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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 2012

HIGHLIGHTS OF GROUP RESULTS

- In 2012, the Group continued to set new records in both production capacity and operation scale
- The production and sales volumes of MSG and xanthan gum reached historical new heights for the year
- Revenue increased by 32.3% to approximately RMB11,111.9 million (2011: RMB8,399.2 million). The significant growth was driven by the increase in sales volumes, and continued to increase its market share
- Due to competitive pricing strategy for leading the MSG market consolidation and the increases in prices of corn kernels in 2012, gross profit margin for the Group decreased to about 14.7% (2011: 18.1%). The gross profit margin of MSG segment decreased to 11.4% (2011: 16.1%)
- As the strong growth in the xanthan gum market, with both average selling price and sales volume increasing in 2012, the gross profit margin of Xanthan gum segment increased to 46.0% (2011: 36.2%)
- Gross profit increased from approximately RMB1,519.7 million in 2011 to approximately RMB1,637.5 million in 2012
- Profit attributable to the Shareholders decreased by about 29.4% to approximately RMB426.6 million (2011: RMB604.1 million)
- Earnings per share (Basic) was RMB24.66 cents (2011: RMB35.15 cents)
- Return on equity was 11.2% (2011: 17.7%)
- No final dividend in respect of the year ended 31 December 2012 is proposed by the Board (Final dividend: 2011: HK3 cents)

ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group prepared under HKFRS for the year ended 31 December 2012, together with the comparative figures for the year ended 31 December 2011, as follows:

Consolidated Income Statement

		2012	2011
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	11,111,920	8,399,246
Cost of sales		(9,474,465)	(6,879,573)
Gross profit		1,637,455	1,519,673
Other income		129,317	117,619
Selling and marketing expenses		(570,487)	(421,328)
Administrative expenses		(440,143)	(373,703)
Other operating expenses		(37,039)	(64,296)
Other gain	4	15,976	–
Operating profit		735,079	777,965
Finance income		6,447	74,412
Finance costs		(251,313)	(135,941)
Finance costs – net		(244,866)	(61,529)
Profit before income tax		490,213	716,436
Income tax expense	5	(63,660)	(112,299)
Profit for the year and attributable to the Shareholders		426,553	604,137
Earnings per share for profit attributable to the Shareholders			
during the year (expressed in RMB cents per share)			
– basic	6	24.66	35.15
– diluted	6	24.64	33.55
Dividends	7	–	182,999

The Group has no other comprehensive income for the years ended 31 December 2012 and 2011.

Consolidated Balance Sheet

	<i>Note</i>	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
ASSETS			
Non-current assets			
Leasehold land payments		366,764	265,217
Property, plant and equipment		7,258,851	6,032,345
Intangible assets		54	–
Deferred income tax assets		40,012	29,079
		7,665,681	6,326,641
Current assets			
Inventories		1,415,225	1,179,863
Trade and other receivables	8	2,339,600	1,738,737
Short-term bank deposits		69,320	30,164
Cash and cash equivalents		481,126	583,917
		4,305,271	3,532,681
Total assets		11,970,952	9,859,322
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		175,921	174,097
Share premium		240,518	188,576
Other reserves		58,972	18,877
Retained earnings			
– Proposed final dividend		–	41,981
– Others		3,319,597	2,983,172
Total equity		3,795,008	3,406,703
LIABILITIES			
Non-current liabilities			
Deferred income		352,436	199,942
Borrowings	9	2,044,960	2,844,147
Deferred income tax liabilities		19,826	20,166
		2,417,222	3,064,255
Current liabilities			
Trade, other payables and accruals	10	3,303,957	2,630,637
Current income tax liabilities		47,085	53,727
Borrowings	9	2,407,680	704,000
		5,758,722	3,388,364
Total liabilities		8,175,944	6,452,619
Total equity and liabilities		11,970,952	9,859,322
Net current assets		(1,453,451)	144,317
Total assets less current liabilities		6,212,230	6,470,958

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

1.1 Going concern

As at 31 December 2012, the Group’s current liabilities exceeded its current assets by approximately RMB1,453,451,000. Its current liabilities as at the same date included bank borrowings of approximately RMB2,407,680,000, which included a syndicated bank loan of approximately RMB682,330,000 with contractual maturity beyond 31 December 2013 but has been reclassified into a current liability because the Group did not meet one of the loan covenants as at 31 December 2012 (Note 9(a)). These conditions indicated the existence of an uncertainty that may cast doubt about the Group’s ability to continue as a going concern.

Subsequent to 31 December 2012, the Group has obtained a waiver from a majority of the lenders of the syndicated bank loan in March 2013 such that the loan will no longer be repayable on demand (Note 9(a)). In addition, in March 2013 the Company announced that it plans to raise additional equity financing through a rights issue of which, if successful, will raise gross proceeds of no less than HKD627 million. The directors will have continued their efforts to secure additional sources of financing. Together with continuing operating cash inflows and its existing undrawn banking facilities of RMB1,250 million as described in Note 9(a), the directors believe that the Group will be able to meet its debts and commitments as they fall due at least within the coming twelve months and accordingly, have prepared the consolidated financial statements on a going concern basis..

1.2 Changes in accounting policy and disclosures

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

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

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

1. Basis of preparation *(Continued)*

1.2 Changes in accounting policy and disclosures *(Continued)*

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

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

- HKAS 1 (Amendment), 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. HKAS 1 (Amendment) is effective for the accounting period beginning on or after 1 July 2012.
- HKFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. HKFRS 10 is effective for the accounting period beginning on or after 1 January 2013.
- HKFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. HKFRS 12 is effective for the accounting period beginning on or after 1 January 2013.
- HKFRS 13, 'Fair Value Measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. HKFRS 13 is effective for the accounting periods beginning on or after 1 January 2013.
- HKAS 19, 'Employee benefits', was amended in June 2011. The impact on the group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). HKAS 19 is effective for the accounting periods beginning on or after 1 January 2013.
- HKAS 27 (revised 2011), 'Separate financial statements', includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. HKAS 27 (revised 2011) is effective for the accounting periods beginning on or after 1 January 2013.
- HKFRS 7 (Amendment), 'Financial instruments: Disclosures' on asset and liability offsetting. The amendments also require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. HKFRS 7 (Amendment) is effective for the accounting period beginning on or after 1 January 2013.

1. Basis of preparation *(Continued)*

1.2 Changes in accounting policy and disclosures *(Continued)*

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

- HKAS 32 (Amendment), 'Financial instruments: Presentation' on asset and liability offsetting. These amendments are to the application guidance in HKAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. HKAS 32 (Amendment) is effective for the accounting period beginning on or after 1 January 2014.
- HKFRS 9 (Amendment), 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKFRS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. HKFRS 9 (Amendment) is effective for the accounting period beginning on or after 1 January 2015.
- Annual improvements 2011, HKICPA has issued the annual improvements project (2011) which addresses several issues in the 2009-2011 reporting cycle, and includes changes to the following standards.

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

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

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 property, plant and equipment

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of cash-generating unit has been determined based on the higher of value in use and fair value less costs to sell.

A full impairment charge of RMB461,000 (2011: RMB4,433,000) arose in the specific assets mainly for separate cash-generating units of MSG production during the year ended 31 December 2012, resulting in the carrying amount of these assets being written down to zero.

2.2 Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. For the deferred government grants related to the acquisition of property, plant and equipment, the periodic credits to income statement will also be increased under above mentioned circumstances as such grants are credited to the income statement over the periods and in the proportions in which depreciation on these assets is charged.

2.3 Estimated impairment of intangible assets

The Group tests annually whether intangible assets have 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 RMB1,030,000 (2011: RMB1,482,000) arose in the patents purchased during the year ended 31 December 2012, resulting in the carrying amount of these assets being written down to zero.

2.4 Borrowing costs eligible for capitalisation

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

2.5 PRC taxes

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

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 sales of:

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

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

The 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 2012 and 2011 are set out as follows:

	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
MSG	6,738,424	4,915,408
Corn refined products	1,561,284	1,113,473
Xanthan gum	1,066,306	835,762
Fertilisers	893,169	582,893
Starch sweeteners	322,836	430,341
Threonine	183,668	108,960
Glutamic acid	100,012	167,457
Corn oil	91,535	133,349
Others	154,686	111,603
	11,111,920	8,399,246

3. Segment information *(Continued)*

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

	MSG <i>RMB'000</i>	Xanthan gum <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Revenue	10,045,614	1,066,306	–	11,111,920
Segment results	307,558	434,002	(6,481)	735,079
Finance costs – net				(244,866)
Profit before income tax				490,213
Income tax expense <i>(Note 5)</i>				(63,660)
Profit for the year				426,553
Other segment items included in the income statement				
Depreciation	497,958	29,702	959	528,619
Amortisation of leasehold land payments	3,942	585	–	4,527
Gain on disposal of property, plant and equipment	55	466	–	521

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

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

3. Segment information *(Continued)*

The segment information for the year ended 31 December 2011 is as follows:

	MSG <i>RMB'000</i>	Xanthan gum <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Revenue	7,563,484	835,762	–	8,399,246
Segment results	497,790	249,886	30,289	777,965
Finance costs – net				(61,529)
Profit before income tax				716,436
Income tax expense <i>(Note 5)</i>				(112,299)
Profit for the year				604,137
Other segment items included in the income statement				
Depreciation	326,428	38,760	501	365,689
Amortisation of leasehold land payments	2,023	563	–	2,586
Gain on disposal of property, plant and equipment	349	–	–	349
Gain on disposal of leasehold land payments	49	–	–	49

The segment assets and liabilities at 31 December 2011 are as follows:

	MSG <i>RMB'000</i>	Xanthan gum <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Segment assets and liabilities				
Total assets	8,721,294	1,036,954	101,074	9,859,322
Total liabilities	3,359,969	195,881	2,896,769	6,452,619

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

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

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

3. Segment information *(Continued)*

The total of non-current assets other than other financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in the PRC are RMB7,625,299,000 (2011: RMB6,297,535,000), and the total of these non-current assets located in Hong Kong and Singapore are RMB370,000 (2011: RMB27,000).

Revenues of approximately RMB275,434,000 (2011: RMB219,981,000) are derived from a single external customer. These revenues are attributable to the MSG segment.

4. Other gain

	2012 RMB'000	2011 RMB'000
Gain on redemption of convertible bonds	15,976	–

The Company redeemed convertible bonds at a par value of the total amounted to RMB843,800,000. Total consideration and transaction cost paid for the redemption of convertible bonds are RMB852,037,000, which has allocated to liability component of RMB806,967,000 and equity component of RMB45,070,000 by using the same method on initial recognition. The difference between consideration and transaction cost allocated to liability component and its carrying value is RMB15,976,000 which has recognised in other gain. The amount of consideration and transaction cost allocated to equity component is recognised in equity.

5. Income tax expense

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

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

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit in Hong Kong for the years ended 31 December 2012 and 2011.

PRC EIT is calculated based on the applicable tax rates on assessable profits of subsidiaries established in the PRC in accordance with PRC tax laws and regulations.

6. Earnings per share

(a) Basic

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

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

(b) Diluted

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

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

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

7. Dividends

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Interim, paid	–	141,018
Final, proposed	–	41,981

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

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

8. Trade and other receivables

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

8. Trade and other receivables *(Continued)*

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

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

The Group sold its products to customers and received settlement either in cash or in 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 2012, trade receivables of RMB9,390,000 (2011: RMB9,356,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The directors considered that trade receivables that are less than twelve months past due are not impaired. The ageing analysis of these trade receivables is as follows:

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

- (b) As of 31 December 2012, trade receivables of RMB4,510,000 (2011: RMB4,586,000) were impaired and fully provided for. The individually impaired receivables mainly relate to 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:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Past due over 12 months	4,510	4,586

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
As at 1 January	4,586	4,231
Provision for receivables impairment	–	355
Reversal of amounts subsequently collected	(76)	–
As at 31 December	4,510	4,586

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

8. Trade and other receivables *(Continued)*

- (c) As at 31 December 2012, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB1,209,634,000 (2011: RMB1,047,599,000) endorsed to settle the amounts payable to the Group's suppliers.
- (d) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values.
- (e) The carrying amounts of the Group's trade and other receivables before prepayments are denominated in the following currencies:

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

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

9. Borrowings

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

9. Borrowings (Continued)

(a) Borrowings

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

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

As at 31 December 2012, the bank borrowings included: (i) RMB49,500,000 secured by leasehold land; (ii) RMB188,565,000 guaranteed by a standby letter of credit for RMB200,000,000 issued by China Merchants Bank Shenzhen Branch and secured by the pledge of restricted bank deposits of RMB40,000,000.

As at 31 December 2011, the bank borrowings included: (i) RMB110,000,000 secured by leasehold land and plant and machinery; (ii) RMB200,000,000 secured by the pledge of restricted bank deposits of RMB25,044,000.

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

	2012	2011
Bank borrowings	4.88%	6.98%

The carrying amounts of bank borrowings approximate their fair value.

9. Borrowings (Continued)

(a) Borrowings (Continued)

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

	2012 RMB'000	2011 RMB'000
6 months or less	1,116,710	300,000
6 to 12 months	1,302,500	404,000
1 to 5 years	2,033,430	2,844,147
	4,452,640	3,548,147

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

	2012 RMB'000	2011 RMB'000
RMB	1,649,535	1,694,802
USD	2,803,105	1,853,345
	4,452,640	3,548,147

Reclassification of syndicated bank loan

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

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

Subsequent to the year end, on 15 March 2013, the Group obtained a one-off waiver from the majority lenders of the syndicated bank loan and accordingly the above-mentioned loan of RMB682,330,000 is no longer considered as a payable on demand.

As at 31 December 2012, the Group had undrawn bank borrowings facilities of RMB1,250 million which would be expiring beyond one year. Such facility can be arranged for the Group's working capital and to help finance the capital expenditure.

9. Borrowings (Continued)

(b) Convertible bonds

The Company issued 8,200 and 2,050 of 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 in 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 components, included in non-current borrowings, was calculated using a market interest rate of 5.08% for equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

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

	<i>RMB'000</i>
Liability component at 1 January 2011	992,989
Including:	
– Interest payable – current portion	11,531
– Carrying amount at 1 January 2011	981,458
Liability component at 1 January 2011	992,989
Interest expense on convertible bonds	55,469
Interest paid	(46,125)
Liability component at 31 December 2011	1,002,333
Including:	
– Interest payable – current portion	11,531
– Carrying amount at 31 December 2011	990,802
Liability component at 1 January 2012	1,002,333
Interest expense on convertible bonds	52,138
Interest paid	(52,454)
Redemption of convertible bonds	(822,943)
Liability component at 31 December 2012	179,074
Including:	
– Interest payable – current portion	2,039
– Carrying amount at 31 December 2012	177,035

The Company redeemed convertible bonds at a par value of the total amounted to RMB843,800,000 in October and November 2012.

The fair value of the liability component of the outstanding convertible bonds at 31 December 2012 amounted to RMB176,091,000 (2011: RMB965,754,000).

According to redemption term of convertible bonds offering memorandum, the issuer will at the option of the holder of any Bond redeem all or some of such holder's Bonds on 1 April 2013. As a result, the outstanding balance has transferred to current liability at 31 December 2012.

9. Borrowings *(Continued)*

(c) Senior notes

The Group issued 7.625% senior notes at a par value of total amounted to USD300,000,000 settled in USD on 13 April 2011. The notes mature in five years from the issue date and are secured by the pledge of the capital stock of certain subsidiaries of the Company, including Acquest Honour Holding Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all intermediate holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group. The values of the liability net off transaction cost of USD6,706,000 were determined at issuance of the notes.

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

10. Trade, other payables and accruals

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

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

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

(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.

11. Commitments

Capital commitments

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

Operating lease commitments – Group as lessee

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

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

Management Discussion and Analysis

Business and Financial Review

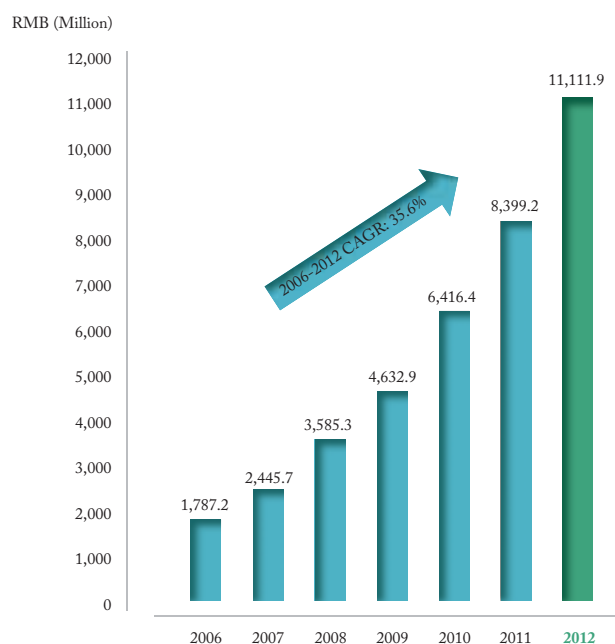
Overview

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

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

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

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



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

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

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

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

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

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

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

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

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

Market Overview

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

Segmental Review

MSG Segment

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

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

Xanthan Gum Segment

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

Financial Review of the Group

Following the completion of the construction of Hulunbeir Plant Phase 2 and Xinjiang Plant in the second quarter and fourth quarter of 2012, respectively, the Group achieved a new record in terms of production volume and sales turnover in 2012 on the back of such increase in production capacity. Certain indicative operational figures of the Group are set out below:

Turnover/Gross profit/Gross profit margin of the Group

	Year ended 31 December		Change %
	2012	2011	
Turnover (RMB'000)	11,111,920	8,399,246	32.3
Gross profit (RMB'000)	1,637,455	1,519,673	7.8
Gross profit margin (%)	14.7	18.1	(3.4) ppts.

The increase in revenue of the Group was mainly due to the increase in sales volume of certain products. The ASP of MSG products decreased primarily as a result of the Group's strategy to increase its market share to drive industry consolidation. As a result, the gross profit margin of the Group decreased from 18.1% of 2011 to 14.7% of 2012. Please see more details in the following sections.

Profit attributable to the Shareholders

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

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

Segment Highlights

The Group's products are organised into two business segments, namely the MSG segment and the Xanthan gum segment. The MSG segment includes the businesses of MSG, glutamic acid, fertilisers, threonine and other related products, while the Xanthan gum segment is engaged in the production and sale of xanthan gum.

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

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

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

MSG Segment

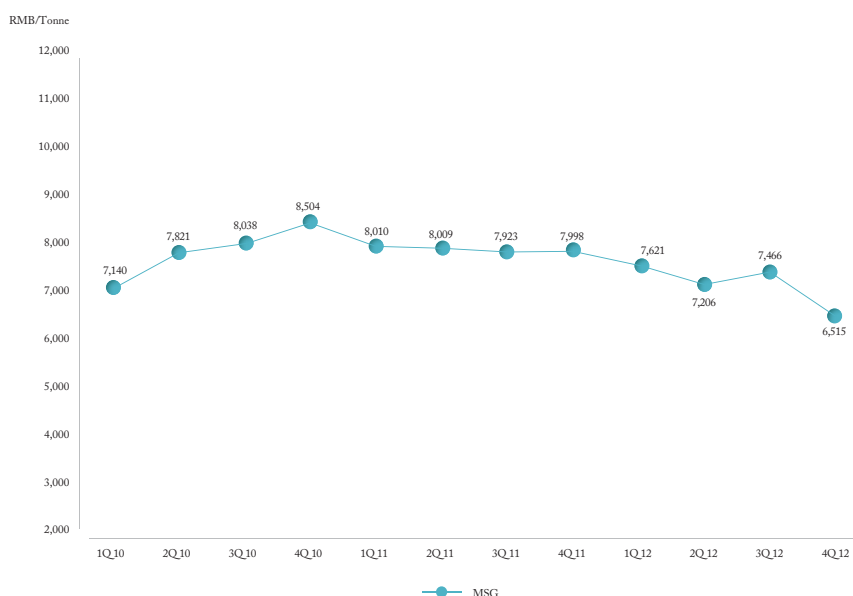
Revenue and ASP

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

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

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

Set out below is a chart showing the ASP of the Group's major products of MSG for each quarter from the first quarter of 2010 to the fourth quarter of 2012:



MSG

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

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

Fertilisers

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

Corn refined products

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

Starch sweeteners

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

Threonine

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

Others

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

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

Gross Profit and Gross Profit Margin

The gross profit of this segment is set out below:

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

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

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

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

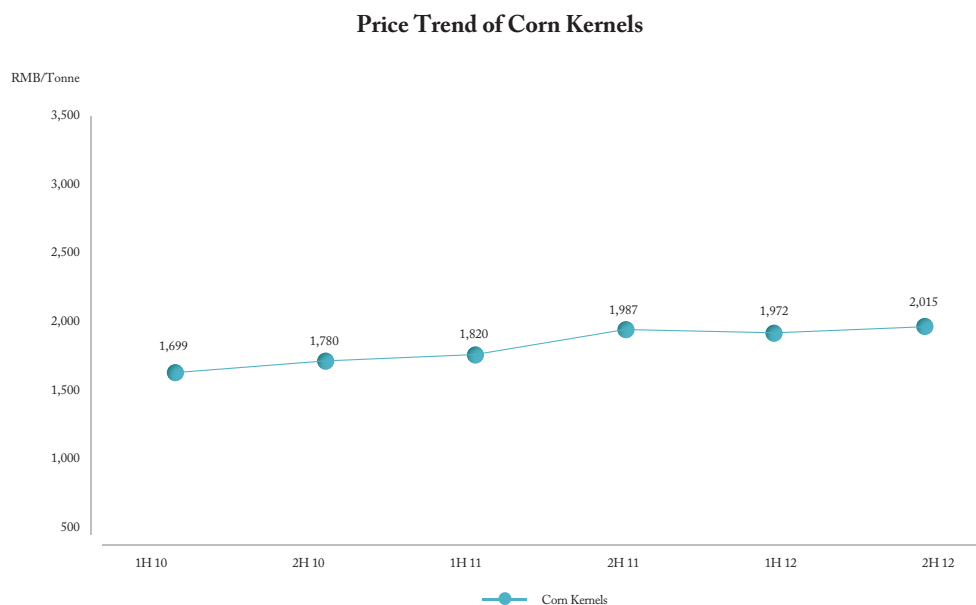
Production costs

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

Corn kernels

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

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



Liquid ammonia

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

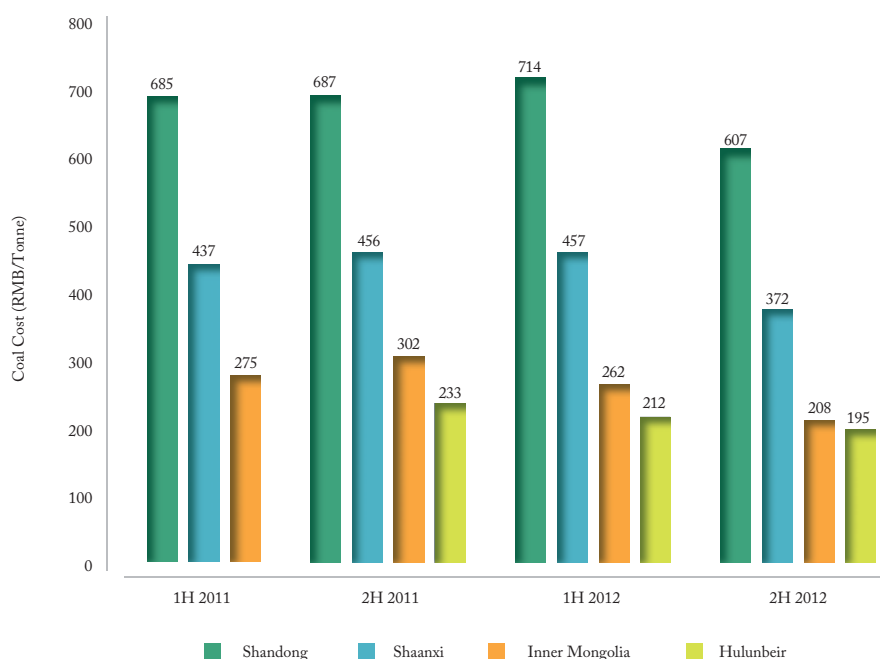
The average unit cost of liquid ammonia for 2012 decreased to approximately RMB2,875 per tonne, which represents a decrease of approximately RMB81 per tonne or approximately 2.7% from 2011. Such decrease in average unit cost is primarily due to the Group's ability to manufacture and use its own composite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

Sulphuric acid

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

Coal

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



Other production costs

The increase in cost of depreciation, employee benefits and other costs was mainly due to the increased production capacity of MSG in the new Hulunbeir Plant that started production in the second half of 2011.

Production

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

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

Note:

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

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

Xanthan Gum Segment

Operation results

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

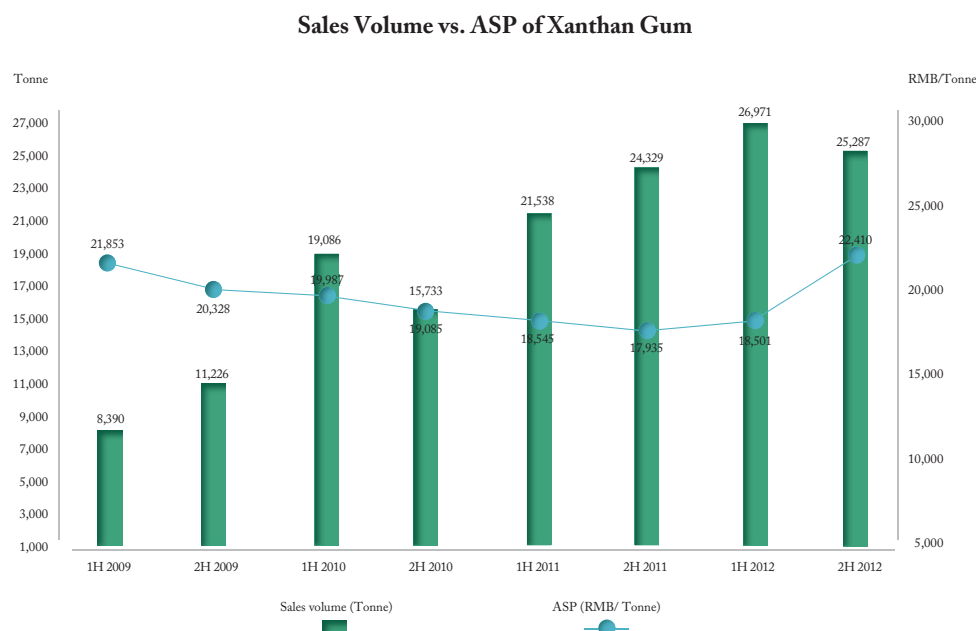
	Years ended 31 December		Change %
	2012	2011	
Revenue (RMB'000)	1,066,306	835,762	27.6
ASP (RMB/tonne)	20,392	18,222	11.9
Gross profit (RMB'000)	490,980	302,158	62.5
Gross profit margin (%)	46.0	36.2	9.8 ppts.
Annual designed production capacity (tonnes) (<i>Note</i>)	46,500	44,000	5.7
Actual production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

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

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

The Group's exports of xanthan gum remained stable in terms of the percentage contribution to total sales of xanthan gum. Export sales of xanthan gum contributed 86.4% of total sales of xanthan gum in 2012 (2011: 88.5%).

Sales and ASP



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

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

Gross profit and gross profit margin

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

Production costs

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

Corn kernels

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

Soy bean

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

Coal

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

Other production costs

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

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

Other Financial Information

Selling and marketing expenses

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

Administrative expenses

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

Finance costs

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

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

Staff cost

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

Depreciation

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

Taxation

The income tax expenses for the year 2012 represented the PRC Enterprise Income Tax ("EIT").

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

circular. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. The following table summaries the EIT rates applicable to the Group's major subsidiaries:

	Shandong Fufeng	Baoji Fufeng	IM Fufeng	Hulunbeir Fufeng	Xinjiang Fufeng
Standard/preferential tax rate	15% (Note 1)	15% (Note 2)	15% (Note 2)	15% (Note 2)	15% (Note 3)

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

Note 2: Baoji Fufeng, IM Fufeng and Hulunbeir Fufeng chose to utilise the tax preferential policy of "Western development region", which is entitled to a preferential enterprise income tax rate of 15% from 2011 to 2020.

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

Outlook

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

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

Future Plan and Recent Development

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

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

Enhancement of corporate management structure

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

Other Information

Liquidity and financial resources

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

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

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

Convertible bonds

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

Senior notes

The Company has issued USD300.0 million senior notes for five years on 13 April 2011. The fixed interest rate is 7.625% p.a.. The fund raised from the senior notes has mainly used to finance the construction of new production facilities of Hulunbeir Plant Phase 1 and Phase 2 and for general working capital purposes.

Syndicated bank loan

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

Material acquisition or disposal of subsidiary and associated company

The Group had no other material acquisition or disposal of the subsidiaries or associated companies for the year ended 31 December 2012.

Employees

As at 31 December 2012, the Group had approximately 3,400 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

Contingent Liabilities

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

Charges on assets

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

Gearing ratio

As at 31 December, 2012, the total assets of the Group amounted to approximately RMB11,971.0 million (2011: RMB9,859.3 million) whereas the total borrowings amounted to RMB4,452.6 million (2011: RMB3,548.1 million). The gearing ratio was approximately 37.2% (2011: 36.0%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

The Directors do not consider the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were however received for the export sales of products and issuance of senior notes and USD bank borrowings. Such proceeds were subject to foreign exchange risk before receiving and converting into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of senior notes and bank loans by remitting the necessary funds to the PRC and redemption of convertible bonds to utilise the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2012.

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

Dividend

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

Purchase, redemption or sales of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

Corporate governance report

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. During the year of 2012, the Company has complied with the Code Provisions of the Former CG Code for the period from 1 January 2012 to 31 March 2012 and of the Revised CG Code for the period from 1 April 2012 to 31 December 2012 except for the following:

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

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises four independent non-executive directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2012, including the accounting principles and practices adopted by the Group.

Closure of register of members

The register of members of the Company will be closed from 16 May 2013 to 23 May 2013 (both dates inclusive), during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 23 May 2013, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 15 May 2013.

Annual general meeting

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

By Order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Hong Kong, the PRC, 28 March 2013

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 and Mr. Li Guangyu and the independent non-executive Directors are Mr. Choi Tze Kit, Sammy, Mr. Chen Ning, Mr. Liang Wenjun and Ms. Zheng Yu.

Glossary

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Beijing Huijinhuaqing	Beijing Huijinhuaqing 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
Listing Rules	the Rules Governing the Listing of Securities 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 annual report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
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
U.S.	the United States of America
USD	United States dollars, the lawful currency of the United States of America
EUR	Euro, the lawful currency of the participating states within the European Union
SGD	Singapore dollars, the lawful currency of Singapore
%	per cent