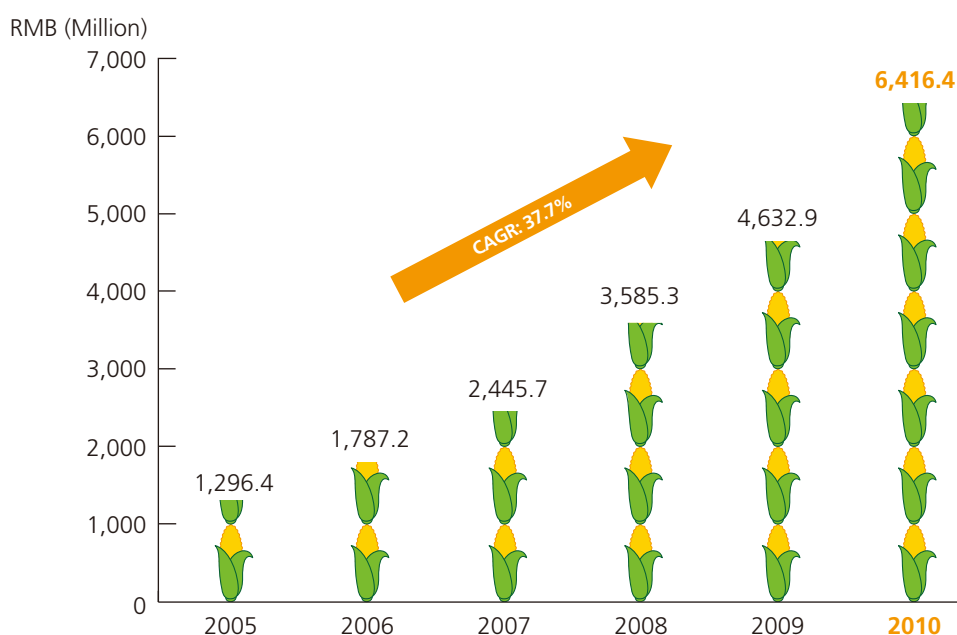
- (b) Advances from customers represented cash advances received from customers for purchase of the Group's products and would be applied for settlement when sales were incurred.
- (c) Trade and other payables are unsecured and interest-free. The carrying amounts of trade and other payables approximate their fair values and are mainly denominated in RMB.

Management Discussion and Analysis Overview

In 2010, the Group followed its outstanding 2009 performance with another set of records in 2010, highlighting notable fruits and successes. Pivoting on the Group's strategy, Fufeng continued to strengthen huge cost-effective production plant and continue to expand market share and launch new products. The ultimate objective is to become a leading corn-based biochemical products corporation in global markets.

The Group recorded the significant growth in the revenue and sales volume of MSG in 2010, the Group recorded an increase of approximately RMB1,783.5 million or 38.5% in turnover to RMB6,416.4 million for the year 2010, as compared with that in the year 2009. The significant growth was driven by the increase of sales volume and the increased production capacity which expanded its market share. Moreover, both the production and sales volume of MSG and xanthan gum products reached new height during the year, thus further strengthening our leading position in the PRC market and making us stay further ahead of our competitors.

The table below illustrates the continuous growth of the Group's revenue in the past 6 years:



Overall, the demand in the industry of MSG in 2010 was increased and has shown signs of the stable growth.

Owing to the increase in average selling prices and sales volume, gross profit of the Group increased from approximately RMB1,399.6 million in 2009 to approximately RMB1,565.1 million in 2010. However in 2010, the Group faced challenges in both the production and operation aspects. On one hand, the PRC continued its strong economic recovery and the costs of major raw materials increased significantly. On the other hand, as the market worried about oversupply caused by capacity expansion, the ASP increase was much lower than that of raw materials. As a result, the gross profit margin of the Group was thus under pressure.

To weather the rising material costs, the Group managed to control costs through economies of scale by riding on its leading market position, and further expanding the production capacity of the plants in Inner Mongolia and Baoji. Meanwhile, a production line of 80,000 tonnes of synthetic ammonia was under the establishment in order to further reduce the costs of chemical products. In 2010, the gross profit margin of MSG segment was decreased to 22.7% (2009: 29.6%). However, the gross profit margin of Xanthan gum segment was increased to 38.8% (2009: 36.5%).

The profit attributable to the Shareholders in 2010 was approximately RMB966.1 million, representing an increase of approximately RMB37.8 million or 4.1% as compared with that of 2009.

During the year under review, we established a solid foundation for our long-term development and took a strategic move to establish a new production plant. In June 2010, the Group began to build a new plant in Zhalantun in the Northeast China. The 200,000 tonnes of MSG production line as well as facilities including supporting thermal power plant and fertilisers will be put into trial production in the middle of 2011. This plant will become a new highlight of the Group's capacity expansion.

Meanwhile, the Group's new product – threonine was put into trial production in mid 2010, with an annual production capacity of 10,000 tonnes at the end of 2010. The operation was running smooth. Threonine is set to become another major product of the Group following the success of MSG and xanthan gum. The production capacity will be increased rapidly over the next few years.

In addition, the Company has successfully issued convertible bonds of RMB820.0 million on 1 April 2010 and option bonds of RMB205.0 million on 22 April 2010. The total issued convertible bonds amounted to RMB1,025 million with a coupon rate of 4.5% p.a. The convertible bonds can be converted into the Company's shares at any time on or after 12 May 2010 up to the close of the business day on 22 March 2015 at an initial conversion price of HKD7.03 per share. There were strong participation from more than 40 international investors with significant demand coming from top tier institutions. The proceeds raised from the bonds is mainly used as capital expenditure for the Group's development in IM Plant and Hulunbeir Plant.

Segmental Review

The Group's products are organised into two business segments, namely MSG segment and Xanthan gum segment. Products of the MSG segment include MSG, glutamic acid, fertilisers, threonine and other related products while Xanthan gum segment represents the production and sale of xanthan gum. Key financials of these two segments in 2010 together with comparative figures in 2009 are set out in the following table:

	2010			2009			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	5,734,700	681,725	6,416,425	4,224,760	408,124	4,632,884	35.7	67.0	38.5
Gross profit	1,300,291	264,763	1,565,054	1,250,764	148,843	1,399,607	4.0	77.9	11.8
Gross profit ratio	22.7%	38.8%	24.4%	29.6%	36.5%	30.2%	(6.9ppts.)	2.3ppts.	(5.8ppts.)
Segment result	922,741	219,628		934,166	136,014		(1.2)	61.5	
Segment net assets									
Assets	5,467,764	747,285		3,530,535	689,624		54.9	8.4	
Liabilities	2,408,595	173,673		1,529,617	334,088		57.5	(48.0)	
Net assets	3,059,169	573,612		2,000,918	355,536		52.9	61.3	

MSG segment review

Business review

The Group is a leading manufacturer and supplier of MSG in China, with the world's largest glutamic acid fermentation capacity. In 2010, the Group continued its outstanding 2009 performance with another set of records in 2010, highlighting its notable fruits and successes. Moreover, both the production and sales volume of MSG reached new height during the year, thus further strengthening our leading position in the PRC market and making us stay further ahead of our competitors.

When compared with 2009, the market demand for MSG has continuously increased as the PRC continued its strong economic growth. It is reflected by the increases in both sales volume and market share in the year 2010. The sales volume of MSG increased by more than 68.5% from 292,369 tonnes in 2009 to 492,560 tonnes in 2010. It is the strategy of the Group focusing more on the MSG production. The Group focus on enhancing the Group's overall margin.

Since Fufeng has repositioned itself as a MSG supplier, nearly all of the glutamic acid are used to produce MSG internally. Sales volume of glutamic acid dropped significantly. In 2010, the selling prices of glutamic acid and MSG continued to rise.

As the economic growth continued in China, overall commodity price experienced an upward trend in 2010. An average of the corn kernels price in 2010 increased by 23.2% compared to that of 2009. The average coal price also increased by 22.8% in 2010 as compared to 2009.

Although the industry benefited from favorable macro environment with national policy of encouraging domestic consumption in the year, the Group has faced a number of challenges in both production and management aspects. First, the prices of major raw materials (such as corn, chemicals and coal) increased significantly in 2010 due to the strong economic growth in China. The Group's production costs increased. In addition, the increasing percentage of ASP of MSG is lower than the percentage increase in major raw material cost as the market was worried about oversupply caused by the capacity expansions. The gross profit margin was under pressure. Each production plant of the Group has fully tapped the potential to enhance its production efficiency and capacity utilisation to ease the impacts on production costs.

The selling price of fertilisers, was on a downward trend in 2010 following the continued fall in price since 2009. The main reason is the bad weather conditions in the PRC. It affected the market demand of fertilisers.

The ASP of starch sweeteners and corn refined products increased in 2010, which was in line with the market trend.

Financial review

Sales

The revenue generated from the sales of the MSG segment products increased to RMB5,734.7 million in 2010, representing an increase of RMB1,509.9 million or 35.7%, as compared with that of 2009, which was mainly attributed to the increase in the ASP and sales volume of MSG and marketing effort so as to enlarge the Group's market share in the industry. Sales breakdown by products in this segment for 2010 and 2009 are set out in the table below:

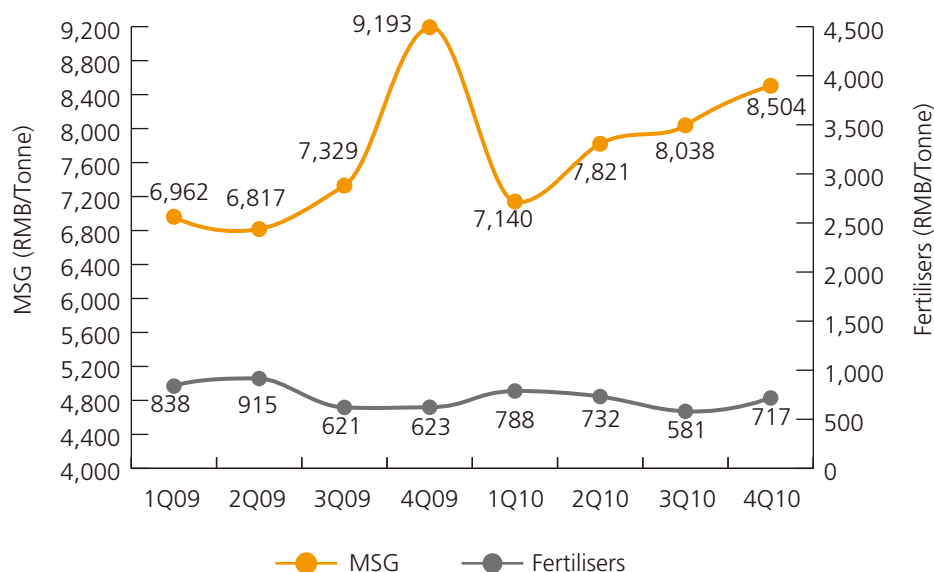
Product name	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>	% of change
MSG	3,892,506	2,245,307	73.4
Glutamic acid	153,633	720,631	(78.7)
Fertilisers	369,649	361,468	2.3
Corn refined products	773,563	557,523	38.7
Starch sweeteners	356,704	245,168	45.5
Corn oil	103,680	61,575	68.4
Threonine	28,145	–	N/A
Others	56,820	33,088	71.7
Total	5,734,700	4,224,760	35.7

ASPs and sales volume

The ASPs of the Group's major products for 2010 and 2009 are set out below:

Product name	2010 <i>RMB/tonne</i>	2009 <i>RMB/tonne</i>	% of change
MSG	7,903	7,680	2.9
Glutamic acid	8,113	7,135	13.7
Fertilisers	693	727	(4.7)

The chart below illustrates the fluctuation of ASPs of the Group's major products in this segment in 2009 and 2010:



MSG

The MSG industry in the PRC has become increasingly concentrated. The Group has become the largest MSG manufacturer in the PRC as its leading position of the industry and took advantage of the industrial consolidation to further expand its market share.

After the unusual surge of the ASP of MSG in the fourth quarter of 2009, the market has taken place a short period of adjustment at the beginning of 2010. Leveraging on its leading position, the Group led the price to return stable. The ASP of MSG has returned to a more reasonable level since the end of the first quarter of 2010.

The increase in domestic consumption demand supported the growth of MSG market. The ASP of MSG increased from approximately RMB 7,680 per tonne in 2009 to approximately RMB 7,903 per tonne in 2010, representing an increase of about 2.9%; the turnover of MSG increased substantially by approximately 73.4%, mainly driven by the increase in production volume of the Group.

The Group increased its marketing effort to boost the sales of its MSG so as to enlarge its market share in 2010. As such, the sales volume of MSG increased by 200,191 tonnes, or approximately 68.5 % compared to that of 2009.

Corn kernels accounted for approximately 56.5% of total production cost in the MSG segment. The average price of corn kernels increased steadily in 2010, rising from RMB1,413 per tonne at the beginning of 2010 to RMB1,741 per tonne by the end of 2010.

In the second half of 2009, the Group launched Uo series products, a new series targeting retail markets. It consists of two major categories of products including "Uo Fresh MSG" and "Uo Fresh Chicken powder". The Uo series targets to capture the retail market which benefits from the improved living standards in the PRC recently. The products have been sold in over 3,000 supermarkets via the retail distribution channels in the PRC.

Moreover, the increase in domestic consumption demand supported the growth of MSG market in the PRC. The market demand continuously increased in 2010. The supply and demand of the MSG industry in the PRC is balanced.

Fertilisers

The ASP of fertilisers has decreased since the third quarter of 2008. The ASP of fertilisers decreased from approximately RMB727 per tonne in 2009 to RMB693 per tonne in 2010, representing a decrease of about 4.7%. Based on the different quality requirements of different customers and crops, the Group has developed two new fertilisers brands, including “Golden Fufeng” and “Ka Fei Dou”. The strategy is mainly to enhance the brand recognition and the expansion of market share.

Corn refined products

In line with the increase in the ASP of corn kernels, the ASP of corn refined products gradually increased since the fourth quarter of 2008. The revenue of corn refined products increased by about 38.7% in 2010 compared with 2009. The main reasons are due to the increasing consumed volume of corn kernels and the improved ASP of corn refined products.

Corn oil

During the year, the Group continuously developed its value chain products including corn oil. The sales amount of “Uo Fragrant” corn oil increased to RMB103.7 million in 2010, representing an increase of about 68.4%. It is a result of the increased in market recognition and market demand of the Group’s corn oil products.

Threonine

Threonine is a new product of the Group. The first 5,000 tonnes of production capacity has been completed and started to operate in the middle of 2010. Threonine is an essential amino acid which maintains body protein balance and promotes the growth of living. Our threonine product is mainly used as feed additives. The revenue and sales volume of threonine amounted to RMB28.1 million and 2,392 tonnes respectively during the year. The ASP of threonine was approximately RMB 11,766 per tonne. By the end of 2010, the capacity of threonine reached 10,000 tonnes.

The Group will wrap up the production capacity of threonine rapidly to make it a major product of the Group.

Starch sweeteners

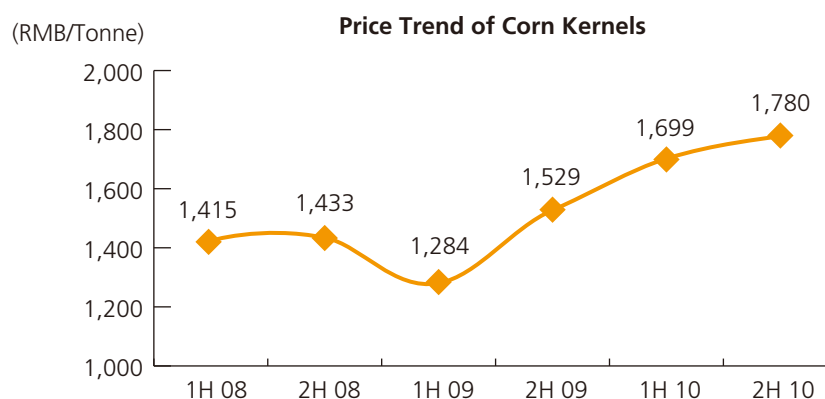
As a result of cane sugar price increases, the ASP of starch sweeteners increased from approximately RMB 2,080 per tonne in 2009 to approximately RMB 2,816 per tonne in 2010, representing an increase of about 35.4% . Sales volume of starch sweeteners also increased by 12.8% due to an increase in market demand and market recognition of the Group’s products.

Cost of production

The breakdown of cost of production of this segment is set out below:

	2010		2009		% of
	RMB'000	%	RMB'000	%	change
Major raw materials					
Corn kernels	2,559,799	56.5	1,692,010	56.0	51.3
Liquid ammonia	461,143	10.2	333,454	11.0	38.3
Sulphuric acid	60,636	1.3	38,408	1.3	57.9
Energy					
Coal	509,158	11.2	282,358	9.4	80.3
Depreciation	189,713	4.2	143,007	4.7	32.7
Employee benefits	166,914	3.7	129,119	4.3	29.3
Others	586,399	12.9	401,254	13.3	46.1
Total cost of production	4,533,762	100.0	3,019,610	100.0	50.1

Corn kernels



In 2010, the cost of corn kernels accounted for approximately 56.5% (2009: 56.0%) of the total production cost of this segment. In line with the increases in other crops, the price of corn kernels has gradually increased in 2010. The average unit cost of corn kernels significantly increased to RMB1,741 in 2010 (2009: RMB1,413). The significant increase in corn kernels is mainly due to the increase in production volume of MSG as the production capacity of MSG has increased since the end of 2009.

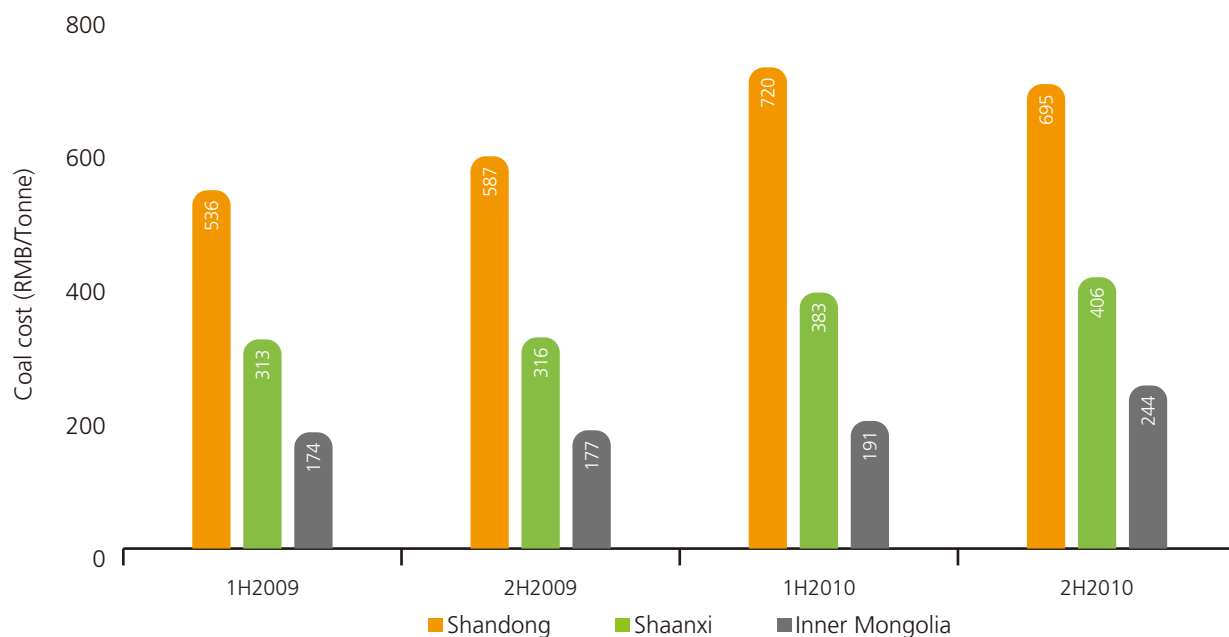
Liquid ammonia

Liquid ammonia accounted for approximately 10.2% of total production cost in this segment in 2010 (2009: 11.0%). The average unit cost of liquid ammonia in 2010 increased to RMB2,481 per tonne, which represents an increase of approximately RMB272 per tonne or 12.3% from that of 2009. (2009: RMB2,209 per tonne). As the increasing percentage of the unit cost of liquid ammonia is lower than the other major materials including corn kernels and coal, the percentage of liquid ammonia in total production cost was only decreased by 0.8 percentage points compared with 2009.

Sulphuric acid

In 2010, sulphuric acid accounted for 1.3% (2009: 1.3%) of the total production cost in this segment. The average unit cost of sulphuric acid increased to RMB279 per tonne in 2010 (2009: RMB212 per tonne). It was affected by the increase in market demand as industrial market recovery. Although the average unit cost of sulphuric acid increased significantly, the percentage of sulphuric acid cost in the production of this segment remained unchanged during the year.

Coal



In 2010, coal accounted for 11.2% (2009: 9.4%) of the total production cost in this segment. Such increase was mainly due to the increase in the average unit selling price of coal. The average unit cost of coal kept increasing from RMB254 in 2009 to RMB312 in 2010. While in general the coal price increased in 2010 following the economic recovery and the rising commodity prices. Although the average unit cost of coal increased significantly, the percentage of coal cost in total production cost only increased by 1.8 percentage points. It was also due to the Group's substantial cost advantage and economy of scale from increased production output in IM Plant.

Other production costs

The increase in cost of depreciation, employee benefits and other costs was mainly due to the newly added production capacity of MSG in Baoji plant and IM plant, which was completed and has commenced production at the end of 2009.

Gross Profit

The gross profit of this segment increased from RMB1,250.8 million in 2009 to RMB1,300.3 million in 2010, representing an increase of RMB49.5 million or 4.0%. Such increase was mainly due to the increase in sales volume and ASP of the Group's MSG segment products.

The gross profit margin of MSG segment decreased from 29.6% in 2009 to 22.7% in 2010, representing a decrease of 6.9 percentage points. Such decrease was mainly due to a lower percentage increase of ASP of the Group's products and a higher percentage increase in the costs of major raw materials in 2010. Although the Group faced to the unfavorable factors of rising costs, the Group managed to control costs through economics of scale by riding on its leading market position, and further strengthening our cost advantages by mean of expanding the production capacity of the plants in Inner Mongolia and Baoji. The gross profit margin of our major MSG segment is stable kept in a relative high level of the MSG market.

Production

The annual designed production capacity of MSG, glutamic acid and fertilisers all increased in 2010 compared to the end of 2009. The construction of a new MSG production line of annual production capacity of 150,000 tonnes in IM Plant was completed and has commenced production at the end of 2009. In addition, the re-engineering project of MSG in Baoji Plant and IM Plant resulting in an additional annual production capacity of 50,000 tonnes was also completed at the end of 2009.

The annual design production capacity of starch sweeteners has increased to 130,000 tonnes in 2010. It is due to the re-engineering project in IM Plant with an additional annual production capacity of 40,000 tonnes was completed in the first quarter of 2010.

The actual production output and the utilisation rate of each of the major products in 2010 together with the comparative figures in 2009 are set out as follows.

Product name	2010 <i>Tonnes</i>	2009 <i>Tonnes</i>	% of change
Glutamic acid			
Annual design production capacity (<i>Note</i>)	460,000	350,000	31.4
Actual production output	434,333	354,638	22.5
Utilisation rate	94.4%	101.3%	
MSG			
Annual design production capacity (<i>Note</i>)	540,000	305,000	77.0
Actual production output	495,895	302,572	63.9
Utilisation rate	91.8%	99.2%	
Fertilisers			
Annual design production capacity (<i>Note</i>)	560,000	460,000	21.7
Actual production output	517,303	457,978	13.0
Utilisation rate	92.4%	99.6%	
Starch sweeteners			
Annual design production capacity (<i>Note</i>)	130,000	100,000	30.0
Actual production output	130,268	106,194	22.7
Utilisation rate	100.2%	106.2%	

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

Glutamic acid

The annual production capacity of glutamic acid increased to 460,000 tonnes in 2010, from 350,000 tonnes in 2009. Such increase were mainly due to the full year impact of the new production lines and the re-engineering projects carried out in Baoji Plant and IM Plant which was completed at the end of 2009.

MSG

The annual production capacity of MSG increased to 540,000 tonnes in 2010, from 305,000 tonnes in 2009. The significant increase in production capacity of MSG was mainly due to the full year impact of the construction of a new MSG production line of annual production capacity of 150,000 tonnes in the IM Plant at the end of 2009 and the re-engineering project of MSG in Baoji Plant and IM Plant resulting in an additional annual production capacity of 50,000 tonnes respectively at the end of 2009.

Referring to the table, the utilisation rate of production facilities of MSG, glutamic acid and fertilisers were over 90%. It represented the new production capacities have been almost fully absorbed by the market in 2010.

Starch sweeteners

The annual designed production capacity of starch sweeteners has increased to 130,000 tonnes in 2010. Utilisation rate of production facilities of starch sweeteners kept at slightly over 100% in 2010 due to the stable increase in the market demand for starch sweeteners.

Xanthan gum segment review

Business review

After the global financial crisis in 2009, the global economy as well as the global oil industry, has started to recover. The market demand and the sales volume of xanthan gum have increased in 2010.

During the year, the Group has expanded its production capacity of xanthan gum in IM Plant to consolidate its leading position in the market. The Group has seen the positive impact of the global economic growth and the demand from the oil industry continuously increased. The Group has put a great effort to expand the market share of xanthan gum. The market has shown strong demand to absorb our increased production capacity in 2010.

Financial review

The table below set out the revenue, ASP, gross profit and gross profit ratio of xanthan gum for the years ended 31 December 2010 and 2009:

	2010	2009	% of change
Revenue (RMB'000)	681,725	408,124	67.0
ASP (RMB/tonne)	19,579	20,989	(6.7)
Gross profit (RMB'000)	264,763	148,843	77.9
Gross profit margin (%)	38.8	36.5	2.3 ppts.

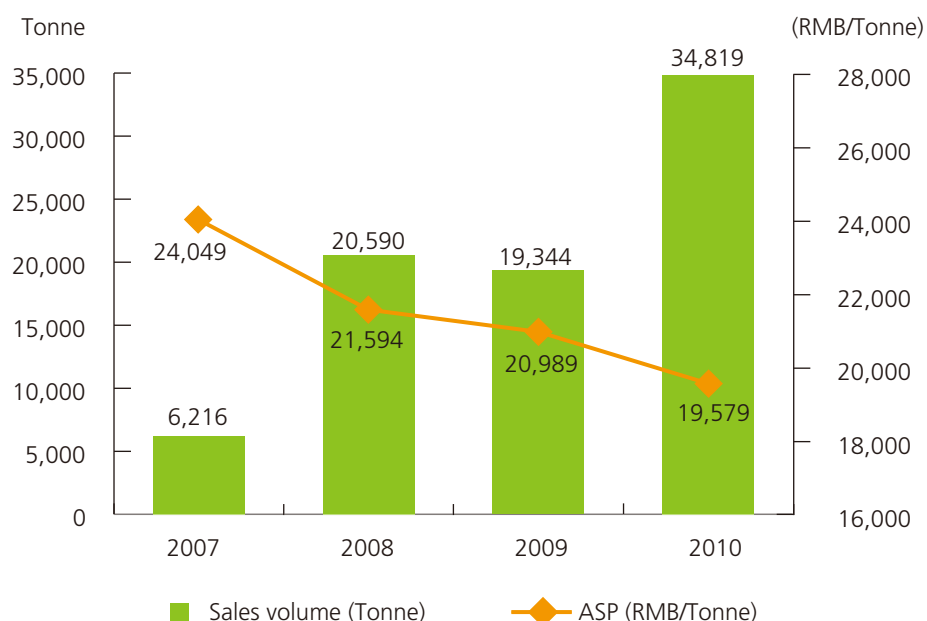
Sales

The revenue generated from the sales of xanthan gum increased to approximately RMB681.7 million in 2010, representing an increase of approximately RMB273.6million or 67.0%, as compared to 2009. Such significant increase was mainly due to the global economic recovery starting from the end of 2009. Despite the drop in ASP of xanthan gum due to price competition, the increase in sales volume of xanthan gum was significant. It is a result of effective market promotion and also represents the Group's products becoming more popular in the market. The market share of the Group has been continuously expanding.

In 2010, overseas sales of xanthan gum accounted for 86.4% (2009: 84.5%) of the total sales of xanthan gum.

ASP and sale volume

The chart below illustrates the movement of ASP of xanthan gum in recent years:



The ASP of xanthan gum decreased slightly from RMB19,987 per tonne in the first half of 2010 to about RMB 19,085 per tonne in the second half of 2010, representing a 4.5% drop, which was due to the price competition and expansion of the market share.

During the year, the Group has seen the positive impact of the global economic growth and the increased demand from the oil industry. In addition with the outstanding effort of the sales teams, the sales volume of xanthan gum increased significantly. The Group expected that the business environment will continue to grow in the near future and the price of xanthan gum will remain stable.

Cost of production

The breakdown of the cost of production of this segment is set out below:

	2010		2009		% of change
	RMB'000	%	RMB'000	%	
Major raw materials					
Corn kernels	112,451	29.0	76,680	22.7	46.6
Starch	17,745	4.6	22,314	6.6	(20.5)
Soy bean/Soy bean starch	22,991	5.9	22,657	6.7	1.5
Energy					
Coal	137,423	35.4	103,946	30.7	32.2
Depreciation	38,680	10.0	33,159	9.8	16.7
Employee benefit	31,221	8.0	27,276	8.1	14.5
Others	27,428	7.1	52,113	15.4	(47.4)
Total cost of production	387,939	100.0	338,145	100.0	14.7

Corn kernels/Starch

In 2010, corn kernels and starch accounted for approximately 33.6% (2009:29.3%) of the total production cost of this segment. The increase was mainly due to the larger increasing percentage of the corn kernel and starch costs. The corn kernels price and starch price increased from approximately RMB1,403 per tonne and approximately RMB1,873 per tonne respectively in 2009 to approximately RMB1,711 per tonne and approximately RMB 2,362 per tonne respectively in 2010, representing an increase of 22.0% and 26.1%.

Soy bean/Soy bean starch

In 2010, soy bean and soy bean starch accounted for approximately 5.9% (2009: 6.7%) of the total production cost of this segment. The average unit selling price of soy bean increased from approximately RMB3,512 in the 2009 to approximately RMB3,747 in 2010, representing an increase of 6.7%. As the increasing percentage of the unit cost of soy been is lower than other major materials including corn kernels and coal, the percentage of soy been in total production cost was decreased by 0.8 percentage points compared with 2009.

Coal

In 2010, coal accounted for approximately 35.4% (2009: 30.7%) of the total production cost in this segment. The Group took full advantage of the relatively low coal cost in IM plant. The average unit cost of coal in 2010 was approximately RMB265 per tonne, which represented an increase of approximately RMB37 per tonne or 16.2% from that of 2009.

Other production costs

Depreciation in 2010 was similar to 2009. It was mainly due to the operation of new production line of xanthan gum in IM plant since the beginning of 2009.

Gross profit and gross profit margin

The gross profit of xanthan gum increased from RMB148.8 million in 2009 to RMB264.8 million in 2010, representing an increase of RMB116.0 million or 77.9%. Such significant increase was mainly due to a stronger market demand and the increase in sales volume.

The gross profit margin of xanthan gum increased by 2.3%, from 36.5% in 2009 to 38.8% in 2010. Such increase was mainly due to the significant cost advantage in IM Plant. Although the increase in average unit cost of major raw materials in 2010, the average production cost of xanthan gum in IM Plant in 2010 continued to decrease as benefited from economy of scale after the expansion of production capacity in IM Plant.

Production

The annual designed production capacity of xanthan gum in the year 2010 together with the comparative figures in the year 2009 is set out as follows

	2010 Tonnes	2009 Tonnes	% of change
Annual designed production capacity at the end of year	44,000	32,000	37.5

The actual production output and the utilisation rate of xanthan gum in the year 2010 together with the comparative figures in the year 2009 are set out as follows:

	2010 Tonnes	2009 Tonnes	% of change
Annual designed production capacity (<i>Note</i>)	38,000	32,000	18.8
Actual production output	31,619	28,232	12.0
Utilisation rate	83.2%	88.2%	

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

The annual design production capacity of xanthan gum increased from 32,000 tonnes to 44,000 tonnes as the new production line with 12,000 tonnes production capacity in IM Plant was completed and has commenced production in the middle of 2010.

Although the actual production output increased by 12.0%, the utilisation rate was decreased slightly to 83.2% (2009: 88.2%) as it took time for the new production capacity to be fully wrapped up.

Other Financial Information

Other income

Other income increased by approximately RMB46.7 million or 73.0% from RMB63.9 million in the year 2009 to RMB110.6 million in the year 2010. The increase was mainly due to the increase in sales of waste products as increasing of overall production capacity of the Group and income from government grants related to acquisition of certain property, plant and equipment related to environment protection and technology improvement as increasing of overall production capacity of the Group.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB56.3 million or 26.1% from RMB215.7 million in the year 2009 to RMB272.0 million in the year 2010. Such increase was mainly due to the increase in freight expenses which was in line with the increase in the revenue.

Administrative expenses

Administrative expenses increased by approximately RMB82.8 million or 42.5% from RMB194.9 million in 2009 to RMB277.7 million in 2010. The increase was mainly due to administrative staffs and management salary increase, more research and development related expenses as more research and development projects were initiated during the year and the impairment provision for the intangible assets during the year.

Finance cost

Finance cost amounted approximately to RMB32.4 million which was increased by RMB7.1 million, representing 28.2% increase as compared to 2009. During the year, the Group successfully issued RMB1,025,000,000 worth of convertible bonds with a coupon rate 4.5% p.a. The increase of finance cost was mainly due to the new convertible bonds issued during the year and increase in interest rate in 2010.

Staff cost

Staff cost of the Group increased by approximately RMB76.7 million or 29.5% from RMB259.6 million in 2009 to RMB336.3 million in 2010. The increase was mainly due to the increase in the staff costs resulting from the expansion of the Group and increase in the average salary of the senior management and staffs.

Depreciation

Depreciation expense of the Group increased by approximately RMB61.0 million or 32.0% from RMB190.3 million in 2009 to RMB251.3 million in 2010. The increase was mainly due to the expansion and modification of the IM Plant and Baoji Plant.

Foreign exchange loss

During the year 2010, RMB appreciated by approximately 3.4% as compared with Hong Kong dollar. The appreciation of RMB led to a net exchange loss of approximately RMB18.0 million on the group's assets and liabilities denominated in Hong Kong dollars and US dollars mainly including part of the proceeds of convertible bonds which are not yet used and are kept in saving and fixed bank deposits in Hong Kong.

Taxation

The income tax expenses for the year 2010 represented the PRC Enterprise Income Tax ("EIT").

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

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

Note 1: Shandong Fufeng was approved to be a high-technique enterprise, which is entitled to a preferential enterprise income tax rate of 15% until 31 December 2010.

Note 2: 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.

Other Achievements

Research and Development

The Group is continuously increasing its effort in research and development.

The Group continued to improve the production process of its MSG. The Group has completed “High volume acid production technology development for glutamic acid”《谷氨酸高產酸技術的開發和利用》in Baoji plant and IM plant. This technology can improve the output level of fermentation of glutamic acid. It can increase productivity and reduce production cost of glutamic acid.

The Group has successfully developed threonine products in 2010. We have completed “The technology upgrade and re-engineering project for the production of threonine”《蘇氨酸生產技術的提升和工藝改造》in IM Plant. The project increases the acid concentration and conversion rate of sugar. It reduces the consumption of raw materials, power and labour cost in the production process.

For further improving the environmental protection standards, the Group has implemented the project “Condensed water recycling flue gas treatment technology and development”《煙氣處理凝結水的回收技術與開發》. The Baoji Plant and IM Plant adopted the flue gas treatment technology. The recycled water can be used in the production of fertilisers. The result of the project successfully improved the environment protection standards and increased the production rate of fertilisers simultaneously.

The expenditure for research and development in 2010 was approximately RMB89.2 million representing an increase of approximately RMB53.0 million or 146.3% as compared with of 2009.

Numbers of new products are under development, such as Citric acid, Branched-chain amino acids, Polyglutamine, Tryptophan, Proline and Crystalline fructose. These products will be mainly used in pharmaceuticals, food products and feed additives. We plan to launch new products to the market on a timely basis.

Future Plans And Outlook

2010 represented another record-breaking year for the Group. Though there is still uncertainties in the global economy, with fruitful results in 2010, the Directors believe that the Group has built a solid foundation for continued business development, and are highly confident in the future outlook. We are committed to become the world’s leading corn-based biochemicals supplier.

Looking into the future, the Group will leverage on diversified product mix, significant cost advantage of the IM Plant and the established brand name, and will benefit from the rapid economic growth of the PRC. Driven by the expanding domestic consumer market, through strategic moves such as steady expansion of production capacity, acceleration of the introduction of new products, entry into the seasoning market and optimisation of capacity allocation, the Group will continue to strengthen its leadership in MSG and xanthan gum markets.

Consolidating leading position, and strengthening niche-player presence

Over the past few years, the Group continued to timely expand production capacity to meet strong demands. As the largest manufacturer and supplier of MSG across the country, riding on advantages in resources, cost and scale, the Group has further increased sales volume, reduced costs and enlarged market share, so that the Group is well-positioned to remain ahead of its competitors. The Group anticipates that with the operation of the Hulunbeir Plant, the annual production capacity of MSG is expected to reach 750,000 tonnes. By then, the market share of the Group will reach a new level. We will continue to be further ahead of our competitors. While actively exploring the domestic market, the Group will also expand the export markets of MSG products this year, so as to strive for a substantial breakthrough in the overseas markets.

The Group is a player with a stronger presence in the xanthan gum market globally. The Group has built largest capacity as well as production and sales volumes globally. This year, the Group will focus on improving product quality, establishing a sound marketing network, enhancing customer services and upgrading marketing system. During the year, the Group will set up six sales centres in overseas markets including Europe, North America, South America, the Middle East, Africa and Southeast Asia. The aim is to shorten the distance with customers, which will be conducive to export products to customers. This will also enable the Group to provide better service while enhancing recognition and trust from our customers, thereby further reinforcing our market position.

Accelerating the introduction of new products, and building up leading research and development capabilities

The past successes of the Group are attributed to continued optimisation of product quality, improvement of product portfolio and enhancement of profitability. In 2010, the Group successfully launched a new product, threonine and received encouraging market responses. This year, the Group will continue to enrich its product portfolio, and will step up its efforts to launch a wide range of corn-based biochemical products, such as citric acid, both of which have a rather large market demand and a broader scope of uses. The Group will also continue to invest resources in research and development activities. By these means, the Group believes that the sustainable long-term profitability can be achieved.

In late 2010, the Group entered into a co-operative agreement with “Ajinomoto” in Japan in relation to threonine products, whereby, part of the Group’s threonine products will be sold through the sales network of Ajinomoto from this year onwards. This proves that the quality and credibility of the Group’s threonine products are recognised and affirmed by the world-renowned customers. The Group will take this opportunity to rapidly expand the production capacity of its threonine product this year, making it a new growth driver and a major product for the Group.

Working on brand building, and gaining a firm foothold in the seasoning market

To seize the opportunities arising from the fast growing demand for MSG, the Group has extended glutamate production to downstream MSG products successfully. The Group expanded sales channels and reinforced brand building efforts, in order to seek for first-mover advantages in the market for flavour enhancers and consumer goods. This year, capitalising on the experiences in the marketing and promotion of the “Uo Fragrant” and “Uo Fresh” series of products, the Group will continue to uphold a “steady progress” strategy to step up its brand building efforts. The Group has appointed a brand marketing director to implement systematic management, to plan of our brand management, and to set up a dedicated marketing team to quickly meet the sales demand of fast-moving consumer goods. Meanwhile, the Group has selected a number of markets such as Shandong, Jiangsu, Zhejiang, Guangdong and Chongqing as the key locations for retail product promotion and marketing, and will work hard to ensure a breakthrough in these key markets.

At the same time, the Group has decided to diversify the existing range of retail products to fully enter into the seasoning market. In addition to compound flavor enhancers such as chicken powder, the Group plans to expand its product portfolio to other seasonings. While these new products, will further realise the economy of scale of the Group, as they are sold through the existing sales channels, they will plays a significant role in enriching product mix, and enhancing brand image and customer recognitions. Meanwhile, the entry of the Group into the seasoning market represents an exploration from the existing “corn-processing” to “MSG processing”.

Providing solid logistics support and material supplies

The Group's products are sold all over the country and in the overseas markets. In particular, they are mostly sold in the coastal areas of East China and South China. As such, the Group has set a new goal for its logistics platform this year, with a focus on resolving the rail/sea transport arrangement from its plant in Inner Mongolia to the port in Tianjin, so as to ensure the Group's logistics arrangement of the export sales of xanthan gum and MSG. At the same time, in line with the commissioning of the Hulunbeir Plant, the logistics platform from Zhalantun to other areas is being actively organised. In 2011, the Group will explore new ways to procure corns in response to the ever changing market environments such as the establishment of stable partnerships with large grain suppliers, in order to broaden our corn supply channels and to further ensure the stable supply of raw materials.

Outlook

The Group's long-term development goal is to become the world's leading corn-based biochemical supplier. To further extend glutamate production to the downstream MSG products, we will cater for people's changing need of food from "no hungry" to "eating well" and "eating healthily". Given that food safety and nutritional quality have become increasingly concerned for food consumption and rising awareness of a healthy lifestyle from the general public, the Group is set to put great value on the important issue of food safety in the future. Capitalising on the two existing products of MSG and xanthan gum, the Group will continue to introduce new biochemical products with prominent market potential and bright prospect, while providing our customers with safe, reliable and healthy consumer food products and additives.

With the successful development and production of new products such as threonine and citric acid, and the roll out of a wide variety of seasonings to terminal markets, the Group will adhere to taking corn processing as its foundation and taking the development of fermentation technology as its core, in order to take full advantage from its low production costs. It will also gradually expand its product range and mix. The Group will make its best efforts to cater for the needs of the society and consumers. On this basis, we will strive to bring about further development and sustainable growth of the MSG segment and the corn-based biochemical industry.

The sustainable agricultural development is inseparable from biotechnology, and will presents ample room for the growth of biochemical products. With the Group's commitment in product research and development and constant improvement and upgrade in the production processes, the Board is confident that the Group is well positioned to lead ahead of its peers in all aspects.

Other Information

Liquidity and financial resources

The Group maintained a healthy liquidity position throughout the year 2010. At 31 December 2010, the cash and cash equivalent and restricted bank deposits of the Group were RMB915.2 million (2009: RMB369.0 million) whereas current bank borrowings were approximately RMB555.0 million (2009: RMB418 million) and non-current bank borrowings and balance of convertible bonds were nil and approximately RMB981.5 million respectively (2009: RMB180 million and nil). The Group may consider raising new financing through bank loans or debt issues to further strengthen its liquidity position.

Related party transaction

Mr. Li Xuechun, Chairman and an executive director of the Group, has granted a personal guarantee in favour of Shandong Fufeng on 16 December 2010 with a maximum credit amounting to RMB110 million for bank borrowings, issuing bank acceptance notes, letters of credit and letters of guarantee from 23 December 2010 to 23 December 2013. The aforesaid personnel guarantee has been utilised by Shandong Fufeng as of 31 December 2010 for bank borrowings amounting to RMB30 million.

Convertible bonds

The Company has issued RMB820.0 million convertible bonds on 1 April 2010 and also issued the option bonds amount to RMB205.0 million on 22 April 2010. Total issued convertible bonds are amounted to RMB1,025 million. The Bonds' coupon rate is 4.5% p.a. They can be converted into the Company's shares any time on or after 12 May 2010 up to the close of business on 22 March 2015 at an initial conversion price of HKD7.03 per Share, which represents a premium of approximately 20.0 per cent over the closing price of the Shares as of 25 March 2010. Based on the initial Conversion price of HKD7.03 and assuming full conversion of the Bonds at the initial Conversion price, the Bonds will be convertible into 165,742,524 Shares, representing approximately 9.64% of the existing issued share capital of the Company and approximately 8.80% of the issued share capital of the Company, as enlarged.

Material acquisition or disposal of subsidiary and associated company

During the year, the Group had no other material acquisition or disposal of the subsidiaries or associated companies for the year ended 31 December 2010.

Pledge of assets

At 31 December 2010, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB26.8 million (2009: RMB121.5 million) were pledged to certain banks to secure general banking facilities of the Group.

Foreign exchange exposure

During the year 2010, 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. The Group manages foreign exchange risk arising from proceeds from issuance of convertible bonds and new shares allotment of exercised share option by remitting the necessary funds to the PRC, deposits in fixed bank deposits and utilisation of the proceeds as soon as possible.

Gearing ratio

At 31 December 2010, the total assets of the Group amounted to approximately RMB6,720.3 million (2009: RMB4,261.0 million) whereas the total borrowings amounted to RMB1,536.5 million (2009: RMB598 million). The gearing ratio was approximately 22.9% (2009: 14.0%). The gearing ratio is calculated based on the Group's total interested bearing borrowings over total assets. The gearing ration was still kept in lower level.

Employees

At 31 December 2010, the Group had approximately 2,600 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 pursuant to the Pre-IPO and Post-IPO share option schemes.

American Depositary Receipt Facility

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

Dividend 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 about 31 May 2011 to Shareholders whose names appear on the register of members of the Company on 3 May 2011.

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.

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 2010.

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 2010, 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 Tuesday, 3 May 2011 to Monday, 9 May 2011 (both dates inclusive), during which on 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 Friday, 29 April 2011.

Annual general meeting

The annual general meeting is expected to be held on Monday, 9 May 2011. A notice convening the annual general meeting will be despatched to the Shareholders in due course.

By Order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Hong Kong, the PRC, 21 March 2011

As at the date of this announcement, the executive Directors are Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng, Mr. Chen Yuan, Mr. Gong Qingli and Mr. Li Guangyu and the independent non-executive Directors are Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun.

Glossary

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技股份有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Beijing Huijinhuaying	Beijing Huijinhuaying Commercial Co., Ltd, an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
CAGR	cumulative average growth rate
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Directors	the director(s) of the Company
EIT Law	Enterprise Income Tax Law of the PRC which came into effect on 1 January 2008
Group	the Company and its subsidiaries
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技股份有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd), an indirect wholly-owned subsidiary of the Company
Hulunbeir Plant	the production plant of the Group located at Hulunbeir, Inner Monogolia Autonomous Region, the PRC
IM Fufeng	內蒙古阜豐生物科技股份有限公司 (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 Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company
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
RMB	Renminbi, the lawful currency of the PRC
HKD	Hong Kong dollars, the lawful currency of Hong Kong
USD	United States dollars, the lawful currency of the United States of America
EUR	Euro, the lawful currency of the participating states within the European Union
%	per cent