Fufeng Group Limited
阜豐集團有限公司

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

ANNUAL REPORT 2014


神华维康
Anuket 透明质酸钠
FUFENG
透明质酸钠
Sodium Hyaluronate
神华维康
神华V优+
维生素固体饮
L-谷氨酰胺
神华维康
神华提力
氨基酸维生素固体饮料
30条
BCAA

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present to you the results for 2014.

Results for the Year

In 2014, China's macro-economy was still filled with challenges. However, it was encouraging that the consolidation of the MSG industry was basically completed in the second half of 2014. As the leader in the industry, the Group further consolidated its leadership position in the market and enhanced its pricing power. With such a backdrop, MSG, as the major business of the Group, demonstrated its comparatively vigorous momentum with its price on the rise steadily, while the high-end amino acid business and other new products further upgraded the profitability of the Group. Having benefited from the complementation of the new products, the Group succeeded in the development of diversified and sustainable sources of revenue to lay a solid foundation for the future expansion. Furthermore, the Group imposed stringent controls on various costs to further solidify the profitability of the Group.

As at 31 December 2014, the audited turnover of the Group amounted to approximately RMB11.3 billion, representing a slight decrease of 0.6% as compared to 2013. Net profit was approximately RMB626 million, up 23.8% as compared to 2013.

Achievements

By virtue of its leadership position in the market, competitive stronghold and the efforts of all staff, the achievements of the Group were as follows:

– Its main business has undergone material development

  It has continued to be the biggest manufacturer and supplier of MSG in the world and succeeded to lead and complete the consolidation of the MSG industry in China, with an upward price adjustment on several occasions in the year. The further strengthening of MSG business has brought about substantial growth in its gross profit and strong cash flow.

The Group has maintained its leadership position as the biggest manufacturer and supplier of xanthan gum in the world. During the year, the xanthan gum business of the Group continued expanding and further increased its share in the global market.

The threonine business demonstrated a favourable development trend. Our alliance with Ajinomoto in threonine co-production and sales in the global market achieved remarkable success.

– The Group has managed to make the breakthroughs in the research and development of new products

The Group has remarkable achievements in the development of new products, such as high-end amino acid products and specialty ingredients becoming the new growth driver of the Group. In 2014, the Group was also granted the first academician workstation in the national condiment industry – "Fufeng Academician Workstation". The current research and development center of the Group has set up various research and development platforms, including "National Post-doctoral Scientific Research Workstation", "National Accredited Laboratory", "Shandong Provincial Amino Acid Fermentation Engineering Technology Research Center", "Shandong Provincial Key Laboratory of Micro-organism Fermentation Enterprise". The current establishment of "Fufeng Academician Workstation" will enhance the technological innovation capability in the condiment sector, improve the innovation environment of the enterprise and inject new life blood into the innovation capability of the enterprise, so as to provide strong technological support for technological innovation.

– The grand health development strategy, with emphasis on Shenhua Pharmaceutical, high-end amino acid products and specialty ingredients, has been formulated at the initial stage to lay the solid foundation for the Group to go forward in the new development direction as the ingredient solution provider for the health and wellness sector.

– Its famous brands in China have been highly acclaimed in the industry and rated as the champion of "Top 10 in China's Fermentation Industry" and the award of "Famous Trademark in China" for consecutive years.

Growth Dynamics in Various Aspects

Looking ahead, further strengthening of the MSG business will bring about better returns and stronger cash flow, which in turn will support the development of the new growth strategy. Meanwhile, the Group will commit itself to enhancing the sales capabilities of various business segments in 2015, with an aim to fully release the production costs advantage and scale of production capacity of xanthan gum, high-end amino acid products and specialty ingredients, as well as to improve the profitability of our fertiliser business. The Group will seize the strong momentum jointly created with Ajinomoto in the threonine sector. We will further enhance this alliance in co-production and sales in order to increase our market share. The business of Shenhua Pharmaceutical has improved significantly and we have achieved breakthroughs in product development of high-end amino acid products and specialty ingredients. Our grand health and wellness business development strategy demonstrates a favourable development trend and will be the new growth driver of the Group.

Sustainable Development

In our deep belief, sustainable development is indispensable in our continuous growth in the aspects of environmental protection and social contribution. As for environmental protection, the Group has continued investing in energy-saving equipment. Its production facilities, with low carbon emission, aim to minimise the influence of our business on the environment. We have also placed great emphasis on product quality and food safety, so as to build up the highly acclaimed reputation of good quality and track record among our clients and end-users. In 2014, the Group made an important breakthrough in sustainable development – with the capability of turning mycoprotein, the waste in the production of amino acids, into high value-added additive to animal feeds, through technological research, leading to substantial revenue and profit for the Group.

CHAIRMAN'S STATEMENT *(Continued)*

2014 Overview

MSG

After years of MSG industry consolidation, it was finally completed in 2014. This round of consolidation not only eliminated numerous small and medium competitors but also brought about integration of leading enterprises in the industry. Obviously, this round of consolidation has had a profound impact on the industry.

After this round of industry consolidation, the Group has taken the lead to further consolidate its leading position in the market and reinforce its pricing power. During the year, the Group successfully raised the MSG prices six times in order to maintain the gross profit margin at a more reasonable and sustainable level.

Starting from the second quarter in 2014, the average selling price ("ASP") of MSG went up from approximately RMB 6,115 per tonne to approximately RMB 6,907 in the fourth quarter. ASP in 2014 reached approximately RMB 6,482 per tonne, an increase of about 3.0% over 2013. The sales volume of MSG decreased 7.7% to approximately 926,000 tonnes, mainly caused by the relocation of Baoji Plant. The gross profit margin of MSG segment increased 2.0 percentage points to 14.6%. The revenue of MSG segment comprised 88.1% of the total revenue.

Xanthan Gum

Following the launch of new xanthan gum production lines in the Xinjiang base, the Group's xanthan gum business scale further expanded, enhancing Fufeng's global market share. In 2014, the designed annual production capacity reached 82,000 tonnes, an increase about 25.7% over 2013. Its actual output reached approximately 83,000 tonnes at a growth rate of about 27.4%. Its sales volume increased 12.7% to approximately 65,000 tonnes.

Despite the new competitors, the Group managed to secure the clients' trust by virtue of good product quality and services and maintained the gross profit margin at an attractive and sustainable level.

During the year, although the ASP of xanthan gum dropped to approximately RMB 20,613 per tonne, its sales volume experienced substantial increase, resulting in a gross profit margin of 52.7%. Xanthan gum accounted for 11.9% of the total revenue.

High-end Amino Acid and Specialty ingredients Business

The Group successfully developed and produced products such as valine, leucine, isoleucine, hyaluronic acid (hyaluronan), tryptophan, glutamine, gellan gum and other specialty ingredients at its Xinjiang base.

These new products have the characteristic of "Low Investments – High Return". By leveraging on the development plan and the advantage of raw materials resources in Xinjiang base, these products enjoy production cost advantage and higher profitability.

These new products have excellent and long-term growth potential as well as broad end-user markets including promising markets such as beauty, medical and healthcare.

One of its key products, hyaluronic acid, recorded remarkable sales achievement in the domestic and overseas markets. The product quality is well recognised by the end customers, which further proves its leading position in the global market.

During the year, the revenue of high-end amino acid products and specialty ingredients reached approximately RMB340 million, representing a significant increase of 61.4%. Although the new products only accounted for 3% of total revenue, they have significant contribution to the overall profit.

Adjustment to Capital Structure

During the year, the sustainable cash flow of the Group grew stronger, which provided favourable conditions for lowering the gearing ratio gradually and for refinancing in the future.

As at 31 December 2014, the Group's total assets and total borrowings are RMB13.69 billion and RMB4.52 billion, respectively. The gearing ratio (the Group's total borrowings over total assets) was approximately 33.0%, representing a decline of 2.5% as compared with 2013. Cash and bank balances amounted to approximately RMB797 million, representing a slight decrease of 1.2% as compared with 2013.

2015 Outlook

Looking ahead in 2015, we will face the following opportunities and challenges:

Challenges

- Regarding the global economies, the U.S. economy is expected to recover while other economies are still facing a slowdown. Chinese economic growth is expected to slow and the Chinese official GDP growth target has been reduced to approximately 7%.

- Having affected by new competitors, xanthan gum industry enters into keen competition and has already started a prelude of shuffle.

Opportunities

- The MSG sector consolidation has been successfully completed. It is expected that the MSG price, profit margin and working capital will remain at healthy levels. The MSG business will provide a stable and strong cashflow to the Group.

- The Group will further strengthen the sales teams and marketing and brand promotion efforts, with an aim to enhance competitive strengths in the industry and have better control of sales channels.

- The Group will further develop and achieve successful commercialisation of high-end amino acid products and specialty ingredients in order to realise "Low Investment – High Return" strategy.

- The Group will integrate the high-end products business of our Xinjiang base and the business of Shenhua Pharmaceutical to further develop pharmaceuticals, healthcare and skincare products, with an aim to develop healthcare business and capture the huge market potential in the healthcare sector.

- The Group will further develop the threonine business and strengthen the cooperation with Ajinomoto, aiming to be the market leader in the threonine industry.

The Group will strive to ride out difficulties and to overcome every challenge. By capitalising on our competitive edges and market opportunities, we will continuously strive to be stronger and achieve better operational results.

Appreciation

Finally, I am grateful to our shareholders, customers, business partners and all the stakeholders for their trust and support to the Group. I would also like to thank our Board members and all the staff for their efforts and contribution to the business development of the Group.

Li Xuechun
Chairman

24 March 2015

FIVE-YEAR SUMMARY

	Year				
	2010 *RMB'000*	2011 *RMB'000*	2012 *RMB'000*	2013 *RMB'000*	**2014** ***RMB'000***
Operating results – Summary					
Turnover	6,416,425	8,399,246	11,111,920	11,366,722	**11,297,696**
Gross profit	1,565,054	1,519,673	1,637,455	2,099,443	**2,166,865**
Profit before income tax	1,071,329	716,436	490,213	634,697	**774,176**
Profit attributable to Shareholders	966,051	604,137	426,553	506,132	**626,428**
Balance sheets – Summary					
Non-current assets	4,277,621	6,326,641	7,665,681	8,170,547	**9,334,995**
Current assets	2,442,644	3,532,681	4,305,271	4,448,621	**4,359,282**
Total assets	6,720,265	9,859,322	11,970,952	12,619,168	**13,694,277**
Current liabilities	2,424,699	3,388,364	5,758,722	4,110,788	**4,067,139**
Non-current liabilities	1,150,301	3,064,255	2,417,222	3,689,594	**4,258,072**
Net assets	3,145,265	3,406,703	3,795,008	4,818,786	**5,369,066**
Financial ratio					
Earnings per share (Basic) (RMB Cents)	57.75	35.15	23.03*	25.13	**29.98**
Gross profit ratio (%) *(Note 1)*	24	18	15	19	**19**
ROE (%) *(Note 2)*	31	18	11	11	**12**
Current ratio *(Note 3)*	1.01	1.04	0.75	1.08	**1.07**
Inventory turnover days (Day) *(Note 4)*	54	63	55	60	**79**
Debtors' turnover days (Day) *(Note 5)*	38	63	63	58	**33**
Trade receivable turnover days (Day) *(Note 6)*	10	12	9	12	**12**
Creditors' turnover days (Day) *(Note 7)*	58	58	55	49	**60**
Trade payable turnover days (Day) *(Note 8)*	47	58	55	48	**40**
Gearing ratio (%) *(Note 9)*	23	36	37	36	**33**

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 before provisions 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. Li Guangyu

Independent non-executive Directors
Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Qi Qing Zhong (appointed on 1 November 2014)
Ms. Zheng Yu

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

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Western section of Huaihai 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. Qi Qing Zhong (appointed on 1 November 2014)
Ms. Zheng Yu

Remuneration Committee
Mr. Choi Tze Kit, Sammy *(Chairman)*
Mr. Li Xuechun
Mr. Chen Ning
Mr. Qi Qing Zhong (appointed on 1 November 2014)
Ms. Zheng Yu

Nomination Committee
Mr. Li Xuechun *(Chairman)*
Mr. Wang Longxiang
Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Qi Qing Zhong (appointed on 1 November 2014)
Ms. Zheng Yu (appointed on 1 November 2014)

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

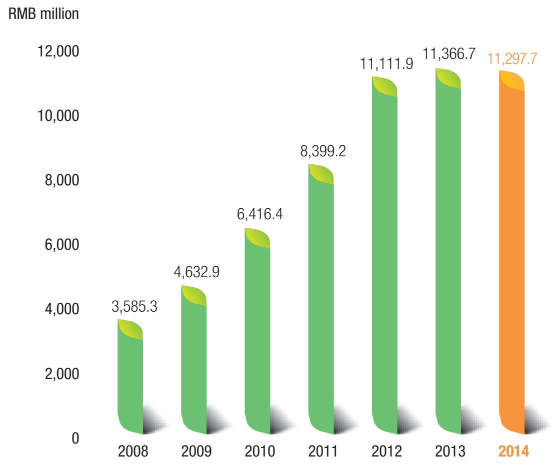
IM
PLANT

SHANDONG
PLANT

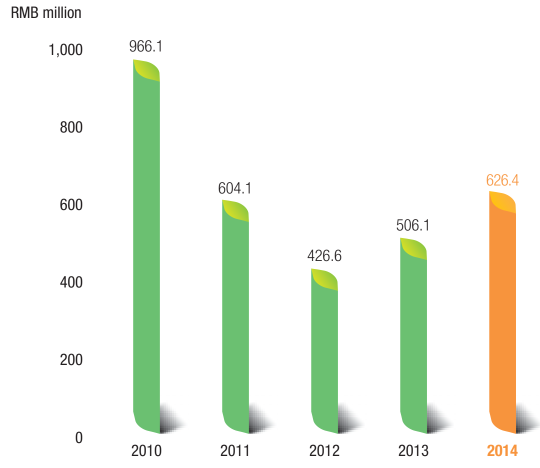
XINJIANG
PLANT

FINANCIAL HIGHLIGHTS

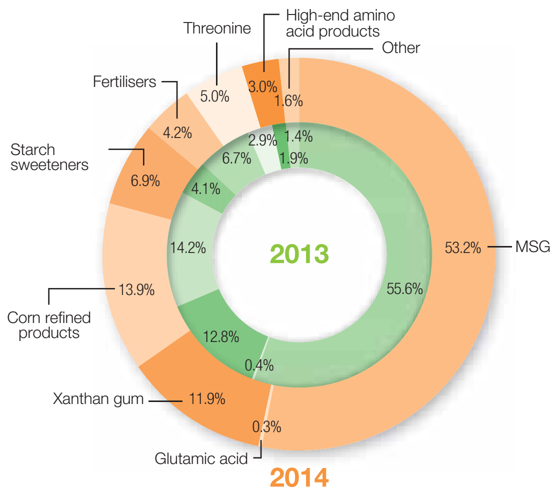
Turnover Growth



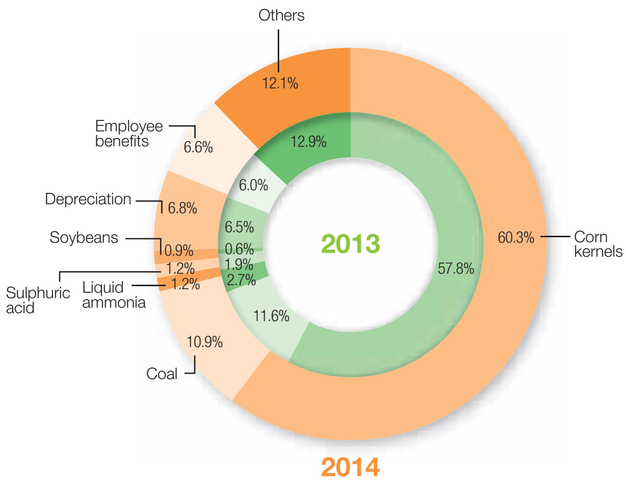
Profit Attributable to Shareholders



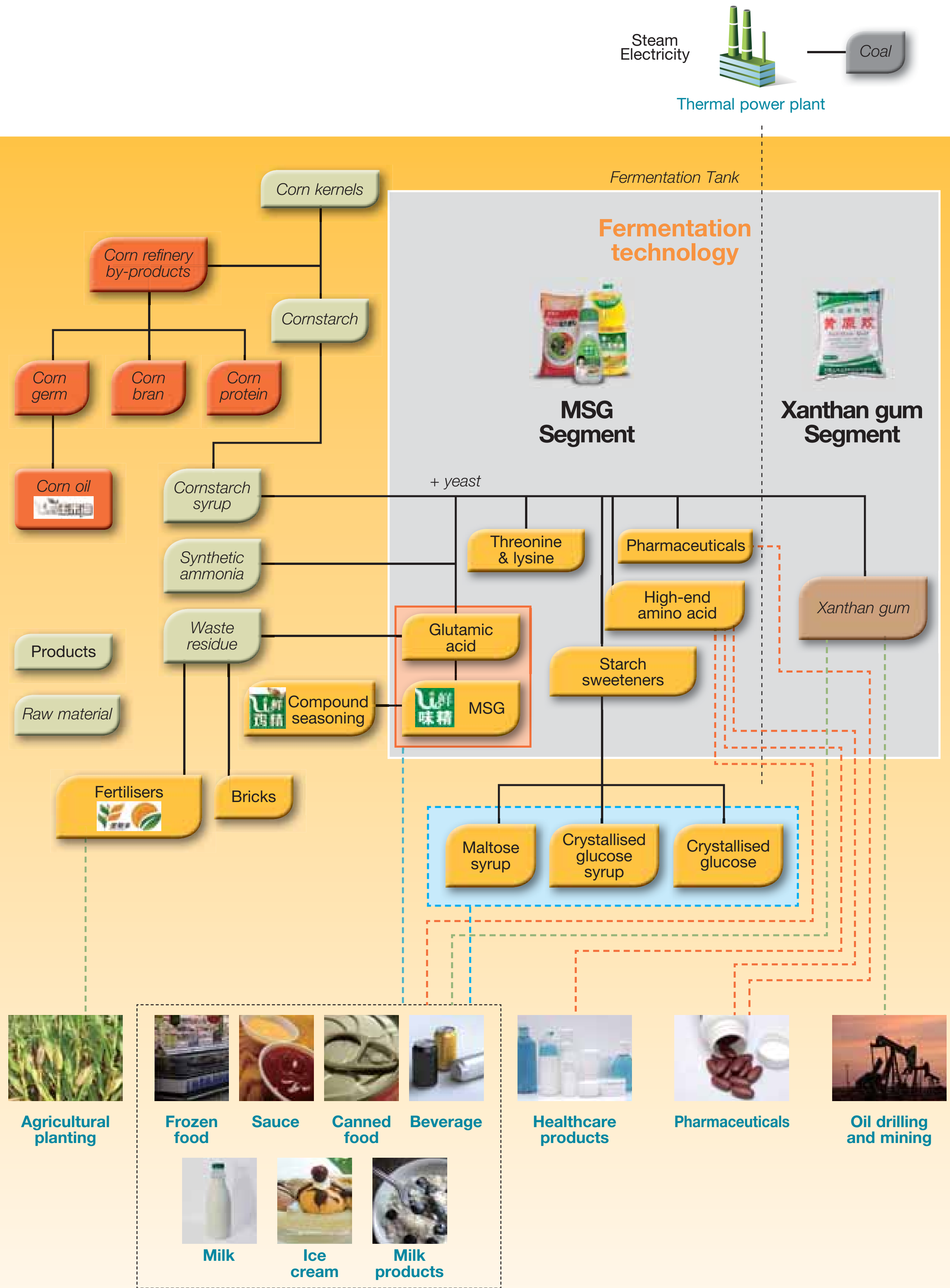
Revenue Analysis



Production Cost Analysis



MAJOR PRODUCTS PROCESSING MAP



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

李學純 (Li Xuechun), aged 63, 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 a factory manager. Mr. Li established the Group by starting set up Shandong Fufeng in June 1999. He was appointed as a director of Shandong Fufeng upon its establishment. He has 33 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 45.76% 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 53, is an executive Director and the general manager of the Group. Mr. Wang is also a director of Shandong Fufeng, Baoji Fufeng, 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 23 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 3.28% 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 0.39% of issued share capital of the Company.

馮珍泉 (Feng Zhenquan), aged 45, 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 21 years of experience in the fermentation industry. He was one of the initial management Shareholders. Mr. Feng is interested in 100% of the issued share capital of Elite Chance Holdings Limited, which in turn is interested in 33,320,160 Shares, representing approximately 1.58% of the issued share capital of the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

徐國華 (Xu Guohua), aged 46, 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 24 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 100% of the issued share capital of Best Range Investments Limited, which in turn is interested in 33,320,160 Shares, representing approximately 1.58% of the issued share capital of the Company.

李德衡 (Li Deheng), aged 46, 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 14 years of experience in business management. Mr. Li Deheng is the brother-in-law of Mr. Li Xuechun. Mr. Li is interested in 100% of the issued share capital of Empire Spring Investments Limited, which in turn is interested in 33,320,160 Shares, representing approximately 1.58% of the issued share capital of the Company.

李廣玉 (Li Guangyu), aged 36, 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 9 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 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 52, 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 the deputy president of the Association of Hong Kong Accountants, and a council member of the Society of Chinese Accountants and Auditors. He has over 29 years of experience in finance and auditing.

陳寧 (Chen Ning), aged 52, 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 13 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

鄭豫 (Zheng Yu), aged 47, 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 17 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 a 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 U.S. 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) 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.

齊慶中(Qi Qing Zhong), aged 60, was appointed as an independent non-executive Director on 1 November 2014. Mr. Qi has over 30 years experience in the management of the corporation in fermentation and food industry. Mr. Qi has extensive experience in various management practices including strategy development, promotion and brand management and industrial operation management. Mr. Qi graduated in Institute of Light Industry, Dalian (Faculty of Food Engineering, Professional of Fermentation) in 1982. Mr. Qi currently works as a chief secretary and a chief executive officer of China Food Additives & Ingredients Association. Mr. Qi is also in position of Deputy Director of the Committee on Food Additions in National Standard Review Committee of Food Safety. Mr. Qi does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company. He 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. Mr. Qi does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Senior Management

陳奕祺 (Chan Yick Kei), aged 36, is a chief financial officer of the Group who is appointed on 1 January 2015. Mr. Chan graduated from the London School of Economics and Political Science with a bachelor degree of accounting and finance. Mr. Chan has over 14 years of corporate finance and M&A experience. Prior to joining us he was a director and head of consumer and retail sector, Asia at Deutsche Bank and before that he was a Vice President at the investment banking department of Credit Suisse. Mr. Chan is responsible for matters relating to corporate finance, capital markets, investor relations, corporate development and assists in strategic planning, as well as other financial management duties.

趙修標 (Zhao Xiu Biao), aged 51, 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 a director of sales department and vice president. Mr. Zhao has accumulated 14 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 46, 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 23 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 3.28% of the issued share capital of the Company.

徐令國 (Xu Lingguo), aged 40, 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 15 years of experience in the fermentation industry and is presently responsible for the Group's logistic operation.

潘悅洪 (Pan Yvehong), aged 50, is the general manager of Xinjiang Fufeng. Mr. Pan graduated from 山東輕工業學院 (Shandong Institute of Light Industry) in 1988, majoring in fermentation. Mr. Pan joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1988, and later joined the Group in June 1999. With nearly 27 years of experience in the fermentation industry, he is mainly responsible for the operation of Xinjiang Fufeng.

王均成 (Wang Juncheng), aged 47, is the general manager of IM Fufeng. Mr. Wang graduated from 中國海洋大學 (Ocean University of China) in 1990, majoring in marine biology. Mr. Wang joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1990, and later joined the Group in June 1999. With 25 years of experience in fermentation industry, he is mainly responsible for the operation of IM Fufeng.

嚴紀文 (Yan Jiwen), aged 48, is the general manager of Hulunbeir Fufeng. Mr. Yan graduated from 山東輕工業學院 (Shandong Institute of Light Industry) in 2005, majoring in economic management. Mr. Yan joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1988, and later joined the Group in June 1999. He has accumulated 27 years of experience in the industry and is mainly responsible for the operation of Hulunbeir Fufeng.

唐永強 (Tang Yongqiang), aged 40, is the general manager of Shandong Fufeng. Mr. Tang graduated from 西北工業大學 (Northwestern Polytechnical University) in 1997, majoring in machinery manufacturing industry and equipment. Mr. Tang joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1997, and later joined the Group in June 1999. With 18 years of experience in the industry, he is mainly responsible for the operation of Shandong Fufeng.

葛文村 (Ge Wencun), aged 54, 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 22 years of experience in the fermentation industry.

張元年 (Zhang Yuannian), aged 41, 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 20 years of experience in finance.

Company Secretary and Qualified Accountant

李偉然 (Lee Wai Yin), aged 45, 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 21 years of working experience in finance and accounting including some with international accounting firms.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Overview

Both the Chinese and global economies were still generally weak in 2014. However, despite considerable headwinds confronted by the Group, including but not limited to, still ongoing industry consolidation in first half of 2014 and China's domestic macro-control measures, the Group saw a significant development for its core businesses in 2014.

The Group continued to fine-tune the management of its production facility and capacity of each plant in order to match ongoing market demand. The Group also actively explored the development of new specialty ingredients such as specialty gum products and hyaluronic acid and high-end amino acid products, in order to improve product diversity, increase sales and penetration in healthcare, pharmaceutical and skin care related industries. 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.

Despite ongoing challenges in the MSG market, the Group was able to register a moderate increase in its overall gross profit and net profit during 2014 compared to 2013. Even though overall revenue of the Group remained fairly stable during the year under comparison, the Group was able to rely on new products such as high-end amino acid products and effective implementation of cost controls to increase overall profitability. In terms of production capacity, except for Baoji and Shandong Plants, which underwent relocation, the overall production capacity of the Group in 2014 remained almost fully operational.

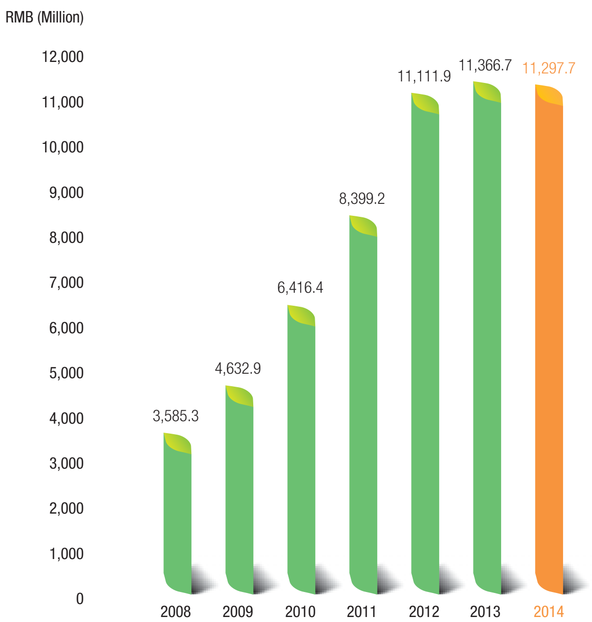
For the year ended 31 December 2014, revenue for the Group remained relatively stable at approximately RMB11,297.7 million, as compared to approximately RMB11,366.7 million for the year ended 31 December 2013. The slight decrease in revenue was primarily caused by the decrease in the average selling price ("ASP") of xanthan gum and slight decrease in the sales volume of MSG. Industrial consolidation of MSG was generally completed in the first half of 2014, and with demand and supply of MSG stabilising, ASP of MSG witnessed an upward trend in the second half of 2014. Despite a decrease in selling price of xantham gum, the Group was able to increase the sales volume of xanthan gum due to an increase in production capacity, with the commencement of productions of xanthan gum at the Xinjiang Plant Phase 1 and Phase 2, in the end of 2012 and in the second half of 2014, respectively.

In terms of MSG business, despite an increase in ASP of MSG in the second half of 2014, the ASP of MSG still remained at a relatively low level and the Group continued to face 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 maintain its leadership in terms of market share and sales volume by leveraging its cost advantages to adopt competitive pricing. As such, the Group registered an increase in gross profit and gross profit margin in MSG segment, mainly due to raw material cost tax relief increase, a new tax relief policy for agricultural products processing industries in Inner Mongolia Autonomous Region and Shaanxi Province was launched at the end of 2013 and at the end of 2014, as well as the increasing contribution from the sales of higher margin products such as high-end amino acid products and starch sweeteners. The high-end amino acid products, a relatively new product of the Group, continued to increase its revenue contribution to the Group, especially after the commencement in operation of the new production facility in the Xinjiang Plant Phase 2 towards the beginning of the second half of 2014.

In terms of the Xanthan gum business, another key business segment of the Group, with a decrease in the ASP of xanthan gum and a decrease in gross profit margin, the market demand of xanthan gum generally stabilised and the Group continued to strengthen its market share. The Group, as the largest xanthan gum manufacturers, continued to dominate the global market share.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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



The Group's gross profit increased from approximately RMB2,099.4 million in 2013 to approximately RMB2,166.9 million in 2014, representing an increase of 3.2%, primarily due to an increase in gross profit and gross profit margin of the Group's MSG business during the year.

In 2014, the ASP of the Group's MSG increased by 3.0% compared to 2013. On the other hand, the ASP of the Group's xanthan gum decreased by about 18.4% as compared to 2013. Production costs of the Group, including the prices of corn kernels, coal and chemical products, remained relatively stable as compared with 2013. The Group's overall gross profit margin increased from about 18.5% in 2013 to about 19.2% in 2014, primarily due to the increase in gross profit margin of its MSG segment business from about 12.6% in 2013 to about 14.6% in 2014 as a result of 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.

The Group, through strategic establishment of key production sites, was able to reduce and control its costs in 2014. For example, Phase 1 and Phase 2 of its Xinjiang Plant which were established in 2012 and 2014, respectively for the production of xanthan gum and high-end amino acid products, enabled it to tap the rich local coal resources with relatively significant cost advantage.

The production and sales volume of MSG decreased by about 4.1% and about 7.7% respectively in 2014 as compared to 2013. The production volume of MSG slightly decreased as a result of relocation of Baoji Plant, of which the Phase 1 of the new Baoji Plant construction was basically completed and under trial production operations towards the end of 2014.

The production and sales volume of xanthan gum increased by about 27.4% and about 12.7% respectively in 2014 compare to 2013. The production volume of xanthan gum increased primarily as the Group was able to ramp up production of xanthan gum at its Xinjiang Plant.

High-end Amino Acid Business

The high-end amino acid business, as a sub-segment of the MSG business, is a relatively new growth driver of the Group. The Group was able to leverage on its ability to develop different type of corn-based biochemical products with its fermentation technology to develop high-end amino acid products. 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 RMB341.2 million as compared to RMB211.4 million in 2013, representing an increase of 61.4%. Our high-end amino acid products generally enjoy a higher profit margin and focus on healthcare and pharmaceutical materials industries.

In addition to high-end amino acid products, the Group has also continued with the development of threonine products, which are different types of amino acids used as animal feed additives. In 2014, the Group sold 54,992 tonnes of threonine as compared to the sales volume of 36,613 tonnes in 2013, representing a growth of 50.2%.

It is expected that such development and production of these products will further diversify the Group's product and revenue mix and it is the goal of the Group to become one of the key producers and suppliers in terms of global market share.

In 2014, the Group continued with the strategic expansion of the production capacity of high-end amino acid products at Xinjiang Plant, with production capacity expecting to reach 14,000 tonnes in 2015.

Plant relocation

Relocation of Shandong Plant

The Group relocated its Shandong production of MSG to Inner Mongolia in May 2011, ceased production activities on the land where its Shandong production used to be situated (the "Shandong Land"), and had since utilised the premises for office use, before being notified by the Junan County Bureau of Land and Resources (the "Land Bureau") that, as a part of the overall urban planning and development of Junan County, the relevant land would be returned to Junan County Government and be put up for auction. On subsequent auctions held by the Land Bureau, the Group has since acquired parcels of the Shandong Land for leasehold land holding as it continues to evaluate the Group's future business development and expansion plans in Shandong province. Reference is made to the announcements made by the Group on 23 June 2014 and 19 December 2014, respectively.

Relocation of Baoji Plant

As a part of the overall urban planning and development of Baoji City, the lands where old Baoji Plant was situated (the "Baoji Land") would be returned to Baoji Government and be put up for auction. On subsequent auctions held by the Baoji Land Reserve Centre, the Group has since acquired parcels of the Baoji Land for leasehold land holding as it continues to evaluate the Group's future business development and expansion plans in Shaanxi province. The Directors expect that the entire construction and relocation of the Baoji Plant will be fully completed in 2016 and MSG production will be gradually rolled out at the new Baoji Plant. As a result, even though that it is expected that in 2014 and 2015, MSG production capacity at the Baoji Plant of the Group will be reduced by around 60,000 tonnes in each year, respectively, due to the relocation, the Group as a whole can still maintain an annual MSG production capacity of around 1,000,000 tonnes by utilising the existing facilities at the Baoji Plant (until full relocation) and other MSG plants of the Group. Reference is made to the announcements made by the Group on 12 October 2014 and 10 December 2014, respectively.

The capital expenditure incurred for the construction of the Baoji Plant was approximately RMB152.9 million in 2014 and was funded by the internal resources of the Group.

Since the above relocations were to accommodate the plans of the local governments for long term development of the area, the Group has received compensation for the relevant assets and expenses from the local governments during 2014.

Market Overview

The MSG market continued to witness industry consolidation in the first half of 2014 and as industry consolidation of MSG market generally stabilised since the beginning of the second half of 2014, the ASP of MSG also became stable and exhibited an upward trend in the second half of 2014.

On the other hand, the market demand for xanthan gum remained relatively stable in 2014 due to the continued demand from the oil industry and the food and beverage industry in 2014. Even though costs of major raw materials including corn kernels and coal remained relatively stable during the year as compared to 2013, the Group remained committed to controlling costs and improving operational efficiencies 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 its market share going forward.

MSG segment

The MSG segment mainly includes the production and sales of MSG, fertilisers, starch sweeteners, threonine, 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 leading producer in the global MSG industry.

Xanthan gum segment

The global market demand for xanthan gum was stable in 2014 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 the largest producers in the world for xanthan gum in terms of production capacity, which the market is now dominated by the global top three xanthan gum producers.

Operational Review of the Group

The new Xinjiang Plant Phase 1 and Phase 2 have been fully operational since the first half of 2013 and the second half of 2014, respectively, allowing the Group to achieve a record level of production scale of xanthan gum and high-end amino acid products in 2014 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
	2014	2013	%
Turnover *(RMB'000)*	**11,297,696**	11,366,722	(0.6)
Gross profit *(RMB'000)*	**2,166,865**	2,099,443	3.2
Gross profit margin *(%)*	**19.2**	18.5	0.7 ppts.

The slight decrease in turnover of the Group was mainly due to the decrease in ASP of xanthan gum and slightly decrease in sales volume of MSG, whilst the Group witnessed an increase in sales volume of xanthan gum and high-end amino acid products. On the other hand, the ASP of MSG has begun to trend upwards since the second half of 2014 as market demand stabilised. These are discussed in more details in the following sections.

Profit attributable to the Shareholders

	Years ended 31 December		
	2014	2013	Change
	RMB'000	*RMB'000*	*%*
As reported	**626,428**	506,132	23.8

Despite continued overall weakness in the MSG industry and reduction in gross profit margin of xanthan gum in 2014, the sales volume of xanthan gum and gross profit margin of MSG products increased in 2014. With other sales and administrative and finance costs remaining relatively stable in 2014, the net profit attributable to the Shareholders for 2014 increased by about 23.8% as compared to 2013, primarily as a result of growth in the Group's high-end amino acid business in 2014 and a slight recovery in MSG market condition witnessed in the second half of 2014.

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, glutamic acid, fertilisers, starch sweeteners, threonine, 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 2014			Year ended 31 December 2013			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	**9,949,870**	**1,347,826**	**11,297,696**	9,912,473	1,454,249	11,366,722	0.4	(7.3)	(0.6)
Gross profit	**1,456,452**	**710,413**	**2,166,865**	1,251,517	847,926	2,099,443	16.4	(16.2)	3.2
Gross profit ratio	**14.6%**	**52.7%**	**19.2%**	12.6%	58.3%	18.5%	2.0 ppts.	(5.6) ppts.	0.7 ppts.
Segment results	**492,340**	**644,982**		189,240	757,218		160.2	(14.8)	
Segment net assets									
Assets	**8,683,179**	**3,658,365**		9,735,742	2,548,438		(10.8)	43.6	
Liabilities	**4,022,494**	**1,071,167**		4,346,701	516,701		(7.5)	107.3	
Net assets	**4,660,685**	**2,587,198**		5,389,041	2,031,737		(13.5)	27.3	

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

MSG Segment

Revenue and average selling price ("ASP")

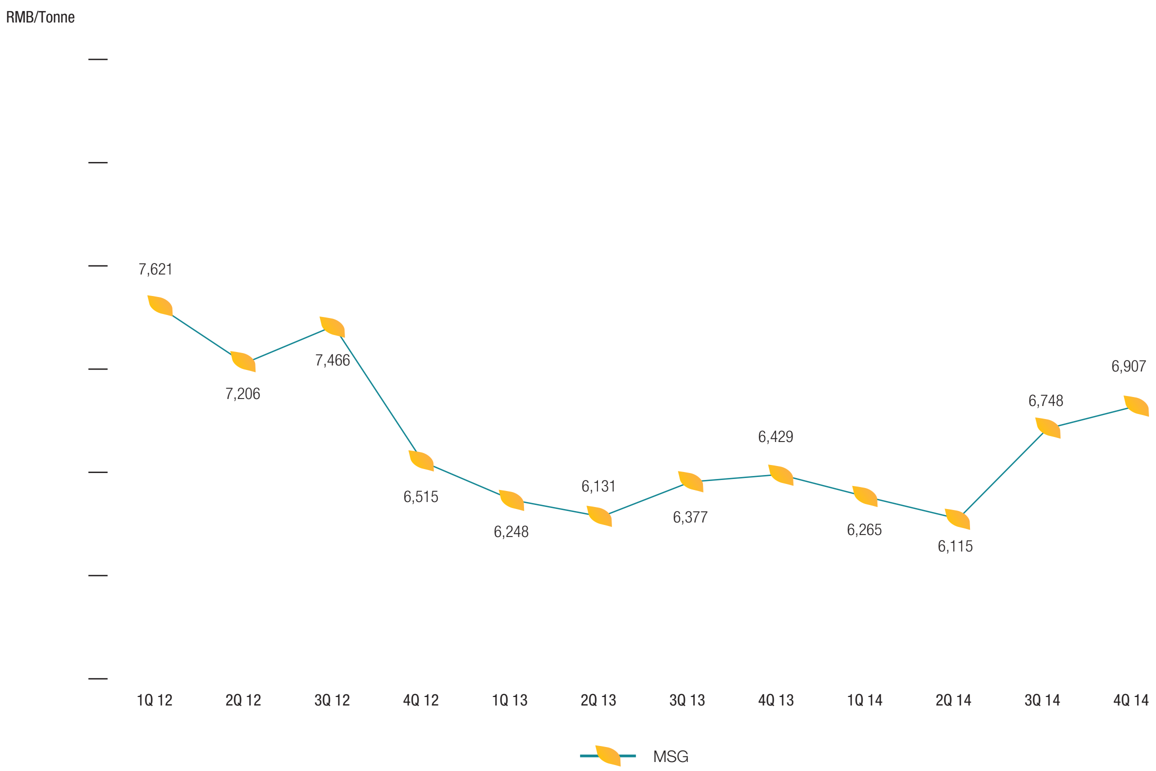
Revenue generated from the sales of the MSG segment products increased to approximately RMB9,949.9 million in 2014, representing an increase of RMB37.4 million or 0.4%, as compared with that in 2013, which was mainly attributed to the increase in the ASP of MSG and the increase in revenue contribution from sales of high-end amino acid products. Sales volume of MSG, however was approximately 925,620 tonnes in 2014, representing a decrease of 7.7%, as compared with that in 2013, mainly due to the relocation of our Baoji Plant.

The table below sets out the revenue of the products in this segment for the years ended 31 December 2014 and 2013:

Product	Years ended 31 December		
	2014	2013	Change
	RMB'000	*RMB'000*	*%*
MSG	**6,015,937**	6,323,148	(4.9)
Glutamic acid	**37,217**	45,507	(18.2)
Ferfilisers	**476,401**	762,054	(37.5)
Corn refined products	**1,572,653**	1,616,789	(2.7)
Starch sweeteners	**778,430**	470,864	65.3
Threonine	**566,033**	327,126	73.0
High-end amino acid products	**341,219**	211,373	61.4
Corn oil	**19,381**	34,684	(44.1)
Compound seasoning	**10,419**	8,070	29.1
Others	**132,180**	112,858	17.1
	9,949,870	9,912,473	0.4

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Set out below is a chart showing the average selling price of the Group's MSG products for each quarter from the first quarter of 2012 to the fourth quarter of 2014:



MSG

The Group was able to maintain its leadership position in the MSG segment through utilising its strong production capacity, stepping up marketing efforts and maintaining competitive pricing. While the ASP of MSG increased by 3.0%, from approximately RMB6,295 per tonne in 2013 to approximately RMB6,482 per tonne in 2014, sales volume decreased slightly by 7.7% to about 925,620 tonnes as compared with 2013, as a result of relocation of the Baoji Plant. The ASP of MSG increased in 2014 and the sales volume decreased in 2014 compared to 2013, resulting in the turnover of MSG in 2014 decreased only by 4.9%.

In 2014, 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 term of sales volume increased by approximately 27.1% in 2014, which amounted to about RMB942.9 million as compared to about RMB742.5 million in 2013.

Fertilisers

Due to a drop in market demand, the ASP of fertilisers decreased from approximately RMB705 per tonne in 2013 to approximately RMB651 per tonne in 2014, representing a decrease of about 7.7%, 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 2014. The revenue of corn refined products decreased by about 2.7% in 2014 as compared with that in 2013, which is in line with the consumable volume of corn kernels for production in 2014.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Starch sweeteners

Turnover of starch sweeteners increased by about 65.3% in 2014, primarily because the sales volume of starch sweeteners increased to 251,037 tonnes in 2014, representing an increase of about 59.0% as the demand for our starch sweeteners increased. The Group was able to meet such increase in market demand as the annual production capacity of starch sweeteners reached 250,000 tonnes in 2014. In terms of pricing, ASP increased slightly by about 3.9% to approximately RMB3,099 per tonne in 2014 from approximately RMB2,983 per tonne in 2013.

Threonine

Threonine is a relatively new product of the Group, with annual production capacity of approximately 50,000 tonnes. Threonine is essential amino acids which maintain protein balance and are mainly used as animal feed additives. The total revenue of threonine increased by about 73.0% in 2014 as compared with that in 2013, as a result of increased sales volume and ASP of threonine. Sales volume of threonine increased by 50.2% to 54,992 tonnes as compared with 2013. ASP of threonine increased by 15.2% to approximately RMB10,293 per tonne in 2014 from approximately RMB8,935 per tonne in 2013.

High-end amino acid products

The production of new high-end amino acid products continued to be based in the Group's new Xinjiang Plant, with annual production capacity of high-end amino acid products expecting to reach 14,000 tonnes in 2015.

The total sales amount of high-end amino acid products including valine, leucine, isoleucine and glutamine, increased to approximately RMB341.2 million in 2014 as compared to approximately RMB211.4 million in 2013. The high-end amino acid market is one of the key markets that the Group remains focused to develop and strengthen. The Group aims at creating a series of high-end products by capitalising the R&D capability and resources advantage to realise the Group's development strategy of "Low Investment – High Return".

In 2014, the Group through our wholly owned subsidiary Shenhua Pharmaceutical, strove to actively develop and promote new health care and skin care products which use our new specialty ingredients such as hyaluronic acid and high-end amino acid products with the aim of improving product diversity and increasing sales and penetration in healthcare, pharmaceutical and skin care related industries.

Gross Profit and Gross Profit Margin

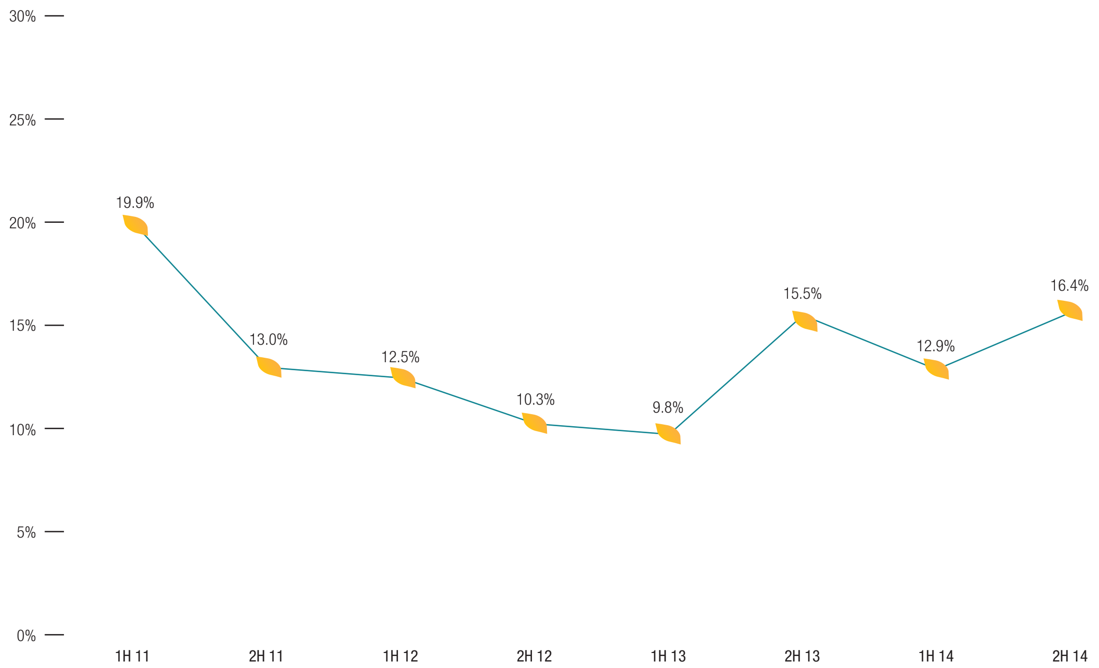
The gross profit of this segment is set out below:

	Years ended 31 December		
	2014	2013	Change
Gross profit *(RMB'000)*	**1,456,452**	1,251,517	16.4%
Gross profit margin *(%)*	**14.6**	12.6	2.0 ppts.

Gross profit for MSG segment increased to RMB1,456.5 million and gross profit margin increased by 2.0 percentage points to 14.6%, primarily due to the increase in sales volume and higher ASP for higher profit margin products such as threonine and high-end amino acid products, in addition to the slight increase in ASP of MSG products in the second half of 2014, whilst major raw material costs remained at a relatively stable level.

With the industry consolidation generally completed in the first half of 2014, the Group believes that ASP of MSG could begin to stabilise as witnessed by the reversal in ASP seen since the second half of 2014. The Group therefore hopes to improve on its pricing power and leading market position for MSG in 2015.

Trend of Gross Profit Margin of MSG Segment



The above chart shows changes in gross profit margin from the 2011 to 2014. With improving margin witnessed in the second half of 2014, the Group believes that the industry demand and supply has stabilised, and expects that the pricing power and ASP of MSG products to stabilise or gradually improve. In addition, the Group will continue to launch some high-end amino acid products which have higher profit margins and the Group believes that such increasing diversity in the product mix will help to improve its gross profit margin in this segment.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Production costs

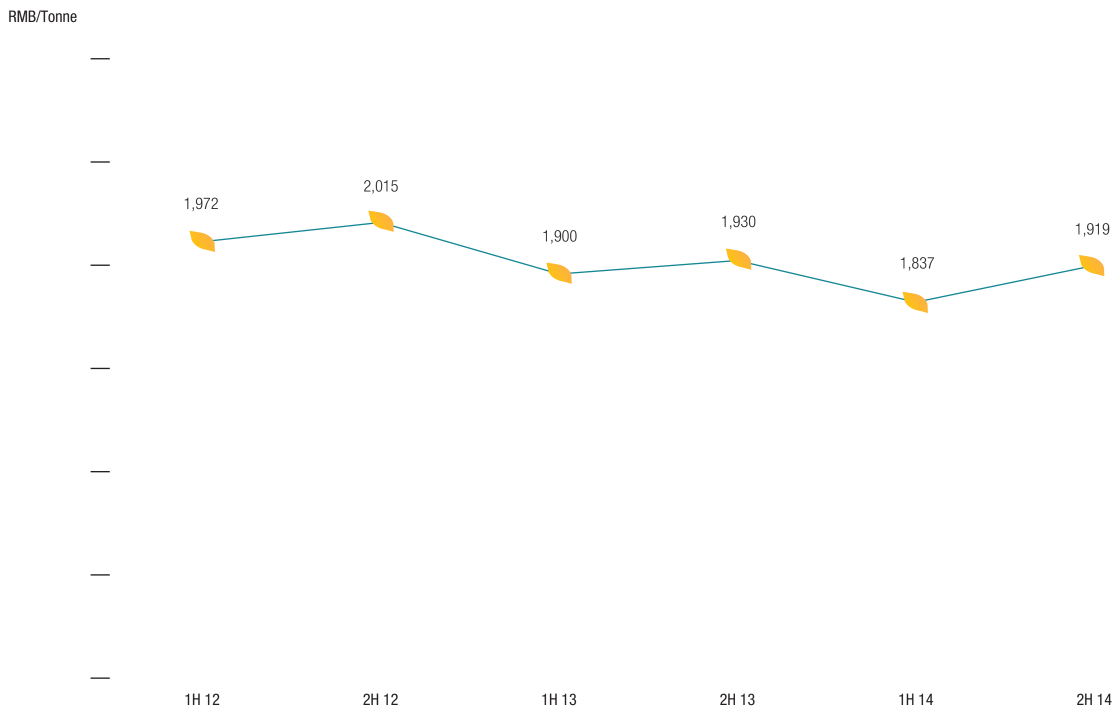
	Years ended 31 December				
	2014		2013		Change
	RMB'000	**%**	*RMB'000*	*%*	*%*
Major raw materials					
• Corn kernels	**5,368,246**	**62.1**	5,055,865	58.7	6.2
• Liquid ammonia	**108,847**	**1.3**	247,573	2.9	(56.0)
• Sulphuric acid	**117,519**	**1.4**	175,549	2.0	(33.1)
Energy					
• Coal	**899,717**	**10.4**	957,742	11.1	(6.1)
Depreciation	**579,431**	**6.7**	553,133	6.4	4.8
Employee benefits	**524,421**	**6.1**	492,567	5.7	6.5
Others	**1,048,065**	**12.0**	1,128,999	13.2	(7.2)
Total cost of production	**8,646,246**	**100.0**	8,611,428	100.0	0.4

Corn kernels

During 2014, corn kernels accounted for approximately 62.1% (2013: 58.7%) of the total production costs of this segment. The average unit cost of corn kernels for 2014 was approximately RMB1,875 per tonne. The average unit cost of corn kernels decreasing during the year mainly due to the tax benefit from the new tax relief policy for the agricultural products processing industry in Inner Mongolia. The cost of corn kernels as a percentage of total production costs increased by 3.4%.The total cost of corn kernels incurred increased by 6.2% in 2014. It is mainly due to the quantity consumed for the production of starch sweeteners increased during the year.

The following chart shows the average unit cost trend of corn kernels from the first half of 2012 to the second half of 2014:

Average Unit Cost Trend of Corn Kernels



Liquid ammonia

Liquid ammonia accounted for approximately 1.3% (2013: 2.9%) of total production costs in this segment in 2014. As a result of the stable market demand, the average unit cost of liquid ammonia for 2014 decreased to approximately RMB2,190 per tonne, which represents a decrease of approximately RMB280 per tonne or 11.3% from that of 2013. In addition, the Group had additional production capacity of composite ammonia that was able to counteract the higher price of liquid ammonia. Therefore, the cost of liquid ammonia as a percentage of total production costs decreased by 1.6%.

Sulphuric acid

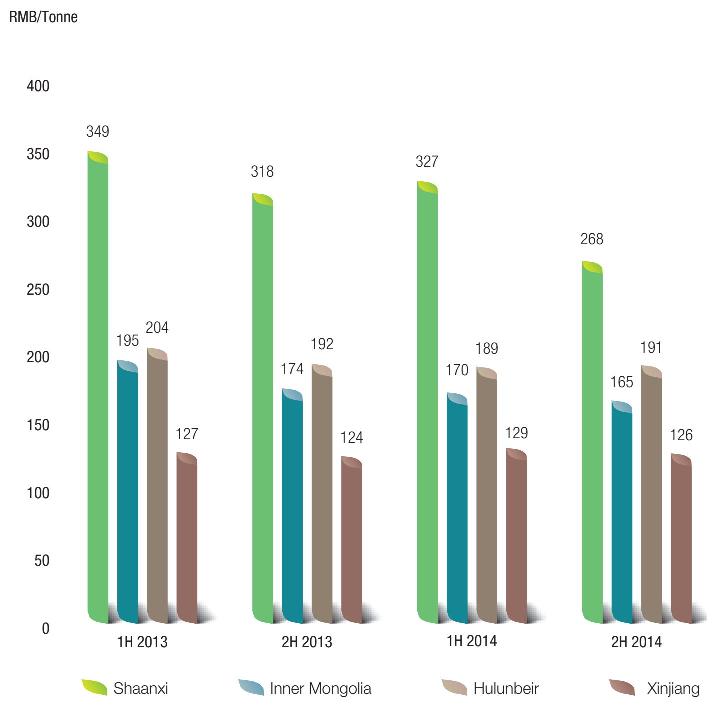
Sulphuric acid accounted for approximately 1.4% (2013: 2.0%) of total production costs in this segment in 2014. As compared with the average unit cost of sulphuric acid in 2013, the average unit cost of sulphuric acid decreased to approximately RMB244 per tonne, which represents a decrease of approximately RMB70 per tonne or 22.3% from that of 2013.

Coal

Coal accounted for about 10.4% of total production costs in this segment in 2014 (2013: 11.1%). The average unit cost of coal for 2014 was RMB184 per tonne, a decrease of RMB20 per tonne or 9.8% from 2013. The decrease in coal prices showed that the competitive cost advantages at our Hulunbeir Plant and Xinjiang Plant were fully realised during the year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 Shaanxi, Inner Mongolia, Hulunbeir and Xinjiang:



Other production costs

The decrease in cost of depreciation and employee benefits was mainly due to the relocation of Baoji Plant during 2014.

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 2014 Tonnes	2013 Tonnes	Change %
MSG			
Annual designed production capacity *(Note)*	**995,000**	1,050,000	(5.2)
Actual production output	**942,926**	983,227	(4.1)
Utilisation rate	**94.8%**	93.6%	
Glutamic acid			
Annual designed production capacity *(Note)*	**790,000**	820,000	(3.7)
Actual production output	**761,276**	791,810	(3.9)
Utilisation rate	**96.4%**	96.6%	
Fertilisers			
Annual designed production capacity *(Note)*	**1,025,000**	1,100,000	(6.8)
Actual production output	**901,240**	982,355	(8.3)
Utilisation rate	**87.9%**	89.3%	
Starch sweeteners			
Annual designed production capacity *(Note)*	**250,000**	190,000	31.6
Actual production output	**252,157**	162,463	55.2
Utilisation rate	**100.9%**	85.5%	

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

Utilisation rates remained high despite decreasing slightly in 2014, due to the relocation of Baoji Plant. The new Baoji Plant Phase 1 started trial production in the fourth quarter of 2014.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 2014 and 2013:

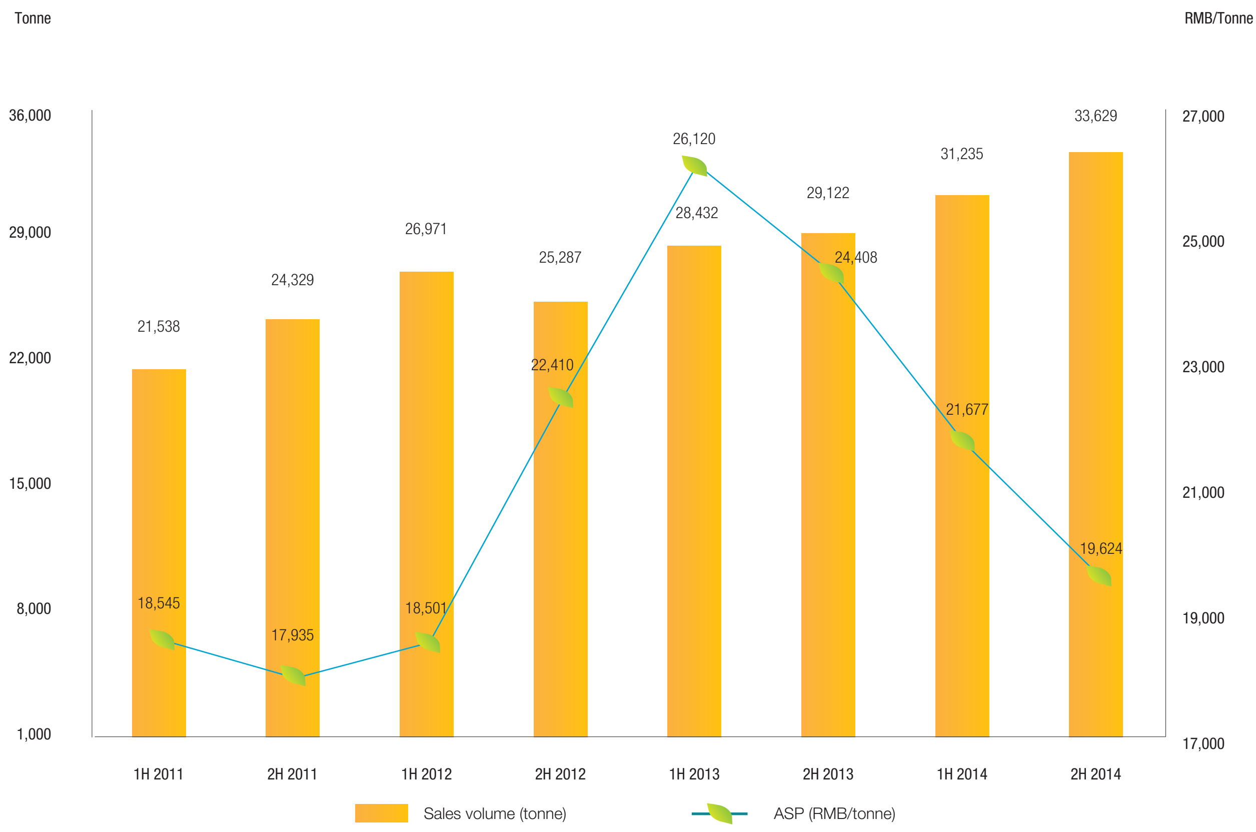
	Years ended 31 December		Change
	2014	2013	%
Revenue *(RMB'000)*	**1,347,826**	1,454,249	(7.3)
ASP *(RMB/tonne)*	**20,613**	25,254	(18.4)
Gross profit *(RMB'000)*	**710,413**	847,926	(16.2)
Gross profit margin *(%)*	**52.7**	58.3	(5.6) ppts.
Annual designed production capacity *(tonnes) (Note)*	**82,000**	65,250	25.7
Actual production output *(tonnes)*	**83,095**	65,200	27.4
Utilisation rate	**101.3%**	99.9%	1.4 ppts.

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

Revenue generated from xanthan gum decreased by about 7.3% to approximately RMB1,347.8 million in 2014, from approximately RMB1,454.2 million in 2013. The decrease in revenue was due to the decrease in ASP, but the sales volume continued to increase during 2014, demonstrating the Group's ability to increase production capacity to meet market demand.

The Group's export of xanthan gum steadily increased in terms of the sales volume and percentage contribution to total sales volume and total sales respectively. Export sales volume of xanthan gum increased to 56,941 tonnes in 2014. It is represented increased by 10.2%. Export sales of xanthan gum contributed approximately 90.2% and 90.4% of total sales of xanthan gum in 2013 and 2014, respectively.

Sales volume and ASP



Sales volume increased by 12.7% in 2014, driven by expanding production capacity, while sales amount decreased by 7.3% over 2013. A decrease in the ASP of xanthan gum was the main driver for the decrease in revenue of xanthan gum during the year due to an overall pricing weakness in the oil industry.

Global industry-wide demand for xanthan gum remained stable in 2014, and the Group expects this to continue in the foreseeable future as demand remains stable growth in the oil industry as well as other sectors.

Gross profit and gross profit margin

Gross profit of the Xanthan gum segment decreased by about 16.2% from approximately RMB847.9 million in 2013 to approximately RMB710.4 million in 2014. Gross profit margin decreased as well, by 5.6 percentage points in 2014, reflecting our pricing strategy and our competitive costs advantage at the IM Plant and new Xinjiang Plant, and also the benefit from the new tax relief policy for agricultural products processing industry in Inner Mongolia Autonomous Region which was launched at the end of 2013.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Production costs

	Years ended 31 December				
	2014		2013		Change
	RMB'000	**%**	*RMB'000*	*%*	*%*
Major raw materials					
• Corn kernels	**340,027**	**41.8**	304,228	45.5	11.8
• Soybeans	**80,138**	**9.9**	58,957	8.8	35.9
Energy					
• Coal	**133,096**	**16.4**	122,751	18.4	8.4
Depreciation	**61,539**	**7.6**	45,497	6.8	35.3
Employee benefit	**99,419**	**12.2**	60,329	9.0	64.8
Others	**99,289**	**12.1**	76,466	11.5	29.8
Total cost of production	**813,508**	**100.0**	668,228	100.0	21.7

Corn kernels

In 2014, corn kernels represented approximately 41.8% (2013: 45.5%) of the total production costs of this segment. The average unit cost of corn kernels for 2014 was approximately RMB1,943 per tonne, which represents a decrease of approximately RMB9 per tonne or 0.5% from that in 2013. The average unit cost of corn kernels decreased during the year mainly due to the tax benefit from the new tax relief policy for the agricultural products processing industry in Inner Mongolia Autonomous Region. The cost of corn kernels as a percentage of total production costs decreased by 3.7%. The cost amount incurred of corn kernels increased about 11.8%, from approximately RMB304.2 million in 2013 to approximately RMB340.0 million in 2014, mainly due to the new production capacity of xanthan gum in our Xinjiang Plant commencing operation in 2014.

Soybeans

During 2014, soybeans accounted for approximately 9.9% (2013: 8.8%) of the total production costs of this segment. The increase in proportion was mainly due to the increase in soybeans prices from approximately RMB4,549 per tonne in 2013 to approximately RMB4,865 per tonne in 2014, representing an increase of 6.9%. The cost amount incurred of soybeans increased in 2014, also mainly due to the new production capacity of xanthan gum in our Xinjiang Plant which commenced operation in 2014.

Coal

In 2014, coal accounted for approximately 16.4% (2013: 18.4%) of the total production costs 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 our IM Plant and Xinjiang Plant. The average unit cost of coal in 2014 was approximately RMB159 per tonne, which represents a decrease of approximately RMB18 per tonne or 10.2% from that of 2013.

Other production costs

The cost of depreciation and employee benefits in 2014 increased significantly compared with 2013, mainly due to the new Xinjiang Plant Phase 1 and Phase 2, which became operational at the end of 2012 and the second half of 2014, respectively.

Other Financial Information

Selling and marketing expenses

Selling and marketing expenses were relatively stable and in line with the amount of sales revenue of 2014.

Administrative expenses

Administrative expenses decreased by approximately RMB83.1 million or 15.4% in 2014. The decrease was mainly due to decreased depreciation and staff costs from the relocation of our Baoji Plant and Shandong Plant during the year. In addition, the consumed materials for research and development are also decreased in 2014.

Finance costs (net)

The finance costs (net) of the Group in 2014 mainly included two parts. One was interest expense of borrowings, which decreased by approximately RMB21.0 million or about 5.7% when compared with 2013 due to a decrease in bank borrowings during the third quarter of 2014. The second part was the exchange gain or loss on finance activities. During 2014, the Group recorded the exchange loss on finance activities amount to RMB8.7 million, mainly due to the exchange loss of the year end balance of senior notes.

Staff cost

Staff costs of the Group increased by approximately RMB75.3 million or approximately 9.0% from approximately RMB839.0 million in 2013 to approximately RMB914.3 million in 2014. The increase was mainly due to the increase in number of staff as a result of expansion of the Group's production facilities and the increase in the average salary of the senior management and staff, generally in line with prevailing market rates.

Depreciation

Depreciation expense of the Group increased by approximately RMB16.8 million or approximately 2.4% from approximately RMB690.3 million in 2013 to approximately RMB707.1 million in 2014. The increase was mainly due to Hulunbier Plant started production in late 2013 and the commencement of production at Xinjiang Plant Phase 2 in the second half of 2014.

Income tax expense

The income tax expenses for the year ended 31 December 2014 mainly represented the PRC Enterprise Income Tax ("EIT").

Two subsidiaries of the Group including Shandong Fufeng and Shenhua Pharmaceutical, had obtained the approval to become a new and high-technology enterprise and had been entitled to a preferential income tax rate of 15%. The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

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%.

Four subsidiaries of the Group including 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 of 15% (2013: 15%).

The other subsidiaries of the Group in the PRC are subject to income tax at a rate of 25% (2013: 25%).

Outlook

Looking ahead to 2015, it is expected that the economic situation in the PRC will remain sluggish as a whole. The ongoing lack of consumer confidence and the slowdown in the growth of economy will continue to affect the catering industry.

With MSG industry consolidation generally completed, the Group expects that the operating environment to be slightly better in 2015 as compared to 2014. The Group will keep abreast of the market and seize opportunities to continue to increase our market share by leveraging on our 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.

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

Future Plan and Recent Development

Going forward, the Group would continue to (i) strengthen its overall brand marketing; (ii) increase production capacity of xanthan gum to further increase its market share; and (iii) vigorously increase sales and promotion of high-end amino acid products in the PRC healthcare industry including collaboration with market leading players, in order to create a new growth driver for the Group.

MSG segment

MSG business

The MSG market in China is on a track of sustainable long term development after recent three years of industry consolidation and elimination of excess production capacities. This can be demonstrated by: 1) the majority of the market share being occupied by only several leading corporations in the industry, led by the Group; 2) the withdrawal of a number of weak corporations and inferior production capacities from the market; 3) gradual stabilisation of price as a result of a more balanced market demand and supply situation, reducing pricing pressure in the industry, and thereby increasing the prospects of profit margin returning gradually to normality going forward.

The Group is in a good position to benefit from such potential upturn in market situation and will seize the opportunities and increase the selling price of the MSG in due course in order to enhance the efficiency of the MSG business as well as consolidation and expanding the Group's leading position and competitive strength in the industry. We expect the steady recovery trend of the MSG market will continue in 2015. If the ASP of the MSG products continue to stabilise or even increase in the 2015, it could mitigate the costs of production and the gross profit margin of the MSG business could improve as a result.

Threonine business saw particularly strong momentum in 2014. The Group would like to strength its market share and meet the increasing market demand of Threonine in 2015, the Group has started planning to increase the production capacity of Threonine.

High-end amino acid business (including healthcare and skin care products)

The high-end amino acid business is the Group's new growth driver. In 2015, we will focus on strengthening the sales teams and enhancing the marketing and development efforts while optimising the product mix and increasing the type of products, including hyaluronic acid. We will also strive to more effectively leverage on our cooperation with Shenhua Pharmaceutical to further increase sales of healthcare and skin care products.

Xanthan gum segment

Xanthan gum business

The price of xanthan gum slipped in 2014 due to market demand returning to a more stable level after significant increase in recent years. It is expected that the price of xanthan gum will slightly decrease in 2015. We will continuously to strengthen our distribution network to further increase its market share.

Research and development

In 2014, Fufeng Group has made significant progress in research and development. It not only developed new products and new technology but was awarded the "Fufeng Academic Workstation", the first national academic workstation of condiment industry. Currently, various research and development platforms such as the "National Post-Doctoral Research Workshop" (國家博士後科研工作站), the "National Accredited Laboratory" (國家認可實驗室), the "Shandong Research Center of Amino acid Fermentation Engineering Technology" (山東省氨基酸發酵工程技術研究中心) and the "Shandong Key Laboratory of Microbial Fermentation Enterprise" was set up in the R&D Center of Fufeng Group. With the establishment of the "Fufeng Academic Workstation", it will enhance the innovation capability of Fufeng Group in condiment, promote an atmosphere of innovation, bring new impetus into the innovation capability of the Company and provide solid and strong support to technological innovation.

Overseas market expansion

The Group has increased its efforts to develop the foreign MSG and xanthan gum markets, focusing heavily on market expansion by establishing overseas sales branches and offices. In 2015, the Group will strengthen promotion activities in Middle East, Europe, Africa and South America, with the objective of providing customers with better after-sales service, improving customer relationships, and enhancing our reputation.

Liquidity and Financial Resources

As at 31 December 2014, the Group's cash and cash equivalent and restricted bank deposits were RMB961.5 million (2013: RMB862.4 million) whereas current bank borrowings and current other borrowing (convertible bonds) were approximately RMB800.0 million and RMB13.2 million (2013: RMB1,167.9 million and Nil), respectively and non-current bank borrowings and non-current other borrowings (including the balances of senior notes, convertible bonds and medium-term notes) were approximately RMB360.0 million and RMB3,342.5 million (2013: Nil and RMB3,309.2 million), respectively.

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 RMB168 million principal amount of 2010 CB on 2 April 2013. The current outstanding principal amount of 2010 CB is 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 years 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 Firm Bonds were mainly used to repay the syndication bank loan on December 2013.

Senior Notes

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 denominated in RMB with a fixed interest of 5.11% per annum. The note matures in three years from the issue date. The net proceeds were used to repay certain short term bank loans and for general working capital purposes.

The Directors believe that the Group's liquidity position is still 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 material acquisition or disposal of the subsidiaries or associated companies for the year ended 31 December 2014.

Employees

As at 31 December 2014, the Group had approximately 6,000 employees. Employees' (including Directors of the Company) remuneration are determined in line with market rate and 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 2014, the Group had no material contingent liabilities.

Charges on assets

As at 31 December 2014, certain leasehold land of the Group with carrying value of approximately RMB111.7 million (2013: Nil) was pledged to certain banks to secure bank borrowings of RMB400 million (2013: Nil) of the Group.

The senior notes issued in April 2011 are secured by the pledge of the capital stock of certain subsidiaries of the Company, which are Acquest Honour Holdings Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all intermediate holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group.

Gearing ratio

As at 31 December 2014, the total assets of the Group amounted to approximately RMB13,694.3 million (2013: RMB12,619.2 million) whereas the total borrowings amounted to RMB4,515.6 million (2013: RMB4,477.1 million). The gearing ratio was approximately 33.0% (2013: 35.5%). 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 that 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 the issuance of convertible bonds and senior notes. Such proceeds were subject to foreign exchange risk before receiving and converting them 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 convertible bonds and senior notes by remitting the necessary funds to the PRC and using 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 2014.

American Depositary Receipt Facility

The Company established a sponsored, unlisted American Depositary Receipt ("ADR") facility, which became 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 are 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 are traded in the U.S. in an over-the-counter market.

Dividend and dividend policy

The Board recommended the declaration of a final dividend of HK4.4 cents per share, subject to Shareholders' approval at the annual general meeting.

The final dividend will be payable on or about 5 June 2015 to Shareholders whose names appear on the register of members of the Company on 26 May 2015.

Purchase, redemption or sales of listed securities of the Company

The Company repurchased 833,000 shares and 705,000 shares in November and December 2014 respectively. Those repurchased shares were cancelled on 21 November 2014 and 2 January 2015. The total consideration of the repurchased shares amounted to HKD5,126,000. Except for 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 2014.

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 2014, 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 8 May 2014. 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 2014, 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 11 May 2015 to 15 May 2015 (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 15 May 2015, 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 8 May 2015.

The register of members of the Company will be closed from 26 May 2015 to 29 May 2015 (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 22 May 2015.

Annual general meeting

The annual general meeting is expected to be held on 15 May 2015. 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 2014, the Company has complied with the Revised CG Code for the year from 1 January 2014 to 31 December 2014 except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Chen Ning and Mr. Liang Wenjun did not attend the annual general meeting of the Company held on 8 May 2014. 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) six executive Directors, Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng, and Mr. Li Guangyu; and (ii) four independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning, Mr. Qi Qing Zhong 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 21 years of working experience in finance and accounting including over 10 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:

	Corporate Governance/ Updates on laws, rules and regulations	
Director	**Read materials**	**Attend workshops**
Executive Directors		
Mr. Li Xuechun	✓	✓
Mr. Wang Longxiang	✓	✓
Mr. Feng Zhenquan	✓	✓
Mr. Xu Guohua	✓	✓
Mr. Li Deheng	✓	✓
Mr. Chen Yuan (resigned on 31 December 2014)	✓	✓
Mr. Li Guangyu	✓	✓
Independent non-executive Directors		
Mr. Choi Tze Kit, Sammy	✓	✓
Mr. Chen Ning	✓	✓
Mr. Qi Qing Zhong	✓	✓
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 2014, eight regular Board meetings were held. Individual attendance of each director at the Board meeting during 2014 is set out below:

Attendance/Number of Board Meetings in 2014

Director	Attendance/ Number of Board Meetings
Executive Directors	
Mr. Li Xuechun *(Chairman)*	8/8
Mr. Wang Longxiang	8/8
Mr. Feng Zhenquan	8/8
Mr. Xu Guohua	7/8
Mr. Li Deheng	8/8
Mr. Chen Yuan	8/8
Mr. Li Guangyu	7/8
Independent non-executive Directors	
Mr. Choi Tze Kit, Sammy	8/8
Mr. Chen Ning	8/8
Mr. Liang Wenjun (resigned on 31 October 2014)	7/8
Ms. Zheng Yu	8/8
Mr. Qi Qing Zhong (appointed on 1 November 2014)	1/8

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	5,211
Non-audit services	490
	5,701

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

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. Qi Qing Zhong 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 2014, three Audit Committee meetings were held with Mr. Choi Tze Kit, Sammy, Mr. Chen Ning and Ms. Zheng Yu attended all the meetings while Mr. Liang Wenjun, who resigned on 31 October 2014, attended two meetings.

The purpose of the meetings was to review the Group's results for the year 2013, the interim results for the year 2014 as well as discussing the internal control review and the audit of the Group. The Group's 2013 annual report and 2014 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. Qi Qing Zhong 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 2014, 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 four independent non-executive Directors, Mr. Choi Tze Kit, Sammy, Mr. Chen Ning, Mr. Qi Qing Zhong and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Nomination Committee.

For year ended of 31 December 2014, one Nomination Committee meetings were held of discussion of the nomination of new independent non executive director. Mr. Li Xuechun and Mr. Wang Longxiang and two independent non-executive Directors, Mr. Choi Tze Kit, Sammy and Mr. Chen Ning attended the meeting. Mr. Liang Wenjun, who resigned on 31 October 2014, did not attended the meeting.

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.

2014	Investor Relations Events and Activities
Jan	Citi Asia Pacific Investor Conference 2014, Hong Kong
Feb	Deutsche Bank CB Corporate Day, Hong Kong
May	J.P. Morgan Asia Rising Dragons 1X1 Forum, Hong Kong
Jun	Deutsche Bank Convertibles APAC Conference 2014, Hong Kong J.P. Morgan Global China Summit 2014, Beijing Greenwoods China Investment Forum, Shanghai
Sep	J.P. Morgan Asia & CEEMEA Emerging Markets Corporate Conference, London
Nov	Daiwa Asian CB Tour 2014, Hong Kong

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 2014.

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 2014 are set out under the consolidated income statement on page 54.

Interim dividend declared and paid after the interim period of HK3 cents (equivalent to RMB2.38 cents (2013: HK2 cents (equivalent to RMB1.59 cents) per Share totaling HKD62,627,000 (equivalent to RMB49,720,000) The Board recommends the payment of a final dividend of HK4.4 cents per Share (equivalent to RMB3.49 cents per Share totaling HKD92,823,000 (equivalent to RMB73,536,000) for the year ended 31 December 2014.

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 2014.

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 2014, the Company's reserves available for distribution to the Shareholders amounted to RMB486,032,000 (2013: RMB645,022,000).

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. Li Guangyu

Independent Non-executive Directors

Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Ms. Zheng Yu
Mr. Qi Qing Zhong (appointed on 1 November 2014)

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. Feng Zhenquan, Mr. Xu Guohua, Mr. Choi Tze Kit, Sammy and Mr. Qi Qing Zhong 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. Feng Zhenquan and Mr. Xu Guohua, 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 2015 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.

The new independent non-executive Director proposed for re-election at the forthcoming annual general meeting has made into a service contract with the Company for two years commencing form 1 November 2014 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 2014, 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.

No contracts of significance in relation to the Group's business to which the Company or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

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 2014, 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	45.76%
Wang Longxiang	The Company	Beneficial interests *(Note 2)*	8,292,000 Shares	0.39%
Feng Zhenquan	The Company	Interests of controlled corporation *(Note 3)*	33,320,160 Shares	1.58%
Xu Guohua	The Company	Interests of controlled corporation *(Note 4)*	33,320,160 Shares	1.58%
Li Deheng	The Company	Interests of controlled corporation *(Note 5)*	33,320,160 Shares	1.58%

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. The interest in these Shares is held by Elite Chance Holdings Limited, the entire issued shares capital of which is wholly and beneficially owned by Mr. Feng Zhenquan, an executive director of the Company. Accordingly, Mr Feng Zhenquan is deemed to be interested in all Shares held by Elite Chance Holdings Limited under the SFO.

4. The interest in these Shares is held by Best Range Investments Limited, the entire issued shares capital of which is wholly and beneficially owned by Mr. Xu Guohua, an executive director of the Company. Accordingly, Mr Xu Guohua is deemed to be interested in all Shares held by Best Range Investments Limited under the SFO.

5. The interest in these Shares is held by Empire Spring Investments Limited, the entire issued shares capital of which is wholly and beneficially owned by Mr. Li Deheng, an executive director of the Company. Accordingly, Mr Li Deheng is deemed to be interested in all Shares held by Empire Spring Investments Limited under the SFO.

Save as disclosed above, for the year ended 31 December 2014, 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 2014, 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	45.76%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	963,342,461 Shares	45.76%
JPMorgan Chase & Co.	The Company	Beneficial interests	138,344,171 Shares	6.57%

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.

DIRECTORS' REPORT *(Continued)*

Short position

Name	Name of Group member	Capacity	Class and number of securities	Percentage of interests to total issued share capital (approximate)
JPMorgan Chase & Co.	The Company	Beneficial interests	64,694,215 Shares	3.07%

Save as disclosed above, for the year ended 31 December 2014, 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 2014, are as follows:

	Number of share options							
Director and eligible employees	**At 1 January 2014**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**At 31 December 2014**	**Date of grant**	**Revised/ Adjusted Exercise price (HKD)**	**Exercise period**
Chen Yuan (executive Director) (resigned on 31 December 2014)	5,355,224	–	–	(5,355,224)	–	9/11/2010	3.20	5/9/2014 – 4/9/2018
Eligible employees	45,808,585	–	(18,480,000)	(2,506,014)	24,822,571	14/7/2009	2.80	14/1/2012 – 13/1/2015
	51,163,809	–	(18,480,000)	(7,861,238)	24,822,571			

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 2014.

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 2014.

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 24 March 2015, 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 833,000 shares and 705,000 shares in November and December 2014 respectively. Those repurchased shares has been cancelled on 21 November 2014 and 2 January 2015 respectively. The total consideration of the repurchased shares is amount to HKD5,126,000. 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 2014.

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

24 March 2015

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 130, which comprise the consolidated and company balance sheets as at 31 December 2014, 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 2014, 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, 24 March 2015

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

		As at 31 December	
	Note	2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	6	1,748,704	506,289
Property, plant and equipment	7	7,470,082	7,575,975
Intangible assets	8	2,554	51
Deferred income tax assets	11	113,655	88,232
		9,334,995	8,170,547
Current assets			
Inventories	12	1,946,014	1,516,878
Trade and other receivables	13	1,451,721	2,069,339
Short-term bank deposits	14	164,983	56,405
Cash and cash equivalents	14	796,564	805,999
		4,359,282	4,448,621
Total assets		13,694,277	12,619,168
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	205,243	203,644
Share premium	15		
– Proposed final dividend		73,536	65,925
– Others		565,450	636,948
Other reserves	16	206,770	194,143
Retained earnings	18	4,318,067	3,718,126
Total equity		5,369,066	4,818,786
LIABILITIES			
Non-current liabilities			
Deferred income	19	536,550	360,121
Borrowings	20	3,702,482	3,309,187
Deferred income tax liabilities	11	19,040	20,286
		4,258,072	3,689,594

Consolidated Balance Sheet *(Continued)*
As at 31 December 2014

		As at 31 December	
	Note	**2014** ***RMB'000***	2013 *RMB'000*
Current liabilities			
Trade, other payables and accruals	*21*	**3,203,415**	2,890,997
Current income tax liabilities		**50,559**	51,884
Borrowings	*20*	**813,165**	1,167,907
		4,067,139	4,110,788
Total liabilities		**8,325,211**	7,800,382
Total equity and liabilities		**13,694,277**	12,619,168
Net current assets		**292,143**	337,833
Total assets less current liabilities		**9,627,138**	8,508,380

The notes on pages 58 to 130 are an integral part of these consolidated financial statements.

The financial statements on pages 51 to 130 were approved by the Board of Directors on 24 March 2015 and were signed on its behalf.

Li Xuechun
Director

Wang Longxiang
Director

COMPANY BALANCE SHEET

As at 31 December 2014

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	125	249
Investment in subsidiaries	9	427,933	427,933
		428,058	428,182
Current assets			
Loans to subsidiaries	9	1,703,565	1,855,110
Due from subsidiaries	9	1,410,368	1,320,676
Deposits and other receivables	13	625	1,913
Cash and cash equivalents	14	53,811	298,523
		3,168,369	3,476,222
Total assets		3,596,427	3,904,404
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	15	205,243	203,644
Share premium	15		
– Proposed final dividend		73,536	65,925
– Others		565,450	636,948
Other reserves	16	94,217	106,216
Retained earnings	18	(152,954)	(57,851)
Total equity		785,492	954,882
LIABILITIES			
Non-current liabilities			
Borrowings	20	2,744,936	2,713,379
Current liabilities			
Borrowings	20	13,165	–
Due to subsidiaries	9	14,174	14,174
Loan from a subsidiary	9	–	182,907
Other payables and accruals	21	38,660	39,062
		65,999	236,143
Total liabilities		2,810,935	2,949,522
Total equity and liabilities		3,596,427	3,904,404
Net current assets		3,102,370	3,240,079
Total assets less current liabilities		3,530,428	3,668,261

The notes on pages 58 to 130 are an integral part of these financial statements.

The financial statements on pages 51 to 130 were approved by the Board of Directors on 24 March 2015 and were signed on its behalf.

Li Xuechun
Director

Wang Longxiang
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue	5	**11,297,696**	11,366,722
Cost of sales	23	**(9,130,831)**	(9,267,279)
Gross profit		**2,166,865**	2,099,443
Other income	22	**192,803**	152,468
Selling and marketing expenses	23	**(706,243)**	(710,267)
Administrative expenses	23	**(458,362)**	(541,490)
Other operating expenses	23	**(74,681)**	(76,093)
Other gain	26	**–**	936
Operating profit		**1,120,382**	924,997
Finance income	27	**–**	76,879
Finance costs	27	**(346,206)**	(367,179)
Finance costs – net	27	**(346,206)**	(290,300)
Profit before income tax		**774,176**	634,697
Income tax expense	28	**(147,748)**	(128,565)
Profit for the year and attributable to the Shareholders		**626,428**	506,132

	Note	Year ended 31 December 2014 RMB	2013 RMB
Earnings per share for profit attributable to the Shareholders during the year (expressed in RMB cents per share)			
– basic	29	**29.98**	25.13
– diluted	29	**28.67**	22.07

The notes on pages 58 to 130 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Dividends	31	**123,256**	99,184

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Profit for the year	**626,428**	506,132
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**626,428**	506,132
Total comprehensive income attributable to the Shareholders	**626,428**	506,132

The notes on pages 58 to 130 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

		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 2013		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 services	*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
Comprehensive Income						
Profit for the year	*18*	–	–	–	626,428	626,428
Total comprehensive income		–	–	–	626,428	626,428
Transactions with owners						
Profit appropriation	*16, 18*	–	–	24,626	(24,626)	–
Employee share options schemes:						
– Proceeds from shares issued	*15, 16*	1,665	53,892	(14,551)	–	41,006
– Value of employee services	*16, 17*	–	–	2,552	–	2,552
Repurchase of shares of						
the Company	*15, 18*	(66)	(2,134)	–	(1,861)	(4,061)
Dividends	*15*	–	(115,645)	–	–	(115,645)
Total transactions with owners		1,599	(63,887)	12,627	(26,487)	(76,148)
Balance at 31 December 2014		205,243	638,986	206,770	4,318,067	5,369,066

The notes on pages 58 to 130 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

		Year ended 31 December	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations	*32(a)*	**2,070,000**	1,508,135
Interest paid		**(297,782)**	(334,965)
Income tax paid		**(130,492)**	(134,641)
Net cash flows generated from operating activities		**1,641,726**	1,038,529
Cash flows from investing activities			
Payments of leasehold land	*6*	**(1,353,564)**	(147,625)
Purchases of property, plant and equipment		**(1,168,776)**	(1,219,848)
Purchases of intangible assets	*8*	**(3,611)**	(1,482)
Payments of plant relocation expenses	*23*	**(70,401)**	–
Compensation received from government related to plant relocation expenses	*23*	**70,401**	–
Urban planning related government grants received	*19*	**96,103**	–
Proceeds from disposal of property, plant and equipment	*32(b)*	**635,886**	14,836
Proceeds from return of leasehold land to government		**99,008**	–
Assets-related government grants received		**86,260**	54,543
Interest received	*22*	**12,610**	6,947
Proceeds from term deposits		**2,000**	4,000
Payments for term deposits		**(8,000)**	(4,000)
Net cash used in investing activities		**(1,602,084)**	(1,292,629)
Cash flows from financing activities			
Net proceeds from shares issued		**41,006**	493,182
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		**(116,204)**	(33,259)
Proceeds from bank borrowings		**2,740,440**	2,168,471
Repayments of bank borrowings		**(2,750,258)**	(3,423,780)
Redemption of convertible bonds	*20*	**–**	(168,630)
Repurchase of shares of the Company		**(4,061)**	(3,104)
Proceeds from restricted bank deposits of bank borrowings		**40,000**	–
Net cash (used in)/generated from financing activities		**(49,077)**	578,973
Net (decrease)/increase in cash and cash equivalents		**(9,435)**	324,873
Cash and cash equivalents at beginning of the year	*14*	**805,999**	481,126
Cash and cash equivalents at end of the year	*14*	**796,564**	805,999

The notes on pages 58 to 130 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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, Jiangsu 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 24 March 2015.

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 consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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. Summary of Significant Accounting Policies *(Continued)*

2.1 Basis of preparation *(Continued)*

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 2014 and do not result in any significant impact on the Group's financial statements.

Amendments to HKAS 32, 'Financial instruments: Presentation' on asset and liability offsetting. These amendments are to the application guidance in HKAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

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.

Amendment to HKFRS 2, 'Share-based payment'. This amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

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 and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

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

		Effective for annual periods beginning on or after
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. These amendments include changes from the 2011-2013 cycle of the annual improvements project, that affect the below 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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 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 and interpretations not yet adopted *(Continued)*

Amendment to HKAS 27 on equity method in separate financial statements. The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This amendment is effective for annual periods beginning on or after 1 January 2016.

Annual improvements 2014. These amendments include changes from the 2012-2014 cycle of the annual improvements project, that affect the below standards:

		Effective for annual periods beginning on or after
HKFRS 5	Non-current assets held for sale and discontinued operations	1 January 2016
HKFRS 7	Financial instruments: Disclosures	1 January 2016
HKAS 19	Employee benefits	1 January 2016
HKAS 34	Interim financial reporting	1 January 2016

Amendments to HKAS 1 for the disclosure initiative. The amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users. These amendments are effective for annual periods beginning on or after 1 January 2016.

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 and interpretations not yet adopted *(Continued)*

HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of HKAS 15.

(c) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 'Accounts and Audit' of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

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

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.

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 make 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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

2.4 Foreign currency translation *(Continued)*

(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'.

2.5 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 on leasehold land payments is calculated using the straight-line method to allocate their costs over their estimated useful lives (40 to 70 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.

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

2.6 Property, plant and equipment *(Continued)*

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.

2.7 Intangible assets

(a) 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.

(b) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed ten years.

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

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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

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. Summary of Significant Accounting Policies *(Continued)*

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.

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

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.

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

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.

(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.

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

2.18 Current and deferred income tax *(Continued)*

(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 HKD1,500 per head per month. The assets of MPF scheme are held separately from those of the entities in an independent administrated fund.

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.

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

2.20 Share-based payments *(Continued)*

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

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.

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.

Government grants related to urban planning of local PRC governments are included in non-current liabilities as deferred income and are amortised in the consolidated income statement on future development of the related assets.

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

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.

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

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.

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 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 2014.

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 22% (2013: 19%) of the Group's total turnover for the year ended 31 December 2014. 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 2014, 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 RMB154,703,000 (2013: RMB147,852,000) 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 2014.

At 31 December 2014, 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 RMB5,247,000 (2013: RMB685,000) 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 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.

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

	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 2014			
Borrowings	813,200	2,475,700	1,376,023
Interests payments on bank borrowings, convertible bonds, senior notes and medium-term note (i)	245,523	135,799	75,004
Trade, other payables and accruals (excluding non-financial liabilities)	2,196,367	–	–
Total	3,255,090	2,611,499	1,451,027
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
The Company			
At 31 December 2014			
Borrowings	13,200	1,835,700	1,056,023
Interests payments on bank borrowings, convertible bonds and senior notes (i)	169,371	99,236	58,500
Total	182,571	1,934,936	1,114,523
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

(i) The interests on borrowings are calculated based on bank borrowings, convertible bonds, senior notes and medium-term note held as at 31 December 2014 and 2013 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2014 and 2013 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% (2013: 40%). The gearing ratios at 31 December 2014 and 2013 were as follows:

	2014 *RMB'000*	2013 *RMB'000*
Total borrowings *(Note 20)*	**4,515,647**	4,477,094
Total assets	**13,694,277**	12,619,168
Gearing ratio	**32.97%**	35.48%

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 2014 and 2013, 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.

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 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

4.4 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 78% (2013: 81%) 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 2014 and 2013 are set out as follows:

	2014 ***RMB'000***	2013 *RMB'000*
MSG	**6,015,937**	6,323,148
Corn refined products	**1,572,653**	1,616,789
Xanthan gum	**1,347,826**	1,454,249
Fertilisers	**476,401**	762,054
Starch sweeteners	**778,430**	470,864
Threonine	**566,033**	327,126
High-end amino acid products	**341,219**	211,373
Glutamic acid	**37,217**	45,507
Corn oil	**19,381**	34,684
Others	**142,599**	120,928
	11,297,696	11,366,722

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

5. Segment Information *(Continued)*

The segment information for the year ended 31 December 2014 is as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	9,949,870	1,347,826	–	11,297,696
Segment results	492,340	644,982	(16,940)	1,120,382
Finance costs – net *(Note 27)*				(346,206)
Profit before income tax				774,176
Income tax expense *(Note 28)*				(147,748)
Profit for the year				626,428
Other segment items included in the consolidated income statement				
Depreciation *(Note 7)*	642,910	62,604	1,597	707,111
Amortisation of leasehold land payments *(Note 6)*	11,707	348	86	12,141
Amortisation of intangible assets *(Note 8)*	247	–	–	247
Gain on disposal of property, plant and equipment *(Note 32)*	16,316	–	–	16,316
Loss on disposal of property, plant and equipment *(Note 32)*	6,416	–	–	6,416
Impairment charges for property, plant and equipment *(Note 7)*	58,381	–	–	58,381
Impairment charges for intangible assets *(Note 8)*	861	–	–	861
Capital expenditures *(Note 6, 7 and 8)*	1,180,749	67,837	1,114,122	2,362,708

The segment assets and liabilities at 31 December 2014 are as follows:

	MSG *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	8,683,179	3,658,365	1,352,733	13,694,277
Total liabilities	4,022,494	1,071,167	3,231,550	8,325,211

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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
Amortisation of intangible assets *(Note 8)*	3	–	–	3
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 expenditures *(Note 6, 7 and 8)*	1,015,949	164,082	151	1,180,182

5. Segment Information *(Continued)*

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

Unallocated assets mainly comprise cash and cash equivalents, leasehold land payments, property, plant and equipment and other receivables held by Beijing Huijinhuaying Commercial Co., Ltd., Junan Beicheng Properties Co., Ltd., Junan Beifang Properties Co., Ltd., Junan Beibu Properties Co., Ltd., Baoji Dingfeng Properties Co., Ltd., Baoji Baofeng Properties Co., Ltd. and non-PRC established companies.

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 RMB8,838,222,000 (2013: RMB9,196,267,000) and the total revenue from external customers from Hong Kong and other countries is RMB2,459,474,000 (2013: RMB2,170,455,000).

The Group's total non-current assets located in the PRC other than deferred income tax assets are RMB9,221,212,000 (2013: RMB8,082,059,000), and the total non-current assets located in Hong Kong and Singapore other than deferred income tax assets are RMB128,000 (2013: RMB256,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

6. Leasehold Land Payments – the Group

Leasehold land payments represent prepaid operating lease payments for the leasehold land (40 to 70 years) located in Shandong Province, Shaanxi Province, Inner Mongolia Autonomous Region, Xinjiang Uygur Autonomous Region, Jiangsu Province and Beijing in the PRC. Their net book values are analysed as follows:

	2014 *RMB'000*	2013 *RMB'000*
Outside of Hong Kong, held on:		
Leases from 40 to 70 years	**1,748,704**	506,289

As at 31 December 2014, the net book value of leasehold land pledged as security for the Group's borrowings amounted to approximately RMB111,679,000 (2013: Nil).

	2014 *RMB'000*	2013 *RMB'000*
Cost		
At beginning of the year	**531,053**	383,428
Additions	**1,353,564**	147,625
Return of leasehold land to government	**(114,903)**	–
At end of the year	**1,769,714**	531,053
Amortisation		
At beginning of the year	**(24,764)**	(16,664)
Charge for the year *(Note 23)*	**(12,141)**	(8,100)
Return of leasehold land to government	**15,895**	–
At end of the year	**(21,010)**	(24,764)
Net book value		
At end of the year	**1,748,704**	506,289

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

During the year ended 31 December 2014, the Group received RMB99,008,000 from the local PRC governments as the compensation for return of leasehold land. Therefore, no gain or loss on the return of leasehold land was recognised in the consolidated income statement for the year ended 31 December 2014.

As at 31 December 2014, the Group was still in the process of applying for the ownership certificates for various parcels leasehold land with a total carrying amount of RMB804,118,000 (2013: RMB315,440,000), of which RMB590,556,000 (2013: RMB152,004,000) has relevant signed contracts with the local government.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

7. Property, Plant and Equipment

The Group

	2014					
	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 2014	2,621,845	6,806,781	196,520	52,521	253,898	9,931,565
Additions	–	169,690	6,849	4,455	824,539	1,005,533
Transfer upon completion	324,821	454,805	–	–	(779,626)	–
Transfer for renovation	(30,895)	(540,782)	(9,670)	(1,299)	280,052	(302,594)
Disposals	(248,700)	(316,743)	(8,738)	(7,370)	–	(581,551)
At 31 December 2014	2,667,071	6,573,751	184,961	48,307	578,863	10,052,953
Accumulated depreciation						
At 1 January 2014	(305,475)	(1,905,114)	(94,500)	(34,189)	–	(2,339,278)
Charge for the year *(Note 23)*	(111,934)	(563,545)	(26,480)	(5,152)	–	(707,111)
Transfer for renovation	8,236	287,043	6,204	1,111	–	302,594
Disposals	63,372	147,882	7,625	4,858	–	223,737
At 31 December 2014	(345,801)	(2,033,734)	(107,151)	(33,372)	–	(2,520,058)
Provision for impairment loss						
At 1 January 2014	–	(16,171)	(72)	(69)	–	(16,312)
Impairment charge *(Note 23)*	(17,567)	(25,050)	(43)	(640)	(15,081)	(58,381)
Disposals	–	11,880	–	–	–	11,880
At 31 December 2014	(17,567)	(29,341)	(115)	(709)	(15,081)	(62,813)
Net book value						
At 31 December 2014	2,303,703	4,510,676	77,695	14,226	563,782	7,470,082

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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

The Group *(Continued)*

	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

(a) As at 31 December 2014, no plant and machinery was pledged as security for the Group's borrowings (2013: Nil).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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

The Group *(Continued)*

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

	2014 RMB'000	2013 RMB'000
Cost of sales	640,970	598,630
Administrative expenses	66,141	91,691
	707,111	690,321

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

	2014 RMB'000	2013 RMB'000
Borrowing cost capitalised	–	9,847
Average borrowing rate	–	6.13%

(d) During the year ended 31 December 2014, the Group received RMB635,791,000 from the local PRC governments as the compensation for disposal of property, plant and equipment related to plant relocation, of which RMB280,058,000 was recognised in "trade, other payables and accruals" (Note 21) as the related assets have not been disposed as at 31 December 2014. No gain or loss on disposal of property, plant and equipment related to plant relocation was recognised in the consolidated income statement for the year ended 31 December 2014.

(e) Certain machineries mainly used for MSG segment were impaired in 2014 because of substantial reduction in demand and the machineries remained idle. The Group did not expect any future benefits and a full impairment charge of RMB58,381,000 (2013: RMB11,418,000) (Notes 23) was recorded during the year ended 31 December 2014.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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

The Company

	2014 Furniture and fixtures *RMB'000*	2013 Furniture and fixtures *RMB'000*
Cost		
At beginning of the year	**597**	579
Additions	**5**	18
At end of the year	**602**	597
Accumulated depreciation		
At beginning of the year	**(348)**	(220)
Charge for the year	**(129)**	(128)
At end of the year	**(477)**	(348)
Net book value		
At end of the year	**125**	249

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

8. Intangible Assets – the Group

	Patents *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
At 1 January 2013			
Cost	16,568	–	16,568
Accumulated impairment	(16,514)	–	(16,514)
Net book amount	54	–	54
Year ended 31 December 2013			
Opening net book amount	54	–	54
Additions	1,482	–	1,482
Amortisation	(3)	–	(3)
Impairment charge *(Note 23)*	(1,482)	–	(1,482)
Closing net book amount	51	–	51
At 31 December 2013			
Cost	18,050	–	18,050
Accumulated amortisation	(3)	–	(3)
Accumulated impairment	(17,996)	–	(17,996)
Net book amount	51	–	51
Year ended 31 December 2014			
Opening net book amount	51	–	51
Additions	878	2,733	3,611
Amortisation	(20)	(227)	(247)
Impairment charge *(Note 23)*	(861)	–	(861)
Closing net book amount	48	2,506	2,554
At 31 December 2014			
Cost	18,928	2,733	21,661
Accumulated amortisation	(23)	(227)	(250)
Accumulated impairment	(18,857)	–	(18,857)
Net book amount	48	2,506	2,554

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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

9. Investment in and Balances with Subsidiaries – the Company

	2014	2013
	RMB'000	*RMB'000*
Investment in subsidiaries (a)	**427,933**	427,933
Loans to subsidiaries (b)	**1,703,565**	1,855,110
Due from subsidiaries (c)	**1,410,368**	1,320,676
Due to subsidiaries (d)	**14,174**	14,174
Loan from a subsidiary	**–**	182,907

(a) Investment in subsidiaries

	2014	2013
	RMB'000	*RMB'000*
Unlisted shares, at cost	**427,933**	427,933

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

(b) Loans to subsidiaries

	2014	2013
	RMB'000	*RMB'000*
Interest bearing	**1,703,565**	1,697,864
Interests free	**–**	157,246
	1,703,565	1,855,110

Loans to subsidiaries are unsecured and repayable on demand as at 31 December 2014 and 2013. Their carrying amounts approximate their fair values as at 31 December 2014 and 2013. Interest rate of the interest bearing loan was 7.625% as at 31 December 2014 (2013: 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 2014 and 2013.

(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 2014 and 2013.

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

	2014 *RMB'000*	2013 *RMB'000*
Group 1	663,638	1,444,119
Group 2	348,422	369,413
Group 3	4,510	4,510
	1,016,570	1,818,042

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 in banks 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

	2014 ***RMB'000***	2013 *RMB'000*
Group 1	**97,097**	336,712
Group 2	**245,626**	232,340
Group 3	**618,291**	292,848
	961,014	861,900

The Company

	2014 ***RMB'000***	2013 *RMB'000*
Group 1	**53,810**	298,522

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:

	2014	2013
	RMB'000	*RMB'000*
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**70,068**	46,181
– Deferred income tax assets to be recovered within 12 months	**43,587**	42,051
	113,655	88,232
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(18,746)**	(19,804)
– Deferred income tax liabilities to be settled within 12 months	**(294)**	(482)
	(19,040)	(20,286)
Deferred income tax assets, net	**94,615**	67,946

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

	2014	2013
	RMB'000	*RMB'000*
Beginning balance of the year	**67,946**	20,186
Credited to consolidated income statement *(Note 28)*	**26,669**	47,760
Ending balance of the year	**94,615**	67,946

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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 *RMB'000*	Unrealised profit *RMB'000*	Deferred income *RMB'000*	Staff pension plan *RMB'000*	Impairment losses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2013	–	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
(Charged)/Credited to consolidated income statement	(825)	(7,865)	16,359	8,896	7,044	1,814	25,423
At 31 December 2014	7,438	1,370	45,576	26,776	8,757	23,738	113,655

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 deferred income tax assets in respect of losses amounting to RMB7,393,000 as at 31 December 2014 (2013: RMB6,023,000) 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. As at 31 December 2014 and 2013, the expiry date of such tax losses is as follows:

Expiry date	**2014** ***RMB'000***	2013 *RMB'000*
2015	**1,602**	1,602
2016	**1,697**	1,697
2017	**1,256**	1,256
2018	**1,468**	1,468
2019	**1,370**	–
	7,393	6,023

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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

Deferred income tax liabilities:

	Borrowing costs capitalisation *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2013	3,176	16,650	19,826
Charged to consolidated income statement	460	–	460
At 31 December 2013	3,636	16,650	20,286
Credited to consolidated income statement	(1,246)	–	(1,246)
At 31 December 2014	2,390	16,650	19,040

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 are 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 2014 of RMB211,928,000 (2013: RMB172,882,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC, totalling RMB4,238,565,000 (2013: RMB3,457,655,000). 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

	2014 *RMB'000*	2013 *RMB'000*
Raw materials	**729,492**	629,279
Work-in-progress	**107,808**	119,974
Finished goods	**1,108,714**	767,625
	1,946,014	1,516,878

As at 31 December 2014, finished goods included a write-down of RMB26,655,000 (2013: RMB7,237,000). For the year ended 31 December 2014, the Group has recognised an inventory write-down of RMB19,418,000 (2013: RMB7,202,000), 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 RMB9,182,085,000 (2013: RMB9,369,355,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

13. Trade and Other Receivables

The Group

	2014 RMB'000	2013 RMB'000
Trade receivables (a)	**352,932**	373,923
Less: provision for impairment of trade receivables (b)	**(4,510)**	(4,510)
Trade receivables – net	**348,422**	369,413
Notes receivable (c)	**663,638**	1,444,119
Deposits and others	**21,333**	58,190
Value-added tax for future deduction	**99,607**	126,134
Trade and other receivables excluding prepayments	**1,133,000**	1,997,856
Prepayments for raw materials	**318,721**	71,483
	1,451,721	2,069,339

(a) As at 31 December 2014 and 2013 the ageing analysis of trade receivables was as follows:

	2014 RMB'000	2013 RMB'000
Within 3 months	**331,627**	328,651
3 ~12 months	**14,833**	37,395
Over 12 months	**6,472**	7,877
	352,932	373,923

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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

13. Trade and Other Receivables *(Continued)*

The Group *(Continued)*

(a) *(Continued)*

As at 31 December 2014, trade receivables of RMB11,838,000 (2013: RMB23,879,000) 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:

	2014	2013
	RMB'000	*RMB'000*
Past due within 3 months	**8,795**	18,829
Past due in 3 ~12 months	**3,043**	5,050
	11,838	23,879

(b) As of 31 December 2014, trade receivables of RMB4,510,000 (2013: 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:

	2014	2013
	RMB'000	*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:

	2014	2013
	RMB'000	*RMB'000*
As at 1 January till 31 December	**4,510**	4,510

13. Trade and Other Receivables *(Continued)*

The Group *(Continued)*

(c) As at 31 December 2014, notes receivable were all bank acceptance notes aged less than six months, including amount of RMB614,612,000 (2013: RMB1,058,737,000) 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:

	2014	2013
	RMB'000	*RMB'000*
– RMB	**869,919**	1,720,794
– USD	**263,081**	277,062
	1,133,000	1,997,856

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

	2014	2013
	RMB'000	*RMB'000*
Deposits and others	**625**	1,913

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

14. Cash and Bank Balances

The Group

	2014 RMB'000	2013 RMB'000
Cash and cash equivalents		
– Cash on hand	533	504
– Cash in bank	796,031	805,495
	796,564	805,999
Short-term bank deposits		
– Restricted bank deposits (a)	156,983	54,405
– Term deposits over 3 months	8,000	2,000
	164,983	56,405
	961,547	862,404
Cash and bank balances denominated in		
– RMB	839,674	529,092
– USD	58,309	284,735
– HKD	61,959	45,302
– SGD	1,605	3,059
– EUR	–	216
	961,547	862,404

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

	2014 RMB'000	2013 RMB'000
Issuing bank acceptance notes	150,530	14,405
Bank borrowings	–	40,000
Others	6,453	–
	156,983	54,405

(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 0.75% per annum for the year ended 31 December 2014 (2013: 0.26%).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

14. Cash and Bank Balances *(Continued)*

The Company

	2014	2013
	RMB'000	*RMB'000*
Cash and cash equivalents		
– Cash on hand	**1**	1
– Cash in bank	**53,810**	298,522
	53,811	298,523

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 2014 (2013: 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 2013	1,741,048	175,921	240,518	416,439
Issue of ordinary shares	348,210	27,858	465,324	493,182
Repurchase of shares of the Company	(1,697)	(135)	(2,969)	(3,104)
At 31 December 2013	2,087,561	203,644	702,873	906,517
Employee share option schemes:				
– Proceeds from shares issued	18,480	1,665	53,892	55,557
Repurchase of shares of the Company	(833)	(66)	(2,134)	(2,200)
Dividends	–	–	(115,645)	(115,645)
At 31 December 2014	**2,105,208**	**205,243**	**638,986**	**844,229**

The total number of authorised shares of the Company was 10,000,000,000 ordinary shares with a par value of HKD0.10 each as at 31 December 2014 and 2013.

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

In November 2014, the Company acquired 833,000 of its own shares through purchases on the Stock Exchange of Hong Kong Limited. The total consideration of HKD2,777,000 (equivalent to RMB2,200,000) paid for repurchase of shares has been deducted from its share capital and share premium as the shares had been cancelled in November 2014.

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 2013	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	(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
Profit appropriation *(Note 18)*	–	–	24,626	–	24,626
Employee share options schemes					
– Value of employee services *(Notes 17, 24)*	–	–	–	2,552	2,552
– Proceeds from shares issued	–	–	–	(14,551)	(14,551)
31 December 2014	**63,198**	**(370,760)**	**483,313**	**31,019**	**206,770**

16. Other Reserves *(Continued)*

	The Company		
	Convertible bonds *(Note 20)* *RMB'000*	**Share-based payment reserve** *(Note 17)* *RMB'000*	**Total** *RMB'000*
1 January 2013	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	(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
Employee share options schemes:			
– Value of employee services *(Notes 17, 24)*	–	2,552	2,552
– Proceeds from shares issued	–	(14,551)	(14,551)
31 December 2014	**63,198**	**31,019**	**94,217**

(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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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.

As a result of the completion of the rights issue in May 2013, 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.

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

	2014		2013	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**2.80**	**45,809**	3.00	45,270
Adjusted after rights issue	**–**	**–**	–	3,216
Exercised	**2.80**	**(18,480)**	–	–
Forfeited	**2.80**	**(2,506)**	2.80	(2,677)
At 31 December	**2.80**	**24,823**	2.80	45,809

Out of the 24,823,000 outstanding options (2013: 45,809,000), 24,823,000 options (2013: 30,234,000) were exercisable as at 31 December 2014. Options exercised in 2014 resulted in 18,480,000 ordinary shares (2013: Nil) being issued at a weighted average price of HKD2.80 each (2013: Nil). The related weighted average share price at the time of exercise was HKD3.86 (2013: Nil) per share.

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) 2014	Number of options (thousands) 2013
13 January 2015	**2.80**	**24,823**	45,809

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 which would be charged to the consolidated income statement during the vesting period. 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.

No attributable amount was charged to the consolidated income statement during the year ended 31 December 2014 (2013: RMB674,000).

(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.

As a result of the completion of the rights issue in May 2013, 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 the director to subscribe for an aggregate of 5,355,000 shares to HKD3.20.

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)*

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

	2014		2013	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**3.20**	**5,355**	8.20	5,000
Adjusted after rights issue	**–**	**–**	–	355
Revised the exercise price	**–**	**–**	(4.46)	–
Forfeited	**3.20**	**(5,355)**	–	–
At 31 December	**–**	**–**	3.20	5,355

In December 2014, the director resigned and thus all the 5,355,000 share options were forfeited during the year ended 31 December 2014.

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 2014 was approximately RMB2,552,000 (2013: RMB3,073,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

18. Retained Earnings

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**3,718,126**	3,319,597	**(57,851)**	128,496
Profit/(loss) for the year	**626,428**	506,132	**(93,242)**	(161,987)
Profit appropriation to statutory reserves	**(24,626)**	(83,243)	**–**	–
Repurchase of shares of the Company	**(1,861)**	–	**(1,861)**	–
Dividends	**–**	(33,259)	**–**	(33,259)
Redemption of convertible bonds	**–**	8,899	**–**	8,899
At 31 December	**4,318,067**	3,718,126	**(152,954)**	(57,851)

In December 2014, the Company acquired 705,000 of its own ordinary shares through purchases on the Stock Exchange of Hong Kong Limited. The total consideration of HKD2,349,000 (equivalent to RMB1,861,000) paid for repurchase of these shares has been deducted from retained earnings as the shares have not been cancelled as at 31 December 2014.

19. Deferred Income – the Group

	2014 **RMB'000**	2013 RMB'000
Government grants related to income tax credit from purchasing qualified equipment *(a)*	**115,119**	120,533
Government grants related to acquisition of environment protection and technology improvement equipment *(b)*	**325,328**	239,588
Government grants related to urban planning of local PRC governments *(c)*	**96,103**	–
	536,550	360,121

The movements of the above government grants for the years ended 31 December 2014 and 2013 are as follows:

	2014 **RMB'000**	2013 RMB'000
At beginning of the year	**360,121**	352,436
Granted during the year	**235,495**	57,447
Amortised as income *(Note 22)*	**(59,066)**	(49,762)
At end of the year	**536,550**	360,121

(a) Government grants related to income tax credit from purchasing qualified equipment represented reduction in income tax granted to Baoji Fufeng Biotechnologies Co., Ltd., Neimenggu Fufeng Biotechnologies Co., Ltd., Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd. and Xinjiang Fufeng Biotechnologies Co., Ltd. on purchase of certain qualified equipment. Such income tax credits are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

(b) Government grants related to acquisition of environment protection and technology improvement equipment 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.

(c) Government grants related to urban planning of local PRC governments represented grants from the governments related to acquisition of assets. These grants received are recorded as deferred income. These grants received will be amortised in the consolidated income statement on future development of the related assets.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

20. Borrowings

The Group

	2014 *RMB'000*	2013 *RMB'000*
Non-current		
Bank borrowings, secured	**360,000**	–
Convertible bonds (b)	**921,061**	904,721
Senior notes (c)	**1,823,875**	1,808,658
Medium-term note (d)	**597,546**	595,808
	3,702,482	3,309,187
Current		
Bank borrowings, unsecured	**760,000**	985,000
Bank borrowings, secured	**40,000**	182,907
Convertible bonds (b)	**13,165**	–
	813,165	1,167,907
Total Borrowings	**4,515,647**	4,477,094

The Company

	2014 *RMB'000*	2013 *RMB'000*
Non-current		
Convertible bonds (b)	**921,061**	904,721
Senior notes (c)	**1,823,875**	1,808,658
	2,744,936	2,713,379
Current		
Convertible bonds (b)	**13,165**	–
	2,758,101	2,713,379

20. Borrowings *(Continued)*

(a) Borrowings

At 31 December 2014, the Group's borrowings were repayable as follows:

	The Group			
	Bank borrowings		Other loans	
	2014 **RMB'000**	2013 RMB'000	**2014** **RMB'000**	2013 RMB'000
Within 1 year	**800,000**	1,167,907	**13,165**	–
Between 1 and 2 years	**40,000**	–	**2,421,421**	13,027
Between 2 and 5 years	**320,000**	–	**921,061**	3,296,160
	1,160,000	1,167,907	**3,355,647**	3,309,187

	The Company			
	Bank borrowings		Other loans	
	2014 **RMB'000**	2013 RMB'000	**2014** **RMB'000**	2013 RMB'000
Within 1 year	**–**	–	**13,165**	–
Between 1 and 2 years	**–**	–	**1,823,875**	13,027
Between 2 and 5 years	**–**	–	**921,061**	2,700,352
	–	–	**2,758,101**	2,713,379

As at 31 December 2014, the bank borrowings included RMB400,000,000 borrowings which are secured by leasehold land of the Group (Note 6).

As at 31 December 2013, the bank borrowings included RMB182,907,000 borrowings which were 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:

	2014	2013
Bank borrowings	**6.10%**	5.65%

20. Borrowings *(Continued)*

(a) Borrowings *(Continued)*

The carrying amounts of 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	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
6 months or less	**423,165**	145,000	**13,165**	–
6 to 12 months	**390,000**	1,022,907	**–**	–
1 to 5 years	**3,702,482**	3,309,187	**2,744,936**	2,713,379
	4,515,647	4,477,094	**2,758,101**	2,713,379

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

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**2,691,772**	2,485,529	**934,226**	904,721
USD	**1,823,875**	1,991,565	**1,823,875**	1,808,658
	4,515,647	4,477,094	**2,758,101**	2,713,379

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 RMB843,800,000 in October and November 2012, by paying total consideration and transaction costs of RMB852,037,000, and RMB168,000,000 in March and April 2013, by paying total consideration and transaction costs of RMB168,630,000.

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 rights issue in May 2013.

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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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 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
Liability component at 1 January 2014	13,176	894,132	907,308
Interest expense on convertible bonds *(Note 27)*	732	58,617	59,349
Interest paid	(594)	(29,250)	(29,844)
Liability component at 31 December 2014	13,314	923,499	936,813
Including:			
– Interest payable – current portion	149	2,438	2,587
– Carrying amount at 31 December 2014	13,165	921,061	934,226

The fair value of the convertible bonds approximated its carrying amounts as at 31 December 2014.

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 2014 amounted to RMB1,858,646,000 (2013: RMB1,904,300,000).

(d) Medium-term note

In April 2013, a subsidiary of the Group issued a medium-term note at a par value of 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 2014.

21. Trade, Other Payables and Accruals

The Group

	2014 *RMB'000*	2013 *RMB'000*
Trade payables (a)	**987,197**	1,208,736
Advances from customers (b)	**213,476**	370,121
Payables for property, plant and equipment	**662,608**	825,851
Bank acceptance notes payable	**494,760**	47,920
Government compensation related to property, plant and equipment disposal received in advance	**280,052**	–
Salaries, wages and staff welfares payables	**276,788**	200,478
Interest payables – current portion	**61,152**	58,192
Government grants received in advance	**13,000**	46,870
Dividends payable	**407**	407
Other payables and accruals	**213,975**	132,422
	3,203,415	2,890,997

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

The Group *(Continued)*

(a) As at 31 December 2014 and 2013, the ageing analysis of trade payables was as follows:

	2014 **RMB'000**	2013 RMB'000
Within 3 months	**762,492**	853,823
3 to 6 months	**140,307**	243,161
6 to 12 months	**49,692**	88,416
1 to 2 years	**27,737**	16,959
Over 2 years	**6,969**	6,377
	987,197	1,208,736

(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

	2014 **RMB'000**	2013 RMB'000
Interest payables – current portion	**37,579**	37,453
Dividends payable	**407**	407
Other payables and accruals	**674**	1,202
	38,660	39,062

22. Other Income

	2014 **RMB'000**	2013 RMB'000
Sales of waste products	**80,099**	60,878
Amortisation of deferred income *(Note 19)*	**59,066**	49,762
Government grants related to expenses	**12,063**	18,157
Foreign exchange gains	**2,599**	–
Interest income	**12,610**	6,947
Gain on disposal of property, plant and equipment *(Note 32(b))*	**16,316**	2,624
Others	**10,050**	14,100
	192,803	152,468

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

23. Expenses by Nature

	2014 RMB'000	2013 RMB'000
Changes in inventories of finished goods and work in progress	(348,341)	(19,579)
Raw materials and consumables used	8,166,276	8,186,031
Employee benefit expenses *(Note 24)*	914,268	838,954
Depreciation *(Note 7)*	707,111	690,321
Amortisation of leasehold land payments *(Note 6)*	12,141	8,100
Impairment charges for property, plant and equipment *(Note 7)*	58,381	11,418
Amortisation of intangible assets *(Note 8)*	247	3
Impairment charges for intangible assets *(Note 8)*	861	1,482
Transportation expenses	478,796	518,464
Utilities purchased	58,232	38,241
Travelling and office expenses	34,312	34,840
Inventory write-down *(Note 12)*	19,418	7,202
Auditors' remuneration	5,211	5,149
Land use tax, real estate tax and other taxes	120,423	94,417
Advertisement fees	7,518	6,736
Foreign exchange losses *(Note 30)*	–	28,589
Loss on disposal of property, plant and equipment *(Note 32(b))*	6,416	–
Plant relocation expenses	70,401	–
Compensation from government related to plant relocation expenses	(70,401)	–
Others	128,847	144,761
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	10,370,117	10,595,129

24. Employee Benefit Expenses Including Directors' Emoluments

	2014 RMB'000	2013 RMB'000
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	814,281	749,876
– Pension costs – defined contribution plans (a)	97,435	85,331
– Share options granted to directors and employees *(Note 17)*	2,552	3,747
	914,268	838,954

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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 2014 and 2013 are set out as below:

	2014							
Name of Director	Fees *RMB'000*	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Inducement fees *RMB'000*	Other benefits (a) *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Compensation for loss of office as director *RMB'000*	Total *RMB'000*
Executive Directors:								
Li, Xuechun	–	2,749	–	–	–	55	–	2,804
Wang, Longxiang	–	2,234	–	–	–	37	–	2,271
Chen, Yuan (b)	–	1,385	–	–	2,552	13	–	3,950
Feng, Zhenquan	–	1,300	–	–	–	37	–	1,337
Li, Deheng	–	1,301	–	–	–	37	–	1,338
Xu, Guohua	–	1,150	–	–	–	37	–	1,187
Li, Guangyu	–	671	–	–	–	37	–	708
Independent Non-executive Directors:								
Choi, Tze Kit, Sammy	238	–	–	–	–	–	–	238
Chen, Ning	75	–	–	–	–	–	–	75
Liang, Wenjun (c)	58	–	–	–	–	–	–	58
Zheng, Yu	190	–	–	–	–	–	–	190
Qi, Qingzhong (d)	17	–	–	–	–	–	–	17
	578	10,790	–	–	2,552	253	–	14,173

(a) Other benefits include share option.
(b) Resigned on 31 December 2014.
(c) Resigned on 31 October 2014.
(d) Appointed on 1 November 2014.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

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

(b) Directors' emoluments *(Continued)*

	2013							
Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits (a)	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors:								
Li, Xuechun	–	2,670	–	–	–	19	–	2,689
Wang, Longxiang	–	1,939	–	–	–	33	–	1,972
Chen, Yuan	–	1,356	–	–	3,073	12	–	4,441
Feng, Zhenquan	–	1,382	–	–	–	33	–	1,415
Li, Deheng	–	1,378	–	–	–	33	–	1,411
Xu, Guohua	–	1,249	–	–	–	33	–	1,282
Li, Guangyu	–	734	–	–	–	33	–	767
Independent Non-executive Directors:								
Choi, Tze Kit, Sammy	239	–	–	–	–	–	–	239
Chen, Ning	70	–	–	–	–	–	–	70
Liang, Wenjun	70	–	–	–	–	–	–	70
Zheng, Yu	191	–	–	–	–	–	–	191
	570	10,708	–	–	3,073	196	–	14,547

There was no bonus paid to the directors of the Company for the years ended 31 December 2014 and 2013.

No director waived or agreed to waive any remuneration for the years ended 31 December 2014 and 2013.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2014 are all directors (2013: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2013 are as follows:

	2014	2013
	RMB'000	*RMB'000*
Salaries and allowances	**–**	1,425
Pension costs – defined contribution plans	**–**	33
	–	1,458

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

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

For the years ended 31 December 2014 and 2013, 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 2014 and 2013 fell within the following bands.

	Number of individuals	
	2014	2013
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:

	2014 ***RMB'000***	2013 *RMB'000*
Raw materials and consumables used	**37,008**	86,092
Employee benefit expenses	**11,076**	24,146
Depreciation	**9,212**	8,159
Others	**4,740**	10,874
	62,036	129,271

All these development costs arose from internal development activities.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

26. Other Gain

	2014 RMB'000	2013 RMB'000
Gain on redemption of convertible bonds	–	936

27. Finance Costs – Net

	2014 RMB'000	2013 RMB'000
Interest expense:		
Bank borrowings	96,529	196,238
Senior notes	149,186	150,168
Medium-term note	32,398	22,769
Convertible bonds *(Note 20)*	59,349	7,851
Foreign exchange losses on financing activities	8,744	–
Finance costs	346,206	377,026
Less: amounts capitalised on qualifying assets	–	(9,847)
Finance costs	346,206	367,179
Finance income:		
Foreign exchange gains on financing activities	–	(76,879)
Finance income	–	(76,879)
Net finance costs	346,206	290,300

28. Taxation

(a) Income tax expense

	2014 RMB'000	2013 RMB'000
Current income tax		
– PRC enterprise income tax ("EIT")	174,302	176,325
– Singapore income tax	115	–
Deferred income tax *(Note 11)*	(26,669)	(47,760)
	147,748	128,565

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.

28. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

The Group's subsidiaries in Hong Kong are subject to Hong Kong profits tax which has not been provided for as the Group has no estimated assessable profit in Hong Kong for the years ended 31 December 2014 and 2013.

The Group's subsidiary in Singapore is subject to income tax at a rate of 17% (2013: 17%) for the year ended 31 December 2014.

The Group's subsidiaries in the PRC are subject to PRC EIT which 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.

Two subsidiaries of the Group including Shandong Fufeng and Shenhua Pharmaceutical, had obtained the approval to become a new and high-technology enterprise and had been entitled to a preferential income tax rate of 15%. The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

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%.

Four subsidiaries of the Group including 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 of 15% (2013: 15%).

28. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

The other subsidiaries of the Group in the PRC are subject to income tax rate of 25% (2013: 25%).

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

	2014 **RMB'000**	2013 RMB'000
Profit before income tax	**774,176**	634,697
Tax calculated at PRC statutory rate of 25%	**193,544**	158,674
Effect of tax exemption	**(48,794)**	(29,061)
Unrecognised tax losses	**343**	367
Utilisation of previously unrecognised tax losses	**–**	(1)
Expenses not deductible for tax purposes	**4,610**	2,870
Income not subject to tax	**(1,955)**	(4,284)
	147,748	128,565

(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 2014 and 2013 are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	2014 **RMB'000**	2013 RMB'000
Profit attributable to the Shareholders	**626,428**	506,132
Weighted average number of ordinary shares in issue excluding ordinary shares purchased by the Company (thousands)	**2,089,554**	2,013,919
Basic earnings per share (RMB cents per share)	**29.98**	25.13

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 2014, outstanding convertible bonds issued in April 2010 are anti-diluted which are not included in calculation of diluted earnings per share.

	2014 *RMB'000*	2013 *RMB'000*
Earnings		
Profit attributable to the Shareholders	**626,428**	506,132
Interest expense on convertible bonds (net of tax)	**58,617**	4,833
Profit used to determine diluted earnings per share	**685,045**	510,965
Weighted average number of ordinary shares in issue excluding ordinary shares purchased by the Company (thousands)	**2,089,554**	2,013,919
Adjustments for:		
– Assumed conversion of convertible bonds (thousands)	**297,114**	297,114
– Share options (thousands)	**3,103**	4,242
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,389,771**	2,315,275
Diluted earnings per share (RMB cents per share)	**28.67**	22.07

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

30. Net Foreign Exchange Gains

	2014	2013
	RMB'000	*RMB'000*
Other income *(Note 22)*	**2,599**	–
Foreign exchange (losses)/gains – net *(Note 27)*	**(8,744)**	76,879
Other operating expenses *(Note 23)*	**–**	(28,589)
	(6,145)	48,290

31. Dividends

	2014	2013
	RMB'000	*RMB'000*
Interim, paid	**49,720**	33,259
Final, proposed	**73,536**	65,925
	123,256	99,184

The final dividends paid in 2014 were HKD83,502,000 (equivalent to RMB65,925,000), representing HK4 cents (equivalent to RMB3.16 cents per share). There were no final dividends paid in 2013.

At a meeting held on 24 March 2015, the Board proposed a final dividend of HKD92,823,000 (equivalent to RMB73,536,000) (2013: RMB65,925,000), representing HK4.4 cents (equivalent to RMB3.49 cents) (2013: RMB3.16 cents) per share to be distributed from the share premium account. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation from the share premium account for the year ended 31 December 2015.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

32. Notes to Consolidated Cash Flow Statement

(a) Cash generated from operations

	2014 RMB'000	2013 RMB'000
Profit before income tax	**774,176**	634,697
Adjustments for:		
– Inventory write-down *(Note 12)*	**19,418**	7,202
– Impairment charge for property, plant and equipment *(Note 7)*	**58,381**	11,418
– Impairment charge for intangible assets *(Note 8)*	**861**	1,482
– Depreciation *(Note 7)*	**707,111**	690,321
– Amortisation of intangible assets *(Note 8)*	**247**	3
– Amortisation of leasehold land payments *(Note 6)*	**12,141**	8,100
– Amortisation of deferred income *(Note 22)*	**(59,066)**	(49,762)
– Gain on disposal of property, plant and equipment *(Note (b))*	**(16,316)**	(2,624)
– Loss on disposal of property, plant and equipment *(Note (b))*	**6,416**	–
– Employee share option schemes *(Notes 17, 24)*	**2,552**	3,747
– Gain on redemption of convertible bonds *(Note 26)*	**–**	(936)
– Interest income *(Note 22)*	**(12,610)**	(6,947)
– Interest expenses *(Note 27)*	**337,462**	367,179
– Foreign exchange losses/(gains) on financing activities *(Note 27)*	**8,744**	(76,879)
Changes in working capital:		
– Inventories	**(448,554)**	(108,855)
– Trade and other receivables	**591,630**	287,289
– Restricted bank deposits	**(142,578)**	12,915
– Trade, other payables and accruals	**229,985**	(270,215)
Cash generated from operations	**2,070,000**	1,508,135

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

	2014 RMB'000	2013 RMB'000
Net book amount for disposals *(Note 7)*	**345,934**	12,212
Gain on disposal of property, plant and equipment *(Note 22)*	**16,316**	2,624
Loss on disposal of property, plant and equipment *(Note 23)*	**(6,416)**	–
Government compensation related to property, plant and equipment disposal received in advance *(Note 21)*	**280,052**	–
Proceeds from disposal of property, plant and equipment	**635,886**	14,836

33. Commitments

The Group

(a) *Capital commitments*

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

	2014	2013
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
– Contracted but not yet incurred	**53,155**	24,778

(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:

	2014	2013
	RMB'000	*RMB'000*
No later than 1 year	**4,079**	3,033
Later than 1 year and no later than 5 years	**14**	520
	4,093	3,553

33. Commitments *(Continued)*

The Company

As at 31 December 2014 and 2013, 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:

	2014 **RMB'000**	2013 *RMB'000*
No later than 1 year	**530**	701
Later than 1 year and no later than 5 years	**14**	520
	544	1,221

34. Related Party Transactions and Balances

The Group

(a) Key management compensation

	2014 **RMB'000**	2013 *RMB'000*
Salaries and allowances	**19,986**	20,724
Pension costs – defined contribution plan	**748**	821
Share options granted to key management	**2,552**	3,126
	23,286	24,671

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

35. Particulars of Subsidiaries

As at 31 December 2014, 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
Shandong Fufeng	PRC	RMB370,500,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweetener and other related products in the PRC
Baoji Fufeng	PRC	HKD250,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers and other related products in the PRC

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2014

35. Particulars of Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Registered/ Issued and paid capital	Principal activities & place of operation
IM Fufeng	PRC	HKD640,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, 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
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

35. Particulars of Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Registered/ Issued and paid capital	Principal activities & place of operation
Hulunbeir Shengmin Agricultural Development Co., Ltd. ("Hulunbeir Shengmin")	PRC	RMB10,000,000	Does not carry out any business activities currently
Xinjiang Fufeng	PRC	RMB500,000,000	Manufacture and sales of amino acids, xanthan gum, and other related products in the PRC
Junan Beicheng Properties Co., Ltd. (a)	PRC	RMB10,000,000	Does not carry out any business activities currently
Junan Beifang Properties Co., Ltd. (b)	PRC	RMB5,000,000	Does not carry out any business activities currently
Junan Beibu Properties Co., Ltd. (c)	PRC	RMB5,000,000	Does not carry out any business activities currently
Baoji Dingfeng Properties Co., Ltd. (d)	PRC	RMB10,000,000	Does not carry out any business activities currently
Baoji Baofeng Properties Co., Ltd. (e)	PRC	RMB10,000,000	Does not carry out any business activities currently

(a) Junan Beicheng Properties Co., Ltd. was established on 20 May 2014, with the registered capital of RMB10,000,000. It is wholly owned by Shandong Fufeng.

(b) Junan Beifang Properties Co., Ltd. was established on 17 July 2014, with the registered capital of RMB5,000,000. It is wholly owned by Shandong Fufeng.

(c) Junan Beibu Properties Co., Ltd. was established on 17 July 2014, with the registered capital of RMB5,000,000. It is wholly owned by Shandong Fufeng.

(d) Baoji Dingfeng Properties Co., Ltd. was established on 11 June 2014, with the registered capital of RMB10,000,000. It is wholly owned by Hulunbeir Fufeng.

(e) Baoji Baofeng Properties Co., Ltd. was established on 22 September 2014, with the registered capital of RMB10,000,000. It is wholly owned by Hulunbeir Fufeng.

36. Events after the Balance Sheet Date

On 2 January 2015, the 705,000 ordinary shares acquired by the Company through purchases on the Stock Exchange of Hong Kong Limited in December 2014 (Note 18) were cancelled.

Other than 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

	Share price		Turnover
2014	**High**	**Low**	**Share**
	(HKD)	*(HKD)*	*('000)*
January	3.19	2.69	62,261
February	3.32	2.95	72,733
March	3.20	2.84	54,927
April	3.10	2.89	51,235
May	3.03	2.87	38,557
June	2.93	2.63	40,851
July	3.16	2.76	47,272
August	3.26	2.91	68,819
September	3.96	2.98	97,172
October	3.88	3.45	57,489
November	4.35	3.19	116,665
December	4.12	3.19	130,566

Issued capital at 31 December 2014	2,105,207,600 shares
Closing price at 31 December 2014	HKD3.35 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
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
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)
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

Glossary *(Continued)*

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
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
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)

Glossary *(Continued)*

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