FUFENG 阜丰

Fufeng Group Limited
阜豐集團有限公司

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

2013 ANNUAL REPORT

FUFENG
阜丰


福瑞味精
净含量：25kg
谷氨酸钠≥99.0%
雪梅味精
无盐
净含量：25kg
阜丰u鲜
鸡精
阜丰u鲜
排骨粉
海鲜粉
食品添加剂
黄原胶
Xanthan
生产许可证编号：XK13-217-00975
产品标准号：GB13886-2007
净含量：1kg

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CHAIRMAN'S STATEMENT

Dear Shareholders, on behalf of the Board of Directors ("The Board") of the Group, I am honored to present the annual report for 2013.

Achievements

Through our dedicated and focused development, the Group has since established market leading position and a strong track record in its core business segments:

– The largest producer and supplier of MSG in the world covering the food additives and seasonings market

– The world's largest producer and supplier of xanthan gum, providing biopolymer additives to customers in food, oil and gas exploitation and daily chemicals in over 40 countries worldwide

– Consistently ranked First in "Top Ten in China's Fermentation Industry (中國發酵行業十強)" by China National Light Industry Council (中國輕工業協會)

– "Fufeng" is a "Well-known Trademark in China (中國馳名商標)"

Multiple Growth Drivers

We have been working on increasing the diversity of our product mix. Besides MSG, the Group is now fully capable of supplying a range of different biochemical products including xanthan gum and high-end amino acid products. Our relatively new business, high-end amino acid products, is increasingly accepted by our customers in food, health care, pharmaceutical and high-end skincare products field, and is expected to become one of the key growth drivers of the Group going forward, together with our xanthan gum products. Such increasing product mix diversity will help us to realise our long-term goal of becoming a leading global biochemical products enterprise.

Sustainable Development

We believe that sustainable development in terms of environmental protection and social contribution is key to our continued growth. For environmental protection, the Group has consistently invested in energy savings equipment and our low carbon emission production facilities aim to minimize the impact on the environment as a result of our operation. We also place utmost importance on product quality and food safety and have established a strong reputation and track record for high quality among customers and end consumers.

2013 Overview

In terms of the macro-economic environment, growth in the PRC's domestic economy slowed down significantly in 2013, and in particular traditional industry such as manufacturing generally faced operational difficulties due to weak consumption as a result of low consumer confidence. In addition, the implementation of the "Eight-point Guidelines (八項規定)" issued by the Central Government and unfavorable factors such as "Avian Flu" have worsened the situation, especially in the food and catering industry. According to the statistics of the Ministry of Commerce, from 2013 to 2014, economic growth of the enterprises above designated size in the food and catering industry in China was the slowest since 1991, the year when such statistics were first compiled.

In terms of our business operations, the Group was still able to achieve relatively satisfactory results under such unfavorable external conditions which validated our persistence and focus on the implementation of our strategy to consolidate the industry since 2011. On one hand, we increased our market share for xanthan gum by expanding our production capacity and raising the selling price to seize opportunities in the market for xanthan gum products, and have since built the xanthan gum business to be a key profit pillar and growth driver of the Group. On the other hand, for the MSG industry, we adhered to our low price strategy and focused on volume to continue winning market share.

As a result, we believe that excess production capacity and supply in the MSG industry for years had been largely eliminated and that the MSG industry is now well positioned for a more long-term sustainable development. In particular, since the second half of 2013, even though the external economic conditions remained challenging, the business performance of the Group's MSG and Xanthan gum segments have picked up significantly.

MSG Business

As the core business of the Group, the MSG business accounted for the largest proportion of our sales revenue. 2013 marked the first time the Group's MSG production and sales surpassed the 1 million tonnes mark. Despite sluggish demand from the downstream sector, the Group still achieved our sales target of 1 million tonnes of MSG, further establishing our position as the undisputed market leader in the domestic MSG market. With industry consolidation coming to a close, we believe that the MSG industry will soon be back on a steady and healthy development track.

During the year, we continued to increase the production and sales volume of our MSG products, even though the average selling price of the MSG products dropped by approximately 11.8% compared to that of 2012 (2012: RMB7,134 per tonne; 2013: RMB6,295 per tonne). To protect our margin, we took active steps to reduce procurement costs by taking advantage of lower raw material prices in 2013 and increasing production efficiency. Furthermore, in the second half of 2013, we leveraged on the supply gap created by industry peers who suspended production for equipment maintenance to increase our selling price slightly. As a result, even under the extreme unfavorable external environment, the annual gross profit margin of MSG business reached approximately 12.6% (2012: 11.4%), representing an increase compared to 2012.

Xanthan Gum Business

Xanthan gum business has become a pillar of the Group's growth in 2013, providing key support to the Group as a whole in the face of the unprecedented challenges in the MSG industry. We believe that such product diversity and competitive advantages differentiate us from our competitors who have a narrower product range. Throughout the year under review, thanks to the growing demand in oil and gas exploitation industry, the demand and sales of xanthan gum boomed, with prices reaching a high point not seen for years. Annual sales volume reached approximately

58,000 tonnes, representing an increase of approximately 10.1% compared to 2012. The average selling price for the whole year was approximately RMB25,254, up 23.8% from 2012. In addition, when confronted with the anti-dumping investigation by the U.S. Department of Commerce, we responded proactively and managed to turn around the unfavorable situation with the dedicated efforts from our team resulting in an anti-dumping rate much lower than other companies in the PRC, further consolidating our leading position in the industry. This result not only opened the door for us to further develop high-end markets, including the U.S., but also further confirmed the unparalleled cost advantage of the Group's xanthan gum products amongst our peers. Meanwhile, the anti-dumping investigation also turned out to be a boost to the Group's corporate image as a private enterprise in the international biochemical industry, which will give us a greater leverage when expanding other products into international markets.

High-end Amino Acid Business

High-end amino acid business in Xinjiang base began to show strong growth in 2013 with annual sales of amino acid products (such as valine, leucine, isoleucine and glutamine) of approximately 2,406 tonnes, realising sales revenue of approximately RMB211.4 million. Through strategic cooperation with Shenhua Pharmaceutical, our products have been sold to many domestic and foreign healthcare companies and pharmaceutical enterprises. This basically achieved the Group's goal of "enriching the diversity of products portfolio, upgrading products class and enhancing product recognition" by tapping the high-end amino acid products market and has laid the foundation for us to become a comprehensive supplier of biochemical products.

Financing

The Group timely undertook a series of funding exercises in the domestic and overseas capital markets in 2013 in order to strengthen our financial position. On one hand, we replenished capital to enhance our risk resilience ability. On the other hand, we replaced a relatively high interest rate short-term loan with long-term financing at lower interest rates in order to reduce financial burden and to reduce our dependence on short-term borrowing amidst the uncertainties prevailing in the market environment.

– In May 2013, the Group completed a rights issue on the basis of one rights share for every five existing shares to raise funding of approximately HKD618.5 million after expenses.

– In April 2013, Neimenggu Fufeng under the Group issued three-year medium-term note bearing an interest rate of 5.11% per annum in the domestic bank sector to raise funding of approximately RMB595 million after expenses.

– In November 2013, the Group issued convertible bonds of approximately RMB975 million (approximately USD158.6 million) with coupon interest rate of 3.0% and a conversion price of HKD4.173.

2014 Outlook

We expect 2014 to be full of challenges and opportunities. As such, we must continue to build on our tradition of hard-working and entrepreneurial spirit in order to preserve our core competencies and fully leverage our competitive strengths in order to cope with the changing environment. In addition to relentless focus on controlling costs and improving efficiencies, we will also actively introduce new products with higher profitability, such as hyaluronic acid, and strive to further enhance our market position as well as our competitive advantages.

In terms of challenges, we envisage that:

1) Low consumer confidence and weak consumer sentiment will continue in 2014, with demand in the food and catering industry to remain weak. This may pose challenges for producers including the Group who engage in food additives products such as MSG, starch sweeteners, etc., thereby creating pressure on any upward price adjustment.

2) The U.S. government has begun to tighten its monetary policy while financing costs on borrowing granted by the domestic banks in the PRC has continued to rise as a result of liquidity pressure, which may generate funding and financing cost pressure for the Group.

3) Even though we have been able to reduce production costs due to the declining price of corn, coal and major chemical raw materials as a result of slowdown in economic growth and insufficient demand, any further appreciation of the RMB exchange rate may undermine the competitiveness and profitability of the Group's export products.

4) The price of xanthan gum product may face downward pressure if global production capacity continues to increase resulting in oversupply. The Group will continue to fully leverage on the diversity of its customers, well-established sales network, strong customer relationships and cost advantages to further consolidate its leading position in the xanthan gum market.

Notwithstanding the challenges, the Group will continue to actively explore the development of new high-end polymer materials such as gellan gum, hyaluronic acid and amino acid products, in order to improve product class, increase sales and penetration in healthcare products, pharmaceutical entities, and the skincare products field. Only by continuously upgrading our product quality and expanding our product range can we transform gradually from the traditional, bulk-trade enterprise towards a modern, high-tech and high value-added supplier of biochemical products.

Dear Shareholders, despite uncertainties prevailing in the business environment expected in 2014, we are confident to achieve our operational and sales targets under the leadership of the Board and the efforts of all the staff. We are well positioned and well prepared to seize new business opportunities and to overcome ongoing challenges. In return for everyone's devotion and support, we will continue to work hard towards becoming a world-renowned leader in the biochemical industry and to deliver a better, consistent and sustainable return for Shareholders.

Appreciation

I am deeply grateful to all our staff and management for their contribution to a very good set of results. On behalf of the Company, I also want to thank all our customers and suppliers for their continued support. And, finally, my sincere thanks to our Board members for their insightful guidance during the year.

Li Xuechun
Chairman

18 March 2014

FIVE-YEAR SUMMARY

	Year				
	2009	2010	2011	2012	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Operating results – Summary					
Turnover	4,632,884	6,416,425	8,399,246	11,111,920	**11,366,722**
Gross profit	1,399,607	1,565,054	1,519,673	1,637,455	**2,099,443**
Profit before income tax	1,023,597	1,071,329	716,436	490,213	**634,697**
Profit attributable to Shareholders	928,285	966,051	604,137	426,553	**506,132**
Balance sheets – Summary					
Non-current assets	2,653,219	4,277,621	6,326,641	7,665,681	**8,170,547**
Current assets	1,607,802	2,442,644	3,532,681	4,305,271	**4,448,621**
Total assets	4,261,021	6,720,265	9,859,322	11,970,952	**12,619,168**
Current liabilities	1,572,209	2,424,699	3,388,364	5,758,722	**4,110,788**
Non-current liabilities	295,101	1,150,301	3,064,255	2,417,222	**3,689,594**
Net assets	2,393,711	3,145,265	3,406,703	3,795,008	**4,818,786**
Financial ratio					
Earnings per share (Basic) (RMB Cents)	55.92	57.75	35.15	23.03*	**25.13**
Gross profit ratio (%) *(Note 1)*	30	24	18	15	**19**
ROE (%) *(Note 2)*	39	31	18	11	**11**
Current ratio *(Note 3)*	1.02	1.01	1.04	0.75	**1.08**
Inventory turnover days (Day) *(Note 4)*	63	54	63	55	**60**
Debtors' turnover days (Day) *(Note 5)*	47	38	63	63	**58**
Trade receivable turnover days (Day) *(Note 6)*	7	10	12	9	**12**
Creditors' turnover days (Day) *(Note 7)*	56	58	58	55	**49**
Trade payable turnover days (Day) *(Note 8)*	56	47	58	55	**48**
Gearing ratio (%) *(Note 9)*	14	23	36	37	**36**

Notes:

1. Gross profit ratio is equal to gross profit divided by turnover.
2. Return on equity is equal to profit attributable to shareholders divided by total equity.
3. Current ratio is equal to current assets divided by current liabilities.
4. The number of inventory turnover days is equal to inventories at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
5. The number of debtors' turnover days is equal to trade and notes receivables at the end of year divided by the turnover for the corresponding year and then multiplied by 365 days.
6. The number of trade receivable turnover days is equal to trade receivable at the end of year divided by the turnover for the corresponding year and then multiplied by 365 days.
7. The number of creditors' turnover days is equal to trade and notes payables at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
8. The number of trade payable turnover days is equal to trade payable at the end of year divided by the cost of sales for the corresponding year and then multiplied by 365 days.
9. Gearing ratio is equal to total borrowings at the end of the year divided by total assets at the end of the corresponding year.

* Restated

CORPORATE INFORMATION

Executive Directors
Mr. Li Xuechun
Mr. Wang Longxiang
Mr. Feng Zhenquan
Mr. Xu Guohua
Mr. Li Deheng
Mr. Chen Yuan
Mr. Li Guangyu

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

Registered Office
Cricker Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in the PRC
Northern section of Longshan Road
Junan, Shandong, 276600
PRC

Principal Place of Business in Hong Kong
Suite 1102, 11th Floor, Chinachem Century Tower,
178 Gloucester Road, Wanchai,
Hong Kong

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

Authorised Representatives
Mr. Li Xuechun
Mr. Lee Wai Yin

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

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

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

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

Principal Bankers in Hong Kong
The Royal Bank of Scotland PLC
Hang Seng Bank Limited

Independent Auditor
PricewaterhouseCoopers

Principal Share Registrar
Royal Bank of Canada Trust Company (Cayman) Limited

Branch Share Registrar
Tricor Investor Services Limited

ADRs Information
US Exchange: OTC
CUSIP: 35953H105
ADR: Ordinary Shares 1:20

Stock Code
546

Website
www.fufeng-group.com

Baoji Plant

Hulunbeir Plant

IM Plant

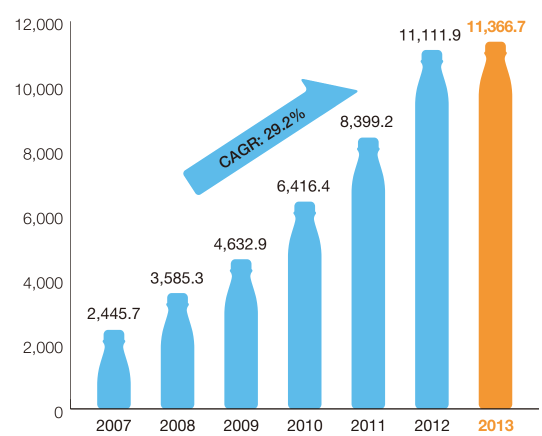
Shandong Plant

Xinjiang Plant

FINANCIAL HIGHLIGHTS

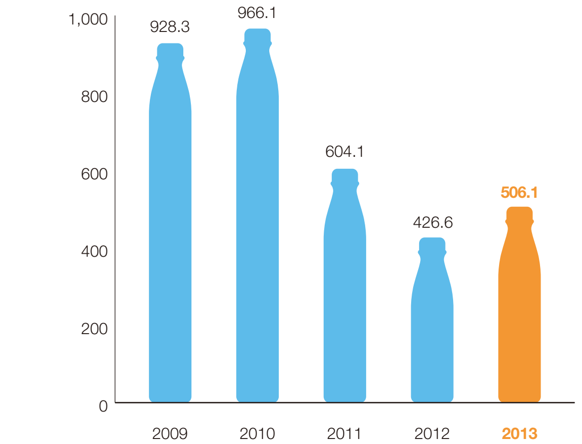
Turnover Growth

RMB million

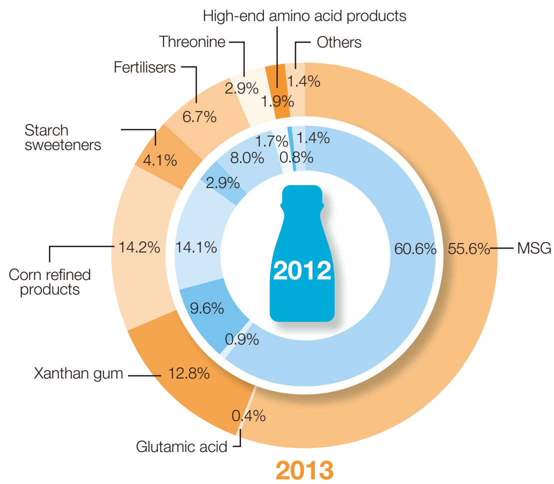


Profit attributable to Shareholders

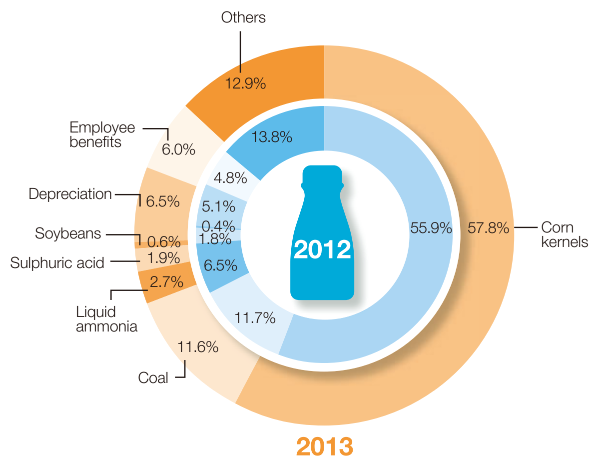
RMB million



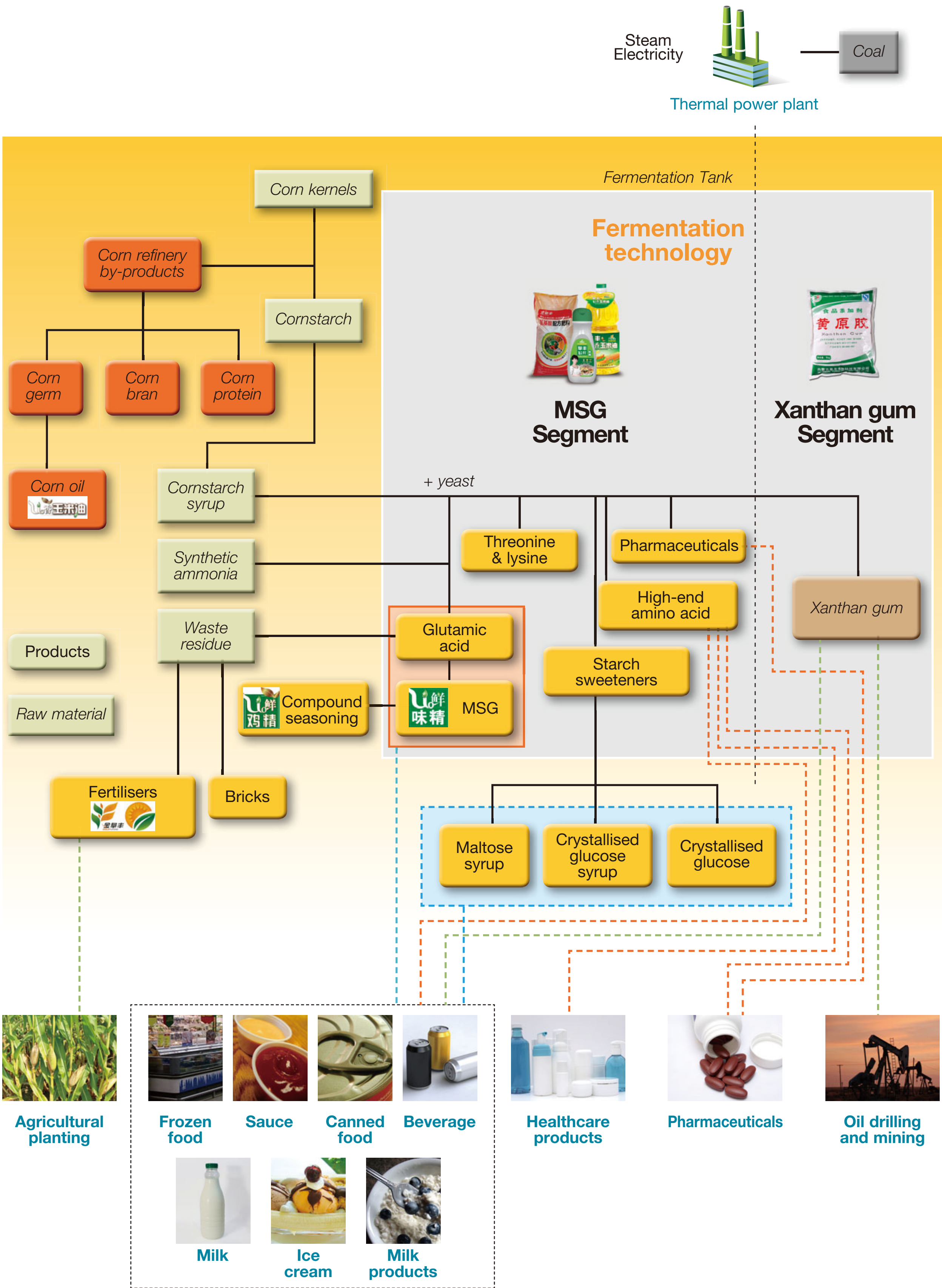
Revenue Analysis



Production Cost Analysis



MAJOR PRODUCTS PROCESSING MAP



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

李學純 (Li Xuechun), aged 62, is the principal founder of the Group, the chairman of the Company and an executive Director. Mr. Li is also a director of Acquest Honour, Summit Challenge, Absolute Divine, Expand Base, Fufeng Singapore, Shandong Fufeng, Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng. Mr. Li is responsible for the strategic planning and formulation of overall corporate development policy of the Group. Mr. Li obtained a bachelor's degree in industrial fermentation from 山東輕工業學院 (Shandong Institute of Light Industry) in 1982. Mr. Li is 山東省第十二屆人大代表 (a member of the Shandong Province 12th People's Congress), as well as being honored with "Outstanding Achievement" by the government of Shandong Province in April 2003. In the same year, he was also labeled as "Model Labour" of Shandong Province. Mr. Li first joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1982 as the factory manager. Mr. Li established the Group starting by set up Shandong Fufeng in June 1999. He was appointed a director of Shandong Fufeng upon its establishment. He has 32 years of experience in the fermentation industry. Mr. Li is the sole director of and is beneficially interested in the entire issued share capital of Motivator Enterprises Limited which in turn is interested in approximately 46.15% of the issued share capital of the Company and is a controlling shareholder of the Company. He is the father of 李廣玉 (Li Guangyu) (an executive Director) and the brother-in-law of 李德衡 (Li Deheng) (an executive Director).

王龍祥 (Wang Longxiang), aged 52, is an executive Director and the general manager of the Group. Mr. Wang is also a director of Shandong Fufeng, Baoji Fefeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng. Mr. Wang is responsible for the overall management of the Group's daily operations. Mr. Wang obtained a bachelor's degree in industrial fermentation from 山東輕工業學院 (Shandong Institute of Light Industry) in 1982. He is qualified as a senior engineer. Mr. Wang also obtained a master's degree in business administration from 中國科技大學 (University of Science and Technology of China) in 1992. Mr. Wang joined the Group in 2005 and has over 22 years of experience in the fermentation industry. Mr. Wang is interested in 14.3% of the issued share capital of Hero Elite, which in turn is interested in 69,120,000 Shares, representing 3.31% of the issued share capital of the Company. In addition, Mr. Wang is interested in 8,292,000 Shares which are held by Mr. Wang directly, representing 0.40% of issued share capital of the Company.

馮珍泉 (Feng Zhenquan), aged 44, is an executive Director and vice general manager of the Group. Mr. Feng is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng and Hulunbeir Fufeng. He is in charge of the strategic research and development of the Group. Mr. Feng graduated from 山東輕工業學院專科 (Shandong Institute of Light Industry) in 1990 majoring in electrical and mechanical technology. Mr. Feng was appointed as a director of Shandong Fufeng in May 2002 and has over 20 years of experience in the fermentation industry. He was one of the initial management Shareholders. Mr. Feng is interested in 15% of the issued share capital of Ever Soar, which in turn is interested in 222,134,400 Shares, representing approximately 10.64% of the issued share capital of the Company.

徐國華 (Xu Guohua), aged 45, is an executive Director and vice general manager of the Group who is responsible for Shenhua Pharmaceutical and the research and development of the Group. Mr. Xu is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng and Hulunbeir Fufeng. Mr. Xu graduated from 山東輕工業學院 (Shandong Institute of Light Industry) majoring in fermentation and economics management in July 1991 and 2003 respectively. He completed his study in fermentation engineering from 天津科技大學 (Tianjin University of Science and Technology) in September 2004. Mr. Xu has been elected to stand as the executive council member of the China Fermentation Industry Association in 2004 and prior to that was invited in 2002 to be a member of the Amino Acid Technology Committee under the China Fermentation Industry Association. Mr. Xu first joined Shandong Furui Brewery Group in 1991. Mr. Xu joined the Group in June 1999 and has over 23 years of experience in the fermentation industry. He was also one of the initial management Shareholders. Mr. Xu was appointed a director of Shandong Fufeng in May 2002. Mr. Xu is interested in 15% of the issued share capital of Ever Soar, which in turn is interested in 222,134,400 Shares, representing approximately 10.64% of the issued share capital of the Company.

李德衡 (Li Deheng), aged 45, is an executive Director and a vice general manager of the Group who is responsible for the general operation of production and purchasing of the Group. He is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng and Hulunbeir Fufeng. Mr. Li graduated from the 山東聊城師範學院 (Shandong Liaocheng Teacher's College) in 1992 and obtained a bachelor's degree in chemistry education. He joined the Group in January 2001 and was appointed a director of Shandong Fufeng in November 2003 and has over 13 years of experience in business management. Mr. Li Deheng is the brother-in-law of Mr. Li Xuechun. Mr. Li is interested in 15% of the issued share capital of Ever Soar, which in turn is interested in 222,134,400 Shares, representing approximately 10.64% of the issued share capital of the Company.

陳遠 (Chen Yuan), aged 44, is an executive Director and the chief financial officer of the Group. Mr. Chen is responsible for financial management, capital markets, corporate development and investor relations matters, and assists the Group to develop strategic planning and long-term development plan. Mr. Chen obtained a bachelor's degree of accountancy from Xiamen University in 1991 and then received his Master in business administration degree from Birmingham Business school of University of Birmingham in 2001. Mr. Chen joined the Group in September 2010 and has over 21 years of experience in the corporate finance, corporate development and investor relations sector. Previously, he worked as a managing director and head of institutional sales for China Everbright Securities (HK) Limited. Mr. Chen was granted an option to subscribe for 5,355,224 Shares pursuant to the Post-IPO Share Option Scheme, representing 0.26% of the issued share capital of the Company.

李廣玉 (Li Guangyu), aged 35, is an executive Director and a vice general manager of the Group who is responsible for the project of Hulunbeir Plant of the Group. Mr. Li has over 8 years of experience in the fermentation industry. Mr. Li graduated from 華東政法大學研究生院 (East China University of Political Science and Law Graduate School) in 2006 and obtained a master's degree in Laws. Mr. Li is the son of Mr. Li Xuechun. Mr. Li did not hold any directorship in other listed public companies in the last three years. Mr. Li is not interested in any shares of the Company pursuant to Part XV of the Securities and Future Ordinance.

Independent non-executive Director

蔡子傑 (Choi Tze Kit, Sammy), aged 51, was appointed as an independent non-executive Director in January 2007. Mr. Choi graduated from the Hong Kong Shue Yan College (presently known as Hong Kong Shue Yan University). He is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, a fellow Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors. Mr. Choi is also a council member of the Society of Chinese Accountants and Auditors. He has over 28 years of experience in finance and auditing.

陳寧 (Chen Ning), aged 51, was appointed as an independent non-executive Director in January 2007. Mr. Chen is a professor at the 天津科技大學生物工程學院 (School of Bioengineering, Tianjin University of Science and Technology), and a committee member of the 天津微生物學會 (Tianjin Society for Microbiology). Mr. Chen had spent 12 years in the study and research in microbial metabolism in the control of fermentation processes and in the amino acids technology. Mr. Chen was co-author to 6 academic textbooks and has written over 90 academic papers.

梁文俊 (Liang Wenjun), aged 50, was appointed as an independent non-executive Director in January 2007. Mr. Liang is a professor of financial management at the 石油化工管理幹部學院 (Sinopec Management Institute) since 2010. Mr. Liang has over 24 years of experience in financial accounting, auditing and consulting. Mr. Liang received his bachelor's degree in 1989 from 北京化工大學 (Beijing University of Chemical Technology) majoring in industrial engineering management.

鄭豫 (Zheng Yu), aged 46, was appointed as an independent non-executive Director in December 2012. Ms. Zheng was a Managing Director at PineBridge Investments (formerly known as the AIG Global Investments), in charge of private equity investment in Greater China from 2008 to 2011. She also has over 16 years experience in the management consulting industry through her service at the Boston Consulting Group and then at Roland Berger Strategy Consultants as its senior partner responsible for the industrial and automotive industries practice in Greater China. Ms. Zheng has extensive experience in various management practices including strategy development, brand management, organizational restructuring, global sourcing, joint venture strategy, and project management for both global and Chinese clients. Her industry experience includes automotive, industrial goods, consumer electronics, retail and fast moving consumer goods, education, media and publishing, etc. Prior to her investment and management consulting career, she has also worked in the computer industry in both China and the United States. Ms. Zheng received bachelor's degree of science in Computer Science in Beijing Normal University and her Master of Business Administration from the University of Texas at Austin in the US. Ms. Zheng does not have any relationship with any Directors, senior management, substantial or controlling shareholders of the Company. Ms. Zheng is also a non-executive director of Minth Group Limited (Stock code: 425) and Hengdeli Holdings Limited (Stock code: 3389) in current, save as disclosed above, she did not have any directorships in other listed public companies in the last three years nor has held any other position with the Company and any of its subsidiaries. As at 31 December 2013, Ms. Zheng does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Senior Management

趙修標 (Zhao Xiu Biao), aged 50, is a deputy general manager of the Group. Before joining Fufeng in 2012, he worked for a large food company in Shandong for 10 years as director of sales department and vice president. Mr. Zhao has accumulated 13 years of experience in sales and marketing management. He is currently in charge of the Group's sales and marketing activities.

來鳳堂 (Lai Fengtang), aged 45, is a vice general manager of the Group who is currently in charge of the operation of Baoji Fufeng. Mr. Lai graduated from 中國西北大學 (Northwest University of China) in 1998. He first joined Shandong Furui Brewery Group in 1991. Mr. Lai joined the Group in June 1999 and has over 22 years of experience in the sales and marketing. Mr. Lai is the sole director of and is interested in 14.3% of the issued share capital of Hero Elite, which in turn is interested in 69,120,000 Shares, representing 3.31% of the issued share capital of the Company.

沈德權 (Shen Dequan), aged 48, is a vice general manager of Hulunbeir Fufeng. Mr. Shen graduated from 山東省臨沂農業學校 (The Agriculture School of Linyi) in 1986, majoring in forestry. Before joining Shandong Fufeng in 1999, he spent 6 years with the Shandong Furui Brewery Group. Mr. Shen has accumulated 15 years of experience in production management. His current responsibilities within the Group include managing the production department. Mr. Shen is interested in 10.7% of the issued share capital of Hero Elite, which in turn is interested in 69,120,000 Shares, representing 3.31% of the issued share capital of the Company.

徐令國 (Xu Lingguo), aged 39, graduated in 1997 from 太原理工大學 (Taiyuan University of Technology) majoring in economic law. Mr. Xu joined the Group in 1999. Mr. Xu has 14 years of experience in the fermentation industry and is presently responsible for the Group's logistic operation.

李慧 (Li Hui), aged 47, is the general manager of the international trade department of the Group. He obtained his bachelor's degree from 北京科技大學 (University of Science and Technology Beijing) in 1989. In 1999, Mr. Li completed a course in international trade at 對外貿易大學國際貿易專業 (University of International Business and Economics). He joined the Group in 2003 and is responsible for the Group's international market development and sales.

肖勇 (Xiao Yong), aged 45, is a manager in the quality control department of Xinjiang Fufeng. Mr. Xiao obtained his bachelor's degree from 湖南大學 (Hunan University) in 1992, majoring in chemical industry. Before joining the Group in 2003, Mr. Xiao has accumulated 11 years of experience in quality control management and is primarily responsible for the Group's quality and production control.

葛文村 (Ge Wencun), aged 53, is a manager of operation department of Hulunbeir Fufeng and has joined the Group since 1999. Mr. Ge obtained his bachelor's degree in 1986 from 山東輕工業學院 (Shandong Institute of Light Industry). Mr. Ge is currently responsible for the Group's domestic and international market development. Mr. Ge first joined Shandong Furui Brewery Group in 1992 and has over 21 years of experience in the fermentation industry.

張元年 (Zhang Yuannian), aged 40, is a manager of the finance department of IM Fufeng. Mr. Zhang first joined Shandong Furui Brewery Group in 1994 and graduated from 臨沂市商業學校 (The Commerce School of Linyi). He joined the Group in 1999 and has accumulated over 19 years of experience in finance.

Company Secretary and Qualified Accountant

李偉然 (Lee Wai Yin), aged 44, is the qualified accountant and company secretary of the Company since August 2008. Mr. Lee graduated from the Hong Kong Shue Yan College in 1993 with a diploma in accountancy and is a fellow member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has more than 20 years of working experience in finance and accounting including some with international accounting firms. Mr. Lee was granted an option to subscribe for 1,071,045 Shares pursuant to the Post-IPO Share Option Scheme, representing 0.05% of the issued share capital of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

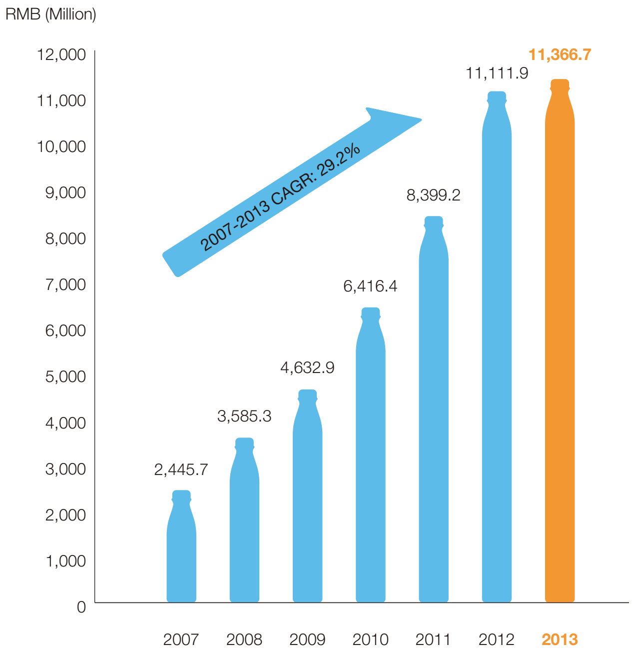
Overview

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

In terms of the MSG business, the Group faced lackluster conditions in the domestic catering and consumer market as well as pricing pressure due to market competition. Despite the market conditions, the Group was able to increase its market share and sales volume by leveraging its cost advantages to adopt competitive pricing. As a result, together with a slight decrease in revenue for its MSG business, the Group registered increases in MSG segment gross profit and gross profit margin. In the second half of 2013, the market condition of MSG became increasingly stable and the average selling price of MSG slightly increased towards the end of 2013. In addition, high-end amino acid products, a relatively new product of the Group, also contributed a full financial year of revenue after commencement of commercial production at the new Xinjiang Plant at the end of 2012. In terms of the xanthan gum business, another key business segment of the Group, strong market demand resulted in a continuous increase in the average price of xanthan gum and a significant increase in gross profit.

In 2013, the Group recorded an increase of approximately 2.3% in revenue to approximately RMB11,366.7 million from approximately RMB11,111.9 million in 2012. The growth was driven by the increase in sales volumes and average selling price of xanthan gum and high-end amino acid products in 2013. Such increase in sales volume was achieved as we were able to expand the production capacity of the Group, particularly with the commencement of operations of Hulunbeir Plant Phase 2 and Xinjiang Plant, since the second quarter and the fourth quarter of 2012, respectively. The increasing diversity of the Group's product portfolio allowed the Group to maintain its overall revenue growth momentum in 2013.

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



The Group's gross profit increased from approximately RMB1,637.5 million in 2012 to approximately RMB2,099.4 million in 2013, representing an increase of 28.2%, primarily due to an increase in gross profit of the Group's xanthan gum business.

In 2013, the ASP of the Group's MSG decreased by about 11.8% compared to 2012. On the other hand, the ASP of the Group's xanthan gum increased by about 23.8% as compared to 2012. Production costs of the Group, including the prices of corn kernels, coal and chemical products, remained relatively stable as compared with 2012. The Group's overall gross profit margin increased from about 14.7% in 2012 to about 18.5% in 2013, primarily due to increase in gross profit margin of its xanthan gum business from about 46.0% in 2012 to about 58.3% in 2013 and the relatively higher profitability level of our high-end amino acid products.

In view of the challenging market conditions, the Group also had to actively implement cost controls by leveraging on its economies of scale and production capability to manage its costs effectively. For example, the Group's ability to internally produce and use synthetic ammonia was instrumental in reducing the cost of chemical materials the Group used in 2013, offsetting the pressure of other rising costs in 2013. The Group, through strategic establishment of key production bases, was able to reduce and control its cost in 2013, for example setting up a plant in Xinjiang in 2012 for the production of xanthan gum and high-end amino acid products, which enabled it to tap the rich local coal resources with relatively significant cost advantage.

The production and sales volume of MSG increased by about 1.8% and about 6.3% in 2013 as compared to 2012, respectively. The production volume of MSG slightly increased as a result of Hulunbeir Plant Phase 2 being fully operational since the second half of 2012. The production and sales volume of xanthan gum increased by about 33.3% and about 10.1% in 2013 compared to 2012, respectively. The production volume of xanthan gum increased primarily as the Group was able to start production of xanthan gum in the Xinjiang Plant since the fourth quarter of 2012.

The high-end amino acid business, as a sub-segment of the MSG business, is the Group's new growth driver. The Group is able to develop high-end amino acid products because of its ability to develop different type of corn-based biochemical products with its fermentation technology. The high-end amino acid products included valine (纈氨酸), leucine (亮氨酸), isoleucine (異亮氨酸) and glutamine (谷氨醯胺) etc. During the year, the total sales amount of high-end amino acid products was approximately RMB211.4 million as compared to RMB85.9 million in 2012. Our high-end amino acid products generally enjoy a higher profit margin and focus on the healthcare and pharmaceutical materials industries.

In addition to high end amino acid products, the Group will also continue to develop threonine and lysine products, which are different types of amino acids used as animal feed additives. In 2013, the Group sold 36,613 tonnes and 5,677 tonnes of threonine and lysine respectively, as compared to 18,299 tonnes and nil in 2012.

The short-term goal of the Group is to become one of the world's main producers and suppliers by market share for several of its key amino acid products type. It is expected that such development and production of these products will further diversify the Group's product and revenue mix.

In 2013, the Group continued with the strategic expansion of the production capacity of xanthan gum and high-end amino acid in the Xinjiang Plant, with production capacity reaching 30,000 tonnes and 4,000 tonnes respectively at the end of 2013.

Rights issue

To cope with the ongoing strategic expansion of the Group's core businesses, the Group also continued to actively manage its capital resources and working capital in 2013 in order to strengthen the Company's capital base and improve the Group's financial position.

On 2 May 2013, the Company completed to issue and allot 348,209,600 Rights Shares at the subscription price of HKD1.80 per Rights Share. The net proceeds amounted to approximately HKD618.5 million after expenses. The Company has used the net proceeds for repayment of existing loan facilities or borrowings of the Group and for general working capital purposes.

New convertible bonds

On 27 November 2013, the Company completed the issuance of the RMB975 million in aggregate RMB principal amount of USD Settled 3.0% Convertible Bonds due 2018 ("2013 CB") (the option to subscribe for up to a further aggregate principal amount of RMB125 million (equivalent to USD20 million) USD settled 3.0% Convertible Bonds due 2018 was not exercised by the sole global of coordinator). The net proceeds was used to repay the syndicated bank loan of the Group and for general corporate and working capital purposes. Based on the initial conversion price of HKD4.173 per Share and assuming full conversion of the 2013 CB at the initial conversion price, the 2013 CB will convert into 297,114,448 Shares, representing approximately 14.23% of the existing issued share capital of the Group and approximately 12.46% of the issued share capital of the Group, as enlarged.

Market Overview

The Group continued to face internal and external challenges in 2013. Despite a slight increase in overall demand in the fourth quarter of 2013, the overall demand growth in the MSG industry generally remained lackluster in 2013 whilst the market demand of xanthan gum increased substantially in 2013 due to the strong demand from the oil industry. Even though costs of major raw materials including corn kernels and coal remained relatively stable during the year as compared to 2012, the Group remained committed to controlling costs and improving operational efficiency in the face of pricing pressure of MSG. The Group will continue to review and adjust its pricing strategy and production capacity planning in order to further expand its market share going forward.

MSG segment

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

With the MSG market in the PRC becoming increasingly consolidated, the Group's pricing strategy and production strength have helped it to win market share in recent years, and the Group has since become the world's leading producer in the global MSG industry.

High-end amino acid business in Xinjiang base began to show strong growth in 2013 with annual sales of amino acid products (such as valine, leucine, isoleucine and glutamine) of approximately 2,406 tonnes, realising sales revenue of approximately RMB211.4 million. Through strategic cooperation with Shenhua Pharmaceutical, our products have been sold to many domestic and foreign health care companies and pharmaceutical enterprises. This basically achieved the Group's goal of "enriching the diversity of products portfolio, upgrading products class, enhancing product recognition" by tapping the high-end amino acid products market and has laid the foundation for us to become a comprehensive provider of biochemical products.

Xanthan gum segment

The global market demand for xanthan gum has increased continuously in recent years and the Group has managed to capture such market opportunity by continuing to increase its production capacity and market share since 2009. The Group is now one of the largest producers in the world for xanthan gum in terms of production capacity, in which the market is now dominated by three top global producers.

Operational Review of the Group

The new Hulunbeir Plant has been fully operational since the second half of 2012 and the Xinjiang Plant commenced operation at the end of 2012, allowing the Group to achieve record level of production scale and turnover in 2013 as a result of the increase in production capacity.

Certain indicative operational figures of the Group are set out below:

Turnover/Gross profit/Gross profit margin of the Group

	Years ended 31 December		Change
	2013	2012	%
Turnover *(RMB'000)*	**11,366,722**	11,111,920	2.3
Gross profit *(RMB'000)*	**2,099,443**	1,637,455	28.2
Gross profit margin *(%)*	**18.5**	14.7	3.8 ppts.

The increase in turnover of the Group is mainly due to the increase in sales volume and ASP of xanthan gum and high-end amino acid products. On the other hand, the ASP of MSG decreased significantly as a result of competitive pricing amidst market consolidation, while the sales volume of MSG still increased in 2013. These are discussed in more details in the following sections.

Profit attributable to the Shareholders

	Years ended 31 December		
	2013	2012	Change
	RMB'000	*RMB'000*	%
As reported	**506,132**	426,553	18.7

Despite continued overall weakness in the MSG industry and increased transportation and finance costs in 2013, the profit attributable to the Shareholders for 2013 increased by about 18.7% as compared to 2012 as a result of significant growth of xanthan gum and high-end amino acid business in 2013 and slight recovery in the MSG market condition witnessed in the fourth quarter of 2013.

Segment Highlights

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

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

	Year ended 31 December 2013			Year ended 31 December 2012			Increase/(Decrease)		
	MSG	**Xanthan gum**	**Group**	MSG	Xanthan gum	Group	MSG	Xanthan gum	Group
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	%	%	%
Revenue	**9,912,473**	**1,454,249**	**11,366,722**	10,045,614	1,066,306	11,111,920	(1.3)	36.4	2.3
Gross profit	**1,251,517**	**847,926**	**2,099,443**	1,146,475	490,980	1,637,455	9.2	72.7	28.2
Gross profit ratio	**12.6%**	**58.3%**	**18.5%**	11.4%	46.0%	14.7%	1.2 ppts.	12.3 ppts.	3.8 ppts.
Segment results	**189,240**	**757,218**		307,558	434,002		(38.5)	74.5	
Segment net assets									
Assets	**9,735,742**	**2,548,438**		10,004,401	1,875,725		(2.7)	35.9	
Liabilities	**4,346,701**	**516,701**		4,550,774	600,615		(4.5)	(14.0)	
Net assets	**5,389,041**	**2,031,737**		5,453,627	1,275,110		(1.2)	59.3	

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

MSG Segment

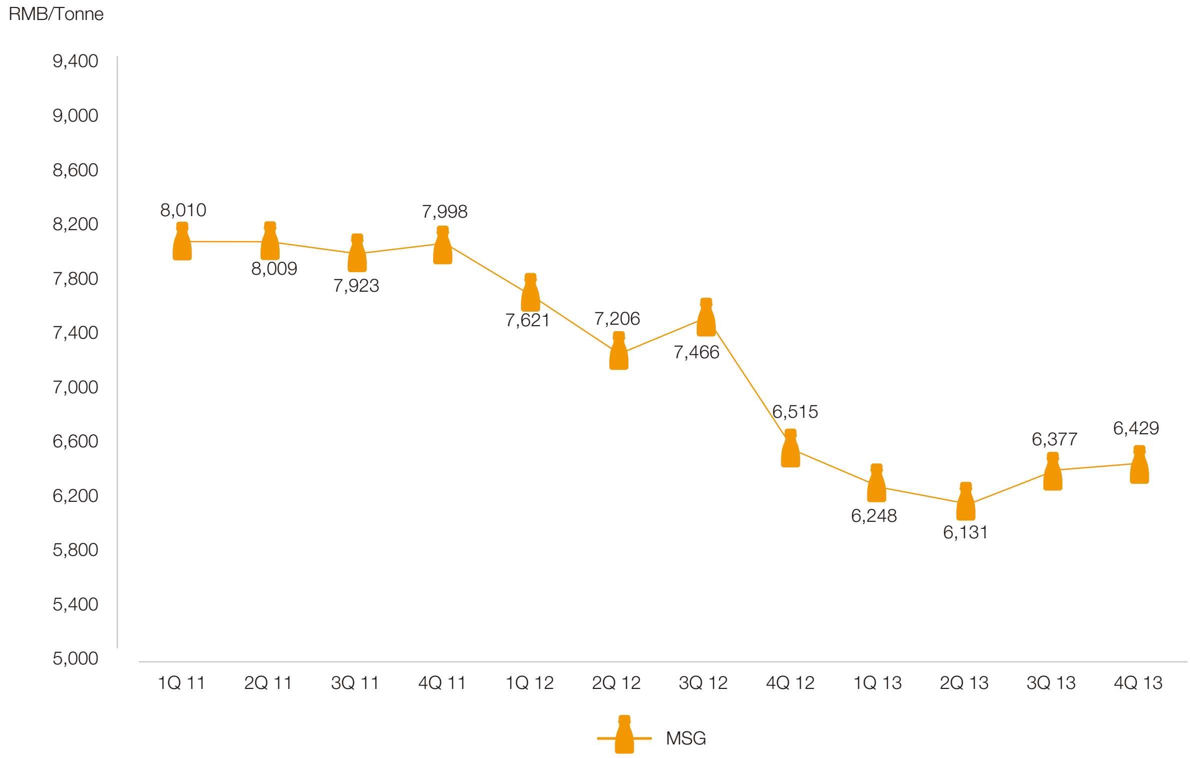
Revenue and ASP

Revenue generated from the sales of the MSG segment products decreased to approximately RMB9,912.5 million in 2013, representing a decrease of RMB133.1 million or 1.3%, as compared with that in 2012, which was mainly attributed to the decrease in the ASP of MSG. The sales volume of MSG was approximately 1,002,566 tonnes in 2013, representing an increase of 6.3%, as compared with that in 2012, mainly attributed to an increase in production capacity and a strategic decision to maintain its competitive pricing policies in order to win market share.

The table below sets out the revenue of the products in this segment for the years ended 31 December 2013 and 2012:

Product	**Years ended 31 December 2013**	2012	Change
	RMB'000	*RMB'000*	%
MSG	**6,323,148**	6,738,424	(6.2)
Glutamic acid	**45,507**	100,012	(54.5)
Fertilisers	**762,054**	893,169	(14.7)
Corn refined products	**1,616,789**	1,561,284	3.6
Starch sweeteners	**470,864**	322,836	45.9
Threonine and lysine	**349,859**	183,668	90.5
High-end amino acid products	**211,373**	85,938	146.0
Corn oil	**34,684**	91,535	(62.1)
Compound seasoning	**8,070**	5,495	46.9
Others	**90,125**	63,253	42.5
	9,912,473	10,045,614	(1.3)

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 2011 to the fourth quarter of 2013:



MSG

The Group was able to maintain its market leadership position in the MSG segment through expanding production capacity, stepping up marketing efforts and maintaining competitive pricing. While the ASP of MSG decreased by about 11.8%, from approximately RMB7,134 per tonne in 2012 to approximately RMB6,295 per tonne in 2013, the Group was able to increase its sales volume by about 6.3% to approximately 1,002,566 tonnes as compared with 2012, resulting in the turnover of MSG in 2013 decreasing only by about 6.2%.

In 2013, the Group also strengthened the export of MSG products and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers. The export of MSG in terms of sales volume increased by about 14.7% in 2013. The export sales of MSG amounted to approximately RMB742.5 million in 2013.

Fertilisers

Our new Hulunbeir Plant commenced full operation in the second half of 2012, resulting in the increase of annual production capacity of fertilisers to 1,100,000 tonnes in 2013. However, the ASP of fertilisers decreased from approximately RMB866 per tonne in 2012 to approximately RMB705 per tonne in 2013, representing a decrease of about 18.6%, which is in line with prevailing market conditions.

Corn refined products

In line with the cost of corn, the ASP of corn refined products remained fairly stable during 2013. The revenue of corn refined products increased by about 3.6% in 2013 as compared with that in 2012, as a result of increased sales volume.

Starch sweeteners

Turnover of starch sweeteners increased by about 45.9% in 2013 primarily because the sales volume of starch sweeteners increased to approximately 157,843 tonnes in 2013, representing an increase of about 56.5% as the demand for our starch sweeteners increased. The Group was able to meet such increase in market demand as the new annual production capacity of starch sweeteners reached 100,000 tonnes in Hulunbeir Plant, which commenced operation in July 2013. The ASP, however, decreased slightly by about 5.2% to approximately RMB2,983 per tonne in 2013 from approximately RMB3,147 per tonne in 2012.

Threonine and lysine

Threonine and lysine are relatively new products of the Group, with total annual production capacity of approximately 40,000 tonnes. Threonine and lysine are essential amino acids which maintain protein balance and are mainly used as animal feed additives. The total revenue of threonine and lysine increased by about 90.5% in 2013 as compared with that in 2012, as a result of increased sales volume. Sales volume increased to about 36,613 tonnes and about 5,677 tonnes of threonine and lysine respectively as compared to the sales volume of about 18,299 tonnes and nil in 2012.

High-end amino acid products

The new high-end amino acid products commenced production in the new Xinjiang Plant at the end of 2012 with annual production capacity of 1,500 tonnes. The annual production capacity has since reached 3,000 tonnes at the end of 2013.

The total sales amount of high-end amino acid products including valine, leucine, isoleucine and glutamine, increased to approximately RMB211.4 million in 2013 as compared to approximately RMB85.9 million in 2012. The high-end amino acid market is one of the key markets that the Group remains focused for development. The objective is to strengthen the brand name of the Group and also continue developing new products for the industrial and retail markets, with a view to enhance market recognition of the Group's products and generate higher demand for such products.

Gross Profit and Gross Profit Margin

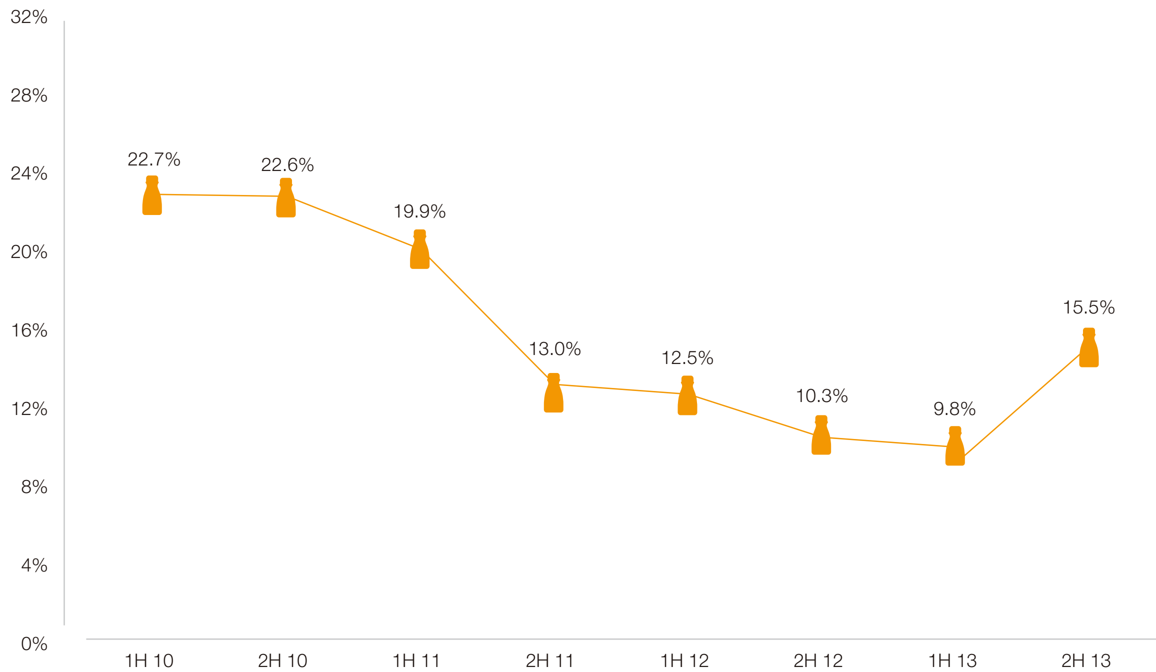
The gross profit of this segment is set out below:

	Years ended 31 December		
	2013	2012	Change
Gross profit *(RMB'000)*	**1,251,517**	1,146,475	9.2%
Gross profit margin *(%)*	**12.6**	11.4	1.2 ppts.

Gross profit increased to RMB1,251.5 million and gross profit margin increased by 1.2 percentage points to 12.6% despite the lower ASP for MSG products in 2013. The increases were primarily due to the higher ASP for some high margin products such as threonine and high-end amino acids products as well as raw material costs were relatively stable. ASP for MSG products, however, showed signs of recovery and increased slightly in the fourth quarter of 2013 as compared to the first nine months of 2013.

The oversupply condition has been improved and the market has turned back to normal conditions. The Group believes that ASP for MSG could begin to stabilise as witnessed by the reversal in ASP since the fourth quarter of 2013. The Group therefore hopes to improve on its pricing power and leading market position for MSG in 2014.

Trend of Gross Profit Margin of MSG Segment



The above chart shows changes in gross profit margin from the 2010 to 2013. With improving margin witnessed in the second half of 2013, the Group believes that the industry consolidation is nearing its end, and expects that the pricing power and ASP of MSG products to stabilise or gradually improve. In addition, new products such as high-end amino acid products which have higher profit margins are starting to generate increased revenue, and the Group believes that such increasing diversity in the product mix will help to improve its gross profit margin in this segment.

Production costs

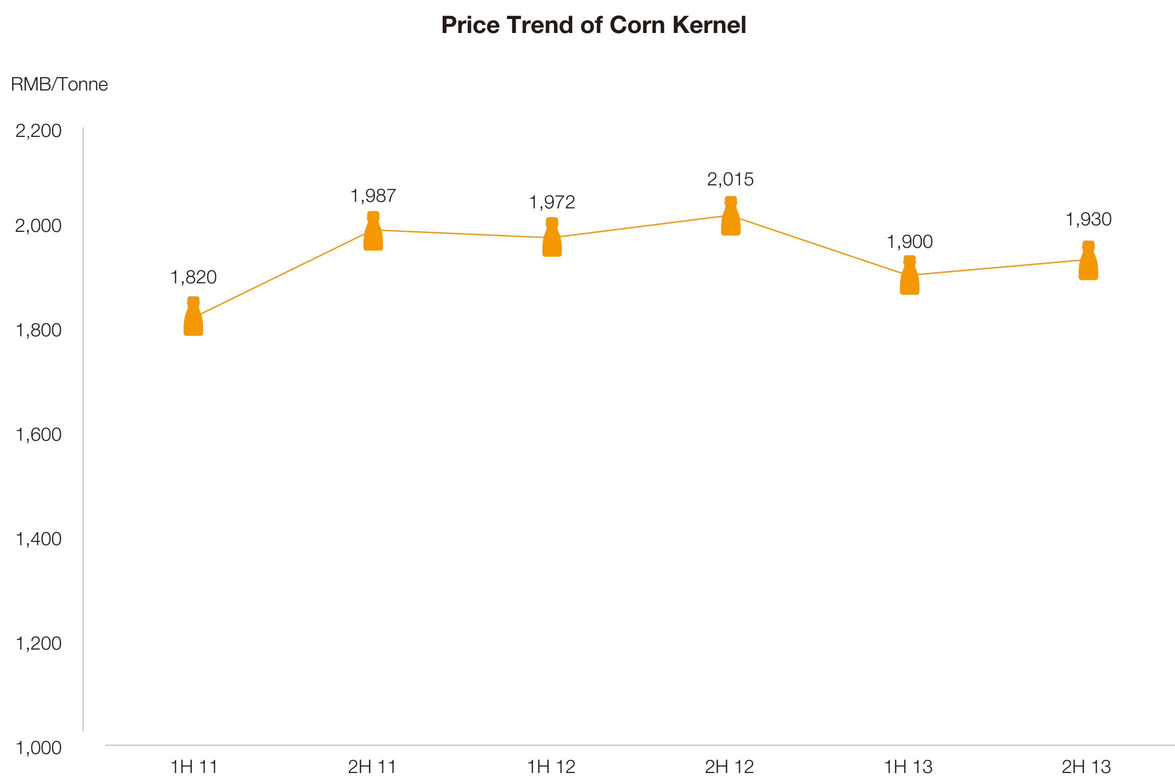
	Years ended 31 December				
	2013		2012		Change
	RMB'000	**%**	*RMB'000*	%	%
Major raw materials					
• Corn kernels	**5,055,865**	**58.7**	5,179,714	56.8	(2.4)
• Liquid ammonia	**247,573**	**2.9**	629,496	6.9	(60.7)
• Sulphuric acid	**175,549**	**2.0**	171,575	1.9	2.3
Energy					
• Coal	**957,742**	**11.1**	987,905	10.8	(3.1)
Depreciation	**553,133**	**6.4**	456,840	5.0	21.1
Employee benefits	**492,567**	**5.7**	421,352	4.6	16.9
Others	**1,128,999**	**13.2**	1,273,571	14.0	(11.4)
Total cost of production	**8,611,428**	**100.0**	9,120,453	100.0	(5.6)

Corn kernels

During 2013, corn kernels accounted for approximately 58.7% (2012: 56.8%) of the total production cost of this segment. The average cost of corn kernels for 2013 was approximately RMB1,913 per tonne, which represents a decrease of approximately RMB81 per tonne or 4.1% from that in 2012.

The average cost of corn kernels slightly decreased in 2013. In addition, with the production capacity of composite ammonia being fully operational since the second half of 2012, a significant proportion of liquid ammonia has been reduced in the production cost component. As a result, the cost of corn kernels as a percentage of total production costs increased by 1.9 percentage points.

The following chart shows the price trend of corn kernel from the first half of 2011 to the second half of 2013:



Liquid ammonia

Liquid ammonia accounted for approximately 2.9% (2012: 6.9%) of total production cost in this segment in 2013. As a result of weaker market demand, the average unit cost of liquid ammonia for 2013 decreased to approximately RMB2,470 per tonne, which represents a decrease of approximately RMB405 per tonne or 14.1% from that of 2012. In addition, the production capacity of composite ammonia has been fully operational since the second half of 2012, thereby reducing a significant proportion of liquid ammonia in the production cost component, leaving only the Baoji Plant which still needs to purchase liquid ammonia from suppliers in the production process. Therefore, the cost of liquid ammonia as a percentage of total production costs decreased by 4.0 percentage points.

Sulphuric acid

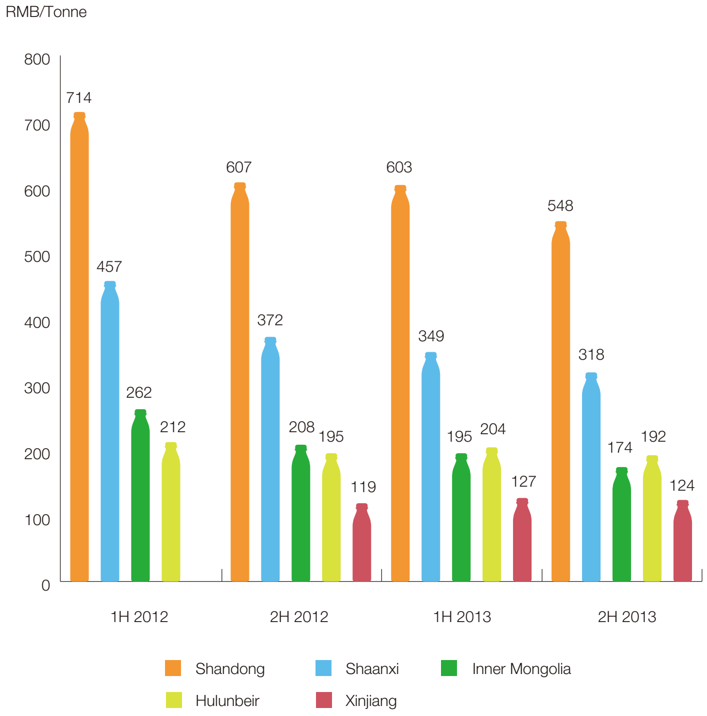
Sulphuric acid accounted for approximately 2.0% (2012: 1.9%) of total production cost in this segment in 2013. The average unit cost of sulphuric acid decreased to approximately RMB314 per tonne, which represents decrease of approximately RMB122 per tonne or 28.0% as compared with the average unit cost of sulphuric acid in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Coal

Coal accounted for about 11.1% of total production cost in this segment in 2013 (2012: 10.8%). The average unit cost of coal for 2013 was approximately RMB204 per tonne, a decrease of RMB53 per tonne or 20.6% from 2012. The decrease in coal prices reflected a slight downward trend in commodity prices during the year.

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



Other production costs

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

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 2013	2012	Change
	Tonnes	*Tonnes*	%
MSG			
Annual designed production capacity *(Note)*	**1,050,000**	1,008,333	4.1
Actual production output	**983,227**	965,896	1.8
Utilisation rate	**93.6%**	95.8%	
Glutamic acid			
Annual designed production capacity *(Note)*	**820,000**	786,667	4.2
Actual production output	**791,810**	802,140	(1.3)
Utilisation rate	**96.6%**	102.0%	
Fertilisers			
Annual designed production capacity *(Note)*	**1,100,000**	1,058,333	3.9
Actual production output	**982,355**	1,077,427	(8.8)
Utilisation rate	**89.3%**	101.8%	
Starch sweeteners			
Annual designed production capacity *(Note)*	**190,000**	140,000	35.7
Actual production output	**162,463**	103,523	56.9
Utilisation rate	**85.5%**	73.9%	

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

Utilisation rates remained relatively high despite decreasing slightly in 2013, as the Baoji Plant was temporarily stopped production for few months to undergo a maintenance overhaul in the second half of 2013, after our assessment of sufficient overall level of MSG inventory had already being stocked to meet the total MSG demand in 2013. The Baoji Plant has since re-started normal production in November 2013.

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 2013 and 2012:

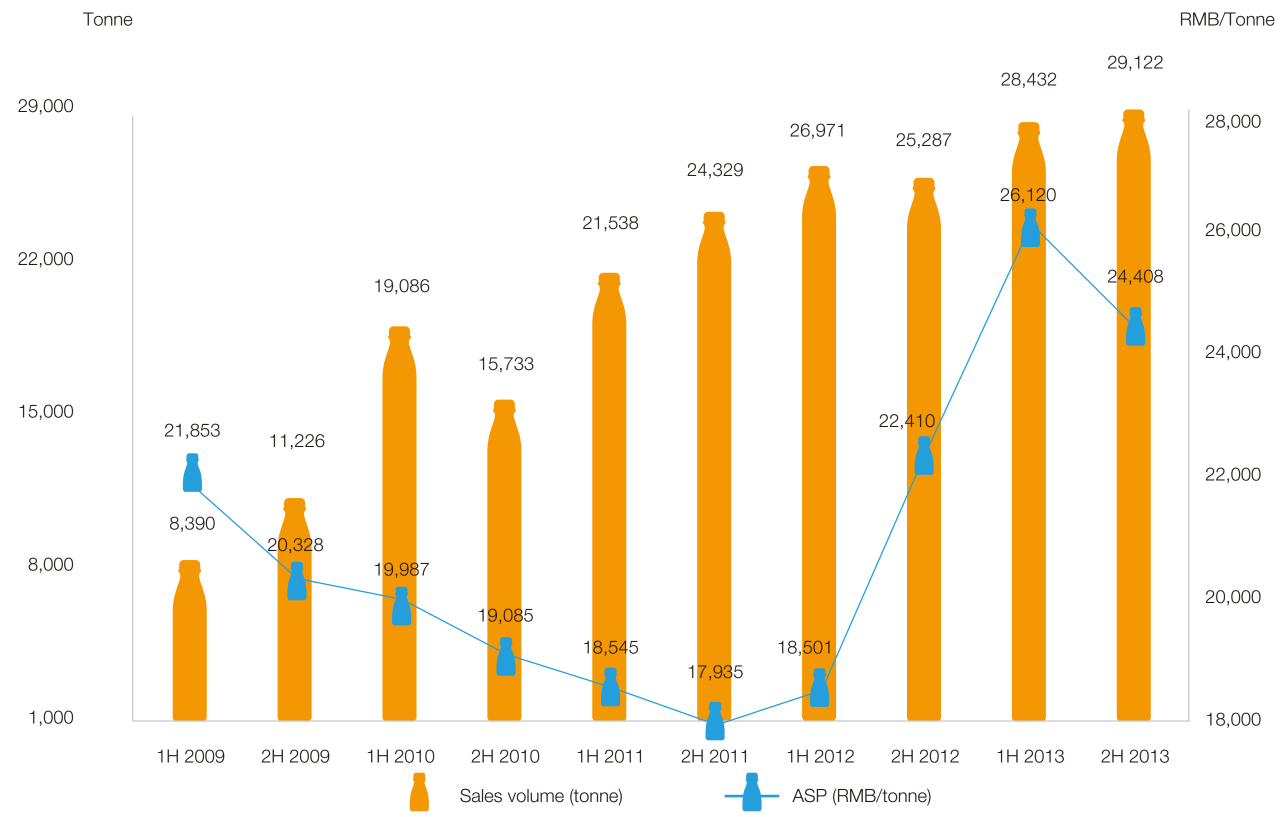
	Years ended 31 December		Change
	2013	2012	%
Revenue *(RMB'000)*	**1,454,249**	1,066,306	36.4
ASP *(RMB/tonne)*	**25,254**	20,392	23.8
Gross profit *(RMB'000)*	**847,926**	490,980	72.7
Gross profit margin *(%)*	**58.3**	46.0	12.3 ppts.
Annual designed production capacity *(tonnes) (Note)*	**65,250**	46,500	40.3
Actual production output *(tonnes)*	**65,200**	48,923	33.3
Utilisation rate	**99.9%**	105.2%	(5.3) ppts.

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

Revenue generated from xanthan gum increased by about 36.4% to approximately RMB1,454.2 million in 2013, from approximately RMB1,066.3 million in 2012. The significant increase in revenue was due to the growth in market demand and the higher ASP since the second half of 2012.

The Group's export of xanthan gum steadily increased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed approximately 86.4% and 90.2% of total sales of xanthan gum in 2012 and 2013, respectively.

Sales and ASP



Sales volume increased by about 10.1% in 2013, driven by expanding production capacity, while sales revenue increased by 36.4% over 2013. A significant increase in the ASP of xanthan gum was the main driver for the increase in revenue of xanthan gum during the year due to an overall supply shortage in the industry.

Global industry-wide demand for xanthan gum remained strong in 2013, and the Group expects this to continue in the foreseeable future as demand continues to grow in the oil and gas exploitation industry as well as other sectors.

Gross profit and gross profit margin

Gross profit of the Xanthan gum segment increased by about 72.7% from approximately RMB491.0 million in 2012 to approximately RMB847.9 million in 2013. Gross profit margin increased as well, by 12.3 percentage points in 2013, reflecting the Group's pricing ability and our competitive costs advantage at the IM Plant and new Xinjiang Plant.

Production costs

	Years ended 31 December				
	2013		2012		Change
	RMB'000	**%**	*RMB'000*	*%*	*%*
Major raw materials					
• Corn kernels	**304,228**	**45.5**	229,096	41.7	32.8
• Soybeans	**58,957**	**8.8**	39,974	7.3	47.5
Energy					
• Coal	**122,751**	**18.4**	141,079	25.7	(13.0)
Depreciation	**45,497**	**6.8**	34,885	6.3	30.4
Employee benefit	**60,329**	**9.0**	43,986	8.0	37.2
Others	**76,466**	**11.5**	60,863	11.0	25.6
Total cost of production	**668,228**	**100.0**	549,883	100.0	21.5

Corn kernels

In 2013, corn kernels represented approximately 45.5% (2012: 41.7%) of the total production cost of this segment. Corn kernels increased by 32.8%, which was in line with the increase in production output volume during the year due to the commencement in production of xanthan gum in the Xinjiang Plant since the fourth quarter of 2012. The corn kernels price decreased from approximately RMB1,984 per tonne in 2012 to approximately RMB1,952 per tonne in 2013, representing a decrease of 1.6%.

Soybeans

During 2013, soybeans accounted for approximately 8.8% (2012: 7.3%) of the total production cost of this segment. The increase in proportion was mainly due to the increase in soybeans prices from approximately RMB4,230 per tonne in 2012 to approximately RMB4,549 per tonne in 2013, representing an increase of 7.5%.

Coal

In 2013, coal accounted for approximately 18.4% (2012: 25.7%) of the total production cost of this segment. The Group took full advantage of the relatively low coal cost that the Group was able to source and utilise locally in its IM Plant and Xinjiang Plant. The average unit cost of coal in 2013 was approximately RMB177 per tonne, which represents a decrease of approximately RMB56 per tonne or 24.0% from that of 2012.

Other production costs

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

Other Financial Information

Selling and marketing expenses

A substantial increase in selling and marketing expenses was mainly due to an increase in the transportation costs for delivery of goods from the IM Plant and Hulunbeir Plant to customers in the southwest regions of the PRC. Other selling and marketing expenses increased generally in line with the increase in sales.

Administrative expenses

Administrative expenses increased by approximately RMB101.3 million or 23.0% in 2013. The increase was mainly due to increased depreciation and staff costs at the new Xinjiang Plant that started operations in the second half of 2012. In addition, part of depreciation and manufacturing expenses of Baoji Plant are allocated to administrative expenses as the Baoji Plant was temporarily stopped production for few months to undergo a maintenance overhaul in the second half of 2013.

Finance costs (net)

The finance costs (net) of the Group in 2013 increased by approximately RMB45.4 million or about 18.6% when compared with 2012, due to an increase in bank borrowings incurred for the expansion of business. In addition, the Company successfully raised USD150.0 million through a syndicated bank loan at the end of 2012, which was mainly used for repurchase of the 2010 CB. The syndicated bank loan was fully repaid by proceeds from 2013 CB in December 2013. All relevant professional fees related to the syndicated bank loan were also realised in 2013.

Staff costs

Staff costs of the Group increased by approximately RMB168.0 million or approximately 25.0% from approximately RMB671.0 million in 2012 to approximately RMB839.0 million in 2013. The increase was mainly due to the increase in the number of staff as a result of expansion of the Group's production facilities and the increase in the average salary and pension costs of the senior management and staff, generally in line with prevailing market rate.

Depreciation

Depreciation expense of the Group increased by approximately RMB161.7 million or approximately 30.6% from approximately RMB528.6 million in 2012 to approximately RMB690.3 million in 2013. The increase was mainly due to the commencement of production at the Hulunbeir Plant Phase 2 and the Xinjiang Plant in the second quarter and the fourth quarter of 2012, respectively.

Income tax expense

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

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財税2011 58號 "關於深入實施西部大開發戰略有關稅收政策問題的通知"), companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government will be entitled to a preferential tax rate of 15%.

Some of the Group's subsidiaries in the PRC, namely Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate in 2013.

Shandong Fufeng was approved to be a new and high-technology enterprise and entitled to a 15% tax rate from 2008 to 2010. In 2011, its new and high-technology enterprise qualification was further extended for another three years. Accordingly, the effective tax rate for Shandong Fufeng for the year ended 31 December 2013 is 15% (2012: 15%).

Shenhua Pharmaceutical was approved to be a new and high-technology enterprise and entitled to a 15% tax rate from 2012 to 2014.

Outlook

Looking ahead to 2014, it is expected that the economic situation in the PRC will remain sluggish as a whole. The lack of consumer confidence and the slowdown in the growth of the economy will continue to affect the food and catering industry. However, as the short-term impact arising from negative factors including "Avian Flu" incident and restrictions of "3 Public Consumptions" policy gradually lessen, it is anticipated that the food and catering industry will gradually become stable in 2014. As a result, the Group expects the operating environment to be slightly better as compared to 2013.

MSG segment

After more than two years of industry consolidation and pricing competition, the Group believes that excess production capacity has been largely eliminated, resulting in numerous uncompetitive medium-and-small-sized enterprises exiting the industry. The market is now dominated by several leading enterprises, and it appears that the long-standing oversupply situation is improving as witnessed by the increase in ASP of MSG products since the fourth quarter of 2013. The Group will keep abreast of the market and seize opportunities to continue to increase its market share by leveraging on its economies of scale of the MSG business. As a market leader, the Group will strive to play its part in creating a sustainable competitive environment for the MSG industry.

High-end amino acid business in the Xinjiang Plant began to show strong growth in 2013 with annual sales of amino acid products (such as valine, leucine, isoleucine and glutamine) of approximately 2,406 tonnes, realising sales revenue of approximately RMB211.4 million. Through strategic cooperation with Shenhua Pharmaceutical, our products have been sold to many domestic and foreign health care companies and pharmaceutical enterprises. This basically achieved the Group's goal of "enriching the diversity of products portfolio, upgrading products class, enhancing product recognition" by tapping the high-end amino acid products market and has laid the foundation for us to become a comprehensive provider of biochemical products.

Xanthan gum segment

With the commencement of production of xanthan gum in Xinjiang Plant Phase 2, the annual production capacity of xanthan gum of the Group has reached 74,000 tonnes by the end of 2013.

Xanthan gum business has become a pillar of the Group's growth drivers in 2013, providing key support to the Group as a whole in the face of the unprecedented challenges the Group faced in the MSG industry. We believe that such product diversity and competitive advantages differentiate us from our competitors who have narrower product range. Throughout the year under review, thanks to the growing demand in oil and gas exploitation industry, the production and sales of xanthan gum both were in boom with prices reaching a high point not seen for years. Annual sales volume reached approximately 58,000 tonnes, representing an increase of approximately 10.1 % compared to 2012. The average selling price for the whole year was approximately RMB25,254 per tonne, up 23.8% from 2012. In particular, when confronted with the anti-dumping investigation by the U.S. Department of Commerce, we responded proactively and managed to turn around the unfavorable situation with the dedicated efforts from our team resulting in an anti-dumping rate much lower than other companies in the PRC which further consolidated our leading position in the industry. This result not only opened the door for us to further develop high-end markets, including the U.S., but also further confirmed the unparalleled cost advantage of the Group's xanthan gum products amongst the peers. Meanwhile, the anti-dumping investigation also turned out to be a boost to the Group's corporate image as a private enterprise in the international market and biochemical industry, which will give us a greater leverage when expanding into other international markets.

Although market demand remaining strong, the Group expects the ASP of xanthan gum will face downward pressure if global production capacity continues to increase resulting in oversupply. The Group will continue to fully leverage on the diversity of its customers, well-established sales network, strong customer relationships and cost advantages to further consolidate its leading position in the xanthan gum market.

Future Plan and Recent Development

Relocation of production plant in Baoji

On 16 January 2014, Baoji Fufeng entered into a framework investment agreement (the "Framework Investment Agreement") with Caijiapo Economic and Technological Development Zone Management Committee of Shaanxi Province (陝西省蔡家坡經濟技術開發區管理委員會) ("Caijiapo Committee"). Pursuant to the Framework Investment Agreement, Baoji Fufeng and Caijiapo Committee will, subject to the entering of further definitive agreement(s), establish new production facilities in the Caijiapo Economic and Technological Development Zone of Shaanxi Province (陝西省蔡家坡經濟技術開發區) (the "Framework Cooperative Investment"). Such new production facilities are planned to replace the existing production facilities of the Baoji Plant. The Directors did not anticipate any significant impact on the Group's financial position as at 31 December 2013 regarding to the relocation of Baoji Fufeng.

According to the Framework Investment Agreement, Caijiapo Committee will provide land, for the relocation of the Baoji Plant, to Baoji Fufeng with a total site area of 500 mu (equivalent to approximately 333,335 square metres), with a land use right of 50 years, for a consideration of RMB30 million, subject to the entering into of the definitive agreement. In addition, Baoji Fufeng will also enjoy certain preferential tax treatment and refund in the coming years.

The Directors expect that the entire construction and relocation of Baoji Plant will be fully completed in 2016 and MSG production would be gradually rolled out at the new Baoji Plant over such two-year period. As a result, even though that it is expected that in 2014 and 2015, MSG production capacity at the Baoji Plant of the Group would be reduced by around 60,000 tonnes in each year respectively due to the relocation, the Group as a whole could still maintain an annual MSG production capacity of around 1,000,000 tonnes by utilising the existing facilities at Baoji plant (until full relocation) and other MSG plants of the Group. It is currently expected that capital expenditure for the construction and relocation of Baoji Plant will be approximately RMB300 million in 2014 and that such amount will be funded by the internal resources of the Group.

Development of high-end amino acid products

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

The Group commenced the operation of a new production base for the high-end amino acid products in Xinjiang in the second half of 2012, with significant cost advantage due to abundant coal supply in Xinjiang. At the end of 2013, the annual production capacity of high-end amino acid products in the Xinjiang Plant reached 4,000 tonnes. The Group is in the process of installing a new production line of high-end amino acid products in the new Xinjiang Plant. Upon completion towards the second half of 2014, the total annual production capacity of high-end amino acid products in the Xinjiang Plant will reach 5,000 tonnes.

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

The Group will also actively introduce new products with high profitability, such as hyaluronic acid, and strive to further enhance our market position as well as our competitive advantages. The Group is in the process of installing a new production line of hyaluronic acid in Xinjiang Plant. The Group expected the annual production capacity of hyaluronic acid will reach 50 tonnes in 2014.

Overseas market expansion

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

Other Information

Liquidity and financial resources

As at 31 December 2013, the Group's cash and cash equivalent and restricted bank deposits were RMB862.4 million (2012: RMB550.4 million) whereas current bank borrowings and convertible bonds were approximately RMB1,167.9 million and nil (2012: RMB2,230.6 million and RMB177.0 million) and non-current bank borrowings and non-current other borrowings (including the balances of senior notes, convertible bonds and medium-term note) were approximately nil and RMB3,309.2 million (2012: RMB188.6 million and RMB1,856.4 million), respectively.

During the year, the Company successfully issued 348,209,600 rights shares in May 2013, raising approximately HKD618.5 million after expenses, which were mainly used for repayment of bank borrowings and working capital.

Convertible Bonds

The Group issued RMB820.0 million in convertible bonds with a fixed rate of 4.5% per year on 1 April 2010 together with bond options of RMB205.0 million on 22 April 2010 ("2010 CB"). In November 2012, the Company repurchased a principal amount of RMB843.8 million of the 2010 CB resulting in an outstanding principal amount of 2010 CB of RMB181.2 million as at 31 December 2012. On 1 March 2013, certain holders of 2010 CB irrevocably exercised their right to request the Company to redeem RMB167 million principal amount of 2010 CB on 2 April 2013. The current outstanding principal amount of 2010 CB is amount to RMB13.2 million.

The Group issued RMB975.0 million in new convertible bonds with a fixed coupon rate of 3.0% per year on 27 November 2013 with 5 year terms ("2013 CB"). The yield to maturity rate of 2013 CB is 4.5% per annum. The net proceeds in the amount of approximately USD155 million from the Issue of the 2013 CB was mainly used to repay the syndicated bank loan.

Senior Notes

The Company 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 was 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 were to be exclusively used to repurchase the above mentioned 4.5% 2010 CB. The syndicated bank loan has been fully settled on 20 December 2013.

Medium-term note

In April 2013, IM Fufeng issued a medium-term note at a par value of total amounted to RMB600 million, which was dominated in RMB with a fixed interest of 5.11% per annum. The note matures in three years from the issue date. The net proceeds was used to repay certain short term bank loans and for general working capital purposes.

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

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 2013.

Employees

As at 31 December 2013, the Group had approximately 5,000 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. Please refer to the paragraph headed "Share Option Scheme" section below for the share options granted to certain Directors and employees of the Group.

Contingent Liabilities

As at 31 December 2013, the Group had no material contingent liabilities.

Charges on assets

As at 31 December 2013, no leasehold land, property, plant and equipment of the Group (2012: RMB29.4 million) were pledged to secure bank borrowings of the Group (2012: RMB49.5 million).

Gearing ratio

As at 31 December 2013, the total assets of the Group amounted to approximately RMB12,619.2 million (2012: RMB11,971.0 million) whereas the total borrowings amounted to RMB4,477.1 million (2012: RMB4,452.6 million). The gearing ratio was approximately 35.5% (2012: 37.2%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

The Directors do not consider 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, USD bank borrowings and convertible bonds. 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 2013.

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

The Board recommended the declaration of a final dividend of HK4 cents per share, subject to Shareholders' approval at the annual general meeting.

The final dividend will be payable on or about 31 May 2014 to Shareholders whose names appear on the register of members of the Company on 14 May 2014.

Purchase, redemption or sales of listed securities of the Company

The Company repurchased 1,697,000 shares in June 2013. Those shares were cancelled on 10 July 2013. The total consideration of the shares amounted to HKD3,888,000. Except the above, 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 2013.

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 2013, the Company has complied with the Code Provisions of the Revised CG Code 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 23 May 2013. 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 2013, 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 2 May 2014 to 8 May 2014 (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 8 May 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 30 April 2014.

The register of members of the Company will be closed from 14 May 2014 to 16 May 2014 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 13 May 2014.

Annual general meeting

The annual general meeting is expected to be held on 8 May 2014. A notice convening the annual general meeting will be dispatched to the Shareholders in due course.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance practices. Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices.

Corporate Governance Code

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 2013, the Company has complied with the Revised CG Code for the year from 1 January 2013 to 31 December 2013 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 23 May 2013. 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.

Board of Directors

The Board comprises (i) seven executive Directors, Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng, Mr. Chen Yuan, and Mr. Li Guangyu; and (ii) four independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning, Mr. Liang Wenjun and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Board and Mr. Wang Longxiang is the general manager of the Group. Mr. Li Xuechun is the father of Mr. Li Guangyu and the brother-in-law of Mr. Li Deheng.

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

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is collectively responsible for promoting the success and interest of the Group through its leadership and supervision. The principal tasks of the Board are to:

– provide entrepreneurial leadership for the Company with a framework of prudent and effective controls which enables risks to be assessed and managed;

– set the Company's strategic aims, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives and review its management performance; and

– set the Company's values and standards and ensure that its obligations to its Shareholders and others are understood and met.

No event or condition of material uncertainties was found that may cast significant doubt about the Company's ability to continue as a going concern during the Year. The Directors were responsible for the preparation and the true and fair presentation of the financial statements of the Company, in all material respects, in accordance with applicable regulatory requirements.

The Division of Responsibilities Between the Chairman and the Chief Executive Officer (General Manager) (internally designated as General Manager of the Group)

The roles of the Chairman and the Chief Executive Officer (General Manager) (internally designated as General Manager of the Group) should be separated. Mr. Li Xuechun, being the chairman of the Group, is responsible for the orderly conduct and operation of the Board while Mr. Wang Longxiang, being the General Manager of the Group, is responsible for the daily operations of the Group. The division of responsibilities between the Chairman and the General Manager is clearly established.

The main duties of the Chairman include providing leadership for and overseeing the functioning of the Board; formulating overall strategies and policies of the Company; ensuring that all directors of the Board are properly briefed on issues arising at Board meetings and giving each director an opportunity to express his view at board meetings; ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner; ensuring that the Board works effectively and discharges its responsibilities; ensuring that all key and appropriate issues are discussed by the Board in a timely manner; drawing up and approving the agenda for each board meeting taking into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda; taking responsibility for ensuring that good corporate governance practices and procedures are established; encouraging all directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Company; ensuring that appropriate steps are taken to provide effective communication with Shareholders and that views of Shareholders are communicated to the Board as a whole; and facilitating the effective contribution of directors and ensuring constructive relations between executive directors and non-executive directors.

The duties of the General Manager include taking responsibility for the Group's operation and management; implementing decisions and plans approved by the Board; making day-to-day operational and managerial decision; and coordinating overall business operations.

Independent Non-Executive Directors

Independent non-executive Directors have been appointed for a term of two years. They are subject to retirement and re-election in accordance with the Company's Articles of Association.

In accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules, the Board is of the view that all independent non-executive directors are independent and the Company has received an annual confirmation of independence from each of the independent non-executive directors of the Company pursuant to the Listing Rules. As the four Independent non-executive Directors, representing over one-third of the Board, constituted a proper balance of power maintaining full and effective control of both the Group and its executive management.

Company Secretary

The Company Secretary is a full time employee of the Company and reports to the Chairman of the Board and the General Manager. He is responsible for advising the Board on governance matters. For the year under review, the Company Secretary has more than 20 years of working experience in finance and accounting including over 9 years experience as company secretary of Hong Kong Listing Company. He confirmed he has taken no less than 15 hours of relevant professional training.

Skills, Knowledge, Experience and Attributes of Directors

All Directors of the Board had served in office during the year. Every Director commits to give sufficient time and attention to the affairs of the Company. The Directors also demonstrate their understanding and commit to high standards of corporate governance. The executive Directors bring their perspectives to the Board through their deep understanding of the Group's business. The independent non-executive Directors contribute their own skills and experience, understanding of local and global economies, and knowledge of capital markets to the Group's business. The Company is responsible for arranging and funding suitable continuous professional development programmes for all Directors to hone and refresh their knowledge and skills.

Directors' Induction and Continuous Professional Development

Upon appointment to the Board, each newly appointed Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enrol in a wide range of professional development courses or and seminars relating to the Listing Rules, companies ordinance or act and corporate governance practices organised by professional bodies and independent auditors so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written materials to develop and refresh their professional skills; the company secretary also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the year:

Director	Corporate Governance/ Updates on laws, rules and regulations	
	Read materials	Attend workshops
Executive Directors		
Mr. Li Xuechun	✓	✓
Mr. Wang Longxiang	✓	✓
Mr. Feng Zhenquan	✓	✓
Mr. Xu Guohua	✓	✓
Mr. Li Deheng	✓	✓
Mr. Chen Yuan	✓	✓
Mr. Li Guangyu	✓	✓
Independent non-executive Directors		
Mr. Choi Tze Kit, Summy	✓	✓
Mr. Chen Ning	✓	✓
Mr. Liang Wenjun	✓	✓
Ms. Zheng Yu	✓	✓

Board Meetings

The chairman is responsible for the leadership of the Board, ensuring the effectiveness of the Board in all aspects of its role, setting agenda for board meetings, and taking into account any matters proposed by other Directors for inclusion in the agenda. Agenda and related board papers are circulated at least 7 days before the time of a board or committee meeting where possible.

The chairman is also responsible for making sure all Directors are properly briefed on issues arising at board meetings. The chairman also ensures that the Directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Company through their initial induction, ongoing participation at board and committee meetings, and through meeting key people at head office and in the divisions.

All Directors have access to the services of the company secretary who regularly updates the Board on governance and regulatory matters. Any Director, who wishes to do so in the furtherance of his or her duties, may seek independent professional advice through the chairman at the Company's expense. The availability of professional advice extends to the Audit, Remuneration and other Committees.

Minutes of Board meetings are taken by the company secretary or the secretary to the Board and, together with any supporting Board papers, are available to all Board members. Board meetings are structured to encourage open and frank discussions to ensure the non-executive Directors provide effective enquiries to each executive Director. When necessary, the independent non-executive Directors meet privately to discuss matters which are relevant to their specific responsibility.

In furtherance of good corporate governance, the Board has established three committees: Audit Committee, Nomination Committee and Remuneration Committee. All committees have its terms of reference which fulfill the principles set out in the CG Code. The secretary of the Board takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

Directors' and Officers' Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. Throughout the year, no claim had been made against the Directors and the officers of the Company.

Regular Board meetings will be held at least four times a year and the Board will convene other meetings when necessary. Before a Board meeting is convened, relevant documents will be sent to the Directors for their review pursuant to the Listing Rules and the Code. For the year ended of 31 December 2013, seven regular Board meetings were held. Individual attendance of each director at the Board meeting during 2013 is set out below:

Attendance/Number of Board Meetings in 2013

Director	Attendance/ Number of Board Meetings
Executive Directors	
Mr. Li Xuechun *(Chairman)*	7/7
Mr. Wang Longxiang	7/7
Mr. Feng Zhenquan	7/7
Mr. Xu Guohua	7/7
Mr. Li Deheng	7/7
Mr. Chen Yuan	7/7
Mr. Li Guangyu	7/7
Independent non-executive Directors	
Mr. Choi Tze Kit, Sammy	7/7
Mr. Chen Ning	6/7
Mr. Liang Wenjun	7/7
Ms. Zheng Yu	7/7

Model Code on Securities Transactions

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

Accountability and Auditor's Remuneration

The Directors acknowledge their responsibility for preparation of consolidated financial statements of the Group. This responsibility has also been mentioned in the independent auditor's report on page 49.

The Board had conducted a review on the system of internal control of the Group and considers that the system of internal control is effectively operated.

The professional fee payable to the auditors of the Group in respect of the audit and non-audit services provided by the auditors of the Group is as follows:

Type of services	Amount *(RMB'000)*
Audit services	5,149
Non-audit services	4,200
	9,349

Non-audit services mainly represented the professional fee payable of the Group for the service related to the projects of internal control review and the service of tax consultation.

Audit Committee

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

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

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

The Audit Committee meetings will be held at least twice a year. For year ended of 31 December 2013, three Audit Committee meetings were held with Mr. Choi Tze Kit, Sammy, Mr. Liang Wenjun and Ms. Zheng Yu attended all the meetings while Mr. Chen Ning attended two meetings.

The purpose of the meetings to review the Group's results for the year 2012, the interim results for the year 2013 as well as discussing the internal control review and the audit of the Group. The Group's 2012 annual report and 2013 interim report have been reviewed by the Audit Committee, which was of the opinion that such reports were prepared in accordance with the applicable accounting standards and requirements.

Remuneration Committee

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

The principal functions of the Remuneration Committee are to review, develop and approve the Group's policy on remuneration of all Directors and senior management for the purpose of retaining and attracting talent to manage the Group effectively. The Directors and their associates do not participate in the decisions in relation to their own remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions else where in the Group and desirability of performance – based remuneration so as to align management incentives with Shareholders' interests.

The Remuneration Committee meetings will be held at least once a year. For year ended of 31 December 2013, one Remuneration Committee meeting was held. All Remuneration committee members attended the meeting. The meeting of the Remuneration committee was duly held for reviewing and determination of the annual remuneration packages of the executive Directors. The Remuneration committee consults the chairman and general manager about its proposals relating to the remuneration of other executive Directors.

Nomination Committee

The Company has established a Nomination Committee on 20 March 2012 in compliance with the Code. The Nomination Committee is responsible for the appointing of new directors either to fill casual vacancies or as additional Board members. The Nomination Committee comprises two executive Directors, Mr. Li Xuechun and Mr. Wang Longxiang and three independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Mr. Liang Wenjun. Mr. Li Xuechun is the chairman of the Nomination Committee.

For year ended of 31 December 2013, no Nomination Committee meetings were held.

Shareholders' Rights

The Company recognises the importance of good communications with the Shareholders and the investment community and also recognises the value of providing current and relevant information to Shareholders and the investors. The Board has established a Shareholders' communication policy setting out the principles of the Company in relation to the Shareholders' communication, with the objective of ensuring the Shareholders and investors are provided with ready, equal and timely access to current and relevant information about the Company.

The Company maintains on-going dialogue with Shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered Shareholders are notified by post for the Shareholders' meetings. Notice of meeting contains agenda, proposed resolutions and postal voting form.

All registered Shareholders are entitled to attend annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Annual and interim reports offer comprehensive operational and financial performance information to Shareholders and the annual general meeting of the Company provides a forum for Shareholders to exchange views directly with the Board, which together help enhance and facilitate communication with Shareholders. Shareholders who are unable to attend a general meeting may complete and return to the Company's Share Registrar the proxy form enclosed with notice of meeting to give proxy to their representatives, another Shareholder or chairman of the meetings.

Investor Relations and Communications

The Company recognises the importance of efficient and effective communications with the investor community. Briefings and meetings with institutional investors are conducted regularly to provide them with up-to-date and comprehensive information about the Group's development. Besides, the Company facilitates the initiation and coverage of the Company published by research analysts of well-received investment banks which are instrumental in providing investors with independent and professional evaluations of the Company. Moreover, the Group participates in different international forums and overseas non-deal roadshows to elaborate on the Group's business development plans to global investors. Furthermore, the Company arranges site visits for investors to our main plants in China. Last but not least, the Company has established a function dedicated to investor relations and engaged an external public relations company to take care of investor relations matters. The Company also maintains a website (http://www.fufeng-group.com) which renders Shareholders, investors and the general public direct access to the information of the Company on a timely basis.

In order to enable Shareholders to exercise their rights in an informed manner, and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders may at any time send their enquiries and concerns to the Company via the Company's website at www.fufeng-group.com. Shareholders may also make enquiries with the Board at the general meetings of the Company.

2013	Investor Relations Events and Activities
January	UBS 13th Greater China Conference, Shanghai
March	2012 Annual Results Analyst Meeting and Roadshow, Hong Kong, Singapore
April	UBS Hong Kong/China Small & Mid Caps Corporate Day 2013, Hong Kong
May	Macquarie Greater China Conference 2013, Hong Kong
June	J.P. Morgan's 9th Annual China Summit, Beijing CIMB 11th Annual Asia Pacific Leaders' Conference, London Nomura Investment Forum Asia 2013, Singapore
August	2013 Interim Results Analyst Meeting and Roadshow, Hong Kong, Singapore
September	RHB-OSK Hong Kong & ASEAN Corporate Day, Hong Kong
November	Daiwa 10th Annual CB Conference, Hong Kong Nomura Annual Asian High Yield Corporate Day, Hong Kong
December	CICC Investment Forum 2013, Beijing

DIRECTORS' REPORT

The Board has the pleasure in presenting the report and the audited financial statements of the Group for the year ended 31 December 2013.

Principal Activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in note 35 to the consolidated financial statements.

Result and Appropriations

Results of the Group for the year ended 31 December 2013 are set out under the consolidated income statement on page 54.

Interim dividend declared and paid after the interim period of HK2 cents (equivalent to RMB1.59 cents (2012: Nil) per Share totaling HKD41,751,000 (equivalent to RMB33,259,000). The Board recommends the payment of a final dividend of HK4 cents per Share (equivalent to RMB3.16 cents per Share totaling HKD83,502,000 (equivalent to RMB65,925,000) for the year ended 31 December 2013.

Material Acquisitions or Disposal of Subsidiaries and Associated Companies

The Group had no material acquisitions or disposal of subsidiaries or associated companies for the year ended 31 December 2013.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in notes 16 and 18 to the financial statements.

Property, Plant and Equipment

Details of the movement in property, plant and equipment of the Group and of the Company are set out in note 7 to the financial statements.

Share Capital

Details of the movement in share capital of the Company are set out in note 15 to the financial statements.

Distributable Reserves

As at 31 December 2013, the Company's reserves available for distribution to the Shareholders amounted to RMB645,022,000 (2012: RMB369,014,000).

Directors

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

Executive Directors

Mr. Li Xuechun *(Chairman)*
Mr. Wang Longxiang
Mr. Feng Zhenquan
Mr. Xu Guohua
Mr. Li Deheng
Mr. Chen Yuan
Mr. Li Guangyu

Independent Non-executive Directors

Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Liang Wenjun
Ms. Zheng Yu

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

According to Article 87 of the articles of association of the Company, Mr. Wang Longxiang, Mr. Li Deheng, Mr. Chen Ning and Mr. Liang Wenjun should retire by rotation and, being eligible, consider to offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

Each of the independent non-executive Directors proposed for re-election at the forthcoming annual general meeting has renewed into a service contract with the Company for two years commencing form 8 February 2013 and is subject to the requirement on rotation, removal, vacation or termination of office according to the articles of association of the Company, the relevant laws and the Listing Rules.

As at 31 December 2013, there was no service contract which was not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any Director proposed for re-election at the forthcoming annual general meeting.

Directors' Interests in Shares

The interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as at 31 December 2013, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position

Name of Director	Name of company	Capacity	Number and class of securities	Percentage of interests to total issued share capital (approximate)
Li Xuechun	The Company	Interests of controlled corporation *(Note 1)*	963,342,461 Shares	46.15%
Wang Longxiang	The Company	Beneficial interests *(Note 2)*	8,292,000 Shares	0.40%
Chen Yuan	The Company	Beneficial interests *(Note 3)*	5,355,224 Shares	0.26%

Notes:

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

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

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

Save as disclosed above, for the year ended 31 December 2013, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests of Person Holding 5% or More Interests

As at 31 December 2013, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position

Name	Name of Group member	Capacity	Class and number of securities	Percentage of interests to total issued share capital (approximate)
Motivator Enterprises Limited *(Note 1)*	The Company	Beneficial interests	963,342,461 Shares	46.15%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	963,342,461 Shares	46.15%
Ever Soar Enterprises Limited *(Note 3)*	The Company	Beneficial interests	222,134,400 Shares	10.64%

Notes:

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

2. Ms. Shi Guiling is the spouse of Mr. Li Xuechun. Accordingly, she is also deemed to be interested in the 963,342,461 Shares held by Motivator Enterprises Limited, which in turn is also deemed to be interested by Mr. Li Xuechun under the SFO.

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

Save as disclosed above, for the year ended 31 December 2013, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

Arrangements to Purchase Shares or Debentures

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

Share Option Scheme

The Company granted options to subscribe for an aggregate of 64,110,000 Shares and 5,000,000 Shares on 14 July 2009 and 9 November 2010 respectively to a Director and eligible employees. As the rights issue completed on 2 May 2013, in accordance with the respective terms of the Share Options granted on 14 July 2009 and Share Options granted on 9 November 2010 and in compliance with Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005, the exercise price and the number of Shares to be allotted and issued upon full exercise of the outstanding Share Options was adjusted. On 5 September 2013, the Board resolved to revise the exercise price of share options granted to a director to subscribe for an aggregate of 5,355,000 Shares to HKD3.20. Details of the share options granted and outstanding for the year ended 31 December 2013, are as follows:

	Number of share options							
Director and eligible employees	**At 1 January 2013**	**Granted during the year**	**Adjustment during the year**	**Lapsed during the year**	**At 31 December 2013**	**Date of grant**	**Revised/ Adjusted Exercise price (HKD)**	**Exercise period**
Chen Yuan (executive Director)	5,000,000	–	355,224	–	5,355,224	9/11/2010	3.20	5/9/2014 – 4/9/2018
Eligible employees	45,270,000	–	3,216,197	(2,677,612)	45,808,585	14/7/2009	2.80	14/1/2012 – 13/1/2015
	50,270,000	–	3,571,421	(2,677,612)	51,163,809			

The total fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options granted as at the grant dates is approximately RMB59,441,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Revised on 5 September 2013	Granted on 9 November 2010	Granted on 14 July 2009
Average share price	HKD2.99	HKD8.14	HKD2.81
Exercise price	HKD3.20	HKD8.20	HKD3.00
Expected life of options	1.0–5.0 years	3.0–5.0 years	3.0–5.0 years
Expected volatility	46.85%	51.30–55.63%	46.04–51.34%
Expected dividend yield	1.33%	3.14%	3.56%
Risk free rate	1.088%	0.506–1.021%	1.032–1.745%

Major Customers and Suppliers

The aggregate sales attributable to the Group's largest customer and five largest customers taken together were less than 30% of the total sales for the year 2013.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year 2013.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Sufficiency of Public Float

As at 18 March 2014, being the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

Purchase, Redemption or Sales of Listed Securities of the Company

The Company has repurchased 1,697,000 shares in June 2013. Those repurchased shares has been cancelled on 10 July 2013. The total consideration of the repurchased shares is amount to HKD3,888,000. Except the above, 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 2013.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the articles of the association of the Company and the Companies Law of the Cayman Islands.

Corporate Governance Report

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

Subsequent Events

Details of the significant events occurring after the balance sheet date are set out in note 36 to the consolidated financial statements.

Auditor

A resolution to reappoint PricewaterhouseCoopers as independent auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Xuechun
Chairman

18 March 2014

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Fufeng Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Fufeng Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 128, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2014

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	6	506,289	366,764
Property, plant and equipment	7	7,575,975	7,258,851
Intangible assets	8	51	54
Deferred income tax assets	11	88,232	40,012
		8,170,547	7,665,681
Current assets			
Inventories	12	1,516,878	1,415,225
Trade and other receivables	13	2,069,339	2,339,600
Short-term bank deposits	14	56,405	69,320
Cash and cash equivalents	14	805,999	481,126
		4,448,621	4,305,271
Total assets		12,619,168	11,970,952
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	203,644	175,921
Share premium	15		
– Proposed final dividend		65,925	–
– Others		636,948	240,518
Other reserves	16	194,143	58,972
Retained earnings	18	3,718,126	3,319,597
Total equity		4,818,786	3,795,008
LIABILITIES			
Non-current liabilities			
Deferred income	19	360,121	352,436
Borrowings	20	3,309,187	2,044,960
Deferred income tax liabilities	11	20,286	19,826
		3,689,594	2,417,222

CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2013

	Note	As at 31 December **2013** *RMB'000*	2012 *RMB'000*
Current liabilities			
Trade, other payables and accruals	*21*	**2,890,997**	3,303,957
Current income tax liabilities		**51,884**	47,085
Borrowings	*20*	**1,167,907**	2,407,680
		4,110,788	5,758,722
Total liabilities		**7,800,382**	8,175,944
Total equity and liabilities		**12,619,168**	11,970,952
Net current assets/(liabilities)		**337,833**	(1,453,451)
Total assets less current liabilities		**8,508,380**	6,212,230

The notes on pages 58 to 128 are an integral part of these consolidated financial statements.

The financial statements on pages 51 to 128 were approved by the Board of Directors on 18 March 2014 and were signed on its behalf.

Li Xuechun
Director

Chen Yuan
Director

COMPANY BALANCE SHEET

As at 31 December 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	249	359
Investment in subsidiaries	9	427,933	426,574
		428,182	426,933
Current assets			
Loans to subsidiaries	9	1,855,110	1,932,066
Due from subsidiaries	9	1,320,676	1,215,798
Deposits and other receivables	13	1,913	15,079
Cash and cash equivalents	14	298,523	47,459
		3,476,222	3,210,402
Total assets		3,904,404	3,637,335
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	203,644	175,921
Share premium	15		
– Proposed final dividend		65,925	–
– Others		636,948	240,518
Other reserves	16	106,216	54,288
Retained earnings	18	(57,851)	128,496
Total equity		954,882	599,223
LIABILITIES			
Non-current liabilities			
Borrowings	20	2,713,379	1,856,395
Current liabilities			
Borrowings	20	–	935,180
Due to subsidiaries	9	14,174	14,174
Loan from a subsidiary	9	182,907	188,565
Other payables and accruals	21	39,062	43,798
		236,143	1,181,717
Total liabilities		2,949,522	3,038,112
Total equity and liabilities		3,904,404	3,637,335
Net current assets		3,240,079	2,028,685
Total assets less current liabilities		3,668,261	2,455,618

The notes on pages 58 to 128 are an integral part of these financial statements.

The financial statements on pages 51 to 128 were approved by the Board of Directors on 18 March 2014 and were signed on its behalf.

Li Xuechun
Director

Chen Yuan
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Revenue	5	11,366,722	11,111,920
Cost of sales	23	(9,267,279)	(9,474,465)
Gross profit		2,099,443	1,637,455
Other income	22	152,468	129,317
Selling and marketing expenses	23	(710,267)	(570,487)
Administrative expenses	23	(541,490)	(440,143)
Other operating expenses	23	(76,093)	(37,039)
Other gain	26	936	15,976
Operating profit		924,997	735,079
Finance income	27	76,879	6,447
Finance costs	27	(367,179)	(251,313)
Finance costs – net	27	(290,300)	(244,866)
Profit before income tax		634,697	490,213
Income tax expense	28	(128,565)	(63,660)
Profit for the year and attributable to the Shareholders		506,132	426,553

	Note	Year ended 31 December 2013 RMB	2012 RMB (Restated)
Earnings per share for profit attributable to the Shareholders during the year (expressed in RMB cents per share)			
– basic	29	25.13	23.03
– diluted	29	22.07	23.01

The notes on pages 58 to 128 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Dividends	31	99,184	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Profit for the year	**506,132**	426,553
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**506,132**	426,553
Total comprehensive income attributable to the Shareholders	**506,132**	426,553

The notes on pages 58 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

		Attributable to the Shareholders				
		Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2012		174,097	188,576	18,877	3,025,153	3,406,703
Comprehensive Income						
Profit for the year	*18*	–	–	–	426,553	426,553
Total comprehensive income		–	–	–	426,553	426,553
Transactions with owners						
Profit appropriation	*16, 18*	–	–	66,894	(66,894)	–
Employee share options schemes:						
– Value of employee service	*16, 17*	–	–	8,127	–	8,127
– Shares issued	*15, 16*	1,824	51,942	(13,090)	–	40,676
Redemption of convertible bonds	*16, 18*	–	–	(21,836)	(23,234)	(45,070)
Dividends	*18*	–	–	–	(41,981)	(41,981)
Total transactions with owners		1,824	51,942	40,095	(132,109)	(38,248)
Balance at 31 December 2012		175,921	240,518	58,972	3,319,597	3,795,008
Comprehensive Income						
Profit for the year	*18*	–	–	–	506,132	506,132
Total comprehensive income		–	–	–	506,132	506,132
Transactions with owners						
Profit appropriation	*16, 18*	–	–	83,243	(83,243)	–
Employee share options schemes:						
– Value of employee service	*16, 17*	–	–	3,747	–	3,747
Redemption of convertible bonds	*16, 18*	–	–	(13,923)	8,899	(5,024)
Issue of ordinary shares	*15*	27,858	465,324	–	–	493,182
Issue of convertible bonds – equity component	*16*	–	–	62,104	–	62,104
Repurchase of shares of the Company	*15*	(135)	(2,969)	–	–	(3,104)
Dividends	*18*	–	–	–	(33,259)	(33,259)
Total transactions with owners		27,723	462,355	135,171	(107,603)	517,646
Balance at 31 December 2013		203,644	702,873	194,143	3,718,126	4,818,786

The notes on pages 58 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations	*32(a)*	**1,508,135**	1,144,196
Interest paid		**(334,965)**	(283,779)
Income tax paid		**(134,641)**	(99,982)
Net cash flows generated from operating activities		**1,038,529**	760,435
Cash flows from investing activities			
Payments of leasehold land	*6*	**(147,625)**	(106,074)
Purchases of property, plant and equipment		**(1,219,848)**	(1,709,522)
Purchases of intangible assets	*8*	**(1,482)**	(1,084)
Assets-related government grants received		**54,543**	113,725
Proceeds from disposal of property, plant and equipment	*32(b)*	**14,836**	825
Interest received	*22*	**6,947**	6,232
Proceeds from term deposits		**4,000**	–
Payments for term deposits		**(4,000)**	(2,000)
Net cash used in investing activities		**(1,292,629)**	(1,697,898)
Cash flows from financing activities			
Net proceeds from shares issued		**493,182**	40,676
Proceeds from issuance of medium-term note	*20*	**594,690**	–
Proceeds from issuance of convertible bonds	*20*	**951,403**	–
Dividends paid to the Company's shareholders	*18*	**(33,259)**	(41,981)
Proceeds from bank borrowings		**2,168,471**	2,683,470
Repayments of bank borrowings		**(3,423,780)**	(960,500)
Redemption of convertible bonds	*20*	**(168,630)**	(852,037)
Repurchase of shares of the Company	*15*	**(3,104)**	–
Proceeds from restricted bank deposits of bank borrowings		**–**	5,044
Restricted bank deposits paid for bank borrowings		**–**	(40,000)
Net cash generated from financing activities		**578,973**	834,672
Net increase/(decrease) in cash and cash equivalents		**324,873**	(102,791)
Cash and cash equivalents at beginning of the year	*14*	**481,126**	583,917
Cash and cash equivalents at end of the year	*14*	**805,999**	481,126

The notes on pages 58 to 128 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. General Information

Fufeng Group Limited (the "Company") and its subsidiaries (together, the "Group") manufacture and sell fermentation-based food additive and biochemical products and starch-based products. The Group has manufacturing plants in Shandong Province, Shaanxi Province, Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region of the People's Republic of China (the "PRC") and sells mainly to customers located in the PRC.

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

The Company has its shares listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 18 March 2014.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the 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 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following standards and amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2013 and do not result in any significant impact on the Group's financial statements.

Amendment to HKAS 1, '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.

2. Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

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

Annual improvements 2011. These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:

HKFRS 1	First time adoption
HKAS 1	Financial statement presentation
HKAS 16	Property plant and equipment
HKAS 32	Financial instruments: Presentation
HKAS 34	Interim financial reporting

HKFRS 10, 'Consolidated financial statements'. The objective of HKFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation, and set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

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.

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 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, which are largely aligned between HKFRSs and United States Generally Accepted Accounting Principles, 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.

Amendment to HKAS 19, 'Employee benefits'. These amendments eliminate the corridor approach and calculate finance expenses on a net funding basis.

2. Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

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

Amendment to HKFRS 7, '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.

Annual improvement 2012 – Amendment to HKFRS 13, 'Fair value measurement', is a clarification that there is no change in measurement requirements for short-term receivables and payable when the effect of not discounting is immaterial.

Annual improvement 2013 – Amendment to HKFRS1, 'First time adoption', is a clarification that it does not require any entity to use a more recent version of an HKFRS which is not yet mandatory but is available for early adoption at the end of its first HKFRS reporting period.

(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 2013 and have not been early adopted by the Group

Amendment to HKAS 32, 'Financial instruments: Presentation – Offsetting financial assets and financial liabilities'. 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. These amendments are effective for annual periods beginning on or after 1 January 2014.

Amendment to HKAS 36, 'Impairment of assets' on recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This amendment is effective for annual periods beginning on or after 1 January 2014.

HK(IFRIC) 21, 'Levies', is an interpretation HKAS 37, 'Provisions, contingent liabilities and contingent assets'. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. HK(IFRIC) 21 is effective for annual periods beginning on or after 1 January 2014.

For the year ended 31 December 2013

2. Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 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 2013 and have not been early adopted by the Group *(Continued)*

Annual improvements 2012. These improvements include changes from the 2010-2012 cycle of the annual improvements project, that affect the following standards:

		Effective for annual periods beginning on or after
HKFRS 2	Share-based payment	1 July 2014
HKFRS 3	Business combinations	1 July 2014
HKFRS 9	Financial instruments	1 July 2014
HKAS 37	Provisions, contingent liabilities and contingent assets	1 July 2014
HKAS 39	Financial instruments – Recognition and measurement	1 July 2014
HKFRS 8	Operating segments	1 July 2014
HKAS 16	Property, plant and equipment	1 July 2014
HKAS 38	Intangible assets	1 July 2014
HKAS 24	Related Party Disclosures	1 July 2014

Annual improvements 2013. The amendments include changes from the 2011-2013 cycle of the annual improvements project that affect the following standards:

		Effective for annual periods beginning on or after
HKFRS 3	Business combinations	1 July 2014
HKFRS 13	Fair value measurement	1 July 2014
HKAS 40	Investment property	1 July 2014

2. Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 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 2013 and have not been early adopted by the Group *(Continued)*

HKFRS 9, 'Financial Instruments', is the first standard issued as part of a wider project to replace HKAS 39. HKFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in HKAS 39 on impairment of financial assets and hedge accounting continues to apply. This amendment is effective for annual periods beginning on or after 1 January 2015.

The Group will apply the new standards and amendments described above starting from their respective effective dates. The Group is in the process of making an assessment on the impact of these new standards and amendments 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.

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Business combinations

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred and the amount of the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

2. Summary of Significant Accounting Policies *(Continued)*

2.2 Subsidiaries *(Continued)*

(a) *Consolidation (Continued)*

Business combinations *(Continued)*

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(b) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within 'finance costs – net'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other income/operating expenses'.

2. Summary of Significant Accounting Policies *(Continued)*

2.5 Leasehold land payments

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

Amortisation on leasehold land payments is calculated using the straight-line method to allocate their costs over their estimated useful lives (40 to 50 years).

2.6 Property, plant and equipment

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment, except for construction in progress, is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Plant	15~20 years
Machinery	8~10 years
Furniture and fixtures	3~8 years
Vehicles	5~8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

For the year ended 31 December 2013

2. Summary of Significant Accounting Policies *(Continued)*

2.7 Intangible assets – patents

Separately acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated beneficial period of 20 years.

2.8 Impairment of non-financial assets

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

2.9 Financial Assets

(a) *Classification*

The Group classifies its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables excluding prepayments", "short-term bank deposits" and "cash and cash equivalents" in the balance sheet (Notes 2.11 and 2.12).

(b) *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.11.

(c) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2. Summary of Significant Accounting Policies *(Continued)*

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The Group assesses at the end of each reporting period whether there are objective evidence that trade and other receivables are impaired. Impairment losses of trade and other receivables are incurred only if there are objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of trade and other receivables that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement within "administrative expenses".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.12 Cash and cash equivalents

In the consolidated statement of cash flow, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2. Summary of Significant Accounting Policies *(Continued)*

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Summary of Significant Accounting Policies *(Continued)*

2.17 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

When convertible bonds are early redeemed or repurchased in which the original conversion privileges are unchanged, the consideration paid and any transaction costs for the repurchase or redemption are allocated to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the company when the convertible instrument was issued. The amount of gain or loss related to the liability component is recognised in 'other gain'. The amount of consideration related to the equity component is recognised in equity.

2.18 Current and deferred income tax

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

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. Summary of Significant Accounting Policies *(Continued)*

2.18 Current and deferred income tax *(Continued)*

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

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

2.19 Employee benefits – pension

The companies within the Group operate various pension schemes. In accordance with the rules and regulations in the PRC, the employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by the various local PRC governments. These local PRC governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's operating entities in Hong Kong participate in a mandatory provident fund ("MPF scheme") for its employees in Hong Kong. Both the entities and the employees are required to contribute 5% of the salaries of the employees', up to a maximum of HKD1,250 per head per month. The assets of MPF scheme are held separately from those of the entities in an independent administrated fund.

2. Summary of Significant Accounting Policies *(Continued)*

2.19 Employee benefits – pension *(Continued)*

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans and MPF scheme are recognised as employee benefit expense when incurred.

2.20 Share-based payments

(a) *Equity-settled share-based payment transactions*

The Group operates two equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiaries undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in a subsidiary, with a corresponding credit to equity in the parent company accounts.

2.21 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

2. Summary of Significant Accounting Policies *(Continued)*

2.21 Provisions *(Continued)*

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Government grants

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

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

Government grants related to the acquisition of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods*

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised using the effective interest method.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2. Summary of Significant Accounting Policies *(Continued)*

2.25 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.26 Research and development

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

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

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

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

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

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

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

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

For the year ended 31 December 2013

2. Summary of Significant Accounting Policies *(Continued)*

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders, or directors, where applicable.

3. Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Market risk*

(i) Foreign exchange risk

The Directors do not consider the exposure to foreign exchange risk is significant to the Group's operation as the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Therefore, the Group has not used any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2013.

However, foreign currencies, mainly USD and HKD, are received from sales of products to countries or areas outside the PRC ("Export Sales"), issuance of convertible bonds, senior notes and bank borrowings. Export Sales denominated in foreign currencies amounted to approximately 19% (2012: 15%) of the Group's total turnover for the year ended 31 December 2013. The Group manages the currency risk arising from sales of products by requesting customers to pay in advance or keeping the credit period available to customers as short as possible in order to reduce the impact on the fluctuation between USD, HKD and RMB to the Group. The Group manages the currency risk arising from proceeds from issuance of convertible bonds, senior notes and bank borrowings by utilisation of the proceeds as soon as possible.

The exposures to the foreign exchange risks are disclosed in Notes 13, 14 and 20.

At 31 December 2013, if RMB had strengthened/weakened by 10% against the USD and HKD (pegged with USD) with all other variables held constant, the net profit for the year would have been RMB147,852,000 (2012: RMB258,631,000) higher/lower, mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and cash equivalents, trade receivables, and foreign exchange gains/losses on translation of USD denominated other payables and accruals and borrowings.

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

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

Fair value interest rate risk arises from convertible bonds, senior notes and bank borrowings, which bear fixed interest rates. The carrying amounts and fair values of the non-current borrowings have been disclosed in Note 20. The Group has not used any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2013.

At 31 December 2013, if interest rates on borrowings obtained at variable rates had been 10% higher/lower with all other variables held constant, the net profit for the year would have been RMB685,000 (2012: RMB4,161,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, short-term bank deposits and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that deposits are placed with reputable banks. For sales of goods, customers of the Group usually pay in advance before delivery of products. Credit will only be granted to customers with long-term relationship. The Group performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral on trade receivables. Credit quality of the financial assets is disclosed in Note 10.

(c) Liquidity risk

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

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

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) *Liquidity risk (Continued)*

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

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*
The Group			
At 31 December 2013			
Borrowings	1,167,907	13,200	3,556,066
Interests payments on bank borrowings, convertible bonds, senior notes and medium-term note (i)	228,727	199,674	188,143
Trade, other payables and accruals (excluding non-financial liabilities)	2,135,476	–	–
Total	3,532,110	212,874	3,744,209
At 31 December 2012			
Borrowings	2,466,549	188,565	1,885,650
Interests payments on bank borrowings, convertible bonds, senior notes and medium-term note (i)	227,619	147,986	215,671
Trade, other payables and accruals (excluding non-financial liabilities)	2,460,448	–	–
Total	5,154,616	336,551	2,101,321
The Company			
At 31 December 2013			
Borrowings	–	13,200	2,956,066
Interests payments on bank borrowings, convertible bonds and senior notes (i)	169,311	169,014	157,483
Total	169,311	182,214	3,113,549
At 31 December 2012			
Borrowings	994,049	–	1,885,650
Interests payments on bank borrowings, convertible bonds and senior notes (i)	186,466	147,986	215,671
Total	1,180,515	147,986	2,101,321

(i) The interests on borrowings are calculated based on bank borrowings, convertible bonds, senior notes and medium-term note held as at 31 December 2013 and 2012 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2013 and 2012 respectively.

3. Financial Risk Management *(Continued)*

3.2 Capital risk management

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

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

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

The Group's strategy is to maintain the gearing ratio below 40% (2012: 40%). The gearing ratios at 31 December 2013 and 2012 were as follows:

	2013	2012
	RMB'000	*RMB'000*
Total borrowings *(Note 20)*	**4,477,094**	4,452,640
Total assets	**12,619,168**	11,970,952
Gearing ratio	**35.48%**	37.20%

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As of 31 December 2013 and 2012, the Group did not have any financial instruments carried at fair value.

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

4. 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.

4.1 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, in accordance with the accounting policy stated in Note 2.8. 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.

Certain machinery mainly used for MSG production was impaired in 2013 because of substantial reduction in demand and profitability, and a full impairment charge of RMB11,418,000 (2012: RMB461,000) (Note 7) was recorded during the year ended 31 December 2013.

4.2 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 deferred government grants related to the acquisition of property, plant and equipment, the periodic credits to consolidated income statement will also be increased under the above mentioned circumstances when such grants are credited to the consolidated income statement over the assets' remaining useful lives.

4.3 Estimated impairment of intangible assets

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

A full impairment charge of RMB1,482,000 (2012: RMB1,030,000) was recorded in relation to certain patents purchased during the year ended 31 December 2013.

4.4 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.

Borrowing costs capitalsed into property, plant and equipment are shown in Note 7.

4. Critical Accounting Estimates and Judgements *(Continued)*

4.5 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.

5. Segment Information

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

The executive directors consider the business from a product perspective and accordingly, the Group's operations are mainly 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, high-end amino acid products, pharmaceuticals and bricks; and

– manufacturing and sales of xanthan gum.

Approximately 81% (2012: 85%) of the Group's revenue are generated from the PRC.

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

The revenue of the Group for the years ended 31 December 2013 and 2012 are set out as follows:

	2013 ***RMB'000***	2012 *RMB'000*
MSG	**6,323,148**	6,738,424
Corn refined products	**1,616,789**	1,561,284
Xanthan gum	**1,454,249**	1,066,306
Fertilisers	**762,054**	893,169
Starch sweeteners	**470,864**	322,836
Threonine	**327,126**	183,668
High-end amino acid products	**211,373**	85,938
Glutamic acid	**45,507**	100,012
Corn oil	**34,684**	91,535
Others	**120,928**	68,748
	11,366,722	11,111,920

5. Segment Information *(Continued)*

The segment information for the year ended 31 December 2013 is as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	9,912,473	1,454,249	–	11,366,722
Segment results	189,240	757,218	(21,461)	924,997
Finance costs – net *(Note 27)*				(290,300)
Profit before income tax				634,697
Income tax expense *(Note 28)*				(128,565)
Profit for the year				506,132
Other segment items included in the consolidated income statement				
Depreciation *(Note 7)*	641,671	47,054	1,596	690,321
Amortisation of leasehold land payments *(Note 6)*	7,467	633	–	8,100
Gain on disposal of property, plant and equipment *(Note 32)*	2,624	–	–	2,624
Impairment charges for property, plant and equipment *(Note 7)*	11,418	–	–	11,418
Impairment charges for intangible assets *(Note 8)*	1,482	–	–	1,482
Capital expenditure *(Notes 6,7 and 8)*	1,015,949	164,082	151	1,180,182

The segment assets and liabilities at 31 December 2013 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	9,735,742	2,548,438	334,988	12,619,168
Total liabilities	4,346,701	516,701	2,936,980	7,800,382

5. Segment Information *(Continued)*

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

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	10,045,614	1,066,306	–	11,111,920
Segment results	307,558	434,002	(6,481)	735,079
Finance costs – net *(Note 27)*				(244,866)
Profit before income tax				490,213
Income tax expense *(Note 28)*				(63,660)
Profit for the year				426,553
Other segment items included in the consolidated income statement				
Depreciation *(Note 7)*	497,958	29,702	959	528,619
Amortisation of leasehold land payments *(Note 6)*	3,942	585	–	4,527
Gain on disposal of property, plant and equipment *(Note 32)*	55	466	–	521
Impairment charges for property, plant and equipment *(Note 7)*	461	–	–	461
Impairment charges for intangible assets *(Note 8)*	1,030	–	–	1,030
Capital expenditure *(Notes 6,7 and 8)*	1,725,113	136,738	1,197	1,863,048

5. Segment Information *(Continued)*

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

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
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

Unallocated assets mainly comprise cash and cash equivalents, property, plant and equipment and other receivables held by non-PRC established companies and Beijing Huijinhuaying ("Beijing Huijinhuaying").

Unallocated liabilities mainly comprise bank borrowings, liability component of convertible bonds, senior notes, operating liabilities held by non-PRC established companies.

The Group's revenue from its external customers in the PRC is RMB9,196,267,000 (2012: RMB9,422,557,000) and the total revenue from external customers from Hong Kong and other countries is RMB2,170,455,000 (2012: RMB1,689,363,000).

The Group's total non-current assets located in the PRC other than deferred income tax assets are RMB8,082,059,000 (2012: RMB7,625,299,000), and the total non-current assets located in Hong Kong and Singapore other than deferred income tax assets are RMB256,000 (2012: RMB370,000).

6. Leasehold Land Payments – the Group

Leasehold land payments represent the prepaid operating lease payments for the medium term leasehold land (40 to 50 years) located in Shandong Province, Shaanxi Province, Inner Mongolia Autonomous Region, Jiangsu Province and Beijing in the PRC, and their net book values are analysed as follows:

	2013 ***RMB'000***	2012 *RMB'000*
Outside Hong Kong, held on:		
Leases from 40 to 50 years	**506,289**	366,764

As at 31 December 2013, no leasehold land was pledged as security for the Group's borrowings (2012: RMB29,420,000).

	2013 ***RMB'000***	2012 *RMB'000*
Cost		
At beginning of the year	**383,428**	277,354
Additions	**147,625**	106,074
At end of the year	**531,053**	383,428
Amortisation		
At beginning of the year	**(16,664)**	(12,137)
Charge for the year *(Note 23)*	**(8,100)**	(4,527)
At end of the year	**(24,764)**	(16,664)
Net book value		
At end of the year	**506,289**	366,764

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

As at 31 December 2013, the Group was still in the process of applying for the certificate of a piece of leasehold land with a carrying amount of RMB315,440,000 (2012: RMB172,992,000), of which RMB152,004,000 (2012: RMB116,179,000) has already signed the relevant contracts with the local government.

For the year ended 31 December 2013

7. Property, Plant and Equipment

The Group

	2013					
	Plant	Machinery	Furniture and fixtures	Vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2013	2,307,428	5,891,701	192,912	50,117	474,660	8,916,818
Additions	207,148	206,841	3,406	2,509	611,171	1,031,075
Transfer upon completion	107,507	723,848	578	–	(831,933)	–
Disposals	(238)	(15,609)	(376)	(105)	–	(16,328)
At 31 December 2013	2,621,845	6,806,781	196,520	52,521	253,898	9,931,565
Accumulated depreciation						
At 1 January 2013	(201,090)	(1,350,189)	(73,071)	(28,723)	–	(1,653,073)
Charge for the year *(Note 23)*	(104,396)	(558,667)	(21,768)	(5,490)	–	(690,321)
Disposals	11	3,742	339	24	–	4,116
At 31 December 2013	(305,475)	(1,905,114)	(94,500)	(34,189)	–	(2,339,278)
Provision for impairment loss						
At 1 January 2013	–	(4,753)	(72)	(69)	–	(4,894)
Impairment charge *(Note 23)*	–	(11,418)	–	–	–	(11,418)
At 31 December 2013	–	(16,171)	(72)	(69)	–	(16,312)
Net book value						
At 31 December 2013	2,316,370	4,885,496	101,948	18,263	253,898	7,575,975

7. Property, Plant and Equipment *(Continued)*

The Group *(Continued)*

	2012					
	Plant	Machinery	Furniture and fixtures	Vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2012	1,327,706	4,302,911	169,153	44,849	1,317,431	7,162,050
Additions	106,887	225,731	22,833	5,847	1,394,592	1,755,890
Transfer upon completion	872,937	1,363,296	1,130	–	(2,237,363)	–
Disposals	(102)	(237)	(204)	(579)	–	(1,122)
At 31 December 2012	2,307,428	5,891,701	192,912	50,117	474,660	8,916,818
Accumulated depreciation						
At 1 January 2012	(132,901)	(924,809)	(43,089)	(24,473)	–	(1,125,272)
Charge for the year *(Note 23)*	(68,231)	(425,467)	(30,184)	(4,737)	–	(528,619)
Disposals	42	87	202	487	–	818
At 31 December 2012	(201,090)	(1,350,189)	(73,071)	(28,723)	–	(1,653,073)
Provision for impairment loss						
At 1 January 2012	–	(4,292)	(72)	(69)	–	(4,433)
Impairment charge *(Note 23)*	–	(461)	–	–	–	(461)
At 31 December 2012	–	(4,753)	(72)	(69)	–	(4,894)
Net book value						
At 31 December 2012	2,106,338	4,536,759	119,769	21,325	474,660	7,258,851

(a) As at 31 December 2013, no plant and machinery was pledged as security for the Group's borrowings (2012: nil).

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

	2013	2012
	RMB'000	*RMB'000*
Cost of sales	**598,630**	491,725
Administrative expenses	**91,691**	36,894
	690,321	528,619

7. Property, Plant and Equipment *(Continued)*

The Group *(Continued)*

(c) Borrowing cost capitalised into the cost of property, plant and equipment was as follows:

	2013 **RMB'000**	2012 RMB'000
Borrowing cost capitalised	**9,847**	35,342
Average borrowing rate	**6.13%**	6.10%

The Company

	2013 **Furniture and fixtures** **RMB'000**	2012 Furniture and fixtures RMB'000
Cost		
At beginning of the year	**579**	334
Additions	**18**	370
Disposals	**–**	(125)
At end of the year	**597**	579
Accumulated depreciation		
At beginning of the year	**(220)**	(307)
Charge for the year	**(128)**	(38)
Disposals	**–**	125
At end of the year	**(348)**	(220)
Net book value		
At end of the year	**249**	359

8. Intangible Assets – the Group

	Patents *RMB'000*
At 1 January 2012	
Cost	15,484
Accumulated impairment	(15,484)
Net book amount	–
Year ended 31 December 2012	
Opening net book amount	–
Additions	1,084
Impairment charge *(Note 23)*	(1,030)
Closing net book amount	54
At 31 December 2012	
Cost	16,568
Accumulated impairment	(16,514)
Net book amount	54
Year ended 31 December 2013	
Opening net book amount	54
Additions	1,482
Amortisation	(3)
Impairment charge *(Note 23)*	(1,482)
Closing net book amount	51
At 31 December 2013	
Cost	18,050
Accumulated amortisation	(3)
Accumulated impairment	(17,996)
Net book amount	51

The carrying amount of the patents has been reduced to its recoverable amount through recognition of an impairment loss. This loss has been included in 'administrative expenses' in the consolidated income statement.

9. Investment in and Balances with Subsidiaries – the Company

	2013	2012
	RMB'000	*RMB'000*
Investment in subsidiaries (a)	**427,933**	426,574
Loans to subsidiaries (b)	**1,855,110**	1,932,066
Due from subsidiaries (c)	**1,320,676**	1,215,798
Due to subsidiaries (d)	**14,174**	14,174
Loan from a subsidiary (e)	**182,907**	188,565

(a) Investment in subsidiaries

	2013	2012
	RMB'000	*RMB'000*
Unlisted shares, at cost	**427,933**	426,574

The particulars of the Company's directly and indirectly owned subsidiaries are disclosed in Note 35.

(b) Loans to subsidiaries

	2013	2012
	RMB'000	*RMB'000*
Interest bearing	**1,697,864**	1,750,922
Interest-free	**157,246**	181,144
	1,855,110	1,932,066

Loans to subsidiaries are unsecured and repayable on demand as at 31 December 2013 and 2012. Their carrying amounts approximate their fair values as at 31 December 2013 and 2012. Interest rate of the interest bearing loan was 7.625% as at 31 December 2013 (2012: 7.625%).

(c) Due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. Their carrying amounts approximate their fair values as at 31 December 2013 and 2012.

9. Investment in and Balances with Subsidiaries – the Company *(Continued)*

(d) Due to subsidiaries

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand. Their carrying amounts approximate their fair values as at 31 December 2013 and 2012.

(e) Loan from a subsidiary

Loan from a subsidiary is unsecured and repayable on demand. The carrying amount approximates its fair value as at 31 December 2013. Interest rate of the loan is charged at 3-month USD LIBOR plus 2.95% as at 31 December 2013 and 2012.

10. Credit Quality of Financial Assets

Trade and notes receivables

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counterparty default rates. The Group categorises its trade and notes receivables into the following:

Group 1 – Bank acceptance notes for which the repayments are guaranteed by large state-owned banks.
Group 2 – Trade receivables due from customers with no defaults in the past.
Group 3 – Trade receivables due from customers with some defaults in the past.

The Group

	2013 ***RMB'000***	2012 *RMB'000*
Group 1	**1,444,119**	1,642,363
Group 2	**369,413**	263,476
Group 3	**4,510**	4,510
	1,818,042	1,910,349

Cash and bank balances

The management considers the credit risks in respect of cash and bank deposits are relatively minimal as each counter party either has a high credit rating or is a state-owned PRC bank. The management believes the PRC government is able to support the state-owned PRC banks in the event of a liquidity difficulty.

10. Credit Quality of Financial Assets *(Continued)*

Cash and bank balances *(Continued)*

The Group categorises its cash in bank and short-term bank deposits into the following:

- Group 1 – Major international banks (Hang Seng Bank, ABN AMRO Bank N.V, The Hong Kong and Shanghai Banking Corporation Limited, The Royal Bank of Scotland, Citi Bank, United Overseas Bank and Standard Chartered Bank)

- Group 2 – Top 4 banks in the Mainland China (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China)

- Group 3 – Other state-owned banks in the Mainland China

The Group

	2013	2012
	RMB'000	*RMB'000*
Group 1	**336,712**	62,818
Group 2	**232,340**	188,152
Group 3	**292,848**	299,008
	861,900	549,978

The Company

	2013	2012
	RMB'000	*RMB'000*
Group 1	**298,522**	47,458

11. Deferred Income Tax – the Group

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

	2013	2012
	RMB'000	*RMB'000*
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**46,181**	25,382
– Deferred income tax assets to be recovered within 12 months	**42,051**	14,630
	88,232	40,012
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(19,804)**	(19,522)
– Deferred income tax liabilities to be settled within 12 months	**(482)**	(304)
	(20,286)	(19,826)
Deferred income tax assets, net	**67,946**	20,186

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

	2013	2012
	RMB'000	*RMB'000*
Beginning balance of the year	**20,186**	8,913
Credited to consolidated income statement *(Note 28)*	**47,760**	11,273
Ending balance of the year	**67,946**	20,186

For the year ended 31 December 2013

11. Deferred Income Tax – the Group *(Continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Tax Losses	Unrealised profit	Deferred income	Staff pension plan	Impairment losses	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2012	–	2,174	13,046	5,606	–	8,253	29,079
(Charged)/Credited to consolidated income statement	–	(1,343)	(4,340)	4,249	–	12,367	10,933
At 31 December 2012	–	831	8,706	9,855	–	20,620	40,012
Credited to consolidated income statement	8,263	8,404	20,511	8,025	1,713	1,304	48,220
At 31 December 2013	**8,263**	**9,235**	**29,217**	**17,880**	**1,713**	**21,924**	**88,232**

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise the deferred income tax assets in respect of losses amounting to RMB6,023,000 as at 31 December 2013 (2012: RMB4,558,000), that can be carried forward against future taxable income because it is uncertain whether there will be sufficient profit to offset in the near future. Such tax losses as at 31 December 2013 amounting to RMB1,468,000, RMB1,256,000, RMB1,697,000 and RMB1,602,000 will expire in 2018, 2017, 2016 and 2015, respectively.

Deferred income tax liabilities:

	Borrowing costs capitalisation	Withholding tax	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2012	3,516	16,650	20,166
Credited to consolidated income statement	(340)	–	(340)
At 31 December 2012	3,176	16,650	19,826
Charged to consolidated income statement	460	–	460
At 31 December 2013	3,636	16,650	20,286

11. Deferred Income Tax – the Group *(Continued)*

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC, in respect of earnings generated after 31 December 2007. The Group's certain subsidiaries in the PRC are held by companies incorporated in Hong Kong and is subject to 5% to 10% withholding tax. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

Deferred income tax liabilities as at 31 December 2013 of RMB172,882,000 (2012: RMB142,132,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC, totalling RMB3,457,655,000 (2012: RMB2,842,647,000). The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the retained profits of these PRC subsidiaries since the Group has no plan to distribute such profits in the foreseeable future.

12. Inventories – the Group

	2013	2012
	RMB'000	*RMB'000*
Raw materials	**629,279**	540,003
Work-in-progress	**119,974**	144,485
Finished goods	**767,625**	730,737
	1,516,878	1,415,225

As at 31 December 2013, finished goods included a write-down of RMB7,237,000 (2012: RMB35,000). For the year ended 31 December 2013, the Group has recognised an inventory write-down of RMB7,202,000 (2012: reversed a previous inventory write-down of RMB264,000), which was included in "cost of sales" in the consolidated income statement (Note 23).

The cost of inventories recognised as expense and included in cost of sales and administrative expenses amounted to RMB9,369,355,000 (2012: RMB9,575,733,000).

For the year ended 31 December 2013

13. Trade and Other Receivables

The Group

	2013 RMB'000	2012 RMB'000
Trade receivables (a)	373,923	267,986
Less: provision for impairment of trade receivables (b)	(4,510)	(4,510)
Trade receivables – net	369,413	263,476
Notes receivable (c)	1,444,119	1,642,363
Deposits and others	58,190	29,475
Value-added tax for future deduction	126,134	325,825
Trade and other receivables excluding prepayments	1,997,856	2,261,139
Prepayments for raw materials	71,483	78,461
	2,069,339	2,339,600

(a) As at 31 December 2013 and 2012 the ageing analysis of trade receivables was as follows:

	2013 RMB'000	2012 RMB'000
Within 3 months	328,651	231,357
3 ~12 months	37,395	28,021
Over 12 months	7,877	8,608
	373,923	267,986

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

13. Trade and Other Receivables *(Continued)*

The Group *(Continued)*

(a) *(Continued)*

As at 31 December 2013, trade receivables of RMB23,879,000 (2012: RMB9,390,000) 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:

	2013 RMB'000	2012 RMB'000
Past due within 3 months	18,829	1,826
Past due in 3 ~12 months	5,050	7,564
	23,879	9,390

(b) As of 31 December 2013, trade receivables of RMB4,510,000 (2012: RMB4,510,000) were impaired and fully provided for. The individually impaired receivables mainly relate to Shenhua Pharmaceutical, a wholly-owned subsidiary. It was assessed that none of these receivables are expected to be recovered as they existed before the Group acquired Shenhua Pharmaceutical in 2008, which are long overdue and relate to individual customers with doubtful repayment ability. The ageing of these receivables is as follows:

	2013 RMB'000	2012 RMB'000
Past due over 12 months	4,510	4,510

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

	2013 RMB'000	2012 RMB'000
As at 1 January	4,510	4,586
Reversal of amounts subsequently collected	–	(76)
As at 31 December	4,510	4,510

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

13. Trade and Other Receivables *(Continued)*

The Group *(Continued)*

(c) As at 31 December 2013, notes receivable were all bank acceptance notes aged less than six months, including amount of RMB1,058,737,000 (2012: RMB1,209,634,000) that have been 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 excluding prepayments are denominated in the following currencies:

	2013 RMB'000	2012 RMB'000
– RMB	1,720,794	2,065,625
– USD	277,062	195,452
– SGD	–	62
	1,997,856	2,261,139

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

The Company

	2013 RMB'000	2012 RMB'000
Deposits and others	1,913	15,079

14. Cash and Bank Balances

The Group

	2013 RMB'000	2012 RMB'000
Cash and cash equivalents		
– Cash on hand	504	468
– Cash in bank	805,495	480,658
	805,999	481,126
Short-term bank deposits		
– Restricted bank deposits (a)	54,405	67,320
– Term deposits over 3 months	2,000	2,000
	56,405	69,320
	862,404	550,446
Cash and bank balances denominated in		
– RMB	529,092	488,042
– USD	284,735	11,650
– HKD	45,302	45,637
– SGD	3,059	5,117
– EUR	216	–
	862,404	550,446

(a) The restricted bank deposits were used for the following purposes:

	2013 RMB'000	2012 RMB'000
Bank borrowings	40,000	40,000
Issuing bank acceptance notes	14,405	24,000
Issuing letters of credit and letters of guarantee	–	2,800
Tenders	–	520
	54,405	67,320

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

(c) The weighted average effective interest rate on cash and deposits placed with banks by the Group was 0.26% per annum for the years ended 31 December 2013 (2012: 0.40%).

14. Cash and Bank Balances *(Continued)*

The Company

	2013	2012
	RMB'000	*RMB'000*
Cash and cash equivalents		
– Cash on hand	**1**	1
– Cash in bank	**298,522**	47,458
	298,523	47,459

The weighted average effective interest rate on cash and deposits placed with banks by the Company was 0.01% per annum for the year ended 31 December 2013 (2012: 0.01%).

15. Share Capital and Premium – the Group and the Company

	Number of shares (thousands)	**Amount**		
		Ordinary shares	**Share premium**	**Total**
		RMB'000	*RMB'000*	*RMB'000*
At 1 January 2012	1,718,686	174,097	188,576	362,673
Employee share option schemes:				
– Shares issued	22,362	1,824	51,942	53,766
At 31 December 2012	1,741,048	175,921	240,518	416,439
Issue of ordinary shares *(a)*	348,210	27,858	465,324	493,182
Repurchase of shares of the Company *(b)*	(1,697)	(135)	(2,969)	(3,104)
At 31 December 2013	**2,087,561**	**203,644**	**702,873**	**906,517**

The total number of authorised ordinary shares of the Company was 10,000,000,000 shares with a par value of HKD0.10 each as at 31 December 2013 and 2012.

(a) In May 2013, the Company completed a right issue that resulted in the issuance of 348,209,600 new ordinary shares at HKD1.80 each on the basis of 1 share for every 5 shares held on 10 April 2013, the record date for the determination of the above right issues.

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15. Share Capital and Premium – the Group and the Company *(Continued)*

(b) In June 2013, the Company has acquired 1,697,000 of its own shares through purchases on the Stock Exchange of Hong Kong Limited. The total consideration of HKD3,888,000 (equivalent to RMB3,104,000) paid for repurchase of shares has been deducted from share capital and share premium.

(c) According to the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands and the articles of association of the Company, dividends of the Company can be declared out of its share premium account subject to a solvency test.

16. Other Reserves

	The Group				
	Convertible bonds *(Note 20)* *RMB'000*	**Capital reserve** *(Note (a))* *RMB'000*	**Statutory reserve** *(Note (b))* *RMB'000*	**Share-based payment reserve** *(Note 17)* *RMB'000*	**Total** *RMB'000*
1 January 2012	36,853	(370,760)	308,550	44,234	18,877
Profit appropriation *(Note 18)*	–	–	66,894	–	66,894
Employee share options schemes					
– Value of employee services *(Notes 17, 24)*	–	–	–	8,127	8,127
– Shares issued	–	–	–	(13,090)	(13,090)
Redemption of convertible bonds	(21,836)	–	–	–	(21,836)
31 December 2012	15,017	(370,760)	375,444	39,271	58,972
Profit appropriation *(Note 18)*	–	–	83,243	–	83,243
Employee share options schemes					
– Value of employee services *(Notes 17, 24)*	–	–	–	3,747	3,747
Redemption of convertible bonds (c)	(13,923)	–	–	–	(13,923)
Issue of convertible bonds – equity component *(Note 20)*	62,104	–	–	–	62,104
31 December 2013	**63,198**	**(370,760)**	**458,687**	**43,018**	**194,143**

For the year ended 31 December 2013

16. Other Reserves *(Continued)*

	Convertible bonds *(Note 20)* *RMB'000*	The Company Share-based payment reserve *(Note 17)* *RMB'000*	Total *RMB'000*
1 January 2012	36,853	44,234	81,087
Employee share options schemes:			
– Value of employee services *(Notes 17, 24)*	–	8,127	8,127
– Shares issued	–	(13,090)	(13,090)
Redemption of convertible bonds	(21,836)	–	(21,836)
31 December 2012	15,017	39,271	54,288
Employee share options schemes:			
– Value of employee services *(Notes 17, 24)*	–	3,747	3,747
Redemption of convertible bonds (c)	(13,923)	–	(13,923)
Issue of convertible bonds – equity component *(Note 20)*	62,104	–	62,104
31 December 2013	**63,198**	**43,018**	**106,216**

(a) Capital reserve

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

(b) Statutory reserve

In accordance with the PRC regulations and the articles of the association of the PRC companies comprising the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares, provided that the balance of such reserve is not less than 25% of the entity's registered capital after the bonus issue.

(c) The Company redeemed convertible bonds with a par value of RMB168,000,000 (2012: RMB843,800,000) in 2013. Total consideration and transaction costs paid for the redemption of convertible bonds are RMB168,630,000 (2012: RMB852,037,000), which has been allocated to the liability component of RMB163,606,000 (2012: RMB806,967,000) and the equity component of RMB5,024,000 (2012: RMB45,070,000) by using the same method as that on initial recognition. The difference between the consideration and transaction costs allocated to the liability component and its carrying value of RMB936,000 (2012: RMB15,976,000) is recognised in other gain (Note 26). The amount of consideration and transaction costs allocated to equity component is recognised in equity.

17. Share-Based Payment – the Group and the Company

(a) Share options granted on 14 July 2009

The Company granted to certain eligible employees share options to subscribe for an aggregate of 64,110,000 ordinary shares of the Company on 14 July 2009. These options vest in tranches over a period of up to 4.5 years.

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

	2013		2012	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**3.00**	**45,270**	3.00	48,270
Adjusted after right issue	**–**	**3,216**	–	–
Forfeited	**2.80**	**(2,677)**	3.00	(3,000)
At 31 December	**2.80**	**45,809**	3.00	45,270

As a result of the completion of the rights issue in May 2013 (Note 15(a)), the exercise price of the outstanding options was adjusted from HKD3.00 to HKD2.80, and the total number of shares to be issued upon exercise of the outstanding options was adjusted from 45,270,000 shares to 48,486,000 shares.

Out of the 45,809,000 outstanding options (2012: 45,270,000), 30,234,000 options (2012: 14,939,000) were exercisable as at 31 December 2013.

17. Share-Based Payment – the Group and the Company *(Continued)*

(a) Share options granted on 14 July 2009 *(Continued)*

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

Expiry date	**Exercise price in HKD per share option**	**Number of options (thousands) 31 December 2013**
13 January 2015	**2.80**	**45,809**

Expiry date	Exercise price in HKD per share option	Number of options (thousands) 31 December 2012
13 January 2015	3.00	45,270

The total fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options as at the grant date was approximately RMB44,506,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 14 July 2009
Average share price	HKD2.81
Exercise price	HKD3.00
Expected life of options	3.0 – 5.0 years
Expected volatility	46.04 – 51.34%
Expected dividend yield	3.56%
Risk free rate	1.032 – 1.745%

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

The attributable amount charged to the consolidated income statement during the year ended 31 December 2013 was approximately RMB674,000 (2012: RMB5,429,000).

17. Share-Based Payment – the Group and the Company *(Continued)*

(b) Share options granted on 9 November 2010 and revised on 5 September 2013

The Company granted to a director share options to subscribe for an aggregate of 5,000,000 ordinary shares of the Company on 9 November 2010. These options vest in tranches over a period of up to 4.5 years.

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

	2013		2012	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**8.20**	**5,000**	8.20	5,000
Adjusted after right issue	**–**	**355**	–	–
Revised the exercise price	**(4.46)**	**–**	–	–
At 31 December	**3.20**	**5,355**	8.20	5,000

As a result of the completion of the rights issue in May 2013 (Note 15(a)), the exercise price of the outstanding options was adjusted from HKD8.20 to HKD7.66, and the total number of shares to be issued upon exercise of the outstanding options was adjusted from 5,000,000 to 5,355,000 shares.

On 5 September 2013, the Board resolved to revise the exercise price of share options granted to a director to subscribe for an aggregate of 5,355,000 to HKD3.20.

Out of the 5,355,000 outstanding options (2012: 5,000,000), no options (2012: nil) were exercisable as at 31 December 2013.

17. Share-Based Payment – the Group and the Company *(Continued)*

(b) Share options granted on 9 November 2010 and revised on 5 September 2013 *(Continued)*

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

Expiry date	**Exercise price in HKD per share option**	**Number of options (thousands) 31 December 2013**
4 September 2018	**3.20**	**5,355**

Expiry date	Exercise price in HKD per share option	Number of options (thousands) 31 December 2012
09 May 2016	8.20	5,000

The fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options as at the grant date was approximately RMB11,457,000. The fair value of the options was increased by RMB3,476,000 after the Company revised the options. The following assumptions were adopted to calculate the fair value of the options on the grant date and the revised date:

	Revised on 5 September 2013	**Granted on 9 November 2010**
Average share price	HKD2.99	HKD8.14
Exercise price	HKD3.20	HKD8.20
Expected life of options	1.0 – 5.0 years	3.0 – 5.0 years
Expected volatility	46.85%	51.30 – 55.63%
Expected dividend yield	1.33%	3.14%
Risk free rate	1.088%	0.506 – 1.021%

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

The attributable amount charged to the consolidated income statement during the year ended 31 December 2013 was approximately RMB3,073,000 (2012: RMB2,698,000).

18. Retained Earnings

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**3,319,597**	3,025,153	**128,496**	237,355
Profit/(loss) for the year	**506,132**	426,553	**(161,987)**	(43,644)
Profit appropriation to statutory reserves	**(83,243)**	(66,894)	**–**	–
Dividends	**(33,259)**	(41,981)	**(33,259)**	(41,981)
Redemption of convertible bonds	**8,899**	(23,234)	**8,899**	(23,234)
At 31 December	**3,718,126**	3,319,597	**(57,851)**	128,496

19. Deferred Income – the Group

	2013	2012
	RMB'000	*RMB'000*
Deferred income:		
Government grants relating to purchase of domestic manufactured equipment (a)	**120,533**	101,396
Government grants relating to purchase of environment protection and technology improvement equipment (b)	**239,588**	251,040
	360,121	352,436

Deferred income represented government grants related to purchase of assets.

19. Deferred Income – the Group *(Continued)*

(a) Government grants related to purchase of certain qualified domestic manufactured equipment which can reduce enterprise income tax

It represented reduction in income tax granted to Baoji Fufeng Biotechnologies Co., Ltd. ("Baoji Fufeng"), Neimenggu Fufeng Biotechnologies Co., Ltd. ("IM Fufeng"), Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd ("Hulunbeir Fufeng") and Xinjiang Fufeng Biotechnologies Co., Ltd ("Xinjiang Fufeng") on purchase of certain qualified domestic manufactured equipments. Such income tax reduction is recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets. The maturity profile of the government grant credit is as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 10 years	**120,533**	101,396

The movements of the above government grant during the years ended 31 December 2013 and 2012 are as follows:

	2013	2012
	RMB'000	*RMB'000*
At beginning of the year	**101,396**	112,094
Granted during the year	**39,437**	8,924
Amortised as income *(Note 22)*	**(20,300)**	(19,622)
At end of the year	**120,533**	101,396

19. Deferred Income – the Group *(Continued)*

(b) Government grants related to acquisition of certain equipment used for environment protection and technology improvement

These represented grants from the government related to the acquisition of certain equipment used for environment protection and technology improvement. Grants received are recorded as deferred income and amortised in the consolidated income statement on a straight-line basis over the expected lives of the related assets. The maturity profile of these deferred government grants is as follows:

	2013 ***RMB'000***	2012 *RMB'000*
Within 10 years	**239,588**	251,040

The movements of the above government grants for the years ended 31 December 2013 and 2012 are as follows:

	2013 ***RMB'000***	2012 *RMB'000*
At beginning of the year	**251,040**	87,848
Granted during the year	**18,010**	181,350
Amortised as income *(Note 22)*	**(29,462)**	(18,158)
At end of the year	**239,588**	251,040

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20. Borrowings

The Group

	2013 *RMB'000*	2012 *RMB'000*
Non-current		
Bank borrowings, secured	–	188,565
Convertible bonds (b)	904,721	–
Senior notes (c)	1,808,658	1,856,395
Medium-term note (d)	595,808	–
	3,309,187	2,044,960
Current		
Bank borrowings, unsecured	985,000	2,181,145
Bank borrowings, secured	182,907	49,500
Convertible bonds (b)	–	177,035
	1,167,907	2,407,680
Total Borrowings	4,477,094	4,452,640

The Company

	2013 *RMB'000*	2012 *RMB'000*
Non-current		
Convertible bonds (b)	904,721	–
Senior notes (c)	1,808,658	1,856,395
	2,713,379	1,856,395
Current		
Bank borrowings, unsecured	–	758,145
Convertible bonds (b)	–	177,035
	–	935,180
	2,713,379	2,791,575

20. Borrowings *(Continued)*

(a) Borrowings

At 31 December 2013, the Group's borrowings were repayable as follows:

	The Group			
	Bank borrowings		Other loans	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**1,167,907**	2,230,645	**–**	177,035
Between 1 and 2 years	**–**	188,565	**13,027**	–
Between 2 and 5 years	**–**	–	**3,296,160**	1,856,395
	1,167,907	2,419,210	**3,309,187**	2,033,430

	The Company			
	Bank borrowings		Other loans	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**–**	758,145	**–**	177,035
Between 1 and 2 years	**–**	–	**13,027**	–
Between 2 and 5 years	**–**	–	**2,700,352**	1,856,395
	–	758,145	**2,713,379**	2,033,430

As at 31 December 2013, the bank borrowings included: RMB182,907,000 guaranteed by a standby letter of credit for RMB200,000,000 issued by China Merchants Bank Shenzhen Wenjindu Sub-branch and secured by the Group's restricted bank deposits of RMB40,000,000 (Note 14(a)).

As at 31 December 2012, the bank borrowings included: (i) RMB49,500,000 secured by leasehold land (Note 6); (ii) RMB188,565,000 guaranteed by a standby letter of credit for RMB200,000,000 issued by China Merchants Bank Shenzhen Wenjindu Sub-branch and secured by the Group's restricted bank deposits of RMB40,000,000 (Note 14(a)).

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

	2013	2012
Bank borrowings	**5.65%**	4.88%

For the year ended 31 December 2013

20. Borrowings *(Continued)*

(a) Borrowings *(Continued)*

The carrying amounts of bank borrowings approximate their fair value.

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:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
6 months or less	**145,000**	1,116,710	**–**	758,145
6 to 12 months	**1,022,907**	1,302,500	**–**	–
1 to 5 years	**3,309,187**	2,033,430	**2,713,379**	2,033,430
	4,477,094	4,452,640	**2,713,379**	2,791,575

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**2,485,529**	1,649,535	**904,721**	177,035
USD	**1,991,565**	2,803,105	**1,808,658**	2,614,540
	4,477,094	4,452,640	**2,713,379**	2,791,575

20. Borrowings *(Continued)*

(b) Convertible bonds

Convertible bonds issued in April 2010 ("2010 CB")

The Company issued convertible bonds with a total par value of RMB1,025,000,000 in April 2010 at a fixed interest rate of 4.5%. The bonds will mature in five years from the issue date at their nominal value of RMB1,025,000,000 or can be converted into the Company's ordinary 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 of transaction costs of RMB25,679,000, were determined upon issuance of the bonds.

The fair value of the liability component, which was 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 Company redeemed convertible bonds with a par value of RMB168,000,000 (2012: RMB843,800,000) in March and April 2013, by paying total consideration and transaction costs of RMB168,630,000 (2012: RMB852,037,000).

According to the conversion price adjustment term of the offering memorandum of 2010 CB, the conversion price is adjusted from HKD7.03 per share to HKD6.56 per share after the Company's right issue (Note 15(a)).

Convertible bonds issued in November 2013 ("2013 CB")

The Company issued convertible bonds with a total par value of RMB975,000,000 in November 2013 at a fixed interest rate of 3.0%. The bonds will mature in five years from the issue date at an amount equal to 108.31 percentage of their principal amount of RMB975,000,000, or can be converted into the Company's ordinary shares at the holder's option at the rate of HKD4.173 per share. The values of the liability component and the equity conversion component, net of transaction costs of RMB23,597,000, were determined upon issuance of the bonds.

The fair value of the liability component, which was included in non-current borrowings, was calculated using a market interest rate of 6.06% for equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

20. Borrowings *(Continued)*

(b) Convertible bonds *(Continued)*

Convertible bonds issued in November 2013 ("2013 CB") (Continued)

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

	2010 CB *RMB'000*	2013 CB *RMB'000*	Total *RMB'000*
Liability component at 1 January 2012	1,002,333	–	1,002,333
Including:			
– Interest payable – current portion	11,531	–	11,531
– Carrying amount at 1 January 2012	990,802	–	990,802
Liability component at 1 January 2012	1,002,333	–	1,002,333
Interest expense on convertible bonds *(Note 27)*	52,138	–	52,138
Interest paid	(52,454)	–	(52,454)
Redemption of convertible bonds	(822,943)	–	(822,943)
Liability component at 31 December 2012	179,074	–	179,074
Including:			
– Interest payable – current portion	2,039	–	2,039
– Carrying amount at 31 December 2012	177,035	–	177,035
Liability component at 1 January 2013	179,074	–	179,074
Net proceeds from convertible bonds issued on 27 November 2013	–	951,403	951,403
Equity component	–	(62,104)	(62,104)
Liability component of initial recognition on 27 November 2013	–	889,299	889,299
Interest expense on convertible bonds *(Note 27)*	3,018	4,833	7,851
Interest paid	(4,374)	–	(4,374)
Redemption of convertible bonds	(164,542)	–	(164,542)
Liability component at 31 December 2013	**13,176**	**894,132**	**907,308**
Including:			
– Interest payable – current portion	149	2,438	2,587
– Carrying amount at 31 December 2013	13,027	891,694	904,721

The fair value of the convertible bonds approximated its carrying amounts as at 31 December 2013.

20. Borrowings *(Continued)*

(c) Senior notes

In April 2011, the Group issued senior notes with a total par value of USD300,000,000, which were denominated in USD with a fixed interest rate of 7.625%. The notes will mature in five years from the issue date and are secured by a pledge of the capital stock of certain subsidiaries of the Company, including Acquest Honour Holding Limited ("Acquest Honour"), Summit Challenge Limited ("Summit Challenge"), Absolute Divine Limited ("Absolute Divine") and Expand Base Limited ("Expand Base"). The guarantors are all intermediate holding companies that collectively control the operation and assets of the PRC subsidiaries of the Group. The values of the liability, taking into account of the transaction costs of USD6,706,000, were determined upon issuance of the notes.

The fair value of the senior notes at 31 December 2013 amounted to RMB1,904,300,000 (2012: RMB1,885,650,000).

(d) Medium-term note

In April 2013, a subsidiary of the Group issued a medium-term note at a par value of total amounted to RMB600,000,000, which was dominated in RMB with a fixed interest of 5.11% per annum. The note will mature in three years from the issue date. The values of the liability net off transaction costs RMB5,310,000 were determined at issuance of the notes.

The fair value of the medium-term note approximated its carrying amounts as at 31 December 2013.

21. Trade, Other Payables and Accruals

The Group

	2013 ***RMB'000***	2012 *RMB'000*
Trade payables (a)	**1,208,736**	1,417,579
Advances from customers (b)	**370,121**	594,833
Payables for leasehold land, property, plant and equipment	**825,851**	1,024,471
Salaries, wages and staff welfares payables	**200,478**	135,969
Interest payables – current portion	**58,192**	39,579
Bank acceptance notes payable	**47,920**	–
Government grants received in advance	**46,870**	10,337
Dividends payable	**407**	407
Other payables and accruals	**132,422**	80,782
	2,890,997	3,303,957

21. Trade, Other Payables and Accruals *(Continued)*

The Group *(Continued)*

(a) As at 31 December 2013 and 2012, the ageing analysis of trade payables was as follows:

	2013 ***RMB'000***	2012 *RMB'000*
Within 3 months	**853,823**	1,071,231
3 to 6 months	**243,161**	224,292
6 to 12 months	**88,416**	107,392
1 to 2 years	**16,959**	14,664
Over 2 years	**6,377**	–
	1,208,736	1,417,579

(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 occur.

(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.

The Company

	2013 ***RMB'000***	2012 *RMB'000*
Interest payables – current portion	**37,453**	37,984
Dividends payable	**407**	407
Other payables and accruals	**1,202**	5,407
	39,062	43,798

22. Other Income

	2013 ***RMB'000***	2012 *RMB'000*
Sales of waste products	**60,878**	76,021
Amortisation of deferred income *(Note 19)*	**49,762**	37,780
Government grants relating to expenses	**18,157**	1,693
Interest income	**6,947**	6,232
Gain on disposal of property, plant and equipment *(Note 32(b))*	**2,624**	521
Others	**14,100**	7,070
	152,468	129,317

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23. Expense by Nature

	2013 **RMB'000**	2012 RMB'000
Changes in inventories of finished goods and work in progress	**(19,579)**	(229,606)
Raw materials and consumables used	**8,186,031**	8,826,089
Employee benefit expenses *(Note 24)*	**838,954**	671,000
Depreciation *(Note 7)*	**690,321**	528,619
Amortisation of leasehold land payments *(Note 6)*	**8,100**	4,527
Impairment charges for property, plant and equipment *(Note 7)*	**11,418**	461
Impairment charges for intangible assets *(Note 8)*	**1,482**	1,030
Transportation expenses	**518,464**	421,098
Utilities purchased	**38,241**	22,860
Travelling and office expenses	**34,840**	36,613
Inventory write-down/(Reversal of inventory write-down) *(Note 12)*	**7,202**	(264)
Reversal of provision for trade receivables *(Note 13)*	**–**	(76)
Auditors' remuneration	**5,149**	5,252
Land use tax, real estate tax and other taxes	**94,417**	85,213
Advertisement fees	**6,736**	18,952
Foreign exchange losses *(Note 30)*	**28,589**	6,381
Others	**144,764**	123,985
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**10,595,129**	10,522,134

24. Employee Benefit Expenses including Directors' Emoluments

	2013 **RMB'000**	2012 RMB'000
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	**749,876**	596,399
– Pension costs – defined contribution plans (a)	**85,331**	66,474
– Share options granted to directors and employees *(Note 17)*	**3,747**	8,127
	838,954	671,000

24. Employee Benefit Expenses including Directors' Emoluments *(Continued)*

(a) Pension costs – defined contribution plans

The employees of the Group's subsidiaries established in the PRC participated in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group was required to make monthly contributions to these plans at the percentages of the employees' monthly salaries and wages, subject to certain ceilings.

(b) Directors' emoluments

The emoluments of every director for the years ended 31 December 2013 and 2012 are set out as below:

		2013		
Name of Director	**Fees** *RMB'000*	**Salaries, allowances and pension costs** *RMB'000*	**Fair value of employee share options granted** *RMB'000*	**Total** *RMB'000*
Executive Directors:				
Li, Xuechun	–	2,689	–	2,689
Wang, Longxiang	–	1,972	–	1,972
Chen, Yuan	–	1,368	3,073	4,441
Feng, Zhenquan	–	1,415	–	1,415
Li, Deheng	–	1,411	–	1,411
Xu, Guohua	–	1,282	–	1,282
Li, Guangyu	–	767	–	767
Independent Non-executive Directors:				
Choi, Tze Kit, Sammy	239	–	–	239
Chen, Ning	70	–	–	70
Liang, Wenjun	70	–	–	70
Zheng, Yu	191	–	–	191
	570	10,904	3,073	14,547

24. Employee Benefit Expenses including Directors' Emoluments *(Continued)*

(b) Directors' emoluments *(Continued)*

	2012			
Name of Director	Fees *RMB'000*	Salaries, allowances and pension costs *RMB'000*	Fair value of employee share options granted *RMB'000*	Total *RMB'000*
Executive Directors:				
Li, Xuechun	–	2,221	–	2,221
Wang, Longxiang	–	1,974	–	1,974
Chen, Yuan	–	1,365	2,698	4,063
Feng, Zhenquan	–	1,316	–	1,316
Li, Deheng	–	1,313	–	1,313
Xu, Guohua	–	1,134	–	1,134
Li, Guangyu	–	714	–	714
Independent Non-executive Directors:				
Choi, Tze Kit, Sammy	236	–	–	236
Chen, Ning	67	–	–	67
Liang, Wenjun	67	–	–	67
Zheng, Yu (i)	–	–	–	–
	370	10,037	2,698	13,105

(i) Appointed on 31 December 2012.

There was no bonus paid to the directors of the Company for the years ended 31 December 2013 and 2012.

No director waived or agreed to waive any remuneration for the years ended 31 December 2013 and 2012.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2013 include four directors (2012: five) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2012: nil) individual during the year are as follows:

	2013 ***RMB'000***	2012 *RMB'000*
Salaries and allowances	**1,425**	–
Pension costs – defined contribution plans	**33**	–
	1,458	–

For the year ended 31 December 2013

24. Employee Benefit Expenses including Directors' Emoluments *(Continued)*

(c) Five highest paid individuals *(Continued)*

For the years ended 31 December 2013 and 2012, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

The remunerations paid to the above non-director individual for the years ended 31 December 2013 and 2012 fell within the following bands.

	Number of individuals	
	2013	2012
Emolument bands (in HK dollar)		
HKD1,500,001 – HKD2,000,000	**1**	–

25. Research and Development Costs

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

	2013	2012
	RMB'000	*RMB'000*
Raw materials and consumables used	**86,092**	84,916
Employee benefit expenses	**24,146**	20,071
Depreciation	**8,159**	7,353
Others	**10,874**	13,438
	129,271	125,778

All these development costs arose from internal development.

26. Other Gain

	2013	2012
	RMB'000	*RMB'000*
Gain on redemption of convertible bonds	**936**	15,976

27. Finance Costs – Net

	2013	2012
	RMB'000	*RMB'000*
Interest expense:		
Bank borrowings	**196,238**	88,362
Senior notes	**150,168**	152,086
Medium-term note	**22,769**	–
Convertible bonds *(Note 20)*	**7,851**	52,138
Finance costs	**377,026**	292,586
Less: amounts capitalised on qualifying assets	**(9,847)**	(41,273)
Finance costs	**367,179**	251,313
Finance income:		
Foreign Exchange gains on financial activities	**(76,879)**	(12,378)
Less: amounts credited to the finance costs capitalised on qualifying assets	**–**	5,931
Finance income	**(76,879)**	(6,447)
Net finance costs	**290,300**	244,866

28. Taxation

(a) Income tax expense

	2013	2012
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax ("EIT")	**176,325**	74,933
Deferred income tax *(Note 11)*	**(47,760)**	(11,273)
	128,565	63,660

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 2013 and 2012.

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

Effective from 1 January 2008, the subsidiaries incorporated in PRC are required to determine and pay the EIT in accordance with the Corporate Income Tax Law of the People's Republic of China (the "New EIT Law") as approved by the National People's Congress on 16 March 2007 and Detailed Implementations Regulations of the New EIT Law (the "DIR") as approved by the State Council on 6 December 2007. According to the New EIT Law and DIR, the income tax rates for both domestic and foreign investment enterprises have been unified at 25% effective from 1 January 2008.

Effective from 5 December 2008, Shandong Fufeng was approved to be a new and high-technology enterprise and entitled to a 15% tax rate from 2008 to 2010. In 2011, its new and high-technology enterprise qualification was further extended for another three years. Accordingly, the effective tax rate for Shandong Fufeng for the year ended 31 December 2013 is 15% (2012: 15%).

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財稅[2011]58號"關於深入實施西部大開發戰略有關稅收政策問題的通知"), companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government will be entitled to a preferential tax rate of 15%.

28. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

Some of the Group's subsidiaries in the PRC, namely Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate.

Baoji Fufeng was approved to be entitled to the above preferential tax rate from 2012, so the effective tax rate for Baoji Fufeng for the year ended 31 December 2013 is 15% (2012: 15%).

IM Fufeng was approved to be entitled to the above preferential tax rate from 2012, so the effective tax rate for IM Fufeng for the year ended 31 December 2013 is 15% (2012: 15%).

Hulunbeir Fufeng was approved to be entitled to the above preferential tax rate from 2012, so the effective tax rate for Hulunbeir Fufeng for the year ended 31 December 2013 is 15% (2012: 15%).

Xinjiang Fufeng was set up as a domestic limited liability company on 15 February 2012 and was verbally confirmed by the local tax authority of its provisional entitlement of the above preferential tax rate. Accordingly, its applicate EIT rate is estimated to be 15% for the year ended 31 December 2013 (2012: 15%).

Shandong Fufeng Biotechnology Development Company Limited was set up as a domestic limited liability company on 7 June 2007 in Junan, Shandong Province. The effective tax rate is 25% for the year ended 31 December 2013 (2012: 25%).

Shenhua Pharmaceutical was acquired by the Group on 25 January 2008 and became a foreign-invested limited liability company since then. It is entitled to a two-year full exemption followed by a three-year 50% reduction of EIT, commencing from 2008. Shenhua Pharmaceutical chose to utilise the tax preferential policy of 50% reduction of EIT in 2012. Shenhua Pharmaceutical was approved to be a new and high-technology enterprise and entitled to a 15% tax rate from 2012 to 2014. Accordingly, the effective tax rate for Shenhua Pharmaceutical for the year ended 31 December 2013 is 15% (2012: 12.5%).

Beijing Huijinhuaying is a domestic limited liability company. The effective tax rate is 25% for the year ended 31 December 2013 (2012: 25%).

Jiangsu Fufeng Biotechnologies Co., Ltd. ("Jiangsu Fufeng") was set up as a domestic limited liability company on 11 October 2011 in Jinhu, Jiangsu Province. The effective tax rate is 25% for the year ended 31 December 2013 (2012: 25%).

Fufeng (Singapore) Pte. Ltd. ("Fufeng Singapore") was set up as a limited liability company on 14 July 2011 in Singapore. The effective tax rate is 17% for year ended 31 December 2013 (2012: 17%).

For the year ended 31 December 2013

28. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	2013	2012
	RMB'000	*RMB'000*
Profit before income tax	**634,697**	490,213
Tax calculated at PRC statutory rate of 25%	**158,674**	122,553
Effect of tax exemption	**(29,061)**	(53,444)
Unrecognised tax losses	**367**	314
Utilisation of previously unrecognised tax losses	**(1)**	(445)
Expenses not deductible for tax purposes	**2,870**	2,119
Income not subject to tax	**(4,284)**	(7,437)
	128,565	63,660

(b) Value-added tax ("VAT")

Sales of self-manufactured products of the Company's PRC subsidiaries are subject to VAT. The applicable tax rates for domestic sales are 0%, 13% and 17%. Shandong Fufeng, Baoji Fufeng and IM Fufeng have been approved to use the "exempt, credit, refund" method on goods exported. The tax refund rate is 13%.

Input VAT on purchases of raw materials, fuel, utilities, certain fixed assets and other production materials (merchandise, transportation costs) are deductible from output VAT. VAT payable/(recoverable) is the net difference between output VAT and deductible input VAT.

29. Earnings per Share

(a) Basic

Basic earnings per share for the years ended 31 December 2013 and 2012 are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year.

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Profit attributable to the Shareholders	**506,132**	426,553
Weighted average number of ordinary shares in issue (thousands)	**2,013,919**	1,852,350
Basic earnings per share (RMB cents per share)	**25.13**	23.03

29. Earnings per Share *(Continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume 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.

For the year ended 31 December 2013, outstanding convertible bonds issued in April 2010 are anti-diluted which are not included in calculation of diluted earnings per share.

	2013 ***RMB'000***	2012 *RMB'000* (Restated)
Earnings		
Profit attributable to the Shareholders	**506,132**	426,553
Interest expense on convertible bonds (net of tax)	**4,833**	–
Profit used to determine diluted earnings per share	**510,965**	426,553
Weighted average number of ordinary shares in issue (thousands)	**2,013,919**	1,852,350
Adjustments for:		
– Assumed conversion of convertible bonds (thousands)	**297,114**	–
– Share options (thousands)	**4,242**	1,515
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,315,275**	1,853,865
Diluted earnings per share (RMB cents per share)	**22.07**	23.01

30. Net Foreign Exchange Gains

	2013	2012
	RMB'000	*RMB'000*
Other expenses *(Note 23)*	**(28,589)**	(6,381)
Finance income *(Note 27)*	**76,879**	6,447
	48,290	66

31. Dividends

	2013	2012
	RMB'000	*RMB'000*
Interim, paid	**33,259**	–
Final, proposed	**65,925**	–
	99,184	–

There were no final dividends paid in 2013. The final dividends paid in 2012 were HKD51,561,000 (equivalent to RMB41,981,000), representing HKD3 cents (equivalent to RMB2.44 cents) per share in 2012.

At a meeting held on 18 March 2014, the Board proposed a final dividend of HKD83,502,000 (equivalent to RMB65,925,000) (2012: Nil), representing HK4 cents (equivalent to RMB3.16 cents) (2012: Nil) 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 2014.

32. Notes to Consolidated Cash Flow Statement

(a) Cash generated from operations

	2013 RMB'000	2012 RMB'000
Profit before income tax	634,697	490,213
Adjustments for:		
– Inventory write-down/(Reversal of inventory write-down) *(Note 12)*	7,202	(264)
– Reversal of provision for trade receivables *(Note 13)*	–	(76)
– Impairment charge for property, plant and equipment *(Note 7)*	11,418	461
– Impairment charge for intangible assets *(Note 8)*	1,482	1,030
– Depreciation *(Note 7)*	690,321	528,619
– Amortisation of intangible assets *(Note 8)*	3	–
– Amortisation of leasehold land payments *(Note 6)*	8,100	4,527
– Amortisation of deferred income *(Note 22)*	(49,762)	(37,780)
– Gain on disposal of property, plant and equipment *(Note (b))*	(2,624)	(521)
– Employee share option schemes *(Notes 17, 24)*	3,747	8,127
– Gain on redemption of convertible bonds *(Note 26)*	(936)	(15,976)
– Interest income *(Note 22)*	(6,947)	(6,232)
– Interest expenses *(Note 27)*	367,179	251,313
– Foreign exchange gains on financing activities *(Note 27)*	(76,879)	(6,447)
Changes in working capital:		
– Inventories	(108,855)	(235,098)
– Trade and other receivables	287,289	(573,458)
– Restricted bank deposits	12,915	(2,200)
– Trade, other payables and accruals	(270,215)	737,958
Cash generated from operations	1,508,135	1,144,196

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

	2013 RMB'000	2012 RMB'000
Net book amount for sale *(Note 7)*	12,212	304
Gain on disposal of property, plant and equipment *(Note 22)*	2,624	521
Proceeds from disposal of property, plant and equipment	14,836	825

33. Commitments

The Group

(a) *Capital commitments*

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2013	2012
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
– Contracted but not yet incurred	**24,778**	213,318

(b) *Operating lease commitments – the Group as lessee*

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

	2013	2012
	RMB'000	*RMB'000*
No later than 1 year	**3,033**	2,789
Later than 1 year and no later than 5 years	**520**	1,838
	3,553	4,627

The Company

As at 31 December 2013 and 2012, the Company had no material capital commitments.

Operating lease commitments – the Company as lessee

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

	2013	2012
	RMB'000	*RMB'000*
No later than 1 year	**701**	715
Later than 1 year and no later than 5 years	**520**	1,223
	1,221	1,938

34. Related Party Transactions and Balances

The Group

(a) Key management compensation

	2013 **RMB'000**	2012 RMB'000
Salaries and allowances	**20,724**	17,509
Pension costs – defined contribution plan	**821**	828
Share options granted to key management	**3,126**	2,818
	24,671	21,155

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

35. Particulars of Subsidiaries

As at 31 December 2013, the Company has direct and indirect interests in the following wholly-owned subsidiaries:

Name	**Place of incorporation/ establishment**	**Registered/ Issued and paid capital**	**Principal activities & place of operation**
Directly held:			
Acquest Honour	The British Virgin Islands ("BVI")	USD2	Investment holding in Hong Kong
Indirectly held:			
Summit Challenge	BVI	USD1	Investment holding in Hong Kong
Absolute Divine	BVI	USD1	Investment holding in Hong Kong
Expand Base	BVI	USD1	Investment holding in Hong Kong
Profit Champion International Ltd. ("Profit Champion")	Hong Kong	HKD2	Investment holding in Hong Kong
Full Profit Investment (Group) Ltd. ("Full Profit")	Hong Kong	HKD2	Investment holding in Hong Kong
Trans-Asia Capital Resources Ltd. ("Trans-Asia")	Hong Kong	HKD2	Investment holding in Hong Kong
Fufeng International Trade (Hong Kong) Limited ("Fufeng International")	Hong Kong	HKD2	Investment holding in Hong Kong

35. Particulars of Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Registered/ Issued and paid capital	Principal activities & place of operation
Shandong Fufeng	PRC	RMB370,500,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweeteners and other related products in the PRC
Baoji Fufeng	PRC	HKD250,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers and other related products in the PRC
IM Fufeng	PRC	HKD640,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, xanthan gum, corn refined products, fertilisers, starch sweeteners and other related products, autoclaved aerated concrete block in the PRC
Shandong Fufeng Biotechnology Development Company Limited	PRC	RMB5,500,000	Biological techniques research and development, promotion and industrialisation of new biological techniques and achievements, information services of biological technique in the PRC
Shenhua Pharmaceutical	PRC	RMB122,000,000	Manufacture and sales of eubacteria material medicine, preparations and food additives and other related products in the PRC
Beijing Huijinhuaying	PRC	RMB21,000,000	Own and operate self-used office building
Hulunbeir Fufeng	PRC	RMB1,000,000,000	Manufacture and sales of starch, starch sweeteners, amino acids, monosodium glutamate, glutamic acid, fertilisers, and other related products in the PRC

35. Particulars of Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Registered/ Issued and paid capital	Principal activities & place of operation
Fufeng Singapore	Singapore	SGD1,300,000	Sales of monosodium glutamate and other related products in the Southeast Asia
Jiangsu Fufeng	PRC	RMB5,000,000	Biological techniques research and development, promotion and industrialisation of new biological techniques and achievements, information services of biological technique. Sales of xanthan gum, amino acids and starch sweeteners in the PRC
Hulunbeir Shengmin Agricultural Development Co., Ltd. ("Hulunbeir Shengmin")	PRC	RMB10,000,000	Does not carry out any business activities currently
Xinjiang Fufeng (a)	PRC	RMB500,000,000	Manufacture and sales of amino acid, xanthan gum, and other related products in the PRC

(a) The registered capital of Xinjiang Fufeng was increased to RMB500,000,000 through two capital injections on 25 February 2013 and 8 May 2013.

36. Events after the Balance Sheet Date

On 16 January 2014, Baoji Fufeng entered into a framework investment agreement with Caijiapo Economic and Technological Development Zone Management Committee of Shaanxi Province, which has already been announced by the Company on 24 January 2014. Pursuant to the framework investment agreement, Baoji Fufeng will relocate the existing production facilities to the Caijiapo Economic and Technological Development Zone of Shaanxi Province, PRC. The Directors did not anticipate any significant impact on the Group's financial position as at 31 December 2013 regarding to the relocation of Baoji Fufeng.

Except the above subsequent event and the proposed final dividend described in Note 31, there is no significant event of the Group after the balance sheet date.

SHARE INFORMATION

Stock Code 546

Board lot 1,000 shares

Price and turnover

2013	Share price High (HKD)	Share price Low (HKD)	Turnover Share ('000)
January	4.36	3.36	144,092
February	3.86	3.19	58,072
March	3.37	2.65	47,981
April	2.93	2.33	78,753
May	3.14	2.60	123,375
June	3.15	2.20	103,572
July	3.36	2.51	67,804
August	3.67	3.09	175,329
September	3.27	2.74	98,296
October	3.48	2.80	90,560
November	3.30	2.85	48,312
December	3.18	2.89	47,438

Issued capital at 31 December 2013 2,087,560,600 shares

Closing price at 31 December 2013 HKD3.17 per share

GLOSSARY

Absolute Divine	Absolute Divine Limited, an indirect wholly-owned subsidiary of the Company
Acquest Honour	Acquest Honour Holdings Limited, a wholly-owned subsidiary of the Company
ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Beijing Huijinhuaying	Beijing Huijinhuaying Commercial Co., Ltd, an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
CAGR	cumulative average growth rate
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
EIT Law	Enterprise Income Tax Law of the PRC which came into effect on 1 January 2008
Ever Soar	Ever Soar Enterprises Limited, a company with limited liability, the issued share capital of which is owned as to 25% by 吳欣東 (Wu Xindong), 15% by 嚴汝良 (Yan Ruliang), 15% by 馮珍泉 (Feng Zhenquan), 15% by 徐國華 (Xu Guohua), 15% by 李德衡 (Li Deheng), 15% by 郭英熙 (Guo Yingxi)
Expand Base	Expand Based Limited, an indirect wholly-owned subsidiary of the Company
Fufeng Singapore	Fufeng (Singapore) Pte. Ltd, an indirect wholly-owned subsidiary of the Company
Group	the Company and its subsidiaries
Hero Elite	Hero Elite Limited, a company with limited liability, the issued share capital of which is owned as the 14.3% by 王龍祥 (Wang Longxiang), 14.3% by 來鳳堂 (Lai Fengtang), 14.3% by 劉振余 (Liu Zhenyu), 14.3% by 趙蘭坤 (Zhao Lankun), 10.7% by 王俊任 (Wang Junren), 10.7% by 嚴紅偉 (Yan Hongwei), 10.7% by 李曼山 (Li Manshan) and 10.7% by 沈德權 (Shen Dequan)

GLOSSARY (Continued)

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
Hulunbeir Shengmin	呼倫貝爾市晟敏農業開發有限責任公司 (Hulunbeir Shengmin Agriculture Development Co., Ltd.), an indirect wholly-owned subsidiary of the Company)
IM Fufeng	內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Plant	the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC
IPO	Initial public offering of the Shares on 8 February 2007
Jiangsu Fufeng	江蘇阜豐生物科技有限公司 (Jiangsu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
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
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

GLOSSARY (Continued)

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
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Stock Exchange	the Stock Exchange of Hong Kong Limited
Summit Challenge	Summit Challenge Limited, an indirect wholly-owned subsidiary of the Company
Xinjiang Fufeng	新疆阜豐生物科技有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), and indirect wholly-owned subsidiary of the Company)
Xinjiang Plant	the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region
U.S.	the United States of America
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
SGD	Singapore dollars, the lawful currency of Singapore
%	per cent