Fufeng Group Limited
阜豐集團有限公司

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

2018
ANNUAL REPORT

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Chairman's Statement

Li Xuechun
Chairman

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present to you the results of Fufeng Group Limited for the year ended 31 December 2018.

Results for the Year and Business Overview

As at 31 December 2018, the audited turnover of the Group amounted to approximately RMB13.8 billion, representing an increase of about 5.6% compared to 2017. Net profit was approximately RMB1,845.0 million, representing a year-on-year increase of about 33.5%.

The Group faced various challenges in 2018, including but not limited to a domestic macroeconomic slowdown, the Sino-US trade tensions, the outbreak of swine flu, intensifying competition due to enhanced production capacity in the industry, and a significant rise in costs of major raw materials, particularly corn kernels and coal. Our operating conditions experienced some difficulties in the first half of 2018 but made improvements in the second half of the year, which mainly was attributed to: 1) the increase in the MSG price and the improvement of revenue and profitability of the Amino acid segment, which as the key segment, accounted for a fairly large contribution of revenue and had a positive impact on our overall performance; 2) costs of major raw materials in the second half of the year remained stable and profit margins increased due to rising prices of major products; 3) the Group accelerated its destocking process amidst its improved operating efficiency; and 4) production efficiency has been further developed as a result of enhancement of production technologies.

Despite these various challenges, the Group, as the industry leader, achieved stable development for its core business and further consolidated its leading position in the market. Benefitting from the development strategies adopted for diversification and high-value fermentation products, the Group expanded its revenue streams, effectively improved its profitability, and diversified product risks, thereby providing impetus for the long-term sustainable growth of the Group.

To diversify its product mix, the Group proactively expanded its amino acid products related to animal nutrition, pharmaceuticals, health and wellness, and its high-end amino acid products for skin care, starch sweeteners, and other food additives. Only by continuously upgrading our product quality and expanding our product range can the Group transform gradually from a traditional, bulk-trade enterprise towards a modern, high-tech and high value-added supplier of biochemical fermentation products.

Apart from product diversification, the Group adopted a diversity development strategy to structure its production facilities, further enabling the Group to tap into advantageous resources in the region, take advantage of full benefits brought by government policies, and strengthen cost advantages. The Group's Phase II of the Longjiang Plant Project, located in Qiqihar, Heilongjiang Province, commenced production in January 2019, adding a new production capacity of 300,000 tonnes of starch sweeteners and 200,000 tonnes of lysine. Due to the advantageous position of our starch sweetener products in the market, the Group was able to become one of the top three exporters of starch sweetener products in China. The Group's production and sales of lysine products completes and enriches its current product mix of animal nutrition products, creating a formula-based integrated sales line of "lysine, threonine, tryptophan and valine" products. This product line provides animal feed businesses and animal breeding customers with a blanket package of solutions, further strengthening the comprehensive competitiveness of our animal nutrition products.

The Board recommended payment of a final dividend of HK23.6 cents per share, with the paid interim dividend and the final dividend to be paid totaling HK27.8 cents per share, representing a dividend payout ratio of around 33%.

Diversified Business Portfolio

Our products are mainly divided into four categories in terms of usage: 1) Food additives (including MSG, compound seasoning, starch sweeteners, corn oil, etc.), 2) Animal nutrition (including threonine, tryptophan, corn refined products, etc.), 3) Colloid (including xanthan gum, welan gum, pectin etc.), and 4) High-end amino acid products (including valine, leucine, isoleucine, glutamine, hyaluronic acid, etc.).

Operational performances of our main products in 2018 are as follows:

MSG

In the first half of 2018, with increased competition in the market, the price of MSG continued to decline, resulting in a drop in this segment's performance. Under the supply-side reform to reduce excessive production capacity and eliminate uncompetitive players in the middle of the year, industry leaders were presented with a favourable opportunity to increase production efficiency, lower production costs and avoid a fierce price war. The competitive landscape became increasingly apparent in the MSG industry, as the total supply remained stable despite fewer players, while market demand remained relatively stable. Veering away from the long-standing market conditions where "the supply is greater than demand", the MSG market eventually benefited our product efficiency and investment returns.

The sales volume of MSG was approximately 1,075,651 tonnes in 2018, representing a decrease of 6.4% as compared with 2017, while the ASP of MSG was approximately RMB6,085 per tonne, representing an increase of 10.2% as compared with 2017. The revenue from sales of MSG products was approximately RMB6,554.7 million in 2018, representing an increase of 3.4% as compared with 2017. During the year, the Group's production yield amounted to approximately 945,173 tonnes. Due to a satisfying destocking process, our MSG inventory dropped significantly and the Group's working capital efficiency significantly improved.

Chairman's Statement

Animal Nutrition, High-end Amino Acids and Byproducts

Affected by the swine flu outbreak and expanding production capacities of other rivals, the Group's animal feed additive products (including threonine) were exposed to challenges, resulting in a comparatively unsatisfying sales performance in the domestic market. In the international market, particularly through the channels under the partnership with Germany-based Evonik and Japan-based Ajinomoto, the Group earned market recognition for its product quality. Approximately 62.8% of our animal feed additive products were sold overseas.

The Group's high-end amino acid products performed well and the gross margin level remained comparatively high.

During the year, the sales volume of threonine reached 186,469 tonnes, representing an increase of 15.4% as compared with 2017. The revenue generated from threonine amounted to RMB1,449.5 million, representing an increase of 4.0% as compared with 2017. The revenue from high-end amino acid products reached RMB959.9 million, representing an increase of 9.2% as compared with 2017.

Xanthan Gum

Our xanthan gum business reported growth in both production capacity and sales volume, with sales reaching 56,286 tonnes amidst a steadily rising price. During the year, the ASP of xanthan gum was approximately RMB15,539 per tonne, representing an increase of approximately 16.9% as compared with 2017.

The revenue of xanthan gum increased 24.6% to RMB876.5 million as compared with 2017.

Starch Sweeteners

Starch sweetener products were a fast-growing force of the Group. Production capacity significantly increased from 260,000 tonnes at the beginning of the year to 420,000 tonnes as at the end of the year, which was mainly attributable to a new production capacity of 300,000 tonnes of starch sweeteners resulting from the commencement of Phase I of our Longjiang Plant Project in the first half of 2018. Due to the advantageous position of our starch sweetener products in the market, the Group became one of the top three exporters of starch sweetener products in China.

Outlook and Future Plan

1. Beginning in October 2018, financing conditions in the domestic market loosened up, leading to tremendous financial support for private businesses. As the People's Bank of China introduced expansionary monetary policies, including lowering the required reserve ratio and lending rates, we expect that financing costs in the domestic market will become more accommodative accordingly.

2. Since December 2018, Sino-US trade tensions have eased, the impact of which has been gradually absorbed by our American clients. It is expected that the export business will be back on track in 2019.

3. Our clients from the domestic downstream sector remain fairly optimistic about the overall consumer market in China in 2019. With the consumer market rebound in sight, they are confident that the overall consumer market will perform better than in 2018.

4. From the perspective of the Group, taking into account a number of factors, including an improved financing environment in the PRC, as well as the successful destocking of MSG, the successful issuance of USD350.0 million corporate bonds overseas, and special gains from the disposal of two subsidiaries which held parcels of land in Baoji during the year, our Group is in a sound financial position with sufficient cash on hand and significantly improved efficiency of working capital. Backed by a solid financial foundation, we will meet new challenges head on in the coming year.

5. The Group's Phase II of the Longjiang Plant Project, located in Qiqihar, Heilongjiang Province, successfully commenced production in January 2019 and the Group will export and distribute the new product, lysine. The Group's production and sales of lysine products further strengthens the comprehensive competitiveness of our animal nutrition products. We will target specific overseas clients, including those from Japan, America, Europe, and Southeast Asia, and provide them with animal nutrition products.

6. The Group will continue to strategically optimize its diversified production bases and focus on cost reductions of the chemical raw materials in Northeast China in 2019. In addition, the opening of the dedicated railway line for the Longjiang Plant will significantly reduce logistics costs and enhance operational efficiency. The dedicated railway line for our plant in Northeast China is expected to commence operation in mid-2019.

2019 represents a very crucial year for the Group as it is the new chapter of our third "10-Year Plan", pursuant to which the Group will focus on internationalization, including 1) new cooperation to be established with overseas market leaders in the industry; 2) production facilities to be built in developed countries, such as Europe and the United States, for the production of high-end amino acid products or xanthan gum, and partnerships to be explored in Southeast Asia, such as Vietnam, Thailand and Indonesia, for bulk commodity subcontracting business. Under our new "10-Year Plan", our Group will strive to develop international markets, while maintaining a solid foundation in the domestic market.

Furthermore, the Group attaches high importance to talent pool development as we consider strong talent as a fundamental of business growth. The Group has appointed a renowned human resources consultant to streamline and provide advice on the Group's human resources structure so as to strengthen our management system. The Group will expand our external recruitment and improve our remuneration system so that more talents will be attracted to make contributions to the Group's new "10-Year Plan".

Appreciation

Finally, on behalf of the Board, I would like to express our sincere gratitude to all our shareholders and customers for their ongoing support. I would also like to express our sincere appreciation to all our employees for their hard work and contributions.

Li Xuechun
Chairman

19 March 2019

Five-Year Summary

	Year				
	2014 *RMB'000*	2015 *RMB'000*	2016 *RMB'000*	2017 *RMB'000*	**2018** ***RMB'000***
Operating results – Summary					
Turnover	11,297,696	11,225,722	11,803,131	13,033,501	**13,764,645**
Gross profit	2,166,865	1,802,491	2,406,373	2,979,471	**2,574,770**
Profit before income tax	774,176	679,774	1,301,898	1,652,781	**2,210,823**
Profit attributable to the Shareholders	626,428	516,261	1,092,512	1,382,380	**1,845,039**
Balance sheets – Summary					
Non-current assets	9,334,995	9,220,961	9,516,968	10,859,636	**11,339,710**
Current assets	4,359,282	4,629,217	4,939,134	5,106,898	**8,992,610**
Total assets	13,694,277	13,850,178	14,456,102	15,966,534	**20,332,320**
Non-current liabilities	4,258,072	2,761,158	2,647,336	1,298,851	**3,319,892**
Current liabilities	4,067,139	5,281,961	4,992,902	5,207,578	**6,008,084**
Net assets	5,369,066	5,807,059	6,815,864	9,460,105	**11,004,344**
Financial ratio					
Earnings per share (Basic) (RMB Cents)	29.98	24.36	51.37	57.04	**72.45**
Gross profit margin (%) *(Note 1)*	19	16	20	23	**19**
ROE (%) *(Note 2)*	12	9	16	15	**17**
Current ratio *(Note 3)*	1.07	0.88	0.99	0.98	**1.50**
Inventory turnover days (Day) *(Note 4)*	79	86	97	118	**107**
Debtors' turnover days (Day) *(Note 5)*	33	27	25	31	**31**
Trade receivable turnover days (Day) *(Note 6)*	12	13	13	15	**17**
Creditors' turnover days (Day) *(Note 7)*	60	49	58	56	**52**
Trade payable turnover days (Day) *(Note 8)*	40	47	48	53	**50**
Gearing ratio (%) *(Note 9)*	33	28	21	12	**20**

Notes:

1. Gross profit margin 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.

Corporate Information

Executive Directors

Mr. Li Xuechun
Mr. Zhao Qiang
Mr. Li Deheng
Mr. Pan Yuehong
Mr. Li Guangyu

Independent Non-executive Directors

Mr. Xiao Jian Lin
Ms. Zheng Yu
Mr. Xu Zheng Hong (appointed on 1 December 2018)
Mr. Qi Qing Zhong (resigned on 1 December 2018)

Registered Office

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in the PRC

Western section of Huaihai Road
Junan, Shandong, 276600
PRC

Principal Place of Business in Hong Kong

Suite 1204B–7A, 12/F, Tower 3,
China Hong Kong City, 33 Canton Road,
Tsim Sha Tsui, Kowloon, 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. Xiao Jian Lin *(Chairman)*
Ms. Zheng Yu
Mr. Xu Zheng Hong (appointed on 1 December 2018)
Mr. Qi Qing Zhong (resigned on 1 December 2018)

Remuneration Committee

Mr. Xiao Jian Lin *(Chairman)*
Ms. Zheng Yu
Mr. Xu Zheng Hong (appointed on 1 December 2018)
Mr. Qi Qing Zhong (resigned on 1 December 2018)

Nomination Committee

Mr. Li Xuechun *(Chairman)*
Mr. Xiao Jian Lin
Ms. Zheng Yu
Mr. Xu Zheng Hong (appointed on 1 December 2018)
Mr. Qi Qing Zhong (resigned on 1 December 2018)

Principal Bankers in the PRC

China Construction Bank
Bank of China
Agriculture Bank of China
China Merchants Bank
Shanghai Pudong Development Bank
China Minsheng Bank

Principal Bankers in Hong Kong

Bank of China (Hong Kong) Limited
Mizuho Bank Limited
Hang Seng Bank Limited

Independent Auditor

PricewaterhouseCoopers

Principal Share Registrar

SMP Partners (Cayman) Limited

Branch Share Registrar

Tricor Investor Services Limited

Stock Code

546

Website

www.fufeng-group.com

SHANDONG PLANT

BAOJI PLANT

IM PLANT

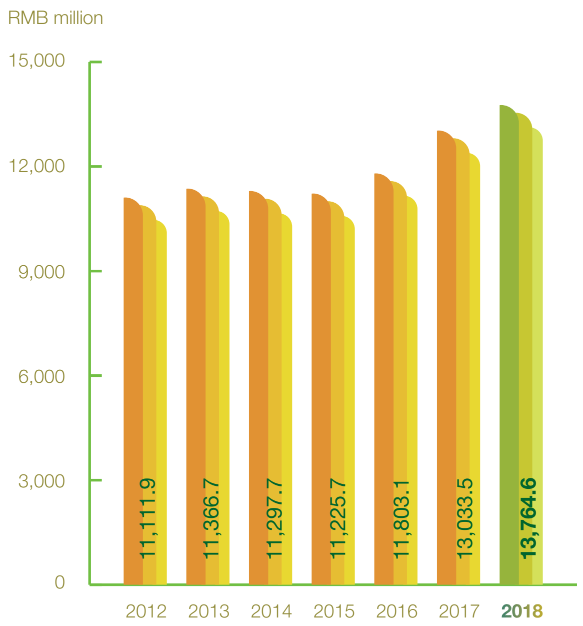
HULUNBEIR PLANT

XINJIANG PLANT

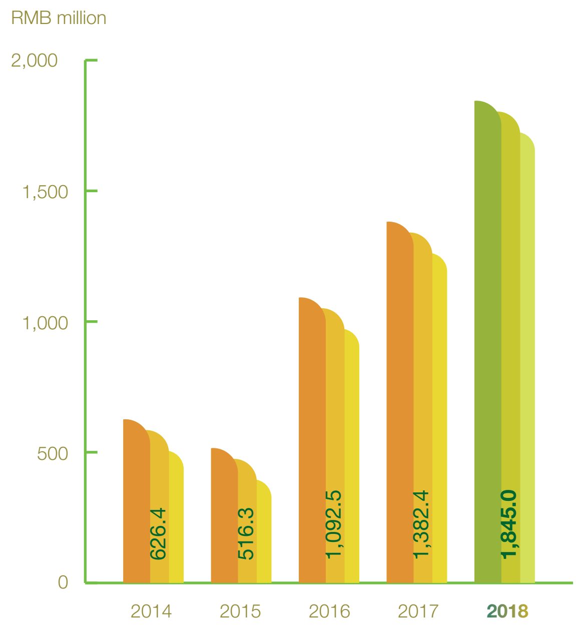
LONGJIANG PLANT

Financial Highlights

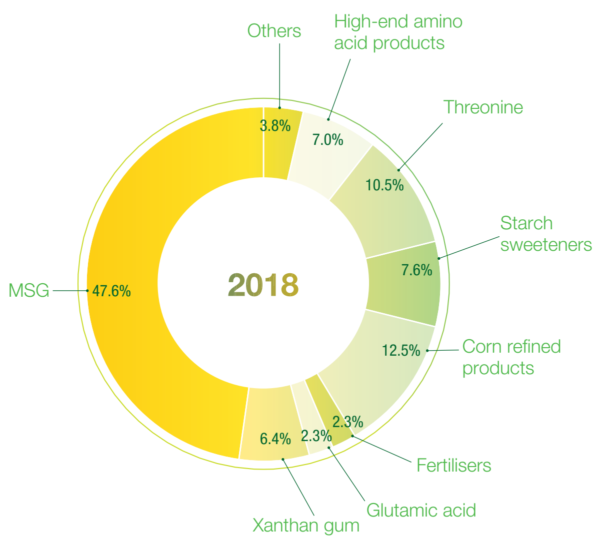
Turnover Growth

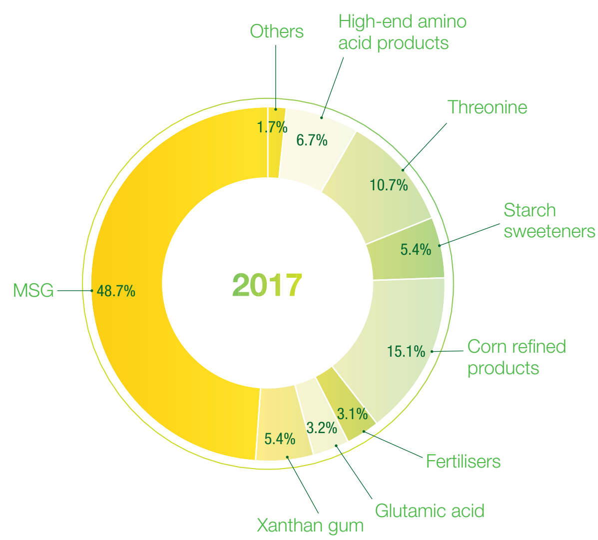


Profit Attributable to Shareholders

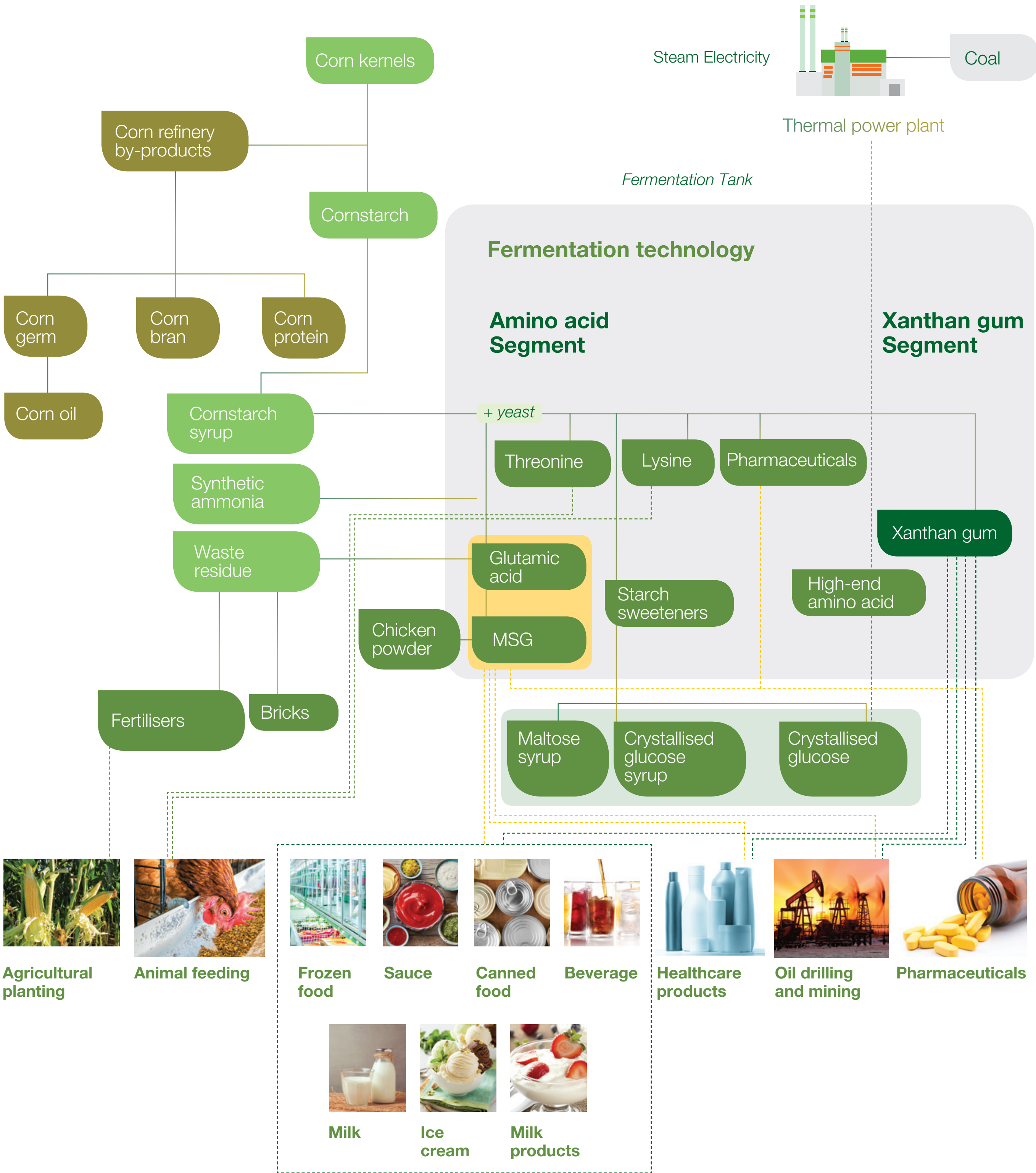


Revenue Analysis





Major Products Processing Map



Biographies of Directors and Senior Management

Executive Directors

李學純 (Li Xuechun), aged 67, 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, Xinjiang Fufeng, Longjiang Fufeng and Shenhua Pharmaceutical. 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 was 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 37 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 38.94% 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).

趙強 (Zhao Qiang), aged 51, is an executive Director and a chief executive officer of the Group. Mr. Zhao has over 23 years of experience in sales and operation in the food and beverage industry with a strong track record of leading and developing successful food businesses in Greater China and across Asia Pacific. Before joining the Company, Mr. Zhao was the Chief Operation Officer and the Chief Executive Officer of Lee Kum Kee Sauce Group since 2011 to 2015. During a career spanning more than 20 years, Mr. Zhao has held a range of senior leadership, strategy development and operation management positions with PepsiCo Group and Kraft Foods International in Greater China, and the Asia Pacific Region. Mr. Zhao is responsible for the Group's operation management and business strategy, implementing decisions and plans approved by the Board, making day-to-day operational and management decision and coordinating overall business operations. Mr. Zhao was granted an option to subscribe the 5,000,000 Shares pursuant to the Post-IPO Share Option Scheme, representing 0.20% of the issued share capital of the Company.

李德衡 (Li Deheng), aged 50, is an executive Director and a deputy executive 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, Hulunbeir Fufeng and Longjiang 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 as a director of Shandong Fufeng in November 2003 and has over 18 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 1.31% of the issued share capital of the Company.

Biographies of Directors and Senior Management

潘悦洪 (Pan Yuehong), aged 54, is an executive Director and a vice general manager of the Group. 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 31 years of experience in the fermentation industry, he is the general manager of Baoji Fufung and is mainly responsible for the operation and business management of Baoji Fufeng. Mr. Pan is a director of Longjiang Fufeng and also a sole director of Advanced Quality Limited. Mr Pan is interested in 14.3% of the issued share capital of Advanced Quality Limited, which in turn is interested in 69,120,000 Shares, representing 2.71% of the issued share capital of the Company.

李廣玉 (Li Guangyu), aged 40, is an executive Director and a vice general manager of the Group who is responsible for the Group's sales and marketing activities. Mr. Li has over 13 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 Directors

肖建林 (Xiao Jian Lin), aged 51, was appointed as an Independent non-executive Director on 26 September 2017. Mr. Xiao has over 26 years of experience in the field of accounting and financial management. Mr. Xiao graduated from the Department of Economics and Management of North Jiaotong University and obtained his master's degree from the Department of Accounting of Xiamen University. From 1997 to 2015, Mr. Xiao served in Hisense Group Co., Ltd. as vice president and head of Business Administrative Department. During the period, Mr. Xiao once served as president of Hisense Kelon Electric Limited Company, a company listed in the Stock Exchange (stock code: 921. HK) and the Shenzhen Stock Exchange (stock code: 000921.SZ). Mr. Xiao was also responsible for the important management positions such as business daily operation, financial management, auditing, legal affairs and information technology of Hisense Group Co., Ltd.. Mr. Xiao also acted as principal of a number of subsidiaries owned by Hisense Group Co., Ltd.. Currently, Mr. Xiao is a member of the Chinese People's Political Consultative Conference of Shandong Province and is also a private investor. Mr. Xiao does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company. Save as disclosed above, Mr. Xiao 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. Xiao does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

鄭豫 (Zheng Yu), aged 51, was appointed as an Independent non-executive Director in December 2012. Ms. Zheng is a partner at Advantage Partners. She 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 19 years of 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. Prior to her investment and management consulting career, she also worked in the computer industry in both China and the United States. Ms. Zheng received a bachelor's degree of science from 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. Ms. Zheng is deemed to be interested 227,000 Shares which held by the spouse of Ms. Zheng, representing 0.01% of the issued share capital of the Company. In addition, Ms. Zheng was granted an option to subscribe the 300,000 Shares pursuant to the Post-IPO Share Option Scheme, representing 0.01% of the issued share capital of the Company. Except for the above, Ms. Zheng does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance.

許正宏 (Xu Zheng Hong), aged 48, was appointed as an Independent non-executive Director on 1 December 2018. Mr. Xu has over 20 years of experience engaged in the research of microbial ecology of traditional brewed foods, bio-manufacturing and functional evaluation of nutrient chemicals. Mr. Xu is currently a professor at the School of Bioengineering at Jiangnan University, a doctoral tutor and dean. Mr. Xu graduated from Wuxi Institute of Light Industry, Department of Fermentation Engineering, with a Bachelor of Engineering degree in 1993, a Master of Science degree from Shandong University, School of Life Sciences, Department of Cell Biology in 1996, and a Ph.D in Engineering from Jiangnan University, Department of Fermentation Engineering, School of Bioengineering in 2005. Mr. Xu 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. Xu does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Xu has entered into a service agreement with the Company commencing from 1 December 2018 and is subject to retirement from office and re-election at the next following general meeting of the Company in accordance with the articles of association of the Company. Mr. Xu has also confirmed that he has opted not to receive any director's fee during the term of the abovementioned service agreement.

Senior Management

俞堯明 (Yu Yao Ming), aged 49, is a vice general manager of the Group who joined Fufeng Group in September 2018. Mr. Yu obtained a bachelor degree of accountancy from Shanghai University of Finance and Economics in 1992 and a doctorate in management from IPAG Business School in France in 2018. Mr. Yu has over 25 years of experience in accounting and financial management sector. Mr. Yu has been a member of the Chinese Institute of Certified Public Accountants. Prior to joining the Group, Mr. Yu was an executive director, vice president and chief financial officer of Springland International Holdings Limited from October 2007 to March 2018. And, from 2001 to 2007, he served as the accounting manager of Shanghai Secco Petrochemical Co., Ltd. Currently, Mr. Yu is responsible for development strategy and financial strategy planning of the Group and the Group's financial system operations and management.

陳遠 (Chen Yuan), aged 50, is a chief financial officer of the Group who was appointed on 10 July 2017. Mr. Chen obtained a bachelor degree of accountancy from Xiamen University in 1991 and then received his Master in business administration degree from Birmingham Business school of University of Birmingham in 2001. Mr. Chen has over 21 years of experience in the corporate finance, corporate development and investor relations sector. Prior to re-joining the Group, Mr. Chen was CFO of HyalRoute Communication Group Limited from January 2015 to August 2016. In his role as CFO, Mr. Chen is responsible for matters relating to financial management, capital markets, corporate development and investor relations, as well as to assist the Group to develop strategic planning, long-term development plan and also help the Group to explore potential overseas expansion opportunities. Mr. Chen was previously a key senior management of the Group, having joined the Group in September 2010, and was appointed as an executive Director on 9 November 2010 and the CFO on 13 May 2011, until 1 January 2015. During his previous tenure with the Group, Mr. Chen was also responsible for financial management, capital markets, corporate development and investor relations matters, and assisted the Group to develop strategic planning and long-term development plan. Mr. Chen was granted an option to subscribe the 5,000,000 Shares pursuant to the New Share Option Scheme, representing 0.20% of the issued share capital of the Company.

來鳳堂 (Lai Fengtang), aged 50 is a general manager of Shandong Fufeng who is currently in charge of the operation of Shandong Fufeng. Mr. Lai graduated from 中國西北大學 (Northwest University of China) in 1998. He joined Shandong Furui Brewery Group in 1991. Mr. Lai joined the Group in June 1999 and has over 27 years of experience in the fermentation industry. 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 2.71% of the issued share capital of the Company.

唐永強 (Tang Yongqiang), aged 44, is the general manager of Longjiang Fufeng and is responsible for the operation of Longjiang 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 21 years of experience in the industry management, he is mainly responsible for the project development of the Group. Mr. Tang was granted an option to subscribe the 1,000,000 Shares pursuant to the Post-IPO Share Option Scheme, representing 0.04% of the issued share capital of the Company.

趙蘭坤 (Zhao Lankun), aged 46, is a general manager of Hulunbeir Fufeng who is currently in charge of the operation of Hulunbeir Fufeng. Mr. Zhao graduated from 青島化工學院 (Institute of Chemical Technology of Qingdao) in 1994, majoring in chemical equipment and machinery. Mr. Zhao joined Shandong Furui Brewery Group in 1994, and later joined the Group in June 1999. With nearly 25 years of experience in industrial management. Mr. Zhao is interested in 14.3% of the issued share capital of Hero Elite, which in turn is interested in 69,120,000 Shares, representing 2.71% of the issued share capital of the Company.

Company Secretary and Qualified Accountant

李偉然 (Lee Wai Yin), aged 50, 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 25 years of working experience in finance and accounting including some with international accounting firms. Mr. Lee was granted an option to subscribe the 1,800,000 Shares pursuant to the Post-IPO Share Option Scheme, representing 0.07% of the issued share capital of the Company.

Management Discussion and Analysis

Business and Financial Review

Overview

The Group faced various challenges in 2018, including but not limited to: a domestic macroeconomic slowdown, the Sino-US trade tensions, the outbreak of swine flu, intensifying competition due to expansion of production capacity in the industry, and significant growth in costs of major raw materials (in particular corn kernels and coal). As a result, our operating conditions experienced some difficulties during the first half of 2018 but subsequently improved during the second half of the year, which was mainly attributed to: 1) the increase in the MSG price and the improvement in revenue and profitability of the Amino acid segment which as the key segment accounted for a fairly large contribution of revenue and had a positive impact on our overall performance; 2) costs of major raw materials in the second half of the year remained stable and profit margins increased due to rising prices of major products; and 3) the Group accelerated its destocking process amidst its improved operating efficiency; 4) production efficiency has been further developed as a result of enhancement of production technologies.

As the leader in the industry, the Group managed to achieve stable development for its core business and also further consolidated its leading position in the market despite the challenging market conditions in 2018. In addition, the Group made considerable effort in developing high-value fermentation products in order to diversify its revenue stream, enhance profitability and provide impetus for the long-term sustainable growth of the Group.

The Group continued to actively strengthen our competitiveness by constantly improving the production technology to achieve better cost effectiveness and strategically utilise the production facility and capacity of each plant in order to match ongoing market demand. The Group recognised the importance of using advanced technologies to continually improve our production efficiency and develop new products. We also actively explored the development of amino acid products for animal nutrition, high-end amino acid products for pharmaceutical, health care and beauty, and food additives mainly as starch sweeteners, in order to improve product diversity and increase sales and penetration in the health and wellness, pharmaceutical and skincare 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.

The Group principally operates two business segments: namely Amino acid segment and Xantham gum segment.

Our Amino acid segment is primarily made up of three main product categories including: Food additives (key products include MSG and starch sweeteners), Animal nutrition (key products include threonine and corn refined products) and High-end amino acid (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid).

In terms of food additive products, the ASP of MSG rebounded in 2018. However, costs of major raw materials, particularly corn kernels and coal, increased significantly during the year. The Group continued to face lackluster conditions in the domestic catering and consumer markets as well as pricing pressure due to market competition. Despite the challenging 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. The Group recorded a decrease in gross profit and gross profit margin of the MSG business, which negatively affected the result contribution from the MSG business during the year.

On the other hand, the new Longjiang Plant phase I commenced production in the first half of 2018 and the annual production capacity of starch sweeteners increased to 420,000 tonnes. The sales revenue from starch sweeteners significantly increased to RMB1,052.2 million, representing an increase of 50.8%, as compared to 2017.

MSG industry consolidation continued during 2018. Due to ongoing adaptation of environmental policies by the central government, some production capacity in the sector was eliminated. However, the costs of core materials, including corn kernels and coal, recorded an upward trend during the first half of 2018 and returned to stability in the second half of the year, which led to an increase in production costs and a decrease in the gross profit margin of our key products.

In terms of Animal nutrition business, the Group recorded a slight increase in contribution from the sales of threonine and threonine's revenue contribution to the Group continued to increase as a result of such sales expansion. As the outbreak of swine flu in China in the second half of 2018, the ASP of threonine significantly decreased, resulting in profit contribution and gross profit margin significantly decreasing in 2018.

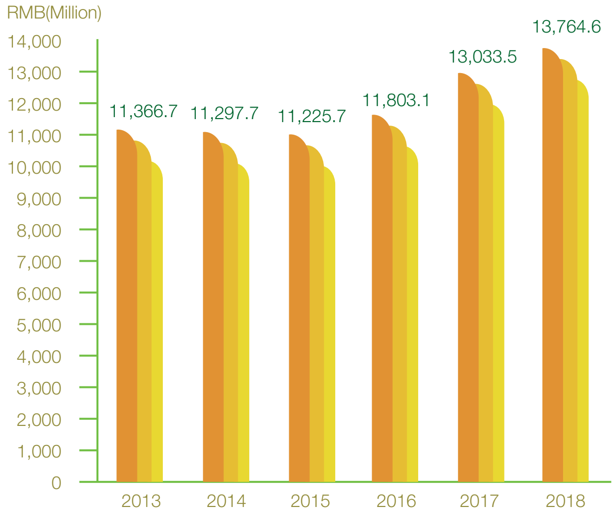
On the other hand, the sales of high-end amino acid products increased during the year ended of 31 December 2018, mainly due to the restructuring of our internal product portfolio. Despite lackluster conditions in the domestic consumer markets and stiff market competition, the Group's high-end amino acid products performed well with a rising price for certain individual products, and the gross margin level remained comparatively high.

As another key business segment of the Group, our Xanthan gum business, which includes key colloid products such as xanthan gum and welan gum, has returned to stability since the second half of 2017 as market conditions in the oil industry recovered. The ASP of xanthan gum increased to RMB15,539 per tonne, representing an increase of 16.9% in 2018, as compared to 2017. The Xanthan gum business demonstrated a recovering trend in the first half of 2018. During the year, we slightly increased the annual production capacity of xanthan gum to 65,000 tonnes due to changing part of the production line from gellen gum to xanthan gum in our Xinjiang Plant. The Group, as the largest xanthan gum manufacturer in the world, continued to dominate the global market share during the year ended of 31 December 2018.

Overall revenue of the Group slightly increased for the year ended 31 December 2018, and we was able to rely on the growth products such as starch sweeteners, threonine and high-end amino acid products and xanthan gum as well as effective implementation of cost controls to maintain our overall profitability. The high-end amino acid products successfully expanded in terms of product development and market share, and we are hopeful that we can become one of the world's leading suppliers of threonine and high-end amino acid products. The Group has also further enhanced its business strategy to adjust its production capacity according to market demand, which not only fully leverages the cost advantages of the Group but also supports the Group's pricing power to maximize its profitability. In terms of gross profit, mainly as a result of cost pressure of our key raw materials and pricing pressure due to market competition, we recorded a decrease in its overall gross profit. However, as the Group recorded a one-off net gain after income tax from the disposal of two subsidiaries which held parcels of land in Baoji for approximately RMB1,102.8 million, the net profit of the Group in 2018 increased as compared to 2017.

Management Discussion and Analysis

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



For the year of 2018, revenue of the Group increased to approximately RMB13,764.6 million as compared to approximately RMB13,033.5 million in 2017. The increase in revenue was primarily due to (1) the increase in annual production capacity of starch sweeteners and threonine in the new Longjiang Plant, and (2) the increase in the sales volume of starch sweeteners, threonine and xanthan gum.

The Group's overall gross profit decreased from approximately RMB2,979.5 million in 2017 to approximately RMB2,574.8 million in 2018. This represents a decrease of 13.6%, primarily due to the increase in major raw material costs, particularly corn kernels and coal, and pricing pressure due to market competition.

In 2018, the ASP of the MSG increased by 10.2% as compared to 2017, which was not sufficient to cover the significant increases in the average prices of corn kernels and coal. On the other hand, the ASP of xanthan gum increased by 16.9% as compared to 2017, as market conditions of xanthan gum improved in line with the upward trend in the global oil industry.

In view of the challenging market conditions, the Group had to continue actively implementing cost controls and managed to undertake a technological enhancement to its production processes, which contributed to improvements in production efficiency and cost structure. The significantly decreased gross profit margin of the Amino acid segment in 2018 was mainly due to the increase in major raw material costs, which could not be fully passed on to customers.

Food additives business

The production volume of MSG significantly decreased by approximately 25.4% while sales volume decreased by 6.4% in 2018 as compared to 2017, respectively. The decrease in production volume was mainly due to the change in business strategy of adjusting production capacity of MSG according to market demand. This strategy not only fully leverages the cost advantages of the Group but also supports the Group's pricing power to maximise its profitability and helped achieve successful destocking of MSG.

The production and sales volume of starch sweeteners significantly increased by approximately 44.4% and 43.2% in 2018 as compared to 2017, respectively. The production volume increased as a result of the new production capacity of starch sweeteners commencing operation in our new Longjiang Plant to meet strong market demand.

Animal nutrition and high-end amino acid business

We continued to witness the sustained development of our threonine product in 2018. Threonine is a type of amino acid which is used as animal feed additives. During the year, the total sales amount of threonine reached RMB1,449.5 million, representing an increase of 4.0% as compared to 2017. In 2018, the Group sold 186,469 tonnes of threonine, as compared to 161,595 tonnes in 2017. However, due to the outbreak of swine flu in China in the second half of 2018, the ASP of threonine significantly decreased, resulting in significant decreases in gross profit contribution and gross profit margin in 2018.

In January 2018, the Group and Evonik entered into a cooperation agreement for the production of ThreAMINO® (L-Threonine). The Group will manufacture ThreAMINO® on behalf of Evonik and the collaboration enables Evonik to ensure a reliable supply of L-Threonine worldwide. The strategic partnership further strengthens the Group's market leadership in threonine, which we are hopeful can be the new growth driver of the Group.

The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging the Group's fermentation technology. The high-end amino acid products include valine 纈氨酸, leucine 亮氨酸, isoleucine 異亮氨酸, glutamine 谷氨醯胺 and hyaluronic acid 透明質酸, etc. In 2018, the sales of high-end amino acid products reached approximately RMB959.9 million, representing an increase of 9.2% as compared to 2017. Our high-end amino acid products focus on the health and wellness and pharmaceutical materials industries and generally enjoy higher profitability. The short-term goal of the Group is to become one of the world's top three producers and suppliers by market share for several of our key amino acid products. The development and production of these products will add further diversity to the Group's product and revenue mix. The Group also plans to extend its business scope from the production and sales of typical amino acid products for bulk trade to those of high-end products.

Xanthan gum business

The production and sales volume of xanthan gum increased by 74.6% and 6.6%, respectively, in 2018 as compared to 2017. The significant increase in production volume of xanthan gum was mainly due to the destocking of xanthan gum in 2017.

The diversity of our product portfolio allowed the Group to maintain its overall revenue growth momentum in 2018.

Management Discussion and Analysis

Operational Review of the Group

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

Turnover/Gross profit/Gross profit margin of the Group

	Year ended 31 December		Change
	2018	2017	%
Turnover *(RMB'000)*	**13,764,645**	13,033,501	5.6
Gross profit *(RMB'000)*	**2,574,770**	2,979,471	(13.6)
Gross profit margin *(%)*	**18.7**	22.9	(4.2) ppts.

As weakness in China's economy continued and major raw material costs increased in the first half of 2018 and returned to stability in the second half of 2018, the performance of the Group, in terms of gross profit and gross profit margin, was affected, particularly reflected in the MSG business. Although the ASP of MSG increased during the year, it could not offset the effect from an increase in raw material costs, mainly corn kernels and coal. Due to the outbreak of swine flu in China in the second half of 2018, the ASP of threonine decreased during the year. Although the ASP of other main products such as high-end amino acid and starch sweeteners recorded slight increases as compared to 2017, overall gross profit decreased by 13.6% in 2018.

On the other hand, the market condition of xanthan gum stabilised, resulting in the increase of ASP of xanthan gum in 2018. The result contribution from our Xanthan gum segment increased for the year ended of 31 December 2018.

Profit attributable to the Shareholders

	Years ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	%
As reported	**1,845,039**	1,382,380	33.5

Our profit attributable to the Shareholders increased by 33.5% for the year ended 31 December 2018 as compared to 2017, mainly as a result of the one-off net gain after income tax of approximately RMB1,102.8 million from disposal of two wholly-owned subsidiaries (Baoji Dingfeng and Baoji Baofeng) which held parcels of land in Baoji.

Segment highlights

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

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

	Years ended 31 December 2018			Years ended 31 December 2017			Increase/(Decrease)		
	Amino acid	Xanthan gum	Group	Amino acid	Xanthan gum	Group	Amino acid	Xanthan gum	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	%	%	%
	audited	audited	audited	audited	audited	audited	audited	audited	audited
Revenue	**12,888,103**	**876,542**	**13,764,645**	12,330,047	703,454	13,033,501	4.5	24.6	5.6
Gross profit	**2,289,392**	**285,378**	**2,574,770**	2,774,074	205,397	2,979,471	(17.5)	38.9	(13.6)
Gross profit margin	**17.8%**	**32.6%**	**18.7%**	22.5%	29.2%	22.9%	(4.7) ppts.	3.4 ppts.	(4.2) ppts.
Segment results	**2,205,247**	**244,806**		1,629,902	116,792		35.3	109.6	
Segment net assets									
Assets	**16,010,840**	**4,009,022**		11,559,107	3,615,332		38.5	10.9	
Liabilities	**5,658,081**	**836,460**		5,286,999	654,489		7.0	27.8	

Management Discussion and Analysis

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

Amino acid segment

The Amino acid segment mainly includes the sales of three main product categories including: Food additives (key products include MSG and starch sweeteners), Animal nutrition (key products include threonine and corn refined products) and High-end amino acid (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid) and other related products.

Revenue and ASP

Revenue generated from the sales of the Amino acid segment products increased to RMB12,888.1 million in 2018, representing an increase of RMB558.1 million, or 4.5%, as compared to 2017, mainly attributed to the increase in the revenue of MSG and starch sweeteners. The increased revenue of MSG was primarily due to the effect of an increase in ASP and a decrease in the sales volume of MSG during the year. The sales volume of MSG was approximately 1,075,651 tonnes in 2018, representing a decrease of 6.4% as compared to 2017, which was mainly due to the change of business strategy of adjusting production capacity of MSG according to market demand and dominate the market with better competitive pricing. In addition, the revenue of starch sweeteners increased, primarily due to an increase in the sales volume of starch sweeteners during the year. The sales volume of starch sweeteners was approximately 373,861 tonnes in 2018, representing an increase of 43.2% as compared to 2017, largely a result of the added production capacity of starch sweeteners in the new Longjiang Plant which commenced operations in the first half of 2018.

The table below sets out the revenue of the products in this segment for the years ended 31 December 2018 and 2017:

Product	Years ended 31 December 2018 RMB'000	2017 RMB'000	Change %
MSG	**6,554,665**	6,341,730	3.4
Corn refined products	**1,721,092**	1,965,283	(12.4)
Threonine	**1,449,478**	1,393,958	4.0
Starch sweeteners	**1,052,157**	697,494	50.8
High-end amino acid products	**959,947**	878,787	9.2
Glutamic acid	**319,092**	418,594	(23.8)
Fertilisers	**314,078**	405,819	(22.6)
Synthetic ammonia	**250,572**	11,951	1,996.7
Pharmaceuticals	**148,250**	121,383	22.1
Compound seasoning	**29,219**	22,421	30.3
Corn oil	**8,155**	10,731	(24.0)
Others	**81,398**	61,896	31.5
	12,888,103	12,330,047	4.5

Detail sales and gross profit analysis by three major categories in Amino acid segment for the year ended 31 December 2018:

	Food additives *RMB'000*	Animal nutrition *RMB'000*	High-end amino acid *RMB'000*	Others *RMB'000*	Total *RMB'000*
Revenue	7,963,289	3,170,570	1,110,631	643,613	12,888,103
Gross profit	1,287,199	476,678	420,988	104,527	2,289,392
Gross profit margin	16.2%	15.0%	37.9%	16.2%	17.8%

Food additives

MSG

The Group maintained its market leadership in the MSG business through increased marketing efforts and competitive pricing. While the ASP increased by 10.2%, from RMB5,522 per tonne in 2017 to RMB6,085 per tonne in 2018, sales volume decreased by 6.4%, from 1,148,995 tonnes in 2017 to 1,075,651 tonnes in 2018. As a result, turnover of MSG increased by 3.4% in 2018.

In 2018, the Group revised its business strategy of MSG to adjust production capacity according to market demand and dominate the market with more competitive pricing. Although the Group 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 decreased by 13.7% in 2018, which amounted to RMB1,051.8 million as compared to RMB1,218.4 million in 2017.

Starch sweeteners

Turnover of starch sweeteners increased by approximately 50.8% in 2018, which was primarily due to an increase in sales volume of starch sweeteners to approximately 373,861 tonnes in 2018. The annual production capacity of starch sweeteners increased to 420,000 tonnes as the new Longjiang Plant commenced operation in the first half of 2018. Moreover, the ASP of starch sweeteners saw a slight increase, from approximately RMB2,660 per tonne in 2017 to approximately RMB2,697 per tonne in 2018, whilst demand for our starch sweeteners also increased during the year. It became apparent that our new production capacity of starch sweeteners could be properly absorbed by the market during the year.

Animal nutrition

Threonine

Threonine is a growth product of the Group, with annual production capacity increasing to 243,000 tonnes as the new Longjiang Plant commenced operation in the first half of 2018. Threonine is classified as a major type of our animal nutrition product in the Amino acid segment and is mainly used as an animal feed additive. It is an essential amino acid which maintains body protein balance and promotes the growth of living things. Total revenue of threonine increased by about 4.0% in 2018 as compared to 2017, which was primarily due to the increased sales volume of threonine from approximately 161,595 tonnes in 2017 to approximately 186,469 tonnes in 2018. The ASP of threonine decreased from approximately RMB8,629 per tonne in 2017 to approximately RMB7,713 per tonne in 2018, which was mainly due to the weakening market demand caused by the outbreak of swine flu in China in the second half of 2018.

Management Discussion and Analysis

In January 2018, the Group and Evonik entered into a cooperation agreement for the production of ThreAMINO® (L-Threonine). The Group will manufacture ThreAMINO® on behalf of Evonik and the collaboration enables Evonik to ensure a reliable supply of L-Threonine worldwide. The strategic partnership further strengthens the Group's market leadership in threonine, which is the new growth driver of the Group.

Corn refined products

Bacterial protein was classified into the corn refined products category and the revenue of corn refined products decreased by about 12.4% for the year ended 31 December 2018 as compared to 2017. This was mainly caused by the change of business strategy of our MSG business to reduce production volume based on the market demand. Therefore, our production and sales volume of corn refined products decreased during the year. In addition, the ASP of bacterial protein slightly decreased from RMB2,356 per tonne in 2017 to RMB2,324 per tonne in 2018, representing a decrease of 1.4%.

High-end amino acid products

The total sales amount of high-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid etc, increased to approximately RMB959.9 million in 2018 as compared to approximately RMB878.8 million in 2017. The high-end amino acid market is one of the key markets that the Group remains focused on developing and strengthening. The Group aims to create a series of high-end amino acid products by capitalising on our research and development capabilities and resources.

In 2018, the Group, through our wholly-owned subsidiary Shenhua Pharmaceutical, continued developing 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 the health and wellness, pharmaceutical and skin care related industries.

Others

Fertilisers

The ASP of compound fertilisers for the year ended 31 December 2018 was approximately RMB375 per tonne, representing a decrease of RMB6, or 1.6%, as compared to 2017. This was mainly affected by the change of business strategy to reduce the production volume of MSG based on the market demand. Therefore, as a by-product of MSG production, our production and sales volume of fertilisers decreased during the year. In addition, due to the weak market demand, the ASP of fertilisers was in line with prevailing market conditions. As a result, the revenue of fertilisers decreased from RMB405.8 million for the year ended 31 December 2017 to RMB314.1 million for the year ended 31 December 2018.

Gross profit and gross profit margin

The gross profit of this segment is set out below:

	Years ended 31 December		
	2018	2017	Change
Gross profit *(RMB'000)*	**2,289,392**	2,774,074	(17.5)%
Gross profit margin *(%)*	**17.8**	22.5	(4.7) ppts.

The decreasing gross profit contribution from our Amino acid segment was mainly due to the increases in major raw material costs as well as pricing pressure due to market competition. Gross profit decreased to RMB2,289.4 million and gross profit margin decreased by 4.7 percentage points to 17.8% for the year ended 31 December 2018, respectively. The Group not only strengthened the portfolio of its products, such as starch sweeteners, animal nutrition and high-end amino acids products, but also maintained its competitive pricing strategy in order to expand market share. As market conditions gradually return to normal and with the steady resumption of growth in the future, we believe that the ASP of our major products will witness a return to stability going forward.

Although the short term market fluctuation has affected our results, the Group believes that the industry demand and supply has stabilised and expects that the ASP of MSG will gradually increase. In addition, the Group will continue to launch high-end amino acid products, which have higher profit margins, and we believe that such increasing diversity in our product mix will help to improve our gross profit margin in this segment.

Production costs

	Years ended 31 December				
	2018		2017		Change
	RMB'000	**%**	*RMB'000*	%	%
Major raw materials					
• Corn kernels	**4,768,533**	**47.3**	5,075,414	49.3	(6.0)
• Liquid ammonia	**159,595**	**1.6**	189,366	1.8	(15.7)
• Sulphuric acid	**76,026**	**0.8**	102,998	1.0	(26.2)
Energy					
• Coal	**1,509,128**	**15.0**	1,457,907	14.2	3.5
Depreciation	**858,614**	**8.5**	752,044	7.3	14.2
Employee benefits	**558,000**	**5.5**	602,499	5.9	(7.4)
Others	**2,156,921**	**21.3**	2,115,638	20.5	2.0
Total cost of production	**10,086,817**	**100.0**	10,295,866	100.0	(2.0)

Management Discussion and Analysis

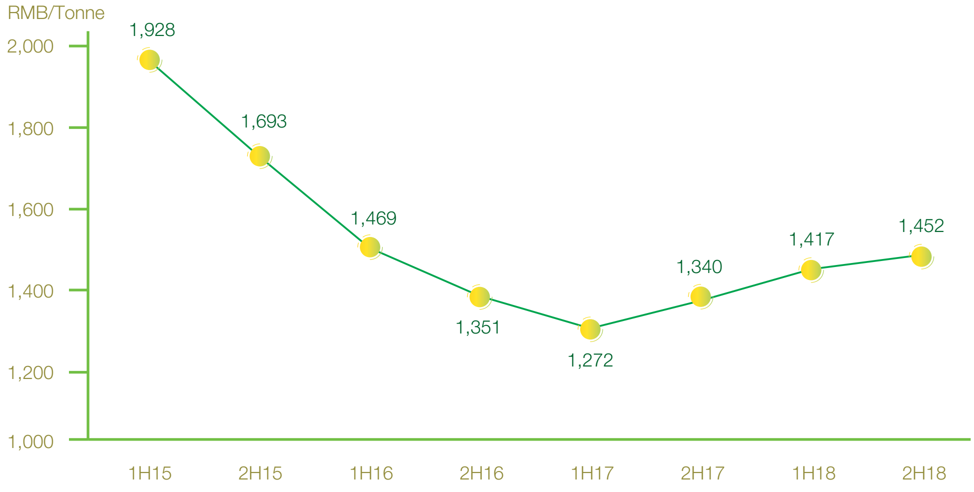
Corn kernels

During 2018, corn kernels accounted for approximately 47.3% (2017: 49.3%) of the total production cost of this segment, representing a decrease of 2.0 percentage points. The average price of corn kernels for the year ended 31 December 2018 was approximately RMB1,436 per tonne, representing an increase of 9.9% as compared to 2017.

The total cost of corn kernels decreased by 6.0% in 2018, which was mainly due to the decrease in consumption volume as the actual production volume of MSG decreased during the year.

The following chart shows the price trend of corn kernel from the first half of 2015 to the second half of 2018:

Price Trend of Corn Kernel



Liquid ammonia

Liquid ammonia accounted for approximately 1.6% (2017: 1.8%) of total production cost in this segment in 2018. The average unit cost of liquid ammonia for 2018 increased to approximately RMB2,773 per tonne, which represents an increase of approximately RMB498 per tonne, or 21.9%, from 2017. As the ASP of liquid ammonia significantly increased, we used less volume of liquid ammonia and substituted it with composite ammonia which we produced. The total cost of liquid ammonia decreased by 15.7% in 2018, which was mainly due to the decrease in consumption volume as actual production volume of MSG decreased during the year.

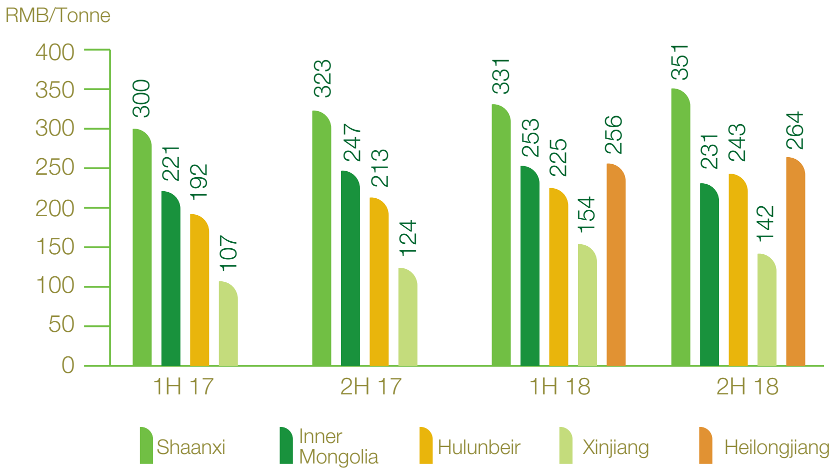
Sulphuric acid

Sulphuric acid accounted for approximately 0.8% (2017: 1.0%) of total production cost in this segment in 2018. The average unit cost of sulphuric acid increased to approximately RMB366 per tonne, which represents an increase of approximately RMB120 per tonne, or 48.8%, from 2017.

Coal

Coal accounted for 15.0% (2017: 14.2%) of total production cost in this segment in 2018. The average unit cost of coal for 2018 was RMB234 per tonne, which represents an increase of RMB22 per tonne, or 10.4%, from 2017. The increase in coal prices reflected a general increase in commodity prices as market demand increased.

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



Other production costs

The increase in cost of depreciation was mainly due to the opening of our new Longjiang Plant in the first half of 2018. On the other hand, the decreasing in cost of employee benefits was mainly due to the actual production volume of MSG decreasing during the year.

Management Discussion and Analysis

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 **2018** ***Tonnes***	 2017 *Tonnes*	 Change *%*
MSG			
Annual designed production capacity *(Note)*	**1,330,000**	1,280,000	3.9
Actual production output	**945,173**	1,266,855	(25.4)
Utilisation rate	**71.1%**	99.0%	
Threonine			
Annual designed production capacity *(Note)*	**228,500**	156,000	46.5
Actual production output	**200,312**	161,384	24.1
Utilisation rate	**87.7%**	103.5%	
Fertilisers			
Annual designed production capacity *(Note)*	**1,080,000**	1,080,000	–
Actual production output	**748,211**	1,075,675	(30.4)
Utilisation rate	**69.3%**	99.6%	
Starch sweeteners			
Annual designed production capacity *(Note)*	**385,000**	260,000	48.1
Actual production output	**381,398**	264,080	44.4
Utilisation rate	**99.1%**	101.6%	

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

Utilisation rates kept stable in 2018 with the exception of the utilisation rate of production capacity of MSG and fertilisers, which decreased to 71.1% and 69.3%, respectively. This represents the changing business strategy of our MSG business, in which the Group decides the production volume according to market demand in order to minimise the risk from pricing competition. The increase in annual production capacity of starch sweeteners to 420,000 tonnes was due to the production capacity in the new Longjiang Plant commencing operations in the first half of 2018.

Xanthan gum segment

The global market demand for xanthan gum trended upward in 2018, which was mainly due to a recovery in the global oil industry. The Group continued to increase its market share and the total supply of the top three xanthan gum manufacturers continued to dominate the global market.

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 2018 and 2017:

	Years ended 31 December		Change
	2018	2017	%
Revenue *(RMB'000)*	**876,542**	703,454	24.6
ASP *(RMB/tonne)*	**15,539**	13,289	16.9
Gross profit *(RMB'000)*	**285,378**	205,397	38.9
Gross profit margin *(%)*	**32.6**	29.2	3.4 ppts.
Annual designed production capacity *(tonnes) (Note)*	**64,167**	60,000	6.9
Actual production output *(tonnes)*	**52,688**	30,178*	74.6
Utilisation rate	**82.1%**	50.3%*	31.8 ppts.

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

* As calculation mistake taken place last year, the figures are restated in 2018

Revenue generated from xanthan gum increased by 24.6%, from RMB703.5 million in 2017 to RMB876.5 million in 2018. The increase in revenue was due to the increases in the ASP and sales volume during the year.

The Group's exports of xanthan gum increased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed 77.1% and 78.1% of total sales of xanthan gum in 2017 and 2018, respectively, reflecting the volatile condition of the global oil industry.

Global demand for xanthan gum was stable and slightly increased during the year ended 31 December 2018. Market demand demonstrated an upward trend in 2018, as market conditions of the oil industry returned to slight growth. Sales volume increased by 6.6% and sales revenue increased by 24.6% in 2018, respectively. The ASP of xanthan gum increased to RMB15,539 per tonne, representing an increase of 16.9%. The Group expects this to continue in the foreseeable future as demand remains stable at a low level in the oil industry as well as other sectors. The ASP of xanthan gum is expected to remain stable and experience slight growth during in coming year.

Gross profit and gross profit margin

Gross profit of the Xanthan gum segment increased by 38.9%, from approximately RMB205.4 million in 2017 to approximately RMB285.4 million in 2018. Gross profit margin increased as well, by 3.4 percentage points, reflecting the general pricing of xanthan gum and the oil industry returning to stable growth.

Management Discussion and Analysis

Production costs

	Years ended 31 December				
	2018		2017		Change
	RMB'000	%	RMB'000	%	%
Major raw materials					
• Corn kernels	145,093	24.7	78,406	24.6	85.1
• Soybeans	37,633	6.4	19,928	6.3	88.8
Energy					
• Coal	132,171	22.5	75,114	23.6	76.0
Depreciation	44,192	7.5	30,307	9.5	45.8
Employee benefit	45,864	7.8	42,446	13.3	8.1
Others	182,988	31.1	72,071	22.7	153.9
Total cost of production	587,941	100.0	318,272	100.0	84.7

As the market demand for xanthan gum has returned to stability since the second half of 2017, the annual production capacity of xanthan gum has increased to 65,000 tonnes since March 2018. The actual production output of xanthan gum increased to 52,688 tonnes in 2018, representing an increase of 74.6% as compared to 2017. Therefore, the total costs of production for xanthan gum increased to RMB587.9 million, an increase of 84.7%, as compared to 2017.

Corn kernels

In 2018, corn kernels represented approximately 24.7% (2017: 24.6%) of the total production cost of this segment. The average price of corn kernels for 2018 was approximately RMB1,697 per tonne, which represents an increase of approximately RMB99 per tonne, or 6.2%, from that in 2017. The cost amount incurred of corn kernels increased 85.1%, from RMB78.4 million in 2017 to RMB145.1 million in 2018, mainly due to the increase in the average price of corn kernels and the increase in consumption volume of production as the production volume of xanthan gum increased in 2018.

Soybeans

During 2018, soybeans accounted for approximately 6.4% (2017: 6.3%) of the total production cost of this segment. The slight increase in proportion was mainly due to the increased consumption volume of production as the production volume of xanthan gum increased in 2018. However, the average price of soybeans dropped from approximately RMB4,204 per tonne in 2017 to approximately RMB3,874 per tonne in 2018, representing a decrease of 7.9%.

Coal

In 2018, coal accounted for approximately 22.5% (2017: 23.6%) of the total production cost of this segment. The average unit cost of coal was approximately RMB219 per tonne in 2018, which represents an increase of approximately RMB7 per tonne, or 3.3%, from 2017. The Group continued to take full advantage of the relatively low coal cost that the Group was able to source and utilise locally in its IM Plant and Xinjiang Plant.

Other production costs

The amount of depreciation costs increased during the year with the increase in production capacity of xanthan gum in 2018. Therefore, the cost amount incurred of depreciation increased 45.8%, from RMB30.3 million in 2017 to RMB44.2 million in 2018. Depreciation accounted for approximately 7.5% (2017: 9.5%) of the total production cost of this segment.

Other Financial Information

Other income

In 2018, other income amounted to RMB263.8 million, which was mainly comprised of the income from the sales of waste products, amortisation of deferred income and government grants.

Other gains

On 1 August 2018, the Group disposed of two wholly-owned subsidiaries of the Group, Baoji Dingfeng and Baoji Baofeng, which held the parcels of land in Baoji City, Shaanxi Province, PRC. The one-off net gain after income tax of the transaction was approximately RMB1,102.8 million.

Selling and marketing expenses

An increase in selling and marketing expenses was mainly due to an increase in transportation costs, which was in line with the increase in sales volume of our major products. Marketing and promotional expenses also increased as part of a campaign to strengthen the Group's brand.

Administrative expenses and net impairment losses on financial assets

Administrative expenses and net impairment losses on financial assets increased by approximately RMB159.1 million, or 31.4%, in 2018. The increase represents the costs of raw materials and consumables used for research and development amounting to RMB121.5 million, which was classified under administrative expenses. In addition, the increase was also due to the commencing of operations at the Longjiang Plant in 2018 resulting in an increase in general operating costs.

Finance costs (net)

The finance costs (net) of the Group in 2018 included two main parts: interest expense and exchange gain or loss on financial activities.

Interest expense increased by approximately RMB61.1 million after deduction of approximately RMB42.6 million being capitalized, due to (1) an increase in bank borrowings as our working capital from operations increased, (2) the interest rate of bank borrowings increased during the year ended 31 December 2018 and (3) a new 3-year 5.875% USD bonds issued on 28 August 2018.

In 2018, the Group recorded an exchange loss on financing activities of approximately RMB71.2 million, mainly due to the exchange loss of USD bonds and bank borrowings denominated in USD.

Staff costs

Staff costs of the Group decreased by approximately RMB24.8 million, or approximately 2.5%, from approximately RMB994.2 million in 2017 to approximately RMB969.4 million in 2018. The decrease was mainly due to the suspension of part of production capacity in IM Fufeng and Baoji Fufeng during the year, which was partially offset by the effect from the increase in number of staff with the commencement of operations at our new Longjiang Plant in 2018.

Depreciation

Depreciation expense of the Group increased by approximately RMB170.3 million, or 19.6%, from RMB867.9 million in 2017 to RMB1,038.2 million in 2018. The increase was mainly due to the commencing of operations at our new Longjiang Plant since the beginning of 2018.

Management Discussion and Analysis

Continuing connected transaction

On 5 July 2017, the Company and Inner Mongolia Wo Feng Agricultural Development Company Limited (內蒙古沃豐農業發展有限公司, the "Purchaser") entered into a Procurement Framework Agreement, pursuant to which the Company has agreed to supply the Purchaser fertiliser products during the term of the Procurement Framework Agreement. Pursuant to the Procurement Framework Agreement, the Company shall supply fertiliser products to the Purchaser on normal commercial terms, of which the sale price shall not be lower than the price of similar products sold by the Company to independent third parties in its ordinary course of business. As at the date of the Procurement Framework Agreement, 68.06% equity interest of the Purchaser is held by Ms. Li Hongyu, the daughter of Mr. Li Xuechun, an executive Director and the chairman of the Board, and sister of Mr. Li Guangyu, an executive Director. Therefore the Purchaser is a connected person of the Company. The Company considers that working with the Purchaser, which has assembled an experienced and professional team to operate its fertiliser business and has in place an extensive sales and distribution network, will be beneficial to the future development of the fertiliser business of the Group.

The Procurement Framework Agreement can (i) promote sales growth of the Group's fertilisers; (ii) expand the sales channel and market penetration of the Group's fertilisers; and (iii) enhance the recognition and competitiveness of the Group's fertilisers in the PRC market by leveraging on the Purchaser's sales network and experienced sales team in the fertiliser industry.

The Company estimated that its sales volume of fertiliser products to the Purchaser under the Procurement Framework Agreement would be 120,000 tonnes, 250,000 tonnes and 350,000 tonnes for the years ending 31 December 2017, 2018 and 2019, respectively. The annual cap of the revenue would be RMB54 million, RMB112.5 million and RMB157.5 million for the years ending 31 December 2017, 2018 and 2019, respectively. During 2018, the sales volume of fertilisers to the Purchaser under the Procurement Framework Agreement was approximately 150,757 tonnes, resulting in sales revenue of RMB72.1 million.

The independent non-executive Directors have reviewed the continuing connected transactions under the Procurement Framework Agreement and confirm that the transactions have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The audit committee of the Company have also reviewed the continuing connected transactions under the Procurement Framework Agreement and confirm that nothing has come to their attention that causes them to believe that the continuing connected transactions: (1) have not been approved by the Board; (2) were not, in all material respects, in accordance with the pricing policies of the Group; (3) were not entered into, in all material respects, in accordance with the Procurement Framework Agreement; or (4) have exceeded the cap.

Income tax expense

The income tax expenses for the year ended 31 December 2018 was mainly comprised of the PRC Enterprise Income Tax ("EIT"). Three subsidiaries of the Group, Shandong Fufeng, Hulunbeir Fufeng and Shenhua Pharmaceutical, obtained the approvals to become new and high-technology enterprises and had been entitled to a preferential income tax rate of 15% (2017: 15%). The qualification of new and high-technology enterprise is subject to redetermination for each three year 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 are entitled to a preferential tax rate of 15%.

Four subsidiaries of the Group, Hulunbeir Fufeng, Baoji Fufeng, IM Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they were entitled to the above said preferential tax rate of 15% (2017: 15%).

The other subsidiaries of the Group in the PRC were subject to an income tax rate of 25% (2017: 25%).

Strategic investment

Co-developing the polylactide acid market with COFCO:

Since the second half of 2016, the Group has partnered with COFCO through an equity subscription in Jilin COFCO Biomaterial Co. Limited (吉林中粮生物材料有限公司) to co-develop the polylactide acid business, investing RMB30 million to hold 30% interest in the company, whereas COFCO holds 40%. Jilin COFCO Biological Material Limited is a joint venture focusing on manufacturing polylactide acid (PLA), a bio-based material. With corn as its major raw material, PLA is a new type of environmentally degradable material which can be converted into biological fertiliser. It does not cause harm to the environment and conforms to the concept of environmental protection.

PLA boasts huge potential market according to external studies. It is predicted that successful development of this product market will lead to more than 10 million tonnes of PLA in the global market, or a market worth over RMB100 billion. PLA is supported by relevant policies as the use of non-degradable materials are explicitly prohibited in such fields as packaging in many developed countries and regions. Some provinces in the PRC have also adopted relevant policies and launched a ban on free plastic bags. The PLA products have a wide range of applications and enormous market potential. They are widely used in various fields including biomedical and daily-use macromolecular material.

Outlook

Amino acid segment

The Group will continuously explore the development of amino acid products for animal nutrition, high-end amino acid products for pharmaceutical, health care and beauty and food additives mainly as starch sweeteners, in order to improve product class and increase sales and penetration in health and wellness 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.

The market demand for threonine continues to grow. Therefore, the Group will keep working with our strategic customers in threonine to deepen our global market penetration and further enhance the product quality and value.

Xanthan gum segment

Due to the gradual recovery of market of xanthan gum in line with the global oil industry, the demand for xanthan gum stabilised in 2018 and the Group will strengthen our effort to promote xanthan gum in the food industry. By leveraging on our leading position in the xanthan gum market, the Group will continue to optimise its customer mix and gain market share and we believe that we can act as a leader to lead the overall industry recovery in 2019.

Management Discussion and Analysis

Future Plan and Recent Development

I. The Group's Phase II of the Longjiang Plant Project, located in Qiqihar, Heilongjiang Province, successfully commenced production in January 2019, the Group will export the new product, lysine. The Group's production and sales of lysine products completes and enriches its current product mix of animal nutrition products, creating a formula-based integrated sales line of "lysine, threonine, tryptophan and valine" products. This product line provides animal feed businesses and animal breeding customers with a blanket package of solutions, further strengthening the comprehensive competitiveness of our animal nutrition products. The Group will target specific overseas clients, including those from Japan, America, Europe, and Southeast Asia, and provide them with animal nutrition products.

II. Since December 2018, the Sino-US Trade tensions have eased up, the impact of which has been gradually absorbed by our clients in the US. It is expected that the export business will gradually be back on track in 2019.

III. Our clients from the domestic downstream sector remain fairly optimistic about the overall consumer market in China in 2019. With the consumer market rebound in sight, they are confident that the overall consumer market will perform better than in 2018.

IV. From the perspective of the Group, taking into account a number of factors, including an improved financing environment in the PRC, the successful destocking of MSG, the successful overseas issuance of USD350.0 million corporate bonds, and one-off gain from the disposal of land in Baoji by our Group during the year, we are in a sound financial position with sufficient cash on hand, and significantly improved efficiency of working capital. We will embrace the new challenges in the coming year by leveraging on our solid financial foundation.

V. The Group will continue to strategically optimize its diversified production bases and focus on production costs reduction in Northeast China in 2019. In addition, the opening of the dedicated railway line for the Longjiang Plant will significantly reduce logistics costs and enhance operational efficiency. The dedicated railway line for our plant in Northeast China is expected to commence operation in mid-2019.

The Third 10-year Plan

2019 represents a crucial year for the Group as it is the new chapter of the Group's third "10-Year Plan", pursuant to which the Group will focus on internationalization, including 1) new cooperation to be established with overseas market leaders in the industry; 2) production facilities to be built in developed countries, such as Europe and the United States, for the production of high-end amino acid products or Xanthan gum, and partnerships to be explored in Southeast Asia, such as Vietnam, Thailand and Indonesia, for bulk commodity subcontracting business. Under our new "10-Year Plan", our Group will strive to develop international markets while maintaining a solid foundation in the domestic market.

Liquidity and financial resources

As at 31 December 2018, the Group's cash and cash equivalent and restricted bank deposits were RMB2,690.3 million (2017: RMB515.4 million) whereas current bank borrowings and current other borrowing (including the balances of corporate bonds) were approximately RMB1,523.2 million and Nil (2017: RMB415.0 million and RMB995.9 million), respectively. Non-current bank borrowings and non-current other borrowings (including the balances of USD bonds) were approximately RMB335.5 million and RMB2,151.8 million (2017: RMB560.3 million and Nil), respectively.

USD bonds

The Company issued USD350.0 million USD bonds for three years on 28 August 2018 with a fixed interest rate of 5.875% per annum. The gross proceeds of the USD bonds issue, before deduction of underwriting discounts and commissions and other estimated expenses in connection with the bonds issue, amounted to approximately USD349.6 million, which the Company has mainly used to refinance existing debt and for business development purposes.

The Company completed the repurchase of USD32,615,000 in aggregate principal amount of USD bonds (the "Repurchased Bonds") which were repurchased from 6 November 2018 to 18 December 2018, representing approximately 9.3% of the aggregate principal amount of USD bonds originally issued. The Repurchased Bonds were cancelled before 31 December 2018 and the outstanding balance of USD bonds amounted to USD317,385,000 as at 31 December 2018.

Corporate bonds

On 5 November 2015, IM Fufeng issued corporate bonds at par value of RMB1 billion, which was denominated in RMB with a fixed interest of 3.98% per annum. The corporate bonds mature 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. These Corporate bonds were fully repaid during the year.

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

Material acquisition or disposal of subsidiary and associated company

On 1 August 2018, a wholly owned subsidiary of the Group, Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd., entered into two sales and purchase agreements to sell its wholly-owned companies, Baoji Baofeng and Baoji Dingfeng, for a total consideration of approximately RMB1,792.3 million. Baoji Baofeng and Baoji Dingfeng are investment holding companies and hold parcels of land which are located at Gao Xin Jiu Road, East Area, Baoji High-Technology Development Zone, Baoji City, Shaanxi Province, PRC. The aggregate site area of the lands is approximately 569.654 mu (or approximately 379,769.3 square metres), and the lands are designated for residential use and held by the Group for investment purpose. The consideration will be paid under repayment schedules which have been detailedly identified in sales and purchase agreements. Details can be referred to the Company's announcement dated 1 August 2018 and supplemental announcement dated 17 December 2018.

Except for the above, the Group had no other material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2018.

Employees

As at 31 December 2018, the Group had approximately 13,900 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Scheme" under the "Directors' Report" section below for the share options granted to certain Directors and employees of the Group pursuant to the Post-IPO and New share option schemes.

Management Discussion and Analysis

Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

Charges on assets

As at 31 December 2018, RMB869.8 million of restricted bank deposits (2017: Nil) were pledged to certain banks to secure bank borrowings of RMB869.8 million (2017: Nil) of the Group.

The long term bank borrowings 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 holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group.

Gearing ratio

As at 31 December 2018, the total assets of the Group amounted to approximately RMB20,332.3 million (2017: RMB15,966.5 million) whereas the total borrowings amounted to RMB4,010.6 million (2017: RMB1,971.2 million). The gearing ratio was approximately 19.7% (2017: 12.3%), which is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

During the year, the Company entered into two USD100,000,000 foreign exchange swap agreements with Deutche Bank on 30 October 2018 and 3 November 2018, respectively. These swap agreements are mainly for hedging the exposure to foreign exchange risk of the Company's USD bonds which were issued on 28 August 2018.

Except for the above, 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 USD bonds. 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 USD bonds by partially applying cross currency swaps to mitigate exposures arising from the fluctuations in foreign currencies of bonds.

Dividend

The Board recommended the declaration of a final dividend of HK23.6 cents per share, subject to Shareholders' approval at the annual general meeting.

The final dividend will be payable on or about 14 June 2019 to Shareholders whose names appear on the register of members of the Company on 31 May 2019.

Purchase, redemption or sales of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

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 2018, 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. Xiao Jian Lin and Mr. Qi Qing Zhong did not attend the annual general meeting of the Company held on 21 May 2018. 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 three independent non-executive directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018, 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 9 May 2019 to 15 May 2019 (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 2019, 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 2019.

The register of members of the Company will be closed from 29 May 2019 to 31 May 2019 (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 28 May 2019.

Annual general meeting

The annual general meeting is expected to be held on 15 May 2019. A notice convening the annual general meeting will be dispatched to the Shareholders in due course.

Environmental, Social and Governance Report

About this Report

In accordance with the "Environmental, Social and Governance Reporting Guide" of the Stock Exchange of Hong Kong Limited, the Group prepared its 2018 Environmental, Social and Governance (the "ESG") Report for the period from 1 January 2018 to 31 December 2018, covering its subsidiaries 山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), 寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), 內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), 呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), 新疆阜豐生物科技有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.) and 齊齊哈爾龍江豐生物科技有限公司 (Qiqiha'er Longjiang Fufeng Biotechnologies Co., Ltd.). To the best knowledge of Fufeng Group, sustainable development of the environmental protection and social contribution is indispensable to achieving the Group's sustainable development. The Report will illustrate the Group's belief and practice of sustainable development and social responsibility from both environmental and social perspectives.

Regulatory Structure for Environmental, Social and Governance Issues

The Board of Directors of the Group will lead the management of the environmental, social and governance issues. A leading work group for the ESG issues, which comprises the senior management and Board members, is responsible for guiding the work of the Group's ESG issues and making decisions on the implementation of the guideline requirements. The execution group for the ESG issues, which comprises each head of our departments and business units, is responsible for carrying out specific tasks and daily communications, as well as submitting regular reports to the steering committee. Fufeng Group has already taken ESG factors into consideration over its daily decision-making process, which plays a fully active role in our governance structure. This will push forward the long term development of our environmental protection business.

Materiality Assessment

In accordance with the "Environmental, Social and Governance Reporting Guide" of the Stock Exchange, Fufeng Group carried out a materiality assessment in collaboration with an independent consultant to determine the information and content disclosed in this report.

A Environment

Fufeng Group has been striving to minimise the environmental impact of its productions and operations. The Group actively promotes the efficient use of water and implemented carbon reduction and waste management. In its pursuit of energy conservation, emission reduction and sustainable development, the Group updates the relevant laws and regulations applicable to the Group through channels such as the official website of central and local safety and environmental protection, and continuously improves the environmental management system and mechanism of the Company in accordance with laws and regulations. In 2018, the Group continued to invest its resources in environmental protection. The Group continuously explores relevant energy-saving and emission-reduction technologies and processes that can be used in its production and operation, and cultivates and enhances the environmental protection awareness of all employees, with a view to reducing the pollution resulted from its operation and the impact on the surrounding environment. In 2018, there is no violation of relevant laws and regulations with regard to environment protection.

As for environmental protection, the Group continues its investments in energy-saving equipment. Its low-carbon emission production facilities are designed to minimise the environmental impact of the Group's business. The Group always attaches great importance to sustainable green production, and achieves its objectives in energy conservation, emission reduction and clean production technology immobilization. The Group complies with the regulations on energy conservation and consumption reduction issued by the government to ensure employees' safety, environmental protection and resource utilization. In addition to rational selection of advanced technologies and processes with low-energy consumption, efficient energy-saving equipment designed with an advanced structure will to be used in priority in production facilities. and the Group sets reasonable design parameters based on actual conditions, as a result of which energy consumption is minimized during the production. To select equipment models for production purposes, we prioritizes efficient energy-saving equipment designed with an advanced and rationalized structure, while phasing out obsolete mechanical and electrical equipment to vigorously promote energy-saving products. The Group inspects the progress and actual benefits of all resource management plans annually to ensure that there is no significant impact on the environment around its plants.

The Group has strictly conducted its work for clean production and circular economy over the past years, as the clean production and circular economy is an important measure to enhance the overall competitiveness and quality of an enterprise. The accountability system has been implemented for clean production and circular economy by the Group, thus ensuring that specific personnel at all levels will be held accountable. We strive to increase the awareness and skills of clean production and circular economy among our employees by advancing internal promotions and position-specific training, while encouraging our employees to proactively participate in the activities of clean production and circular economy.

A1 Emission

Fufeng Group is in compliance with the requirements of relevant laws and regulations, such as the Environmental Protection law of People's Republic of China (《中華人民共和國環境保護法》) to reduce the adverse impact on environment arising from such sewage, exhaust, greenhouse gases, hazardous and non-hazardous wastes that are discharged from the production and operation of the Group. The Group continues to vigorously promote various effective and efficient control measures in controlling emissions. The emissions generated by the Group mainly include the treatment of exhaust, sewage, greenhouse gases, solid wastes and smoke, dust and odor. In accordance with the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), as well as subject to the relevant national, provincial and municipal laws and regulations, emission and the industrial pollutants generated and discharged by the Group, were treated or disposed to meet the relevant discharge standards.

As for exhaust

Fufeng Group actively reduces emissions. The exhaust generated in 2018 were mainly comprised of NO_x, SO_2 and smoke and dust generated by the companies now comprising the Group during the daily production. The Group strictly complies with the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and requirements of other laws and regulations, and purify exhaust emission in accordance with the strict management requirements made by the Group, including Environmental Protection Management System, the Exhaust Treatment and Control Procedures, the Desulfurization and Denitrification Process Management System on Boiler Procedures and the Desulfurization Operating Regulation and the Denitrification Operating Regulation to meet the relevant discharge standards. The Group continues to increase the intensity of desulfurization and denitrification, improves a series of devices such as heating furnace. Moreover, it further enhances its standardization and transformation in accordance with the ultra-low emission requirements of exhaust gas.

Strictly implementing the Emission Standard of Air Pollutants from Thermal Power Plants (GB 13223-2011), the Emission Standard of Air Pollutants from Industrial Furnaces (GB 9078-1996) and the Integrated Emission Standard of Air Pollutants (GB16297-1996), the companies now comprising the Group are installed with on-line monitoring systems. The data derived from on-line monitoring systems is sent to the local environmental protection agencies through network connected to achieve joint monitoring with the environmental protection agencies. Automatic sealed loading and unloading devices are applied to the loading and unloading of the raw materials used by the Group and the products during its production. Exhaust gas discharging from exhaust risers in production facilities shall be collected and treated with reasonable measures such as recycling, absorption, sorption, catalytic combustion to meet the emission standards. The Group is strictly prohibited from discharging the exhaust gas without treatment. Meanwhile, the companies now comprising the Group cooperate actively with the environmental protection department for inspection and spot checks. In 2018, all inspections reached the national and local standards.

Performance indicator	Unit	2017	2018
NO_x emissions	tonne	2,556.95	2,254.45
SO_2 emissions	tonne	1,838.75	1,777.44
Smoke and dust emissions	tonne	334.88	452.87
Total exhaust emission	tonne	4,730.58	4,484.76
Exhaust emission density*	tonne/million RMB revenue	0.86	0.33

* *The exhaust emission density in 2018 is calculated based on tonne/million RMB revenue*

In 2018, Fufeng Group's total exhaust emissions decreased by 245.82 tones as compared with 2017, representing a decrease of 5%. The exhaust emission density decreased from 0.86tonne/million RMB revenue to 0.33tonne/million RMB revenue. In 2018, the Group adjusted its production schedule and continually increased its investment in the process of exhaust gas emission, both of which achieved remarkable outcomes.

In 2018, according to the requirement of "Guiding Opinions on Accelerating the Upgrade Project on Ultra-low Emissions of Coal-fired Boiler over 20 Steam Tons/hour in Guanzhong District (《關於加快推進關中區20蒸噸/小時以上燃煤鍋爐超低排放改造工作的指導意見》)" (Shaan Huan Han [2017] No. 481) and "2018 Action Plan for Addressing Pollutions of Fog and Haze Vigorously and Make Skies Blue Again in Baoji (寶雞市鐵腕治霾打贏藍天保衛戰2018年行動方案)", Baoji Fufeng carried out the upgrade project on ultra-low emissions of coal-fired boiler with new selective catalytic reduction (SCR) denitrification facilities and liquid ammonia evaporators, as well as storage system and compressed-air-powered system. It added a wet electrostatic precipitator and removed part of its horizontal flue while renovating the boiler flue gas side structure, and upgrading the boiler induced draught fans and other equipment so as to meet the minimum emission standard requirements for boiler flue gas. The investment in such project amounted RMB43.58 million. Upon the complete of such upgrade projects, dust emissions will be reduced by 75%, with a decrease of 30% in the annual emission of SO_2 and 50% in the annual emission of NO_x.

In 2018, by adopting advanced technology in dealing with its boiler flue gas, such as in-furnace desulphurization with limestone and in-furnace denitrification with ammonia, together with electrostatic + bag filter for dust removal, in which the purified flue gas was discharged through chimney with a height of 100m, Hulunbeir Fufeng recorded effective rates of over 70%, 50% and 99% in its desulphurization, denitrification and dust removal, respectively. The online monitoring equipment for flue gas has been installed and has passed the acceptance of the Environmental Protection Agency. The monitoring data is uploaded to the website of the Environmental Protection Agency in time. The tail gas generating from slurry-spraying granulation is discharged through the chimney with a height of 110m after venturi dedusting, spray cooling, biosorption and plasma deodorization. The secondary standard in the Emission Standard of Air Pollutants from Industrial Furnaces (GB 9078-1996) applies to hot blast stove, being $SO_2 \leq 850 mg/m^3$ and smoke$\leq 200 mg/m^3$. After the odor treatment of the project, the initial odor concentration of the fertilizer flue gas was reduced to 42,000 (dimensionless).

As for sewage

Fufeng Group's sewage mainly includes waste water and domestic sewage generated from the production process and the plant premises. All members of the Group have specialised sewage treatment devices and equipment in place to ensure that the discharged sewage is in strict compliance with the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Pollutant Discharge Standard for the MSG Industry (《味精工業污染物排放標準》) and the Pollutant Discharge Standard for Urban Sewage Treatment Plants (《城鎮污水處理廠污染物排放標準》). All members of the Group were installed with on-line monitoring systems, data derived from which would be sent to provincial and municipal environmental protection agencies through network connection for their monitoring and inspection purposes. In 2018, all members of Fufeng Group continued to meet the sewage discharge standards. The sewage index was far below the limitations of the Pollutant Discharge Standard for the MSG Industry (《味精工業污染物排放標準》) (GB19431-2004).

The Group continued to improve the Environmental Protection Management System and the Administrative Measures on Sewage Discharge for Environmental Protection Treatment Plants, as well as various standards to control sewage discharge. In addition, the Group set up a special management team for the management of internal and external sewage discharge, strictly controlled various types of sewage discharge, avoided random or excessive discharge of the water treatment system, and eradicated sewage pollution accidents, thus ensuring the standard discharge of production sewage and preventing water pollution.

The Group's sewage treatment process is based on the principle of the clean-up and separation process. The bacterial protein is extracted from the highly-concentrated glutamic acid wastewater, and the compound fertiliser is produced to nurture agriculture after the concentration of granulation. Medium-concentrated starch water flows into the anaerobic system for anaerobic treatment before entering the aerobic system, and other lowly-concentrated sewage (including corn syrup condensate sewage, decontaminated column water, and water from the recirculating cooling system) flows into the sewage treatment plant, which uses the anaerobic-aerobic process with the A2/O (anaerobic/hypoxic/aerobic) approach as a processing design. After a period of operation, the processing design will be changed to ASND (Aerobic, de-nitrification and nitrification simultaneously). Then the treated sewage will goes into the reuse water processing workshop, and the treatment process will be changed to the process of "softening and sedimentation + multi-media filtration + ultrafiltration + reverse osmosis". In addition, the Group also extracts feed and fertilisers from sewage through recycled resources. The biogas produced in the sewage treatment process is collected and recycled for production.

In 2018, the Group recorded total sewage discharge of 9,332,916.07 tons, recycled sewage volume of 22,556,300 tons, total COD of 436.95 tons, and total N-NH3 of 61.67 tons. The total sewage discharge of the Group increased significantly since Longjiang Fufeng was preparing its waste water recycling facility as a result of the construction of Longjiang Fufeng Project Phase II in 2018. Such waste water recycling facility is expected to be completed and put into operation in 2019, which will effectively reduce the total sewage discharge.

In 2018, IM Fufeng replaced its original 12 circular square cooling towers with 6 square cooling towers characterized by short cooling time, excellent cooling effect and low energy consumption, which effectively improved the overall production environment and utilization efficiency of resources. With regard to square cooling towers, as compared with circular square cooling towers in terms of design processing capabilities, circulation quantity will be reduced by 600 m3/h with a loss rate of 0.001 at 0°C and temperature difference between the inlet and outlet of the cooling tower of 5°C, decreasing by 72 t/d in the loss of circulation quantity. In addition, IM Fufeng took various actions, including upgrading 13 sets of sprinkler systems, combining one facility for remaining fume treatment with another one, and improving granulator tailpipes. The tail temperature of the granulator is reduced to 90°C from 180°C, and the inlet defogging temperature is lowered to 35°C from 45°C. The flue gas tailband has a extremely low visibility and could reduce the generation of water mist around the flue gas, which will reduce the evaporation steam by about 30 t/d every year. In order to improve the level of wastewater treatment, Xinjiang Fufeng invested RMB12 million in 2018 to build a sewage treatment aeration tank with a capacity of 10,000ton/day and its supporting system optimization and upgrading project. Based on its original environmental protection measures, the project, in which a new aerobic biofilter and its supporting treatment system will be established, is estimated to put into operation in 2019, with treatment of production wastewater of 10,000 m3/d, COD of 24 tons, ammonia nitrogen of 4 tons, total nitrogen of 4 tons and total phosphorus of 0.4 tons, effectively achieving sewage treatment.

There is a significant change in total sewage discharge and recycled sewage volume of the Group, which was mainly due to the operation of a new corn processing plant with a capacity of 1,000,000 tones at the end of 2017, as a part of Longjiang Fufeng Project Phase I with a total investment of RMB10 billion, and the commence of Longjiang Fufeng Project Phase II in 2018, resulting in a rapid increase in water demand. Longjiang Fufeng is planning to build a waste water recycling facility, which is expected to be completed and put into operation in 2019, which is expected to have a positive effect in 2019.

Performance indicator	Unit	2017	2018
Total sewage discharge	tonne	4,960,772.94	9,332,916.07
Recycled sewage volume	tonne	40,713,897.99	22,556,300.00
COD	tonne	286.72	436.95
N-NH3	tonne	46.39	61.67

As for greenhouse gas emissions

Carbon dioxide is the major greenhouse gas produced during the operation of Fufeng Group. It is mostly produced in the combustion process of coal used in the daily production of the Group, with a small amount derived from the wet limestone-gypsum desulphurization process. In 2018, the Group's direct greenhouse gas emission mainly generated from industrial production emission and gasoline and diesel emission, which totaled 8,504,600 tons of carbon dioxide equivalent, representing a decrease of 4.12% as compared with 2017. The concentration of greenhouse gases was 617.86 tCO2e/million RMB revenue, representing a decrease of 9.2% as compared with 2017. In 2018, all members of Fufeng Group attach importance to the reform of its coal-fired boilers to continually improve energy management and efficiency of the Group. On the premise of ensuring the growth of sales revenue, the Group strictly control coal consumption to effectively achieve a decrease in greenhouse gas emissions.

Performance indicator	Unit	2017	2018
Emission from fuel coal combustion	tCO2e	8,083,714.80	7,383,217.60
Raw coal emission	tCO2e	567,557.23	845,183.05
Limestone emission	tCO2e	57,023.91	83,758.15
Sodium carbonate emission	tCO2e	77,813.72	105,509.58
Methane emission from sewage treatment	tCO2e	56,380.94	50,604.85
Emission from vehicle fuel combustion	tCO2e	8,942.17	13,431.25
Emission from external purchase of electricity	tCO2e	18,345.35	22,921.81
Total emission of greenhouse gases	tCO2e	8,869,778.12	8,504,626.29
Emission concentration of greenhouse gases*	tCO2e/million RMB revenue	680.54	617.86

* *Emission concentration of greenhouse gases in 2018was calculated based on tCO2e/million RMB revenue*

As for waste discharge

In 2018, Fufeng Group continually strengthened its waste discharge treatment. The Group attached great importance to and complied with the requirements of the Law of People's Republic of China on the Prevention and Control of Solid Waste Pollution (《中華人民共和國固體廢物污染環境防治法》) and the Administrative Measures on Urban Domestic Waste (《城市生活垃圾管理辦法》), as well as the control and management documents on waste generated during the production process, such as the Administrative Measures on Solid Waste, the Hazardous Solid Waste Management System and the Administrative Measures on Industrial and Domestic Waste Disposal. All members of the Group strictly performed and implemented the relevant waste management systems in accordance with the requirements of the Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Waste (GB18599) and the Standard for Pollution Control on Hazardous Waste Storage (GB18597).

Solid waste generated by the Group mainly includes domestic garbage, coal fly ashes from thermal power plants, slag and sewage sludge, etc. The solid waste discharge meets the requirements of the Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Waste for the purpose of recycling or proper disposal. Among the solid wastes, the domestic garbage was uniformly handled by the sanitation department of the industrial park where the Group is located. The Group has built a temporary storage site specialized for solid waste and set up a large-scale refuse collection station in its subsidiaries. All domestic waste is re-collected and sorted centrally, forming a sound domestic garbage management system. This system is conducive to screening and reasonable and effective recycling work within the park. Coal fly ashes and slag are transported from the workshop to factories specialized in innovative building materials, which are processed into aerated brick for internal use and external sales. Factories shall categorise the waste acid, waste lye, residual liquid or organic solvents generated during production and equipment maintenance, and reuse them for production purposes. Alternatively, the above mentioned waste items, after being processed and treated, shall be sold to qualified third parties for disposal, and unauthorised discharge of such items is strictly prohibited. The sewage produced by sewage treatment plants is used to produce organic fertilizers. All hazardous waste shall be processed by the relevant waste disposal institutions recognised by the local environmental protection authorities. The clearance, transportation and treatment of hazardous waste shall be recorded, managed and maintained properly. In 2018, the solid waste disposal rate was 100%.

In 2018, Fufeng Group transferred a total of 211.05 tonnes of hazardous waste and 700,023.98 tonnes of general waste, respectively.

As for waste discharge, total discharge of hazardous waste increased from 111.69 tons in 2017 to 211.05 tons, which was mainly due to the waste engine oil and waste catalyst. The significant increase in the waste catalyst and waste engine oil was attributed to the maintenance of boiler and compression processes by some of the subsidiaries in 2018. Due to the effective control and management, the discharge of non-hazardous waste in 2018 was reduced by 10.99% as compared with 2017.

Non-hazardous waste generated from the production should undergo classification, collection and storage by the members of the Group at a fixed location. the Group stipulates that recyclable waste shall be recycled and reused. For example, coal ash and cinder can be used to produce construction materials such as cement and hollow bricks, to reduce resource consumption and effectively and practically reduce waste discharge. Non-recyclable waste should be regularly cleared by municipal waste disposal agencies.

Performance indicator	Unit	2017	2018
Total discharge of hazardous waste	tonne	111.69	211.05
Total discharge of non-hazardous waste	tonne	786,503.32	700,023.98

Performance indicator	Unit	2017	2018
Emission intensity of hazardous waste*	tonne/million RMB revenue	0.01	0.02
Emission intensity of non-hazardous waste*	tonne/million RMB revenue	60.34	50.86

* *Emission intensity of hazardous and non-hazardous waste is calculated based on tonne/million RMB revenue in 2018*

Smoke and dust and peculiar smell emission

Fufeng Group actively implements the Environmental Protection law of People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and the Emission Standards for Odor Pollutants (《惡臭污染物排放標準》) (GB14554-93) as well as other laws and regulations, pursuant to which, the Group continued to invest in equipment for prevention of stench or odor pollution during the production process over the past years, ensuring the safety and a comfortable workplace for its employees to improve the overall quality of work.

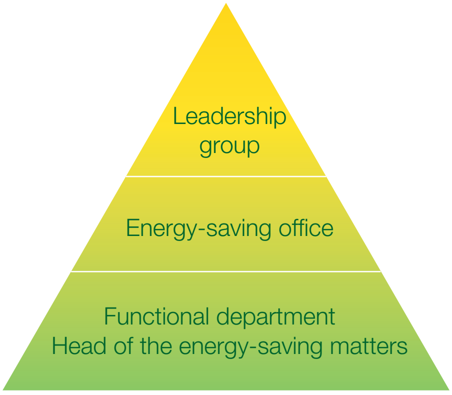
In order to further reduce peculiar smell emission, the Group continued to vigorously promote liquid fertilizers to further reduce and low the production of peculiar smell. The peculiar smell of the Company in 2018 was mainly generated from tail gas during the fertilizer production by using slurry-spraying granulation. After venturi dedusting, spray cooling, biosorption and plasma deodorization. the peculiar smell met the requirements of the Emission Standards of lower than 20 stipulated by the Emission Standards for Odor Pollutants (《惡臭污染物排放標準》), and SO_2 of around 30mg/Ndm^3 to 20mg/Ndm^3. The project effectively controlled the smoke and dust and peculiar smell emission.

A2 Use of Resources

Fufeng Group always attaches great importance to energy conservation and emission reduction. In strict compliance with the Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》), as well as subject to the latest policies, regulations and standards on energy conservation provided by national, local and industrial authorities, the Group is actively and constantly improving management measures and increasing investments in technological transformation in the field of energy conservation. In 2018, in addition to implementing the programme of improving resource efficiency, each department of the Company continued to strengthen the environmental protection concept of energy conservation and reduce the impact on environment to reduce the use of resources. The production department is responsible for the comprehensive management of water, electricity, gas and other resources, necessary energy measurement instruments and meters. This department is also responsible for calculating the usage monthly and assess each subsidiary based on such calculation. Each subsidiary designated a full-time person in charge of maintenance of the metering instruments to ensure the accuracy of energy-saving measurement. By promoting various energy conservation and consumption reduction measures, the comprehensive energy consumption of unit products of the Group's members has declined, and the employees' awareness of environmental protection to reduce the environmental impact through energy conservation has been effectively improved.

As for energy saving

Fufeng Group formulates and fully implements a series of rules and regulations, including the Working System for Corporate Energy Management, the Management System on Energy Conservation and Consumption Reduction, the Control Procedures for Energy Monitoring, Measurement and Analysis, the Energy Management Regulations and the Energy Conservation Management System, and is equipped with energy measuring devices to monitor and measure the operation and results of energy management systems in each subsidiary to ensure that the energy management systems operate effectively to achieve the expected energy performance. To further engage in various energy conservation and environmental protection activities, the Group constantly improves its existing energy-saving management system. In 2018, each leadership group, energy-saving office and functional department head of the energy-saving matters fully maximized the excellent leadership in energy saving by the three-tier energy-saving management framework over the course of daily production and operation, and effectively implemented energy-saving transformation projects. In addition, Fufeng Group reinforces the operation, maintenance and management of energy saving and environmental protection equipment. Under the annual training plan, the human resources department of each subsidiary continues to provide training to its employees, so as to strengthen their awareness of energy saving and consumption reduction.



Three-tier energy-saving management framework

In 2018, all members of the Group established, implemented, maintained and further enhanced the energy management systems of the Company in strict compliance with the requirements of GB/T23331—2012 Standard and applicable laws and regulations for the purposes of reducing energy consumption and improving energy efficiency. All members of the Group strengthened the control on its production process, conducted inspections of the production steps, reduced product defect rate and reduced energy consumption and total pollutant discharge to achieve energy-saving. In addition, these systems were prepared in a written form for future implementation and maintenance purposes. With the relevant systems in place, the members of the Group constantly improved the systems and their related documents to ensure their daily work continued to operate effectively and efficiently in accordance with the requirements of the documents. In accordance with the energy management systems developed by the Group, the members of the Group planned and established measurable green energy policies, targets and indicators, operating standards, management systems, energy management implementation plans, working instructions and related records, which stipulate appropriate monitoring and measurement specifications to ensure the effective operation of the systems and to implement energy saving plan. Meanwhile, the Group rationalized the utilization of energy and reduced energy costs, while improving energy efficiency to constantly improve the energy performance and energy management systems.

Total resources consumption in 2018:

Performance indicator	Unit	2017	2018
Electricity	kW·h	26,737,618.00	32,826,470.00
Coal	Tonne	4,856,428.65	4,576,629.67
Gasoline	Litre	74,938.68	53,807.68
Diesel	Tonne	2,778.39	4,213.48
Total energy intensity*	GJ per million RMB revenue	12,683.39	11,323.53

* *Total energy intensity is calculated based on GJ per million RMB revenue in 2018*

In 2018, there was a significant increase in the consumption of external purchase of electricity and diesel as a result of the completion and the commencement of operation in Longjiang Fufeng Project Phase II and the adjustment in production plan of Baoji Fufeng. However, other companies recorded a significant decrease in the consumption in 2018 by strengthening the concept of energy conservation and emission reduction, and continuing to control the use of coal and gasoline.

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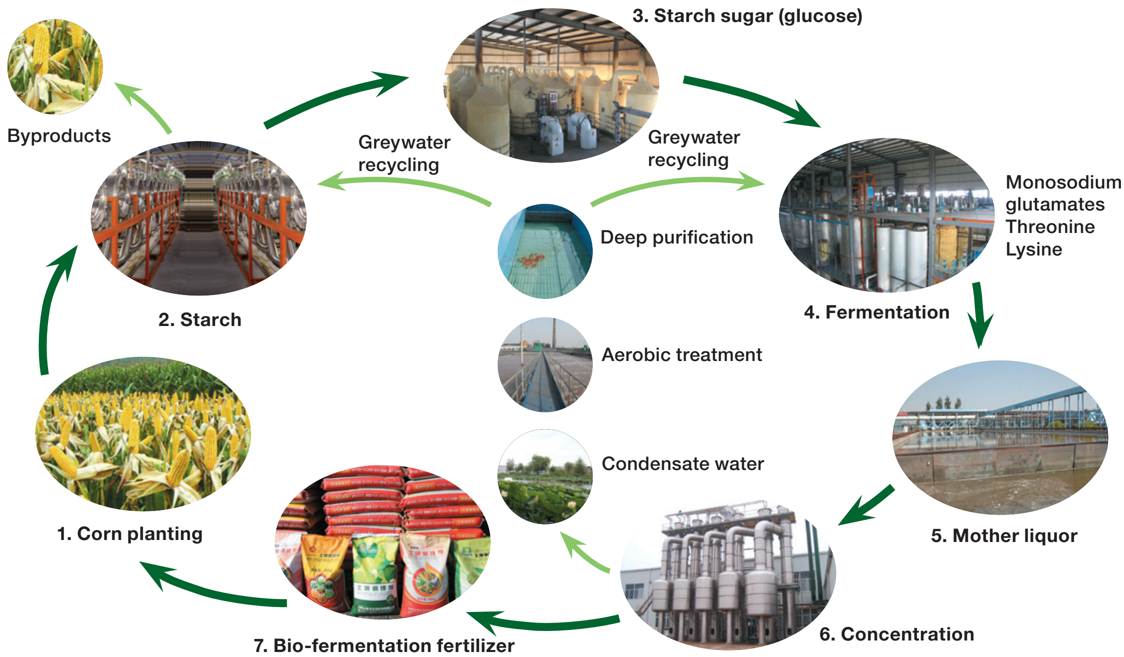
The Group continued to improve its pilot circular economy projects. IM Fufeng and Hulunbeir Fufeng have built and improve a complete industry chain for circular economy, in which, among others, crushed corn is saccharified to produce glucose, which is mixed with bacteria to ferment and produce glutamic acid. The corn bran, corn gluten meal and corn germ produced in the crushing process are sold to feed processing enterprises as a single feed, and the bacterial protein in the high-concentration waste water is extracted to produce a single feed. Waste water generated in the fermentation process is concentrated and sprayed to granulate fertilisers for reuse in farmland. The recycling process has been achieved in the entire industry chain. Through continuous implementation of the circular economy projects, the integrated utilisation rate, the utilisation volume of industrial waste and the industrial water reuse rate in Hulunbeir Fufeng and IM Fufeng were effectively maintained at the same level with the corresponding period in last year.



As for water conservation

In strict compliance with the Water Law of the People's Republic of China and national, provincial, municipal laws and regulations, Fufeng Group thoroughly implements the water conservation policies. The Group strengthens its philosophy on water, water consumption and water conservation measures. Each subsidiary of the Group actively promotes water-saving technological transformation projects including recycling of greywater, constantly strengthens the knowledge of all employees about water conservation and increases investments in water-saving facilities. Meanwhile, each member of the Group developed a Management System on Energy Conservation and Consumption Reduction to regulate water use and water conservation. All of these measures made the objective of saving water and using water reasonably and efficiently achieved. In 2018, the Group did not encounter any difficulty in obtaining suitable water sources. Affected by the fact that Longjiang Fufeng Project Phase I and Phase II were put into full operation and the greywater recycling system was sill under construction, the water consumption was 18,092,684 tonnes of water was consumed, with total water consumption intensity of 1.31 tonne/thousand RMB revenue.

IM Fufeng also implemented a series of energy conservation and water-saving measures in 2018. Obsolete loop cooling towers with poor cooling performance and large energy consumption were replaced with new energy-saving square cooling towers, which are installed with GFNL3-1500 FRPs and operate a counter-flow pattern. In addition, the loop water cooling equipment with BO-160/45 asymmetric water trap devices was adopted, thus effectively enabling the cooling water system to reduce the loss of evaporation, as well as significantly conserving energy and water. The greywater recycling system established by Hulunbeir Fufeng in 2018, reached an effective conversion capacity of 8000t/d by re-using standard wastewater through the aerobic treatment as production cooling water.

Performance indicator	Unit	2017	2018
Total water consumption	tonne	11,934,639.00	18,092,684.00
Total water consumption intensity*	tonne/thousand RMB revenue	0.92	1.31

* *Total water consumption intensity is calculated based on tonne/thousand RMB revenue in 2018*

In 2018, the total water consumption of the Group increased by 6,158,045 tons as compared with 2017, mainly due to the commencement of operation in Longjiang Fufeng Project Phase I and the construction of Longjiang Fufeng Project Phase II. Longjiang Fufeng is currently preparing a wastewater recycling project, which is expected to have a positive effect in 2019.

Packaging materials

Packaging materials used by the Group are mainly composite packaging materials, paper packaging materials and plastic packaging materials. Due to a decline in the annual production output of the Group as a result of the adjustment for its business strategy in 2018, the consumption of packaging materials decreased significantly in 2018. Set out below is the total amount of various packaging materials consumed in 2018:

Performance indicator	Unit	2017	2018
Composite packaging materials	tonne	16,793.33	12,361.05
Paper packaging materials	tonne	2,330.43	1,776.40
Plastic packaging materials	tonne	1,699.85	647.07

A3 Environmental and Natural Resources

In 2018, the Group has no significant impact of environmental and natural resource use. The Group has been strenuously practicing the concept of green development and vigorously promoting the green development of the industrial chain in all provinces and cities across the country.

Hulunbeir Fufeng actively promotes its cooperation projects relating to green food bases, the area of which has amounted 1,100,000 mu in 2018, mainly located at the Muguqi town of Zhalantun City (扎蘭屯市蘑菇氣鎮), Wo Niuhe town (臥牛河鎮), Dahewan town (大河灣鎮) and Genghis Khan Ranch (成吉思汗牧場). Green Food Raw Material Standardization Production Base Companies in the PRC entered into corn purchase contract with farmers, which stipulated that the farmers shall not use prohibited pesticides for green food production, and in contrast, shall purchase and use corn production fertilizers in line with national standards, and strictly follow the planting regulations for green food production. Hulunbeir Fufeng is responsible for the supervision and acquisition. In 2018, Hulunbeir Fufeng acquired a total of 550,000 tons of corn from the green food bases for the raw materials of its products.

Afforestation

Over the years, Fufeng Group has always attached importance to the active role of the green land system where its subsidiaries operate in balancing ecological effects, purifying the environment and reducing greenhouse gas emissions. Currently, it has planted more than 24,000 trees of all types with a survival rate of 97% and more than 45,000 square meters of lawn, representing an increase of 4,000 trees and 5,000 square meters of lawn, respectively as compared with 2017.

B Society

B1 Employment

Fufeng Group firmly believes that employees are most valuable assets for the Group and the cornerstone to support sustainable development of enterprises. By adhering to the people-oriented management philosophy, Fufeng Group cherishes the hard work of each employee in our development process, and strives to build a long-term, stable and well-established employment relationship. The Group continues to improve its scheme on talent introduction, retention and incentives, with a view of providing our employees with comprehensive channels and broad space for personal career development.

- **Employment**

  The Group has established a complete personnel management system and formulated the Recruitment Process System, which expressly regulates the position setting, employment process and recruitment principles. The Group recruits talents through various channels and hires talents upon comprehensive evaluation. Based on the employment conditions and requirements of recruitment positions, adhering to the principles of openness, fairness and equality, the Group prohibits any discrimination from factors such as gender, ethnicity, age, color, region, family status, etc. during the recruitment. Fufeng Group has formulated the Regulations on Staff Entry, Post Adjustment and Resignation Management of Fufeng Group and signs formal labor contracts with staff in accordance with national and local regulations. No child labor or forced labor was employed by the Group. The Group makes contributions to social insurance for its employees in accordance with national and local laws and regulations and effectively protects the legitimate rights and interests of its employees.

- **Remuneration**

  Taking into consideration the general market conditions and local remuneration level, the Group has formulated competitive remuneration policies and systems. The Management Regulations on the Probation and Remuneration of the Intermediate and Senior Staff of Fufeng Group and the Staff Compensation Management System of Fufeng Group Limited issued by the Group expressly stipulate its compensation policies for staff, being annual-salary remuneration system for management personnel, hierarchy based remuneration system for technicians and four-tier remuneration system for general staff. Fufeng Group is committed to ensuring a competitive average remuneration to its staff in the regions where its business operations are located.

- **Benefits**

  The Group makes contributions to pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund for its employees in accordance with national and local laws and regulations. It has also formulated its Staff Leave System according to the relevant national laws and regulations. With reference to the actual conditions of the Group, we offer our staff paid holidays, including annual leave, sick leave, marriage leave, maternity leave, funeral leave and work injury leave. The Group attaches importance to gender equality at work and has incorporated it into the standards of the Company. Subject to the local governmental regulations, the Group also clearly stipulated the provisions such as maternity system management measure and provided a series of holidays for female employees such as family planning leave.

- **Talents development**

  The Group believes that the talents are the most valuable assets of the Company. Therefore, the Group attaches great importance to talent cultivating and development. Employee development has always been a fundamental focus of the Group. The Group continually and vigorously promotes a "people-oriented" modern management system, and, in a planned way, actively creates a favorable development environment where talents can demonstrate their specialised skills. In addition, the Group also endeavors to constantly improve the system of personal growth and development of employees by encouraging its employees to tap into their full potential and maximize their personal value, as well as by providing protection and creating conditions for employees to promote the growth and development of both our Company and our employees. At the same time, the Group constantly updates its internal concepts on talent cultivation based on the increasing requirements on the comprehensive quality of employees and the tendency of better educated and more professional business teams.

  In light of the industry situation and development needs, the Group timely adjusts and improves its talent echelon management mechanismto meet the Group's demand for a sound, reasonable and sustainable development by effectively selecting and training the echelon talent team. Meanwhile, the Group timely revises and improves the Fufeng Group Administrative Measures on Echelon Talents. Fufeng Group has a scheme to nurtures high potential Talents, with focusing on individual learning and training, to improve their professional competence. It also regularly follows up the progress of promotion and development. The echelon talents are comprised of two teams, namely, junior management personnel (C1-C5) and junior technicians (CJ1-CJ5). Personnel are selected directly from the front-line managers and logistic backbone staff of workshops. Furthermore, based on the Fufeng Group Administrative Measures on Echelon Talents, strict control process is also implemented to screen true talents as key targets for further cultivation, thus enhancing the Group's core competitiveness.

- **Diversity**

The Group has always been highly concerned about the needs of its employees. it was generally agreed that the physical and mental health of employees is essential to each member of the Group. Only employees with physical and mental health can effectively carry out production work. Therefore, the Group strives for creating a diversified work environment by providing its employees with community service facilities, such as dormitories, bathhouses, hair salons, entertainment, audio-visual and sports facilities. It also organizes a variety of cultural and sports activities from time to time to enrich leisure life and improve physical and mental health of its employees in all respects.

(1) Parties

On New Year's Day in 2018, the IM Fufeng held a Near Year Party with the leaders of the surrounding administrative villages, at which all middle and high-level cadres and 800 employees together with their families attended. At the Party, such company commended the advanced workshops for safety work in the past year and award the outstanding employees of the year, with a view of making its sincere gratitude to staff for their commitment and dedication to IM Fufeng and Fufeng Group, and encouraging them to continually pass their artisan spirit and spirit of hardworking. The party was successfully concluded in a harmonious, warm, passionate and joyful atmosphere, showing the spirit of energetic, positive and united of the staff. On the evening of 22 September, 2018, Longjiang Fufeng held the Mid-Autumn Festival Party with a theme of "Mid-Autumn Festival • Fufeng Affection (中秋夜•阜豐情)" at the Staff Activity Center, at which all middle and high-level cadres and approximately 1000 employees attended. Closely related to the development of such company, the Party reminded its staff of the memories for their growth with the company, so as to further enhance the cohesiveness of the company, inspire the morale of employees, and create a strong corporate culture.

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(2) Fun Competitive Activities

On 28 April 2018, the activities "Celebrating May Day" with a period of 6 days came to a successful conclusion. More than 600 cadres and employees from the Group and other sectors, including fast moving consumer goods(FMCG), Marketing and Sales of the Xingjiang Company, participated in a number of games, such as basketball, volleyball, badminton, table tennis, billiards, tug-of-war, skipping, poker and other fun competitive activities, which enhanced the unity and cooperation between the departments and the team, and improved cohesiveness and centripetal force while making working atmosphere active.

(3) Collective Wedding Ceremony

On 29 June 2018, the fourth large public welfare wedding ceremony of the Northeast Company with the theme of "Dating in grassland and Destiny at Fufeng(相約草原，情定阜豐)" was held in the grassland, where 25 young couples at Fufeng Group walked into the sacred marriage hall in the blessings of leaders and colleagues of the company. Hulunbeir Fufeng specially arranged to hold this event in the grassland, further embodying the company's people-oriented development concept and enhancing the corporate culture and its affinity and cohesiveness.

(4) Annual Tourism Activities

Each subsidiary of the Group organizes annual tourism activities. In 2018, fully respecting the wishes of its employees, each subsidiary made multiple travelling plans for choice. Annual tourism activities bring staff a relax in bodies and minds, relieve work pressure and enhance friendship between colleagues. In addition, such activities presented its people-oriented management philosophy to the public and made its image of being a large enterprise gradually deeply rooted among the society.

- **Anti-discrimination**

  In strict compliance with the national and local laws and regulations in connection with status of race, sex, color, age, family background, religious belief and disability, Fufeng Group shows no discrimination against any employee. The Group guarantees that all employees enjoy the equal opportunities in respect of remuneration systems, training opportunities and promotion assessments under the same standards while ensuring that there is no discrimination or preference in r recruitment and promotion.

Environmental, Social and Governance Report

B2 Health and Safety

In 2018, in strict compliance with the national regulatory requirements and policies on production safety, Fufeng Group highlighted key control areas and reinforced safety fundamentals to intensify the commitment of responsibility. Insisting on the principle of "development should not come at the cost of its employees' safety" and with production safety as its first priority, Fufeng Group is committed to providing a healthy, safe, comfortable and low-emission green work environment for its staff. The Company has firmly carried out its safety production management work, identified sources of dangers and managed related risks during the production in a effective way, with a view of standardizing its safety production procedures and minimising any occupational hazards or risks. Conscientious in implementing the guidelines, policies and system on safe production provided by superior authorities, the Group lays its work emphasis on enhancing management and striving for implementation, with its work guidelines of perfecting a safety organization, offering better safety training to all the staff and scrutinizing safety hazards. The Group is strict in carrying out a corporate accountability mechanism for safe production. Under the mechanism, appointed at each level is a person in charge of safe production who is required to sign a responsibility certificate for safe production. The Group established and, based on its actual needs, annually improved a complete set of regulations and systems on safe production management, including the Management System on Safe Production Responsibilities, the Management System on Safety Training and Education, the Management System on Major Sources of Danger, the Fire Safety Management System, and the Safety Management Regulation on Hazardous Chemicals. In 2018, the Group further clarified the main tasks and responsibilities of safety management and control at all levels and strengthened the investigation of responsibility, which effectively promoted the implementation of safety responsibilities of managers at all levels and front-line employees.

- **Developing a Management System for Occupational Health and Safety**

  All subsidiaries of the Group have adopted GB/T 28001: 2011 Standard of Occupational Health and Safety Management System. The System has been established, followed by implementation and continual improvement.

  (1) *Policies and Systems on Safe Production*

  Insisting on the principle of "preventing hidden dangers by management and control of safety risks, and eliminating accidents by identification, prevention and rectification of hidden dangers in advance", the Group actively works on the standardization for safety production and always ensures the safety of its employees through the establishment of robust regulations and systems on safe production and the management of preventing and treating occupational diseases, such as the Management System on Safe Production Responsibilities, the Management System on Safety Training and Education, the Management System on Major Sources of Danger, the Fire Safety Management System, and the Safety Management Regulation on Hazardous Chemicals, as well as a series of management systems on safe operation, such as hot work, temporary electric application, and work at heights, hence safe production can be effectively implemented. The Group improved the "three systems" governing production safety, and further improved the Group's accountability system for production safety in accordance with the requirements of laws and regulations governing production safety. In addition, we continued to clarify the terms of reference of personnel at all levels and various functional departments, through which the personnel at all levels know, understand, perform and assume their responsibilities to ensure the effectiveness and operation of the system.

To further improve the safety inspection system in all subsidiaries of the Group, the Group developed an annual plan to identify and detect potential risks at the beginning of the year, under which, monthly, weekly, group based or 24-hour inspections are carried out by the Group, its workshops, group captain, or the security staff, respectively. Since the beginning of the year, the Group conducted 5 regular inspections to rule out hidden risks and 5 investigations into special hidden dangers. A total of 620 potential safety problems were identified. Rectification notices were issued on identified risks, according to which, responsible officers were appointed, countermeasures were taken, and the timeframe to resolve risk issues was set. In addition, special agents were designated to carry out supervision and inspection duties. All of these were carried out under a closed-loop management model.

During the year, the Group also increased more efforts to carry out safety accountability assessment for determining penalties and awards. The members of safety committee in the subsidiaries of the Group assessed the implementation conditions of the safety management responsibilities of production units on a monthly basis along with a comprehensive assessment on the implementation conditions of safety responsibilities from various aspects, including on-site management, operation management, staff training and self-inspection of internal risks. These assessment results are linked to employees' remuneration, which will encourage our employees at all level to actively carry out safety responsibilities and will effectively guarantee the safety among colleagues in the Company, as well as prevent accidents.

(2) Occupational Health

The Group has established the Management System on Preventing and Treating Occupational Diseases in accordance with the Prevention and Control of Occupational Diseases Law of the PRC. The System clarifies the responsibilities of each department in the prevention and treatment of occupational diseases. In 2018, clear warning signs along with Chinese descriptions in detail were provided at positions where occupational hazards may take place, with such personnel to be offered the relevant protection and first-aid supplies in a timely manner. The distribution rate of these protective supplies reached 100%. The personnel engaged in hazardous operations regularly received occupational health checks. We also established the Occupational Health Monitoring Files for our employees, in which case, re-examination will be organized with a position reassigned (wherever necessary) when unusual conditions are identified. All these efforts aim to reduce and prevent occupational disease accidents in an effective way.

(3) Fire safety

The Group adheres to the fire prevention policy, which giving priority to prevention. Each subsidiary of the Group incorporates fire prevention know-how and fire-fighting skill training programmes into its annual education training plan. Meanwhile, external fire training institutions are invited to provide training on fire safety know-how for production units in its subsidiaries. Under the guidance of the external fire training institutions, some subsidiaries set up firefighting emergency teams and designated specific personnel to remain on duty in the fire control room. All fire-fighting emergency members have obtained fire-fighting qualification certificates, while volunteer firefighters receive monthly training. Furthermore, regular fire drills are conducted. Our fire brigade is equipped with fire trucks, fire suits, air respirators, fully sealed chemical-proof suits and other emergency protective devices to ensure the fire efficiency and the safety of the fire brigade. In strict compliance with different risks such as fire and leakage of toxic substances at production sites, the Group requires each subsidiary to set up leakage detection alarms, automatic fire extinguishers and sprinklers, and emergency equipment such as fire hydrants, which will be subject to monthly inspections to be conducted by the Group.

Each subsidiary organized fire emergency team and the production workshop to carry out emergency rescue drills on key parts every six months, to improve their emergency response capability, emergency response level, emergency self-rescue and escape ability. The Company, together with its security department and the departments directly related to production, conducted a month-end safety inspection on each subsidiary, and incorporated the inspection results into the Company's performance appraisal. Strictly adhering to he principle of "fine, precise and accurate" for the hidden dangers of safety production, the Company timely corrected the hidden dangers of the workshops by a rectification notice, and designate responsible persons for specific rectification. The units with hidden dangers are required to complete such rectification within the specified date under the leading and supervision of security department, thus ensuring the safety of the employee of the Group.

B3 Development and Training

Fufeng Business School further improved the training system and regulations, such as Fufeng Group Management Regulation on Internal Trainers in 2018 for the purposes of fully utilizing the organisation function of our Fufeng Business School in our training and strengthening the core role of general managers of the Group, deputy general managers and human resources departments and administrative officers in the training system. In addition, the Group will improve the four training management systems intended to further the career development of our employees and design and complete induction training for new staff, job qualification training,, systematic training for professional skill enhancement and management knowledge training for management personnel. In 2018, the Group strengthened its comprehensive analysis of job descriptions and staff learning requirements, and actively built and explored such training mechanism and contents that are more conducive to the Group's development. Fufeng Group fully taps into its own resources by taking the "Fufeng Group Management Regulation on Lecturers" as a guide and recruited middle and high-level management as reserve forces for the first batch of internal trainers.

In 2018, the Fufeng Business Schools set up new training programs: 1) management trainee program with a period of 8 months for training and learning, 2) sales elite training camp in the marketing system, with a full coverage on its first-line salespersons. It has also set up 12 offline training courses and 6 online courses in its major areas including mid-to-high-level management training, talent echelon training and grass-roots management training in 2018. Totally 48 training sessions were organized by the Fufeng Business Schools in 2018, with a total class period of 14,218.5 hours, a per capita class time of 6.16 hours/person, and an overall average satisfaction rate of 96.23%.

In 2018, the marketing trainings remained relatively stable, primarily including special training for sales representatives, training for new employees and internal trainings for all staff, and various marketing companies and sales departments. According to Fufeng Group Management Regulation on Training, the marketing companies gave full play to subjective initiative to improve four training management systems intended to further the career development of their employees, including induction of new employees, compliance standards for various positions, systematic training for professional skill enhancement, and managerial knowledge.

A total of 71 internal sales representatives attended the trainings of the Group and the trainings for sales staff organized by the Fufeng Business Schools, covering 8 steps of sales visit and 3 tips for sales skills, being speech, demand and selling point, as well as customer management and skills in dealing with customer relationship. Such trainings explore the potential of sales staff, further enhance the sales skills, improves their work attitude and the enthusiasm of sales staff to meet the comprehensive competence required for salespersons in the forms of team activities, tutors, questions and answers. Regulation and system training: the Company will provide trainings to its staff at all times for new or revised rules and regulations and business processes as and when necessary. The Company also created new training methods, such as providing training through microlectures. The marketing companies established an internal communication group, in which it will explain the training content through voice lectures, and further explain and analyse based on the questions issued by the trainees and the newly revised content. Other trainings included internal training for all employees and each department. Specifically, the functional departments take part in the internal training every Saturday morning, in which the sales management department and the office have studied the operation of the office software, including the use of forms, conventional formulas, and the document format, while other departments carry out relevant knowledge training according to their work needs. By replace training with conference and actively participating in the training activities of the Company and the Group during their daily operation, the marketing companies conduct training on market development, sales skills, Sino-US trade warfare, customer communication, industrial map training, and customers credit rating training and CITIC maintenance process training, etc.

Hulunbeir Fufeng regularly organizes farmers to visit the company's fertilizer production workshops and sewage treatment plant to acquire the knowledge of the fertilizer production process; regularly organizes lectures for farmers to explain the planting procedures and fertilization methods; and carries out a site visit to actually explain how to use fertilizers and solve problems occurred during the actual use of fertilizers through communicate with farmers, so as to provide assistance and effective educational development opportunities for farmers around the company.

In 2018, the marketing system has organized to participate in more than 20 trainings for various management personnel. A total of over 180 attendances to various professional training sessions by our grassroot managers, sales elites, logistics function staff and middle and senior management were recorded.

B4 Labor Standards

As clearly stupilated in Fufeng Group System on the Recruitment Process formulated by the Group, the Group shall strictly comply with international labor standards, with new staff to be at least 18 years old. In addition, employment of child labour is strictly prohibited, In continual and strict compliance with the requirements of laws and regulations such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and Prohibition of Child Labor Provisions (《禁止使用童工規定》), the Group strictly reviews its employee's identity documents and academic degree certificate in the actual recruitment process to verify and check their age. As stipulated in the Fufeng Group Regulations on Staff Entry, Post Adjustment and Resignation Management, the Group shall enter into a labor contract with its new employees and an internship agreement with internship students (which could be covered into a labor contract upon their confirmation for remaining with the Company after graduation), to ensure non-use of child labor. Fufeng Group did not engage in child labor during the reporting period.

The Group strictly complies with relevant national laws and regulations on working hours, The employees' resting time is well respected and the employees enjoy paid holidays in accordance with laws and regulations. To maintain the physical and mental balance of the employees, computerized attendance systems are put in place to achieve effective and reasonable management in the working hours and resting dates of the employees. Any imposition of mandatory measures on employees in violation of laws or human rights of employees is prohibited. To avoid forced overtime work, staff shall be arranged for overtime work (if required) on a voluntary basis, with such work hours and pay in conformity with the requirements of local regulations.

B5 Supply Chain Management

By earnestly fulfilling the responsibility as win-win partner, the Group paid particular attention to supply chain responsibility management, and continued to raise the awareness and capability of suppliers on responsibility in its pursuit for mutually beneficial cooperation, so as to foster a win-win development with partners in the supply chain. The Company continued to improve its supplier management mechanism and promoted the establishment of lifecycle management mechanism comprising the certification, evaluation, and withdrawal of suppliers, and featuring unified management with tiered accountability. Meanwhile, the Group has set up a supplier access mechanism with a unified supplier database. To determine whether to include suppliers into our database, our Group will conduct a comprehensive range of considerations as to such suppliers, including their supply capacity, qualifications, production equipment, process conditions, capability of developing new products, staff training, and system certification.

According to the Management Regulation on Material Procurement issued by the Group, the supply department of each subsidiary of the Group performs its daily management duties to suppliers in strict accordance with relevant requirements. Adhering to the policy of responsible procurement, the supply department constantly improved its tendering and procuring systems. To promote fair competition, the Company implemented a transparent procurement policy so as to combat corruption and commercial bribery. By encouraging and supporting the procurement of responsible products and services, the awareness and capability of suppliers' fulfillment on responsibility has been enhanced. The Group explicitly sets forth its strict environmental requirements at the beginning of the procurement from suppliers. The Group has set clear inspection and acceptance standards for all kinds of raw materials. In addition, a strict arrival acceptance mechanism is set up to safeguard the absolute quality of raw materials through an independent quality control process.

The Group conducts an annual assessment on suppliers on a regular basis according to its criteria, which includes a comprehensive assessment on the delivery punctuality, product compliance rate and after-sales service responses of the suppliers. The Group will promptly replace those suppliers failed to meet its criteria and actively secured alternative suppliers to ensure its high quality service standards for customers.

B6 Product Responsibility

Adhering to the principle of "Food safety is Fufeng Group's solemn commitment to the community" and during its continual pursuit in high quality service, the Group strives for continually providing service and making relative improvement and enhancement every year. To constantly improve the quality and service standard, the Group carries out a series of effective and measurable measures. The Group attaches great importance to product quality management, and continuously improves the quality management of its subsidiaries every year to ensure that the product is safe, with high quality and in line with the rights and interests of consumers. On one hand, it vigorously implements the international standardized management systems to ensure the safety and standardization of our work. On the other hand, the Group invests heavily in acquisition and improvement of hardware and technology to develop the production environment, techniques, and equipment of each subsidiary into a first-class production line among the global business rivals. Furthermore, the Group continues its management enhancement and reform, while our scientific process management ensures high-quality production process management, both of which enable us to maintain our leading position in the international market in terms of product and service quality. In 2018, after passing the strict examination of China Biotech Fermentation Industry Association, three products of Baoji Fufeng were authorized to use "Green License" label in accordance with the requirement of Measures for the Administration of "Green License" Labeling management method. In this report, the Group is not aware of any event that has a significant impact on the Company in violation of laws and regulations regarding product quality, advertising and labeling, and customer service privacy protection.

- **Management of Product Quality and Food Safety**

  Setting itself as an example, the Group strictly complies with the requirements of such laws and regulations as the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法》) and the Regulation on the Implementation of the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法實施條例》) to strictly control and manage its production processes. The Group manages product quality by adopting such standards as ISO9001:2008 Quality Management Systems, ISO 22000:2005 Food Safety Management Systems, the HACCP System and Application Guidelines, CCAA 0011-2014 (CNCA/CTS 0017-2008A) Food Safety Management System: Requirements on MSG Manufacturers, CCAA 0014-2014 (CNCA/CTS 0020-2008A) Food Safety Management System: Requirements on the Manufacturers of Food and Feed Additives, and GB/T19630–2011 Organic Products, so as to further improve and optimize production, supply, sales and service chains. Focusing on providing consumers with safe and reliable food products with high quality, the Group has established its management mechanism specialized in quality, food safety management and organic products, followed by documentation, implementation, and continuous improvement or renewal. According to the latest improvement every year, we ensure the high quality of our products, and truly implement the Group's high requirements and guidelines for food safety.

In a bid to enhance product quality management, effectively trace and address quality issues, the Group has formulated the Fufeng Group Management Measures for Quality-related Reward and Punishment. The Measures center on customer needs and specify the extent of influence and the elements that affect quality. The Quality Standards on Finished Products and Semi-finished Products formulated by the Group regulates semifinished products over the production process. The Group establishes, implements and maintains the "Hazard Analysis Control Program" and "HACCP Plan Control Program" to control the production process of sodium glutamate (MSG), threonine, glutamic acid, edible glucose, starch sugar (edible glucose and isomerized sugar), xanthan gum, chicken essence, xanthan gum, corn oil and other products. The Group's quality control department carries out product quality control training from time to time to ensure a constant improvement in the professionalism of our skilled employees.

The Group maintains the operation of its internal quality control system to effectively enhance and maintain the quality control of production of its subsidiaries. The Group has set up a quality control department to regulate the testing standards and methods and stipulated the treatment principles and procedures. The Group has invested in a complete range of testing equipment to build testing laboratories that meet the national standards, and has obtained for its laboratory a CNAS certificate. All testing personnel have obtained corresponding qualification certificates. Meanwhile, the Group has set up an external testing mechanism. By preparing the Regular Submission Inspection Plan, each subsidiary of the Group will send its products to third-party testing platforms for testing to ensure that relevant national standards are met. The Group's quality control department carries out product quality control training from time to time to ensure a constant improvement in the professionalism of our skilled employees.

- **Rights and Interests of Consumers**

In accordance with the requirements of laws and regulations such as the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), and in order to ensure the quality of customer feedback are resolved in a timely and effective manner and Fufeng Group has formulated the Product Quality Complaint Handling Process and established a sound after-sales service mechanism, quality information feedback process and customer complaints management framework to ensure that the quality issues will be timely and effectively resolved and to actively respond to consumer feedback complaints and suggestions. Furthermore, the Group will ensure that all quality complaints can timely be relayed to the accountability department for promptly and effectively resolving. The Group has set up the 400 complaint hotline service and collected customer complaints by email and from feedback given by our sales representatives. The Group also clarifies that the quality control department should collect and coordinate the complaints and carry out follow-up measures as to the handling results. There were no outstanding customer complaints in 2018.

The Group has established the Product Recall Procedures and the Product Emergency Response Plan for the purposes of establishing an emergency handling system, pursuant to which, food safety incidents will be dealt with, emergency handling work can be regulated and directed, the harmful effects of food safety incidents can be prevented and controlled. Such system will safeguard the public health and life safety, while protecting the economic benefits of customers and the Group's corporate image. In addition, this system defines the duties and work procedures of the product recall procedure, and requires that product recall drills be held by each of its subsidiaries at least once a year.

- **Advertisement and Trademark**

  When selecting advertising media, the Group will conduct a scientific evaluation over the target audiences. In addition to ensuring accurate selection, the Group will focus on investing in those advertising platforms that enjoy higher frequencies in contact with target audiences of other media and brands and a higher dependency by target audiences, as well as advertising through further multiple-screen integration. By disseminating news about our corporate activities, and accentuating our leadership in the industry, our corporate image will be further enhanced.

  In terms of trademarks, Fufeng Group has established a standard Management System on the Use of Trademarks to regulate the trademark management of the Company, and establish, maintain and safeguard the corporate reputation and image, so that the Company can continue to maintain and improve the value of its trademarks as intangible assets. The Group has formulated the Brand Protect and Control Procedures to make further requirements on the management of trademark registration, operation and printing. In addition, the Fufeng Group VI Manual Management Regulations formulated by the Group has defined its examination and approval, design, inspection and acceptance, modification, supplementation, supervision and management on the VI system.

  The Group has established the Identifications and Retrospective Control Procedures, which carries out proper identifications on raw and auxiliary materials, semi-finished goods and finished goods used in the products and their supervision and condition examination, so as to ensure the traceability of the production and sales procedures of the products. Thus, any unexpected use and delivery can be prevented.

- **Privacy Protection**

  Fufeng Group has enhanced and standardized the patent work management process and responsibilities by constantly improving the Management Regulations on Corporate Intellectual Property Rights. It has been also implementing the Measures on Commercial Secrets Management and the Management System of Commercial Secrets Protection to strengthen the management of the Group's commercial secrets and protect the legitimate rights and interests of the Group. In accordance with relevant laws and regulations in the PRC and the Management Regulations on Corporate Intellectual Property Rights, the Group has established its internal confidential system and requires all the personnel to sign a non-disclosure agreement, while certain core technicians are further required to sign the Non-competition Agreement to protect the privacy of internal information of the Group.

B7 Anti-Corruption

The Group attaches great importance to integrity management. We consider openness and transparency as significant aspects when it refers to the social responsibility of companies, as a key to prevent corruption. Aiming at issues that staff and society paid close attention to, such as recruitment, procurement, bid invitation and cadres appointment, the Group insisted on fairness and openness, accepted social inspection and prevented black case work. The Group strictly complies with the requirements of laws and regulations, such as the "Group Law of the People's Republic of China" (《中華人民共和國集團法》), the "Tendering and Bidding Law of the People's Republic of China" (《中華人民共和國招標投標法》), the "Anti-Unfair Competition Law of the People's Republic of China" (《中華人民共和國反不正當競爭法》) and the "Interim Provisions on Banning Commercial Bribery Acts" (《關於禁止商業賄賂行為的暫行規定》), and guides the establishment of a sound anti-corruption mechanism. In addition, Fufeng Group has established the Administrative Measures on Corruption-free Business Practice of Fufeng Group and advocated the integrity code of conduct to all employees from time to time. Under the strict management of its operations, the Company strives to promote anti-corruption work through the following measures: strengthen the implementation of various rules and regulations, advocate and requires all employees to comply with integrity policy, and continuously improves the concept of employees in the subsidiaries of the Group of "being a honest labor" to prevent corruption and fraud.

The Group has established the Anti-corruption Management Regulation to regulate integrity management in the procurement business and marketing business. To prevent and combat unfair competition during procurement, the Group requires all procurement agents and suppliers to enter into a Fufeng Group Letter of Undertaking for the Clean Practice of the Procurement and Supply System and an Agreement against Commercial Bribery, respectively. To enhance the integrity management and strength of the marketing team and restrain the improper practices between the Company and its customers during the course of business, the Group has established the Anti-corruption Agreement.

A sound monitoring and reporting mechanism is established along with specialized telephone line and email address for whistleblowing purposes. The Group will initiate the investigation proceeding with respect to complaints after being verified by the supervision department. In case that any illegal action is perpetuated, such case will be handed over to the judicial authority. Every year, the Group conducts self-examination, self-reflection, self-correction, mutual assessment and reporting work from time to time, and imposes severe penalties against the discovered corruption.

B8 Community Investment

In 2018, with an objective of being an advocate and practitioner in the field of social public welfare, Fufeng Group continued to advance on the road of public welfare, and actively engaged in education, culture, social assistance, and rural infrastructure construction. The Group continues to pay attention to the vulnerable groups nationwide, and to promote the common development of enterprises and local communities by giving full play to its own advantages, so as to establish a positive corporate image in society.

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In August 2018, Hulunbeir Fufeng held a ceremony for material donation named "Fufeng Order Class" at Hulunbuir Vocational Technical College, on which distributed RMB4,500 to each of the 11 funded students, and donated 100 sets of sportswear and 50 sets of track suit to the Department of Chemical Engineering.

During the Spring Festival of 2018, the leaders of IM Fufeng and Baoji Fufeng sent the Chinese New Year gifts, such as rice, noodles, oil and food, and festival greetings to the impoverished households in the surrounding villages. In addition, soil conditioning fertilizer of 38 tons was donated by IM Fufeng to Xiaocunfang Village.

In December 2018, Longjiang Fufeng donated RMB200,000 to the underdeveloped villages for road lighting, which greatly solved the problem of lack of road lighting facilities and improved the villagers' travel.

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 risk management 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 Listing Rules and came into full effect on 1 April 2012. During the year of 2018, the Company has complied with the Revised CG Code for the year from 1 January 2018 to 31 December 2018 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. Xiao Jian Lin and Mr. Qi Qing Zhong did not attend the annual general meeting of the Company held on 21 May 2018. 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) five executive Directors, Mr. Li Xuechun, Mr. Zhao Qiang, Mr. Li Deheng, Mr. Pan Yuehong and Mr. Li Guangyu; and (ii) three Independent non-executive Directors, Mr. Xiao Jian Lin, Mr. Xu Zheng Hong and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Board. Mr. Li Xuechun is the father of Mr. Li Guangyu and the brother-in-law of Mr. Li Deheng. The Group has appointed Mr. Zhao Qiang as the chief executive officer since 9 November 2016.

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. Zhao Qiang, 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 three 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 25 years of working experience in finance and accounting including over 11 years experience as company secretary of Hong Kong Listing Company. He confirmed he has taken no less than 15 hours of relevant professional training.

Skills, Knowledge, Experience and Attributes of Directors

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

Directors' Induction and Continuous Professional Development

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

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

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

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

Director	Corporate Governance/ Updates on laws, rules and regulations — Read materials	Attend workshops
Executive Directors		
Mr. Li Xuechun	✓	✓
Mr. Zhao Qiang	✓	✓
Mr. Li Deheng	✓	✓
Mr. Pan Yuehong	✓	✓
Mr. Li Guangyu	✓	✓
Independent non-executive Directors		
Mr. Xiao Jian Lin	✓	✓
Mr. Qi Qing Zhong (resigned on 1 December 2018)	✓	✓
Mr. Xu Zheng Hong (appointed on 1 December 2018)	✓	N/A
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 31 December 2018, seven regular Board meetings and one annual general meeting were held. Individual attendance of each director at the Board meeting and the annual general meeting during 2018 is set out below:

Director	Board meeting attendance	Annual general meeting attendance
Executive Directors		
Mr. Li Xuechun *(Chairman)*	7/7	1/1
Mr. Li Deheng	7/7	0/1
Mr. Zhao Qiang	7/7	0/1
Mr. Pan Yuehong	7/7	0/1
Mr. Li Guangyu	6/7	0/1
Independent non-executive Directors		
Mr. Xiao Jian Lin	7/7	0/1
Ms. Zheng Yu	7/7	1/1
Mr. Xu Zheng Hong (appointed on 1 December 2018)	0/7	0/1
Mr. Qi Qing Zhong (resigned on 1 December 2018)	5/7	0/1

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 89.

The Board had conducted a review on the system of risk management and internal control of the Group and considers that the system of risk management and 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	3,997
Non-audit services	1,899
	5,896

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

Corporate Governance Report

Audit Committee

The Audit Committee, established with written terms of reference in compliance with the Code, comprises three Independent non-executive Directors, Mr. Xiao Jian Lin, Mr. Xu Zheng Hong and Ms. Zheng Yu. Mr. Xiao Jian Lin 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 risk management and internal control of the Group.

The Audit Committee meetings will be held at least twice a year. For the year ended of 31 December 2018, two Audit Committee meetings were held with Mr. Xiao Jian Lin. Mr. Qi Qing Zhong and Ms. Zheng Yu attended all the meetings. Mr. Xu Zheng Hong did not attend any Audit Committee meeting during 2018 (as Mr. Xu is appointed as independent non-executive director on 1 December 2018).

The purpose of the meetings was to review the Group's results for the year 2017, the interim results for the year 2018 as well as discussing the risk management assessment and the internal control review and the audit of the Group. The Group's 2017 annual report and 2018 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.

Risk Management and Internal Control

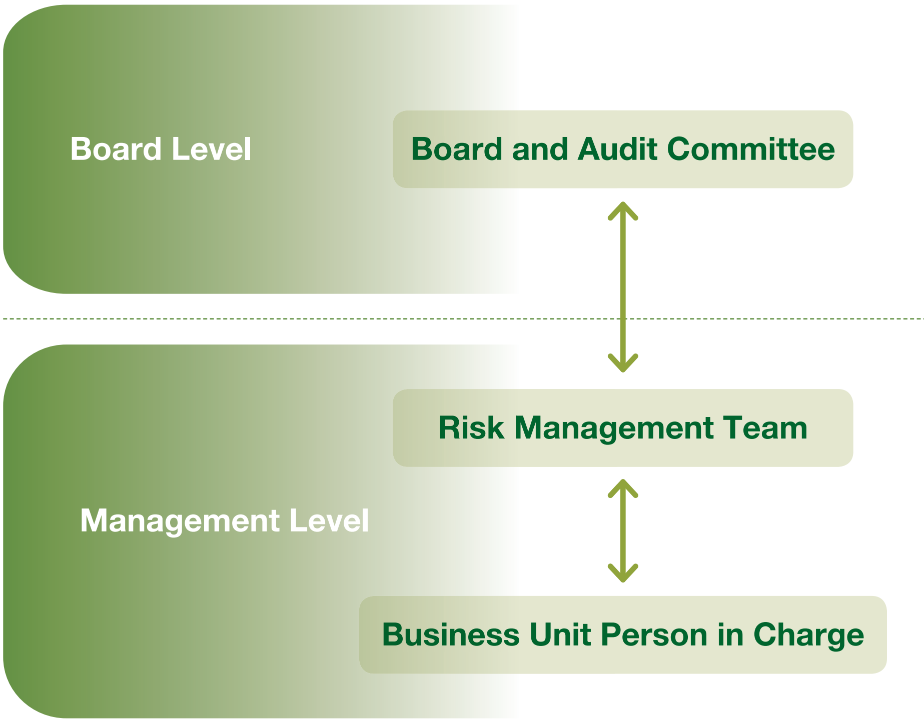
The Board acknowledges that an effective system of internal control and risk management practices are essential in ensuring good corporate governance and pursuing the achievement of the strategic goals of the Group. The Board also acknowledges that it is the Board's responsibility to ensure that the Group maintains sound and effective internal controls to safeguard the assets of the Group at all times, it has conducted a review of the risk management and internal control systems during the reporting year.

The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk management and internal control framework

Risk Management

In order to continuously improve the risk management and internal control systems, as well as to enhance the level of management and risk prevention capabilities, the Company has developed a risk management manual ("Risk Management Manual"), established risk management strategy and structure, as well as defined the measures for risk assessment and risk management reporting procedures during the reporting year. The organisational structure for risk management is set out as follows:



The Board and Audit Committee oversee the structure and performance of the risk management functions, and assess the effectiveness of the underlying risk management system.

The Risk Management Team of the Group ("Risk Management Team") comprises an executive Director and management personnel from the Group. The team aims to promote the awareness of risk management in daily operations. The Risk Management Team is responsible for coordinating and conducting risk assessments in accordance with the Risk Management Manual.

Management of business units work together with the Risk Management Team to perform risk assessment at operational level, and is responsible for monitoring and managing the risks identified in activities and operations. Risk Management Team is responsible for reporting risk management status to the Board and Audit Committee.

The four key steps in the risk management process are:

- **Risk identification and assessment** – identify the key risks of the Group and analyse the risk by considering the possibility of occurrence and the impact to the Group;

- **Risk handling** – adopt an appropriate risk management strategy (i.e. risk response) for each key risk;

- **Risk monitoring** – apply monitoring mechanism to ensure the risk response are operated effectively;

- **Risk reporting** – summarise the result of risk assessment and report to Risk Management Team.

In the risk management process, the top risks within the Group are identified and assessed; and the respective risk management measures as well as the corresponding mitigating controls are discussed, agreed and implemented by the management. Risk assessment results are reported by Risk Management Team to the Board and Audit Committee annually.

Internal Control

The Company has established internal audit function and regularly carries out reviews on the effectiveness of the internal control in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

In addition, the Board and the Audit Committee have also appointed professional accounting firms to take turns to review, on behalf of the Board and the Audit Committee, the effectiveness of the internal control system for all the principal business of the Group. The Audit Committee formulates and approves the scope of review for the professional accounting firms, who have already reported to the Board and the Audit Committee on the main results of internal control review. According to the results, there is room for improvement, but no material issues. The Group will provide proper follow-up on all the recommendations by the professional accounting firms, to ensure the execution of such recommendations within a reasonable timeframe. The Board and the Audit Committee are of the view that the main part of the Group's internal control system has been implemented on a reasonable basis.

Review the effectiveness of the risk management and internal control systems

The Risk Management Team assisted by professional accounting firms has made the annual risk assessment during the year. It is reported to Audit committee. Key risks are identified and their responsive mitigating controls are documented in the risk registers and reported to the Board by the Audit committee and Risk Management Team.

Through the audit committee and risk management team, the Board has reviewed the risk management and internal control of business operations for the year ended 31 December 2018, and considered that the risk management and internal control systems were effective and sufficient. The management has provided confirmation as to the effectiveness of the system for the year ended 31 December 2018 to the audit committee and the Board. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. No significant areas of concern that may affect the Company to achieve strategic goals have been identified.

Disclosure of inside information

The Company has established policies and internal controls for the handling and dissemination of inside information to ensure that disclosures are made and/or announcements are published on a timely basis in accordance with the applicable laws and regulations. The Company has implemented procedures for responding to external enquiries about the Group's affairs and has in place a strict prohibition on unauthorised use of inside information.

Remuneration Committee

The Remuneration Committee established in compliance with the Code, comprises an executive Director, Mr. Li Xuechun and three Independent non-executive Directors, Mr. Xiao Jian Lin, Mr. Xu Zheng Hong (appointed on 1 December 2018) and Ms. Zheng Yu. Mr. Xiao Jian Lin 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 the year ended of 31 December 2018, one Remuneration Committee meeting was held. Mr. Xiao Jian Lin, Mr. Qi Qing Zhong (resigned on 1 December 2018) and Ms. Zheng Yu attended the meeting. Mr. Xu Zheng Hong did not attend any Remuneration Committee meeting during 2018 (as Mr. Xu is appointed as independent non-executive director on 1 December 2018). 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.

Remuneration of Senior Management

The biographical details of the senior management are set out in the section headed "Biographies of Directors and Senior Management" of this annual report.

The remuneration paid/payable to senior management other than the Directors of the Company for the year ended 31 December 2018 fell within the following band:

	Number of Individuals
Nil to RMB500,000	1
RMB500,001 to RMB1,000,000	2
RMB1,000,001 to RMB1,500,000	1
RMB4,000,001 to RMB4,500,000	1

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 one executive Director, Mr. Li Xuechun and three Independent non-executive Directors, Mr. Xiao Jian Lin, Mr. Xu Zheng Hong (appointed on 1 December 2018) and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Nomination Committee. For the year ended of 31 December 2018, one Nomination Committee meetings were held for discussion of appointment an independent non-executive director.

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.

2018	Investor Relations Events
Jan	J.P. Morgan's China Quality of Life 1x1 Forum, Hong Kong
March	2017 Annual Results Roadshow, Hong Kong, Beijing
May	The 14th annual J.P. Morgan Global China Summit, Beijing 第14屆摩根大通全球中國投資峰會
August	2018 Interim Results Roadshow, Hong Kong, Singapore, London
Sep	CGS-CIMB HK/China Consumer & Education Corporate Day, 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 2018.

Principal Activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in Note 11 to the consolidated financial statements.

Result and Appropriations

Results of the Group for the year ended 31 December 2018 are set out under the consolidated income statement on page 94.

Interim dividend declared and paid after the interim period of HK4.2 cents (equivalent to RMB3.67 cents (2017: HK8.8 cents (equivalent to RMB7.51 cents)) per Share totaling HKD106,963,000 (equivalent to RMB93,379,000). The Board recommends the payment of a final dividend of HK23.6 cents (equivalent to RMB20.19 cents) per Share totaling HKD601,029,000 (equivalent to RMB514,276,000) for the year ended 31 December 2018.

Material Acquisitions or Disposal of Subsidiaries and Associated Companies

On 1 August 2018, a wholly owned subsidiary of the Group, Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd., entered into two sales and purchase agreements to sell its wholly-owned companies, Baoji Baofeng and Baoji Dingfeng, for a total consideration of approximately RMB1,792.3 million. Baoji Baofeng and Baoji Dingfeng are investment holding companies and hold parcels of land which are located at Gao Xin Jiu Road, East Area, Baoji High-Technology Development Zone, Baoji City, Shaanxi Province, PRC. The aggregate site area of the lands is approximately 569.654 mu (or approximately 379,769.3 square metres), and the lands are designated for residential use and held by the Group for investment purpose. The consideration will be paid under repayment schedules which have been detailedly identified in sales and purchase agreements. Details can be referred to the Company's announcement dated 1 August 2018 and supplemental announcement dated 17 December 2018.

Except for the above, the Group had no other material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2018.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Notes 23, 24 and 35 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 15 to the financial statements.

Share Capital

Details of the movement in share capital of the Company are set out in Note 21 to the financial statements.

Distributable Reserves

As at 31 December 2018, the Company's reserves available for distribution to the Shareholders amounted to RMB942,381,000 (2017: RMB1,362,729,000).

Directors

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

Executive Directors

Mr. Li Xuechun *(Chairman)*
Mr. Zhao Qiang
Mr. Li Deheng
Mr. Pan Yuehong
Mr. Li Guangyu

Independent Non-executive Directors

Mr. Xiao Jian Lin
Mr. Xu Zheng Hong (appointed on 1 December 2018)
Ms. Zheng Yu
Mr. Qi Qing Zhong (resigned on 1 December 2018)

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. Li Xuechun, Li Guangyu and Ms. Zheng Yu should retire by rotation and, being eligible, consider to offer themselves for re-election at the forthcoming annual general meeting of the Company.

By virtue of Article 86(3) of the articles of association of the Company, the office of Mr. Xu Zheng Hong will end at the annual general meeting and, being eligible, consider to offer themselves for re- election at the forthcoming annual general meeting of the Company.

The Director, Mr. Li Xuechun and Mr. Li Guangyu, proposed for re-election at the forthcoming annual general meeting has 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.

The Independent non-executive Director, Ms. Zheng Yu and Mr. Xu Zheng Hong, proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company for two years commencing from 31 December 2018 and 1 December 2018 respectively 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 2018, 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.

Contract of Significance

Saved for the continuing connected transaction disclosed on page 32, the Company neither has any contract of significance between the Company, or any of its subsidiaries, and a controlling Shareholder or any of its subsidiaries nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries.

Business Review

The Group faced various challenges in 2018, including but not limited to: a domestic macroeconomic slowdown, the Sino-US trade tensions, the outbreak of swine flu, intensifying competition due to expansion of production capacity in the industry, and significant growth in costs of major raw materials (in particular corn kernels and coal). As a result, our operating conditions experienced some difficulties during the first half of 2018 but subsequently improved during the second half of the year, which was mainly attributed to: 1) the increase in the MSG price and the improvement in revenue and profitability of the Amino acid segment which as the key segment accounted for a fairly large contribution of revenue and had a positive impact on our overall performance; 2) costs of major raw materials in the second half of the year remained stable and profit margins increased due to rising prices of major products; and 3) the Group accelerated its destocking process amidst its improved operating efficiency; 4) production efficiency has been further developed as a result of enhancement of production technologies.

As the leader in the industry, the Group managed to achieve stable development for its core business and also further consolidated its leading position in the market despite the challenging market conditions in 2018. In addition, the Group made considerable effort in developing high-value fermentation products in order to diversify its revenue stream, enhance profitability and provide impetus for the long-term sustainable growth of the Group.

The Group continued to actively strengthen our competitiveness by constantly improving the production technology to achieve better cost effectiveness and strategically utilise the production facility and capacity of each plant in order to match ongoing market demand. The Group recognised the importance of using advanced technologies to continually improve our production efficiency and develop new products. We also actively explored the development of amino acid products for animal nutrition, high-end amino acid products for pharmaceutical, health care and beauty, and food additives mainly as starch sweeteners, in order to improve product diversity and increase sales and penetration in the health and wellness, pharmaceutical and skincare 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.

The Group principally operates two business segments: namely Amino acid segment and Xantham gum segment.

Our Amino acid segment is primarily made up of three main product categories including: Food additives (key products include MSG and starch sweeteners), Animal nutrition (key products include threonine and corn refined products) and High-end amino acid (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid).

In terms of food additive products, the ASP of MSG rebounded in 2018. However, costs of major raw materials, particularly corn kernels and coal, increased significantly during the year. The Group continued to face lackluster conditions in the domestic catering and consumer markets as well as pricing pressure due to market competition. Despite the challenging 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. The Group recorded a decrease in gross profit and gross profit margin of the MSG business, which negatively affected the result contribution from the MSG business during the year.

On the other hand, the new Longjiang Plant phase I commenced production in the first half of 2018 and the annual production capacity of starch sweeteners increased to 420,000 tonnes. The sales revenue from starch sweeteners significantly increased to RMB1,052.2 million, representing an increase of 50.8%, as compared to 2017.

MSG industry consolidation continued during 2018. Due to ongoing adaptation of environmental policies by the central government, some production capacity in the sector was eliminated. However, the costs of core materials, including corn kernels and coal, recorded an upward trend during the first half of 2018 and returned to stability in the second half of the year, which led to an increase in production costs and a decrease in the gross profit margin of our key products.

In terms of Animal nutrition business, the Group recorded a slight increase in contribution from the sales of threonine and threonine's revenue contribution to the Group continued to increase as a result of such sales expansion. As the outbreak of swine flu in China in the second half of 2018, the ASP of threonine significantly decreased, resulting in profit contribution and gross profit margin significantly decreases in 2018.

On the other hand, the sales of high-end amino acid products increased during the year ended of 31 December 2018, mainly due to the restructuring of our internal product portfolio. Despite lackluster conditions in the domestic consumer markets and stiff market competition, the Group's high-end amino acid products performed well with a rising price for certain individual products, and the gross margin level remained comparatively high.

As another key business segment of the Group, our Xanthan gum business, which includes key colloid products such as xanthan gum and welan gum, has returned to stability since the second half of 2017 as market conditions in the oil industry recovered. The ASP of xanthan gum increased to RMB15,539 per tonne, representing an increase of 16.9% in 2018, as compared to 2017. The Xanthan gum business demonstrated a recovering trend in the first half of 2018. During the year, we slightly increased the annual production capacity of xanthan gum to 65,000 tonnes due to changing part of the production line from gellen gum to xanthan gum in our Xinjiang Plant. The Group, as the largest xanthan gum manufacturer in the world, continued to dominate the global market share during the year ended of 31 December 2018.

Overall revenue of the Group slightly increased for the year ended 31 December 2018, and we was able to rely on the growth products such as starch sweeteners, threonine and high-end amino acid products and xanthan gum as well as effective implementation of cost controls to maintain our overall profitability. The high-end amino acid products successfully expanded in terms of product development and market share, and we are hopeful that we can become one of the world's leading suppliers of threonine and high-end amino acid products. The Group has also further enhanced its business strategy to adjust its production capacity according to market demand, which not only fully leverages the cost advantages of the Group but also supports the Group's pricing power to maximize its profitability. In terms of gross profit, mainly as a result of cost pressure of our key raw materials and pricing pressure due to market competition, we recorded a decrease in its overall gross profit. However, as the Group recorded a one-off net gain after income tax from the disposal of two subsidiaries which held parcels of land in Baoji for approximately RMB1,102.8 million, the net profit of the Group in 2018 increased as compared to 2017.

Compliance with Relevant Laws and Regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with relevant requirements could lead to adverse impact on business operation and financial position of the Group. During the year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Relationship with Suppliers, Customers and Other Stakeholders

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with suppliers and customers. During the Year, there was no material and significant dispute between the Group and its suppliers and/or customers.

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 2018, 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)*	991,638,461 Shares	38.94%
Li Deheng	The Company	Interests of controlled corporation *(Note 2)*	33,320,160 Shares	1.31%
Zhao Qiang	The Company	Beneficial interest *(Note 3)*	5,000,000 Shares	0.20%
Zheng Yu	The Company	Beneficial interest *(Note 4)*	300,000 Shares	0.01%
Zheng Yu	The Company	Interest of spouse *(Note 5)*	227,000 Shares	0.01%

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 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.

3. These shares represented the Shares which might be allotted and issued to Mr. Zhao Qiang, an Executive Director who was appointed on 5 June 2017, upon the exercise in full of the option granted to him.

4. These shares represented the Shares which might be allotted and issued to Ms. Zheng Yu, an Independent non-executive Director who was appointed on 31 December 2012, upon the exercise in full of the option granted to her.

5. The interest in these Shares is held by Wei Wei, who is husband of Ms. Zheng Yu. Ms. Zheng Yu is deemed to be interested in all Shares held by Wei Wei under the SFO.

Save as disclosed above, for the year ended 31 December 2018, 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 2018, 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	991,638,461 Shares	38.94%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	991,638,461 Shares	38.94%
Treetop Asset Management SA	The Company	Beneficial interests	486,017,314 Shares	19.08%

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 991,638,461 Shares held by Motivator Enterprises Limited, which in turn is also deemed to be interested by Mr. Li Xuechun under the SFO.

Save as disclosed above, for the year ended 31 December 2018, 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

On 10 January 2007, the Shareholders approved the adoption of the Post-IPO Share Option Scheme (the "Post- IPO Share Option Scheme"). A summary of the principal terms of the Share Option Scheme, as disclosed in accordance with the Listing Rules, are as follow:

The purpose of the Post-IPO Share Option Scheme is to enable the Group to grant the share options to the eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity.

Under the Post-IPO Share Option Scheme, the Directors may grant share options to the following persons or entities (the "Eligible Participants") to subscribe for shares in accordance with the provisions of the Post-IPO Share Option Scheme and the Listing Rules:

(a) any employee (whether full-time or part-time and including any executive Director but not any non-executive Director) of the Group or any entity in which any member of the Group holds an equity interest (the "Invested Entity");

(b) any non-executive Director (including Independent non-executive Directors) of the Group or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity; and

(e) any consultant, adviser, manager, officer or entity that provide research, development or other technological support to the Group or any Invested Entity.

The total number of shares issued and which may fall to be issued upon exercise of the share options and the share options granted under any other share option scheme of the Group (including both exercised or outstanding share options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

In respect of any particular option, the Directors shall be entitled at any time within 10 years commencing on 8 February 2007 to make an offer for the grant of a share option. For any option granted under the Share Option Scheme, the maximum period as the Directors may determine shall not be later than 10 years. There is no minimum period required under the Post-IPO Share Option Scheme for holding of the share options before it can be exercised. The Post-IPO Share Option Scheme has expired on 7 February 2017.

An offer of the grant of the option shall be regarded as having been accepted when the duplicate of the letter by the grantee together with a remittance in favour of the Company of HKD1.00 by way of consideration for the grant thereof is received by the Company.

The exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

Directors' Report

On 12 May 2017, the Shareholders approved the adoption of the New Share Option Scheme (the "New Share Option Scheme"). A summary of the principal terms of the Share Option Scheme, as disclosed in accordance with the Listing Rules, are as follow:

The purpose of the New Share Option Scheme is to enable the Group to grant the share options to the eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity.

Under the New Share Option Scheme, the Directors may grant share options to the following persons or entities (the "Eligible Participants") to subscribe for shares in accordance with the provisions of the New Share Option Scheme and the Listing Rules:

(a) any employee (whether full-time or part-time and including any executive Director but not any non-executive Director) of the Group or any entity in which any member of the Group holds an equity interest (the "Invested Entity");

(b) any non-executive Director (including Independent non-executive Directors) of the Group or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity; and

(e) any consultant, adviser, manager, officer or entity that provide research, development or other technological support to the Group or any Invested Entity.

The total number of shares issued and which may fall to be issued upon exercise of the share options and the share options granted under any other share option scheme of the Group (including both exercised or outstanding share options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

In respect of any particular option, the Directors shall be entitled at any time within 10 years commencing on 12 May 2017 to make an offer for the grant of a share option. For any option granted under the New Share Option Scheme, the maximum period as the Directors may determine shall not be later than 10 years. There is no minimum period required under the New Share Option Scheme for holding of the share options before it can be exercised. As at 31 December 2018, the Share Option Scheme has a remaining life of up to 12 May 2027.

An offer of the grant of the option shall be regarded as having been accepted when the duplicate of the letter by the grantee together with a remittance in favour of the Company of HKD1.00 by way of consideration for the grant thereof is received by the Company.

The exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

Pursuant to a resolution in writing passed by all shareholders on 10 January 2007, the scheme mandate limit for the Post-IPO Share Option Scheme allow the Company to issue a maximum of 160,000,000 share options under the Post-IPO Share Option Scheme, representing 6.28% of the issued share capital of 2,546,734,037 Shares of the Company. The Post-IPO Share Option Scheme has expired on 7 February 2017. Based on share options were granted and still exercisable under Post-IPO Share Option Scheme, the outstanding number of the shares available for issue under the Post-IPO Share Option Scheme is 16,200,000, representing 0.64% of the issued share capital of 2,546,734,037 Shares of the Company as at 31 December 2018.

Pursuant to an ordinary resolution passed by shareholders in annual general meeting dated on 12 May 2017, the scheme mandate limit for the New Share Option Scheme allow the Company to issue a maximum of 212,668,463 share options under the New Share Option Scheme, representing 8.35% of the issued share capital of 2,546,734,037 Shares of the Company as at 31 December 2018.

In addition, the outstanding number of the shares available for issue under the New Share Option Scheme is 212,668,463, representing 8.35% of the issued share capital of 2,546,734,037 Shares of the Company as at 31 December 2018.

Under the Post-IPO Share Option Scheme, the Company granted options to subscribe for an aggregate of 16,600,000 Shares, 14,700,000 Shares and 300,000 Shares on 9 April 2015, 9 November 2016 and 30 December 2016 respectively to Directors and eligible employees. Moreover, under the New Share Option Scheme, the Company granted options to subscribe for an aggregate of 5,000,000 Shares, 1,600,000 Shares, and 2,000,000 Shares on 25 August 2017, 29 December 2017 and 28 June 2018 respectively to eligible employees. Details of the share options granted and outstanding for the period ended 31 December 2018, are as follows:

		Number of share options							
Director and eligible employees	**Note**	**At 1 January 2018**	**Granted during the Year**	**Exercised during the Year**	**Forfeited during the Year**	**At 31 December 2018**	**Date of grant**	**Revised/ Adjusted exercise price (HKD)**	**Exercise period**
Under the Post-IPO Share Option Scheme									
Eligible employees	A	3,600,000	–	–		3,600,000	9/4/2015	5.69	9/4/2016 – 8/4/2020
Sun Yu Guo *(Former independent non-executive Director who resigned on 25 September 2017)*	B	300,000	–	–	(300,000)	–	9/11/2016	3.50	9/11/2018 – 8/11/2022
Zheng Yu *(Independent non-executive Director)*	B	300,000	–	–	–	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Qi Qingzhong *(Former independent non-executive Director who resigned on 1 December 2018)*	B	300,000	–	–	(300,000)	–	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	B	13,000,000	–	–	(1,000,000)	12,000,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	C	300,000	–	–	–	300,000	30/12/2016	3.82	30/12/2018 – 29/12/2022
Under the New Share Option Scheme									
Eligible employees	D	5,000,000	–	–	–	5,000,000	25/8/2017	4.96	25/8/2019 – 24/8/2023
Eligible employees	E	1,600,000	–	–	(1,600,000)	–	29/12/2017	5.12	29/12/2019 – 28/12/2023
Eligible employees	F	–	2,000,000	–	(2,000,000)	–	28/6/2018	3.76	28/6/2020 – 28/6/2024
		24,400,000	2,000,000	–	(5,200,000)	21,200,000			

A) The total fair value, which was determined by an independent qualified appraiser using Binomial Option Pricing Model, of the options granted as at the grant dates is approximately RMB30,216,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 April 2015
Average share price	HKD4.89
Exercise price	HKD5.69
Expected life of options	5.0 years
Expected volatility	43.11%
Expected dividend yield	2.26%
Risk free rate	0.99%

B) The total fair value, which was determined by an independent qualified appraiser using Binomial Option Pricing Model, of the options granted as at the grant dates is approximately RMB17,515,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 November 2016
Average share price	HKD3.45
Exercise price	HKD3.50
Expected life of options	6.0 years
Expected volatility	44.79%
Expected dividend yield	2.15%
Risk free rate	1.39%

C) The total fair value, which was determined by an independent qualified appraiser using Binomial Option Pricing Model, of the options granted as at the grant dates is approximately RMB414,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 30 December 2016
Average share price	HKD3.81
Exercise price	HKD3.82
Expected life of options	6.0 years
Expected volatility	44.52%
Expected dividend yield	2.18%
Risk free rate	1.70%

D) The fair value, which was determined by an independent qualified appraiser using Binomial Option Pricing Model, of the options as at the grant date was approximately RMB7,852,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 25 August 2017
Average share price	HKD4.95
Exercise price	HKD4.96
Expected life of options	6.0 years
Expected volatility	44.41%
Expected dividend yield	3.75%
Risk free rate	1.37%

E) The fair value, which was determined by an independent qualified appraiser using Binomial Option Pricing Model, of the options as at the grant date was approximately RMB2,591,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 29 December 2017
Average share price	HKD5.10
Exercise price	HKD5.12
Expected life of options	6.0 years
Expected volatility	43.61%
Expected dividend yield	3.64%
Risk free rate	1.68%

F) The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB1,795,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 28 June 2018
Average share price	HKD3.45
Exercise price	HKD3.76
Expected life of options	6.0 years
Expected volatility	43.81%
Expected dividend yield	3.42%
Risk free rate	2.21%

Use of Proceeds

A top up placing under general mandate (the Placing) was completed on 4 May 2017 for the subscription of 140,000,000 ordinary Shares at a subscription price of HKD5.55 per Share. The net proceeds raised from the Subscription were approximately HKD766,500,000, out of which approximately HKD422,800,000 and HKD330,000,000 has been utilized for the construction of the new plant in Qiqihar and as general working capital for the repayment of bank borrowing and daily operation expenses respectively before the end of 2017. As at 31 December 2017, the remaining unutilised amount was HKD13,700,000, of which such amount has been used for general working capital of the Company for the daily operation expenses and bank interest during the first half of 2018.

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 2018.

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 2018.

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 19 March 2019, 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

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 2018.

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 34 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

19 March 2019

Independent Auditor's Report

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Fufeng Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 94 to 192, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

We have identified "Revenue Recognition" as a key audit matter in our audit.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *Refer to note 2.24 and note 5 to the Group's consolidated financial statements.* Revenue from sales of goods amounted to RMB13,765 million for the year ended 31 December 2018. Revenue is recognised when control of the underlying products has been transferred to the customers. We focused on this area due to the huge volume of revenue transactions generated from sales of numerous kinds of products to a large number of customers that occurred in many different locations. In relation to export sales, it usually takes more time for control of products to pass over to customers than domestic sales. There is potential risk of misstatement in relation to whether revenue is recognised in the correct reporting periods.	We evaluated and validated management's key controls that are present in the Group's sales process from end-to-end, from customer order's approval, sales recording, all the way through to reconciliations with cash receipts and customers' records. We conducted testing of sales revenue recorded covering different products, locations and customers, by examining the relevant supporting documents including customer orders, goods delivery notes and customs declaration notices. In addition, we confirmed certain customers' receivable balances at the balance sheet date and their transaction amounts during the year, and tested the reconciliations between the book amounts and confirmed amounts if these were different. The items tested were selected on a sample basis by considering the amount, nature and characteristics of those customers. Our work also included testing of a sample of manual revenue-related journal entries by inquiring management of the nature of these journals and inspection of the supporting documents. Furthermore, one of our focused audit efforts was testing export sales transactions that took place shortly before and after the balance sheet date, by reconciling recognised revenue with the goods delivery notes and customs declaration notices to assess whether revenue was recognised in the correct reporting periods. We found the Group's sales transactions being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

Other Information

The directors of the Company are responsible for the other information as set out in the Company's 2018 Annual Report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report *(Continued)*

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tang Wai Tung, Tony.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	Note	Years ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	5	**13,764,645**	13,033,501
Cost of sales	8	**(11,189,875)**	(10,054,030)
Gross profit		**2,574,770**	2,979,471
Selling and marketing expenses	8	**(1,041,864)**	(981,508)
Administrative expenses	8	**(658,514)**	(506,556)
Net impairment losses on financial assets	3.1(b)	**(7,114)**	–
Other operating expenses	8	**(47,832)**	(17,249)
Other income	6	**263,790**	280,661
Other gains/(losses) – net	7	**1,353,183**	(40,033)
Operating profit		**2,436,419**	1,714,786
Finance income	10	**15,828**	46,414
Finance costs	10	**(241,482)**	(109,168)
Finance costs – net	10	**(225,654)**	(62,754)
Share of net profit of associates accounted for using the equity method	11b	**58**	749
Profit before income tax		**2,210,823**	1,652,781
Income tax expense	12	**(365,784)**	(270,401)
Profit for the year and attributable to the Shareholders		**1,845,039**	1,382,380
Earnings per share for profit attributable to the Shareholders during the year *(expressed in RMB cents per share)*			
– basic	13	**72.45**	57.04
– diluted	13	**72.39**	55.46

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Years ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**1,845,039**	1,382,380
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**1,845,039**	1,382,380
Total comprehensive income attributable to the Shareholders	**1,845,039**	1,382,380

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	*14*	**778,558**	1,393,941
Property, plant and equipment	*15*	**10,309,977**	9,234,061
Intangible assets	*16*	**30,745**	17,791
Investments accounted for using the equity method	*11b*	**36,354**	31,396
Deferred income tax assets	*29*	**184,076**	182,447
		11,339,710	10,859,636
Current assets			
Inventories	*19*	**3,262,093**	3,229,895
Trade and other receivables	*18*	**3,040,233**	1,361,559
Cash and bank balances	*20*	**2,690,284**	515,444
		8,992,610	5,106,898
Total assets		**20,332,320**	15,966,534
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	*21*	**244,436**	244,436
Share premium	*21*	**1,430,479**	1,736,726
Other reserves	*24*	**574,081**	384,178
Retained earnings	*23*	**8,755,348**	7,094,765
Total equity		**11,004,344**	9,460,105
LIABILITIES			
Non-current liabilities			
Deferred income	*28*	**785,971**	721,936
Borrowings	*26*	**2,487,389**	560,265
Deferred income tax liabilities	*29*	**16,650**	16,650
Derivative financial instruments	*27*	**29,882**	–
		3,319,892	1,298,851

Consolidated Balance Sheet *(Continued)*

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Current liabilities			
Trade, other payables and accruals	25	**3,714,562**	3,685,015
Contract liabilities	5	**501,706**	–
Current income tax liabilities		**268,653**	111,624
Borrowings	26	**1,523,163**	1,410,939
		6,008,084	5,207,578
Total liabilities		**9,327,976**	6,506,429
Total equity and liabilities		**20,332,320**	15,966,534

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 94 to 192 were approved by the Board of Directors on 19 March 2019 and were signed on its behalf.

Li Xuechun
Director

Zhao Qiang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

		Attributable to the Shareholders				
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017		207,222	462,639	319,980	5,826,023	6,815,864
Comprehensive Income						
Profit for the year	23	–	–	–	1,382,380	1,382,380
Total comprehensive income		–	–	–	1,382,380	1,382,380
Transactions with the Shareholders						
Profit appropriation	23, 24	–	–	116,594	(116,594)	–
Conversion of convertible bonds	21, 24	24,807	975,463	(59,631)	–	940,639
Issue of ordinary shares	21	12,407	666,737	–	–	679,144
Employee share option schemes:						
– Value of employee services	22, 24	–	–	10,191	–	10,191
– Expiry of share options issued	23, 24	–	–	(2,956)	2,956	–
Dividends	21	–	(368,113)	–	–	(368,113)
Total transactions with the Shareholders		37,214	1,274,087	64,198	(113,638)	1,261,861
Balance at 31 December 2017		244,436	1,736,726	384,178	7,094,765	9,460,105
Balance at 31 December 2017 as originally presented		244,436	1,736,726	384,178	7,094,765	9,460,105
Change in accounting policy	2.2	–	–	–	(1,082)	(1,082)
Restated total equity at 1 January 2018	2.2	244,436	1,736,726	384,178	7,093,683	9,459,023
Comprehensive Income						
Profit for the year	23	–	–	–	1,845,039	1,845,039
Total comprehensive income		–	–	–	1,845,039	1,845,039
Transactions with the Shareholders						
Profit appropriation	23, 24	–	–	183,374	(183,374)	–
Employee share option schemes:						
– Value of employee services	22, 24	–	–	6,529	–	6,529
Dividends	21	–	(319,537)	–	–	(319,537)
Others	21	–	13,290	–	–	13,290
Total transactions with the Shareholders		–	(306,247)	189,903	(183,374)	(299,718)
Balance at 31 December 2018		244,436	1,430,479	574,081	8,755,348	11,004,344

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	Years ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	*31(a)*	**1,856,866**	1,537,670
Interest paid		**(136,865)**	(84,139)
Income tax paid		**(210,383)**	(251,322)
Net cash generated from operating activities		**1,509,618**	1,202,209
Cash flows from investing activities			
Payment for investment in an associate	*11b*	**(4,900)**	–
Payments for leasehold land	*14*	**(119,841)**	(3,713)
Purchases of property, plant and equipment		**(1,716,781)**	(1,973,914)
Purchases of intangible assets	*16*	**(15,618)**	(10,714)
Urban planning related government grants received		**–**	23,064
Loan to a related party	*33(c)*	**(6,000)**	–
Proceeds from disposal of property, plant and equipment	*31(c)*	**5,922**	8,285
Proceeds from disposal of leasehold land payments	*31(d)*	**11,790**	–
Proceeds from disposal of subsidiaries, net of cash disposed	*31(b)*	**143,766**	–
Repayments of loan from former subsidiaries	*18(e)*	**586,005**	–
Assets-related government grants received		**141,138**	73,521
Interest received	*10*	**15,828**	6,978
Placement of restricted bank deposits	*20(a)*	**(869,800)**	–
Proceeds from term deposits	*20*	**22,100**	5,000
Placement of term deposits	*20*	**(22,000)**	(5,000)
Net cash used in investing activities		**(1,828,391)**	(1,876,493)
Cash flows from financing activities			
Net proceeds from shares issued	*21*	**–**	679,144
Dividends paid to the Company's shareholders	*21*	**(319,537)**	(368,113)
Proceeds from bank borrowings	*31(f)*	**3,520,524**	1,810,887
Proceeds from issuance of USD bonds	*31(f)*	**2,350,299**	–
Repayments of bank borrowings	*31(f)*	**(2,692,925)**	(1,987,832)
Repayments of corporate bonds	*26(b), 31(f)*	**(1,000,000)**	–
Redemption of USD bonds	*31(f)*	**(224,133)**	–
Net cash generated from financing activities		**1,634,228**	134,086
Net increase/(decrease) in cash and cash equivalents		**1,315,455**	(540,198)
Cash and cash equivalents at beginning of the year	*20*	**419,488**	959,686
Cash and cash equivalents at end of the year	*20*	**1,734,943**	419,488

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. General Information

Fufeng Group Limited (the "Company") and its subsidiaries (together, the "Group") manufacture and sell fermentation-based food additive, biochemical products and starch-based products. The Group has manufacturing plants in Shandong Province, Shaanxi Province, Jiangsu Province, Heilongjiang 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 Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 19 March 2019.

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

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except that certain financial liabilities (including derivative instruments) are measured at fair value.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

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

2.1 Basis of preparation *(Continued)*

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 *Financial Instruments*
- HKFRS 15 *Revenue from Contracts with Customers*
- *Classification and Measurement of Share-based Payment Transactions – Amendments to HKFRS 2*
- *Annual Improvements 2014–2016 cycle*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 16 Leases

Nature of change
HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

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

2.1 Basis of preparation *(Continued)*

(iv) New standards and interpretations not yet adopted *(Continued)*

HKFRS 16 Leases (Continued)

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB5,175,000. Of these commitments, approximately RMB2,733,000 relate to short-term leases which will be recognised on a straightline basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB2,278,000 on 1 January 2019, lease liabilities of RMB2,192,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

However, the Group is in the process of assessing what other adjustments, if any, are necessary for example because of the different treatment of variable lease payments and of extension and termination options, and the identification of other arrangements that are subject to the new rules. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Apart from HKFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

2.2(a) Impact on the financial statements

HKFRS 9 was generally adopted without restating comparative information. The Group used modified retrospective approach while adopting HKFRS 9. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and these comparatives will not be restated.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail below.

Consolidated balance sheet (extract)	31 December 2017 As originally presented *RMB'000*	HKFRS 9 *RMB'000*	HKFRS 15 *RMB'000*	1 January 2018 Restated *RMB'000*
Current Assets				
Trade and other receivables	1,361,559	(1,082)	–	1,360,477
Total assets	15,966,534	(1,082)	–	15,965,452
Current liabilities				
Trade, other payables and accruals	3,685,015	–	(346,937)	3,338,078
Contract liabilities	–	–	346,937	346,937
Total liabilities	6,506,429	–	–	6,506,429
Equity				
Capital and reserves attributable to the Shareholders				
Retained earnings	7,094,765	(1,082)	–	7,093,683
Total equity	9,460,105	(1,082)	–	9,459,023

There is no material impact on the consolidated income statement and the statement of comprehensive income by adopting HKFRS 9 and HKFRS 15.

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

2.2 Changes in accounting policies *(Continued)*

2.2(b) HKFRS 9 *Financial Instruments* – Impact of adoption

HKFRS 9 was generally adopted without restating any comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognized in the opening balance sheet on 1 January 2018.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instruments that are classified as available-for-sale financial assets;
- Debt instruments classified as held-to-maturity and measured at amortised cost; or
- Equity investment measured at fair value through profit or loss

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules has aligned the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact arising from the new hedge accounting rules.

The Group has trade receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group revised its impairment methodology under HKFRS 9 for these receivables.

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

2.2 Changes in accounting policies *(Continued)*

2.2(b) HKFRS 9, ***Financial Instruments*** – Impact of adoption *(Continued)*

Based on the assessments undertaken, the Group identified RMB1,082,000 further loss allowance for trade debtors, which was not material. The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Loss allowance of trade receivables *RMB'000*
At 31 December 2017 – calculated under HKAS 39	20,258
Amounts restated through opening retained earnings	1,082
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	21,340

While cash and cash equivalents, restricted cash and other receivables are also subject to the impairment requirements of HKFRS 9, no material impairment loss was identified.

2.2(c) HKFRS 9 ***Financial Instruments*** – Accounting policies applied from 1 January 2018

Financial assets – impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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

2.2 Changes in accounting policies *(Continued)*

2.2(d) HKFRS 15 ***Revenue from Contracts with Customers*** – Impact of adoption

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) was recognised in retained earnings as at 1 January 2018 and that comparatives were not be restated.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large variety and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognized. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The Group did not introduce any customer loyalty programme or volume discounts based on aggregate sales over a period time.

The Group does not incur costs to fulfil a contract which should be capitalized as they relate directly to the contract, generate resources used in satisfying the contract and are expected to be recovered.

The Group does not have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

As a result, other than certain reclassification of contract liabilities, the adoption of HKFRS 15 did not result in any net impact on the profit for the period as the timing of revenue recognition on sales of products is not changed.

The following adjustment was made to the amounts recognized in the balance sheet at the date of initial application (1 January 2018):

	HKAS 18 carrying amount 31 December 2017 *RMB'000*	Reclassification *RMB'000*	HKFRS 15 carrying amount 1 January 2018 *RMB'000*
Trade, other payables and accruals	3,685,015	(346,937)	3,338,078
Contract liabilities	–	346,937	346,937

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

2.2 Changes in accounting policies *(Continued)*

2.2(e) HKFRS 15 *Revenue from Contracts with Customers* – Accounting policies applied from 1 January 2018

Revenue Recognition

The Group manufactures and sells a range of fermentation-based food additive, biochemical products and starch-based products in the worldwide market.

Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered to the specified location or have been picked up by carriers designated by customers for domestic sales, or have been shipped on board for overseas sales, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contract Liability

Cash or bank acceptance notes collected from certain customers before product delivery is recognised as contract liabilities.

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

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

2.3 Principles of consolidation and equity accounting *(Continued)*

(iii) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

(iv) Changes in ownership interests

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

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

2.5 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.

2.6 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 RMB, which is the Group's functional and presentation currency.

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within "Finance costs – net". All other foreign exchange gains and losses are presented in the consolidated income statement within "Other gains/(losses) – net".

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,

- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

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

2.7 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 of 40 to 70 years.

2.8 Property, plant and equipment

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

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

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

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

Plant and building	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 2.10).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in the consolidated income statement under "Other gains/(losses) – net".

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

2.9 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 10 years.

2.10 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 of disposal 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.

2.11 Financial assets

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

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

2.11 Financial assets *(Continued)*

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on 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 from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group mainly classifies its debt instruments into the below category:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated income statement and presented in "Other gains/(losses) – net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

(d) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

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

2.11 Financial assets *(Continued)*

(e) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 31 December 2017 the Group classified its financial assets under the category of loans and receivables.

The classification depended on the purpose for which the financial assets were acquired. Management determined 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" (Note 2.15), "Cash and bank balances" (Note 2.16) in the balance sheet.

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.

Impairment of financial assets

The Group assessed at the end of each reporting period whether there was objective evidence that trade and other receivables was impaired. Impairment losses of trade and other receivables were incurred only if there was 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) had an impact on the estimated future cash flows of trade and other receivables that could 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.

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

2.11 Financial assets *(Continued)*

(e) Accounting policies applied until 31 December 2017 *(Continued)*

Impairment of financial assets (Continued)

The amount of the loss was 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 was reduced and the amount of the loss was recognised in the consolidated income statement within "Administrative expenses".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease could 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 was recognised in the consolidated income statement.

Impairment testing of trade receivables is described in Note 3.1(b).

2.12 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.

2.13 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. Derivative instruments held by the Group are accounted for at fair value through profit or loss. Changes in fair value of these derivative instruments are recognised immediately in the consolidated income statement.

The fair values of derivative financial instruments are disclosed in Note 27. The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity of the derivative is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months. Trading derivatives are classified as a current asset or liability.

2.14 Inventories

Inventories including raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

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

2.15 Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due for settlement within 90 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

2.16 Cash and bank balances

Cash and bank balances includes cash and cash equivalents, term deposits over 3 months and within one year and restricted bank deposits.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.17 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.

2.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

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

2.19 Borrowings

Borrowings are initially recognised 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.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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.

2.20 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.

Other borrowing costs are expensed in the period in which they are incurred.

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

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(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

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 tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

2.22 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.

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

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

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

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

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

2.23 Share-based payments *(Continued)*

(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.

2.24 Revenue recognition

Sales of goods

The Group manufactures and sells a range of fermentation-based food additive, biochemical products and starch-based product in the worldwide market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered to the specified location or have been picked up by carriers designated by customers for domestic sales, or have been shipped on board for overseas sales, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group does not expect to have any contract containing financing components. As a consequence, the Group does not adjust any of the transition prices for the time value of money.

2.25 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 (Note 32(b)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

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

2.26 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.

2.28 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 relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Note 6 provides further information on how the Group accounts for government grants.

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

2.29 Interest income

Interest income on financial assets at amortised cost (2017 – loans and receivables) calculated using the effective interest method is recognised in the income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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 Board does 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 2017.

However, foreign currencies, mainly USD and HKD, are received from sales of products to countries or areas outside the PRC ("Export sales") and draw down of bank borrowings. In 2018, the Company issued USD bonds of USD350,000,000. Export sales denominated in foreign currencies amounted to approximately 28% (2017: 29%) of the Group's total revenue for the year ended 31 December 2018. 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 draw down of bank borrowings by utilisation of the proceeds as soon as possible. In 2018, the Group manages the currency risk arising from proceeds from draw down of USD bonds by partially applying cross currency swaps to mitigate exposures arising from the fluctuations in foreign currencies of bonds.

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

The cross currency swaps in relation to USD bonds do not satisfy the requirements for hedge accounting (economic hedges). The cross currency swaps are subject to the same risk management policies. However, they are accounted for as derivative financial instruments with gains/(losses) recognised in profit or loss.

The exposures to the foreign exchange risks are disclosed in Notes 18, 20 and 26.

Amounts recognised in profit or loss
During the year, the following foreign-exchange related amounts were recognised in consolidated income statement:

	2018	2017
	RMB'000	*RMB'000*
Amounts recognised in consolidated income statement		
Other (gains)/losses – net *(Note 7)*	**(75,307)**	43,375
Net finance costs/(income) *(Note 10)*	**71,169**	(39,436)
Total net foreign exchange (gains)/losses recognised in profit before income tax for the period	**(4,138)**	3,939

During the year, no foreign-exchange related amounts were recognised in other comprehensive income.

At 31 December 2018, 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 RMB159,160,000 higher/lower (2017: RMB17,198,000 lower/higher), 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 corporate bonds, USD bonds and bank borrowings. The carrying amounts and fair values of the corporate bonds, USD bonds and non-current borrowings have been disclosed in Note 26.

At 31 December 2018, 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 RMB2,158,000 (2017: RMB62,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL), favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to the customers, including outstanding receivables.

(i) Risk management

Credit risk is managed on a Group basis. Bank deposits and cash at bank are deposited in reputable financial institutions which are considered with low credit risk.

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. The credit period granted to the customers is usually no more than 90 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivables arising from sales of products due from them is not significant.

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets

The Group has trade receivables for sales of inventory that are subject to the expected credit loss model.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables
The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the business, financial or economic conditions of the customers and the performance and behaviour of customers, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined as follows for trade receivables:

	Within 3 months *RMB'000*	3 to 12 months *RMB'000*	Over 12 months *RMB'000*	Total *RMB'000*
31 December 2018				
Expected loss rate	0.52%	5.26%	36.12%	
Gross carrying amount	542,820	64,998	14,960	622,778
Total loss allowance	2,806	3,418	5,404	11,628

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables *(Continued)*

	Within 3 months *RMB'000*	3 to 12 months *RMB'000*	Over 12 months *RMB'000*	Total *RMB'000*
1 January 2018				
Expected loss rate	0.51%	4.14%	36.79%	
Gross carrying amount	402,822	60,765	45,617	509,204
Total loss allowance	2,040	2,517	16,783	21,340

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables	
	2018 *RMB'000*	2017 *RMB'000*
31 December – calculated under HKAS 39	**20,258**	285
Amounts restated through opening retained earnings	**1,082**	–
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	**21,340**	285
Provision for receivables impairment	**7,114**	19,973
Receivables written-off during the years as uncollectible	**(16,826)**	–
At 31 December	**11,628**	20,258

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 360 days past due(credit terms).

Impairment losses on trade receivables are presented within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables *(Continued)*

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor,
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses. The change of the impairment methodology to other receivables has immaterial impacts on the existing amount of loss allowances for other receivables as at 1 January 2018 and hence the Group has not made any adjustments.

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Net impairment losses on financial assets recognised in profit or loss
During the years ended 31 December 2018 and 2017, the following losses were recognised in "Net impairment losses on financial assets" and "Administrative expenses", respectively in the consolidated income statement in relation to impaired financial assets.

	2018 *RMB'000*	2017 *RMB'000*
Impairment losses		
– loss allowance for trade receivables	**7,114**	19,973

(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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liability into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liability is included in the analysis if its contractual maturity is essential for an understanding of the timing of the cash flows. 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.

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total contractual cash flows RMB'000
The Group				
At 31 December 2018				
Non-derivatives				
Borrowings	1,523,163	335,549	2,178,277	4,036,989
Interests payments on borrowings (i)	164,251	143,654	84,147	392,052
Trade and other payables (excluding non-financial liabilities)	3,275,538	–	–	3,275,538
Total non-derivatives	4,962,952	479,203	2,262,424	7,704,579
Derivatives				
Gross settled (cross currency swaps)				
– (inflow)	(41,368)	(41,599)	(41,830)	(124,797)
– outflow	40,097	40,321	40,545	120,963
	(1,271)	(1,278)	(1,285)	(3,834)
Total	4,961,681	477,925	2,261,139	7,700,745
At 31 December 2017				
Non-derivatives				
Borrowings	1,410,939	250,773	326,710	1,988,422
Interests payments on borrowings (i)	59,872	15,352	10,090	85,314
Trade and other payables (excluding non-financial liabilities)	2,875,253	–	–	2,875,253
Total	4,346,064	266,125	336,800	4,948,989

(i) The interests on borrowings are calculated based on bank borrowings, convertible bonds, USD bonds and corporate bonds held as at 31 December 2018 and 2017 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2018 and 2017 respectively.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

3. Financial Risk Management *(Continued)*

3.2 Capital management

(a) Risk management

The Group's objectives when managing capital are to

- safeguard their 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% (2017: 40%).The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 *RMB'000*	2017 *RMB'000*
Total borrowings *(Note 26)*	**4,010,552**	1,971,204
Total assets	**20,332,320**	15,966,534
Gearing ratio	**19.73%**	12.35%

The increase in the gearing ratio of the Group was mainly due to the increase in borrowings after the issue of USD bonds in 2018.

3. Financial Risk Management *(Continued)*

3.3 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements	Note	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2018					
Financial liabilities					
Derivative financial instruments	27	–	29,882	–	29,882

As at 31 December 2017, the Group did not have any financial instruments that are subsequently measured 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.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

3. Financial Risk Management *(Continued)*

3.3 Fair value estimation *(Continued)*

(a) Financial assets and liabilities *(Continued)*

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- for interest rate swaps – the present value of the estimated future cash flows based on observable yield curves;
- for forward currency forwards – present value of future cash flows based on forward exchange rates at the balance sheet date;
- for foreign currency options – option pricing models (e.g. Black Scholes model).

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities, a contingent consideration receivable and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

4. Critical Accounting Estimates and Judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

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 described below.

4.1 Provision for impairment of trade and other receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note3.1(b)

4.2 Estimated impairment of property, plant and equipment

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

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

4.2 Estimated impairment of property, plant and equipment *(Continued)*

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement. If there is an indication that an impairment loss may have decreased, the recoverable amount should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.

4.3 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.

4.4 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 reporting date.

4.5 PRC taxes

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

5. Segment Information

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

The executive directors consider the business from a product perspective and accordingly, the Group's operations are mainly organised under the following business segments:

– manufacturing and sales of amino acid, including monosodium glutamate ("MSG"), corn refined products, starch sweeteners, threonine, fertilisers, corn oil, glutamic acid, compound seasoning, high-end amino acid products, synthetic ammonia, pharmaceuticals and bricks; and

– manufacturing and sales of xanthan gum.

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 2018 and 2017 are set out as follows:

	2018 ***RMB'000***	2017 *RMB'000*
MSG	**6,554,665**	6,341,730
Corn refined products	**1,721,092**	1,965,283
Threonine	**1,449,478**	1,393,958
Starch sweeteners	**1,052,157**	697,494
High-end amino acid products	**959,947**	878,787
Xanthan gum	**876,542**	703,454
Glutamic acid	**319,092**	418,594
Fertilisers	**314,078**	405,819
Synthetic ammonia	**250,572**	11,951
Pharmaceuticals	**148,250**	121,383
Compound seasoning	**29,219**	22,421
Corn oil	**8,155**	10,731
Others	**81,398**	61,896
	13,764,645	13,033,501

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

5. Segment Information *(Continued)*

The segment information for the year ended 31 December 2018 is as follows:

	Amino acid *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	12,888,103	876,542	–	13,764,645
Segment results	2,205,247	244,806	(13,634)	2,436,419
Finance costs – net *(Note 10)*				(225,654)
Share of net profit of associates accounted for using the equity method *(Note 11b)*				58
Profit before income tax				2,210,823
Income tax expense *(Note 12)*				(365,784)
Profit for the year attributable to the Shareholders				1,845,039
Other segment items included in the consolidated income statement				
Depreciation *(Note 15)*	978,612	58,613	1,021	1,038,246
Amortisation of leasehold land payments *(Note 14)*	17,602	2,564	86	20,252
Amortisation of intangible assets *(Note 16)*	2,664	–	–	2,664
Gain on disposal of property, plant and equipment – net *(Note 7)*	(1,498)	–	–	(1,498)
Gain on disposal of subsidiaries *(Note 7)*	(1,297,469)	–	–	(1,297,469)
Reversal of impairment charges for property, plant and equipment *(Note 15)*	(59,394)	–	–	(59,394)
Additions to non-current assets	2,182,471	11,742	684	2,194,897

The segment assets and liabilities at 31 December 2018 are as follows:

	Amino acid *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	16,010,840	4,009,022	312,458	20,332,320
Total liabilities	5,658,081	836,460	2,833,435	9,327,976

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

5. Segment Information *(Continued)*

The segment information for the year ended 31 December 2017 is as follows:

	Amino acid *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	12,330,047	703,454	–	13,033,501
Segment results	1,629,902	116,792	(31,908)	1,714,786
Finance costs – net *(Note 10)*				(62,754)
Share of net profit of associates accounted for using the equity method *(Note 11b)*				749
Profit before income tax				1,652,781
Income tax expense *(Note 12)*				(270,401)
Profit for the year attributable to the Shareholders				1,382,380
Other segment items included in the consolidated income statement				
Depreciation *(Note 15)*	802,783	63,847	1,272	867,902
Amortisation of leasehold land payments *(Note 14)*	21,164	2,464	86	23,714
Amortisation of intangible assets *(Note 16)*	2,031	–	–	2,031
Loss on disposal of property, plant and equipment – net *(Note 7)*	836	–	–	836
Reversal of impairment charges for property, plant and equipment *(Note 15)*	(25,024)	–	–	(25,024)
Additions to non-current assets	2,316,471	2,693	45	2,319,209

The segment assets and liabilities at 31 December 2017 are as follows:

	Amino acid *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	11,559,107	3,615,332	792,095	15,966,534
Total liabilities	5,286,999	654,489	564,941	6,506,429

5. Segment Information *(Continued)*

There are no significant transactions between reportable segments.

Unallocated segment results mainly comprise the amortisation charges of leasehold land payments held by Baoji Dingfeng Properties Co., Ltd. ("Baoji Dingfeng") and Baoji Baofeng Properties Co., Ltd. ("Baoji Baofeng"), and the foreign exchange losses from non-PRC incorporated companies.

Unallocated assets mainly comprise cash and bank balances, leasehold land payments, property, plant and equipment and other receivables held by Beijing Huijinhuaying Commercial Co., Ltd., Baoji Dingfeng, Baoji Baofeng, Hulunbeir Shengmin Agricultural Development Co., Ltd., Qiqihar Lifeng Logistics Co., Ltd., Xinjiang Nongfeng Equity Investment Co., Ltd. and non-PRC incorporated companies. During the year ended 31 December 2018, Baoji Dingfeng and Baoji Baofeng were disposed of as described in Note 7. Therefore, the unallocated assets does not comprise assets held by these entities as at 31 December 2018.

Unallocated liabilities mainly comprise bank borrowings, corporate bonds, USD bonds and operating liabilities held by non-PRC incorporated companies.

The Group's revenue from its external customers in the PRC amounted to RMB9,884,292,000 (2017: RMB9,248,873,000) and the total revenue from external customers in Hong Kong and other countries amounted to RMB3,880,353,000 (2017: RMB3,784,628,000).

The Group's total non-current assets located in the PRC other than deferred income tax assets amounted to RMB11,155,012,000 (2017: RMB10,677,167,000), and the total non-current assets located in Hong Kong and Singapore other than deferred income tax assets amounted to RMB622,000 (2017: RMB22,000).

5. Segment Information *(Continued)*

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions:

2018	Sales of goods – Amino acid Overseas *RMB'000*	Sales of goods – Amino acid PRC *RMB'000*	Sales of goods – Xanthan gum Overseas *RMB'000*	Sales of goods – Xanthan gum PRC *RMB'000*	Unallocated segments *RMB'000*	Total *RMB'000*
Revenue from external customers	**3,196,065**	**9,692,038**	**684,288**	**192,254**	**–**	**13,764,645**
Timing of revenue recognition						
At a point in time	**3,196,065**	**9,692,038**	**684,288**	**192,254**	**–**	**13,764,645**

2017	Sales of goods – Amino acid Overseas *RMB'000*	Sales of goods – Amino acid PRC *RMB'000*	Sales of goods – Xanthan gum Overseas *RMB'000*	Sales of goods – Xanthan gum PRC *RMB'000*	Unallocated segments *RMB'000*	Total *RMB'000*
Revenue from external customers	3,242,390	9,087,657	542,238	161,216	–	13,033,501
Timing of revenue recognition						
At a point in time	3,242,390	9,087,657	542,238	161,216	–	13,033,501

Approximately 72% (2017: 71%) of the Group's revenue is generated from sales to customers in the PRC. The remaining 28% (2017: 29%) of the Group's revenue is generated from the sales to overseas countries including mainly the Southeast Asia, the United Arab Emirates, Kingdom of Saudi Arabia, the State of Qatar, Thailand and the United States of America.

5. Segment Information *(Continued)*

Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	31 December 2018 RMB'000	1 January 2018* RMB'000
Contract liabilities – sale of goods	**501,706**	346,937

* Reclassified amounts – see Note 2.2 for explanation.

(i) Significant changes in contract liabilities

The increase in 2018 was due to the increase in advance from customers.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2018 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	
Sale of goods	**346,937**

6. Other Income

	2018 *RMB'000*	2017 *RMB'000*
Amortisation of deferred income *(Note 28)*	**77,815**	96,542
Government grants related to expenses	**41,131**	48,708
Sales of waste products	**126,037**	112,348
Others	**18,807**	23,063
	263,790	280,661

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. See Note 2.28 for further details.

Government grants related to urban planning of local PRC governments are recorded under other payables when the Group received such compensation in advance. Such amount will either be netted off with the carrying amount of the specified disposal assets, or be transferred to deferred income and be amortised in the consolidated income statement on future development of the related assets.

7. Other Gains/(Losses) – Net

	2018 *RMB'000*	2017 *RMB'000*
Gain on disposal of subsidiaries *(Note 31(b))*	**1,297,469**	–
Gains/(Losses) on disposal of property, plant and equipment – net *(Note 31(c))*	**1,498**	(836)
Gain on disposal of leasehold land payments *(Note 31(d))*	**5,900**	–
Gain on compensation from insurance company after offsetting losses	**2,891**	4,178
Net foreign exchange gains/(losses) *(Note 3.1)*	**75,307**	(43,375)
Changes in fair value of derivative financial instruments *(Note 27)*	**(29,882)**	–
	1,353,183	(40,033)

In 2018, the Group entered into Share Transfer Agreements with certain companies owned by a third party group to dispose of the Group's equity interest in Baoji Dingfeng and Baoji Baofeng, indirectly held subsidiaries of the Company. The net equity of Baoji Dingfeng and Baoji Baofeng were disposed of at RMB1,178,401,000 (Note 31(b)). As at 31 December 2018, the Group has lost control of these two companies. They were therefore deconsolidated from the date that control ceased. The assets and liabilities of Baoji Dingfeng and Baoji Baofeng included the parcels of leasehold land with carrying values of RMB506,510,000 and RMB202,572,000, respectively (Note 14), cash and bank balances of RMB19,000 and payables to certain other subsidiary of the Group of RMB849,571,000. The disposal resulted in a net gain of RMB1,297,469,000 recognized in the consolidated income statement for the year ended 31 December 2018, after taking into account the impact of discounting on the uncollected receivable amounting to RMB21,402,000.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

8. Expenses by Nature

	2018 RMB'000	2017 RMB'000
Changes in inventories of finished goods and work in progress	**576,832**	(638,912)
Raw materials and consumables used*	**9,213,972**	9,288,704
Employee benefit expenses *(Note 9)**	**969,372**	994,226
Depreciation *(Note 15)**	**1,038,246**	867,902
Amortisation of leasehold land payments *(Note 14)*	**20,252**	23,714
Reversal of impairment charges for property, plant and equipment *(Note 15)*	**(59,394)**	(25,024)
Amortisation of intangible assets *(Note 16)*	**2,664**	2,031
Transportation expenses	**643,122**	622,961
Utilities purchased	**20,519**	22,165
Travelling and office expenses	**43,519**	41,057
Provision for inventory write-down *(Note 19)*	**17,649**	17,375
Auditors' remuneration		
– Audit services	**3,997**	3,795
– Non-audit services	**1,899**	750
Land use tax, real estate tax and other taxes	**161,817**	121,620
Advertisement fees	**16,732**	16,498
Others	**266,887**	200,481
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**12,938,085**	11,559,343

* The Group incurred expenses amounting to a total of approximately RMB228,464,000 and RMB66,165,000 related to research and development of new products, and development of new manufacturing techniques, etc. for the years ended 31 December 2018 and 2017 respectively. All of these expenses are charged to "Administrative expenses", and comprise material costs in "Raw materials and consumables used", remuneration paid to certain staff in "Employee benefit expenses" and depreciation of certain equipment in "Depreciation".

9. Employee Benefit Expenses Including Directors' Emoluments

	2018 RMB'000	2017 RMB'000
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	**908,200**	911,684
– Pension costs – defined contribution plans (a)	**54,643**	72,351
– Share options granted to directors and employees *(Note 24)*	**6,529**	10,191
	969,372	994,226

9. 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) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 included two directors (2017: two) whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining three (2017: three) individual during the year are as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Salaries and allowances	**3,896**	2,934
Pension costs – defined contribution plans	**83**	31
Share options granted	**2,684**	2,895
	6,663	5,860

For the years ended 31 December 2018 and 2017, none of the directors or the five highest paid individuals received discretionary bonuses and no emoluments were paid by the Group to them as inducement to join or upon joining the Group or as compensation for loss of office.

The remunerations paid to the above non-director individuals for the years ended 31 December 2018 and 2017 fell within the following bands.

	Number of individuals	
	2018 ***RMB'000***	2017 *RMB'000*
Emolument bands (in HK dollar)		
HKD1,000,001 – HKD1,500,000	**2**	1
HKD1,500,001 – HKD2,000,000	**–**	1
HKD2,000,001 – HKD2,500,000	**–**	1
HKD4,500,001 – HKD5,000,000	**1**	–
	3	3

10. Finance Income and Costs

	2018 *RMB'000*	2017 *RMB'000*
Finance income:		
Interest income on bank deposits and bank balances	**(15,828)**	(6,978)
Net foreign exchange gains on financing activities *(Note 3.1)*	**–**	(39,436)
	(15,828)	(46,414)
Finance costs:		
Interest expense		
– Bank borrowings	**126,244**	58,271
– USD bonds *(Note 26(b))*	**49,409**	–
– Convertible bonds *(Note 26(b))*	**–**	6,398
– Corporate bonds *(Note 26(b))*	**37,228**	44,499
Net foreign exchange losses on financing activities *(Note 3.1)*	**71,169**	–
	284,050	109,168
Amount capitalised (i)	**(42,568)**	–
Finance costs expensed	**241,482**	109,168
Net finance costs	**225,654**	62,754

(i) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, which was 4.86% for the year ended 31 December 2018 (nil for the year ended 31 December 2017).

11a. Subsidiaries

As at 31 December 2018, the Company had direct and indirect interests in the following wholly-owned subsidiaries:

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
Directly held:			
Acquest Honour	The British Virgin Islands ("BVI")	USD2	Investment holding in BVI
Shenhua Health Holdings Limited	Cayman Islands	USD1	Investment holding in Cayman Islands
Indirectly held:			
Summit Challenge	BVI	USD1	Investment holding in BVI
Absolute Divine	BVI	USD1	Investment holding in BVI
Expand Base	BVI	USD1	Investment holding in BVI
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 Fermentation Co., Ltd. ("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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

11a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
Baoji Fufeng Biotechnologies Co., Ltd. ("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
Neimenggu Fufeng Biotechnologies Co., Ltd. ("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
Jiangsu Shenhua Pharmaceutical Co., Ltd. ("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 Commercial Co., Ltd.	PRC	RMB21,000,000	Own and operate self-used office building

11a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd. ("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) Pte. Ltd. ("Fufeng Singapore")	Singapore	SGD1,300,000	Sales of monosodium glutamate and other related products in the Southeast Asia.
Jiangsu Fufeng Biotechnologies Co., Ltd.	PRC	RMB5,000,000	Biological techniques research and development, promotion and industrialisation of new biological techniques and achievements, information services of biological technique. Sales of xanthan gum, amino acids and starch sweeteners in the PRC
Hulunbeir Shengmin Agricultural Development Co., Ltd.	PRC	RMB10,000,000	Does not carry out any business activities currently
Xinjiang Fufeng Biotechnologies Co., Ltd. ("Xinjiang Fufeng")	PRC	RMB500,000,000	Manufacture and sales of amino acids, xanthan gum, and other related products in the PRC
Shenhua Pharmaceutical (Jiangsu) Co., Ltd. ("Jiangsu Shenhua Medical")	PRC	RMB10,000,000	Manufacture and sales of fungal material medicine, preparations and food additives and other related products in the PRC

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

11a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
Fufeng Marketing and Sales Co., Ltd.	PRC	RMB220,000,000	Sales of monosodium glutamate and other related products in the PRC
Fufeng (Hong Kong) Import and Export Company., Ltd.	Hong Kong	HKD2	Sales of monosodium glutamate and other related products abroad
Full Health Global Limited	BVI	USD100	Investment holding in BVI
Full Health (Hong Kong) Limited	Hong Kong	HKD100	Investment holding in Hong Kong
First Biotech Inc.	US	USD100,000	Sales of biological products in the US
Fufeng Co., Ltd.	Japan	JPY1,000,000	Sales of biological products in the Japan
Qingdao Yuemei Cosmetics Co., Ltd.	PRC	RMB15,843,000	Sales of cosmetic products in the PRC
Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd. ("Longjiang Fufeng")	PRC	RMB1,000,000,000	Manufacture and sales of threonine, starch sweeteners, amino acids and other related products in the PRC
Jiangsu Fufeng Import and Export Co., Ltd.	PRC	RMB0	Sales of health food and other related products abroad
Qingdao Wanchuang International Trading Co., Ltd.	PRC	RMB0	Sales of monosodium glutamate and other related products abroad
Qiqihar Lifeng Logistics Co., Ltd.	PRC	RMB5,000,000	Provide logistics service
Xinjiang Nongfeng Equity Investment Co., Ltd.	PRC	RMB10,000,000	Practice equity investment in non-listed companies
Golden Fufeng Fertilizer Co., Ltd.	PRC	RMB0	Does not carry out any business activities currently
Neimenggu Bio-fermentation Green Manufacturing Technology Institute Co., Ltd.	PRC	RMB0	Does not carry out any business activities currently

Baoji Dingfeng was established on 11 June 2014, with a registered capital of RMB10,000,000. Baoji Baofeng was established on 22 September 2014, with a registered capital of RMB10,000,000. They were wholly-owned by Hulunbeir Fufeng and were disposed of in 2018 as described in Note 7.

11b. Investments Accounted for Using the Equity Method

The amounts recognised in the balance sheet are as follows:

	2018 *RMB'000*	2017 *RMB'000*
Associates	**36,354**	31,396
At 31 December	**36,354**	31,396

The amounts recognised in the consolidated income statement are as follows:

	2018 *RMB'000*	2017 *RMB'000*
Associates	**58**	749
For the year ended 31 December	**58**	749

Investment in associates

Set out below are the associates of the Group as at 31 December 2018.

Nature of investment in associates as at 31 December 2018

Name of entity	Place of business/country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Jilin COFCO Biomaterial Co., Ltd. ("Jilin COFCO")	PRC	30	Note 1	Equity
Xinjiang Baipai Biotechnologies Co., Ltd. ("Xinjiang Baipai")	PRC	49	Note 2	Equity

Note 1 Jilin COFCO manufactures products and provides services relating to bio-based plastics. It is a strategic business partner for the Group, providing access to the market of new products. The associate has paid-in capital of RMB100,000,000, of which 30% are held by the Group.

Note 2 Xinjiang Baipai manufactures products and provides services relating to amino acids. It is a strategic business partner for the Group, providing access to the market of new products. The associate has paid-in capital of RMB10,000,000, of which 49% are held by the Group.

The associates are private companies and there is no quoted market price available for their shares. There are no commitments or contingent liabilities relating to the Group's interest in the associates.

11b. Investments Accounted for Using the Equity Method *(Continued)*

Summarised financial information of associates

Jilin COFCO

Set out below are the summarised financial information for Jilin COFCO as at and for the years ended 31 December 2018 and 2017 which is accounted for using the equity method.

	Jilin COFCO	
	2018	2017
	RMB'000	*RMB'000*
Total assets	**320,745**	245,078
Total liabilities	**215,898**	140,425
Net assets	**104,847**	104,653
Revenue	**18,650**	7,284
Net profit and total comprehensive income	**194**	2,496

Xinjiang Baipai

Set out below are the summarised financial information for Xinjiang Baipai as at and for the years ended 31 December 2018 which is accounted for using the equity method.

	Xinjiang Baipai
	2018
	RMB'000
Total assets	**10,000**
Net assets	**10,000**
Revenue, net profit and total comprehensive income	**–**

12. Taxation

(a) Income tax expense

	2018 *RMB'000*	2017 *RMB'000*
Current income tax		
– PRC enterprise income tax ("EIT")	**364,649**	265,754
– Hong Kong income tax	**673**	1,741
– Singapore income tax	**–**	1
– US income tax	**2,091**	956
Total current income tax	**367,413**	268,452
Deferred income tax	**(1,629)**	1,949
	365,784	270,401

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.

The Group's subsidiaries in Hong Kong are subject to income tax at a rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year ended 31 December 2018.

The Group's subsidiary in Singapore is subject to income tax at a rate of 17% (2017: 17%) for the year ended 31 December 2018.

The Group's subsidiary in United States is subject to state income tax at a rate of approximately 8.84% (2017: 8.84%) and a federal income tax at a rate of approximately 21% (2017: 39%) for the year ended 31 December 2018.

The Group's subsidiaries in the PRC are subject to PRC EIT which is calculated based on the applicable tax rate of 25% on the assessable profits of subsidiaries established in the PRC in accordance with PRC tax laws and regulations.

Three subsidiaries of the Group including Hulunbeir Fufeng, Shandong Fufeng and Shenhua Pharmaceutical have obtained the approvals to become a new and high-technology enterprise and are entitled to a preferential income tax rate of 15% (2017: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

12. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

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 Hulunbeir Fufeng, Baoji Fufeng, IM Fufeng and Xinjiang Fufeng, are 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% (2017: 15%).

The other subsidiaries of the Group in the PRC are subject to an income tax rate of 25% (2017: 25%).

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2018	2017
	RMB'000	*RMB'000*
Profit before income tax expense	**2,210,823**	1,652,781
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**621,690**	429,053
Preferential tax of certain subsidiaries	**(242,139)**	(161,046)
Research and development tax credit	**(14,528)**	–
Unrecognised tax losses	**256**	1,469
Expenses not deductible for tax purposes	**772**	2,004
Income not subject to tax	**(267)**	(1,079)
	365,784	270,401

13. Earnings Per Share

(a) Basic earnings per share

Basic earnings per share is 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.

	2018	2017
	RMB cents	*RMB cents*
Total basic earnings per share attributable to the Shareholders	**72.45**	57.04

13. Earnings Per Share *(Continued)*

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	2018 ***RMB cents***	2017 *RMB cents*
Total diluted earnings per share attributable to the Shareholders	**72.39**	55.46

(c) Reconciliations of earnings used in calculating earnings per share

	2018 ***RMB'000***	2017 *RMB'000*
Basic earnings per share		
Profit attributable to the Shareholders		
used in calculating basic earnings per share	**1,845,039**	1,382,380
Diluted earnings per share		
Profit from continuing operations attributable to		
the Shareholders:		
Used in calculating basic earnings per share	**1,845,039**	1,382,380
Add: interest expense on convertible bonds (net of tax)	**–**	6,398
Used in calculating diluted earnings per share	**1,845,039**	1,388,778
Profit attributable to the Shareholders		
used in calculating diluted earnings per share	**1,845,039**	1,388,778

13. Earnings Per Share *(Continued)*

(d) Weighted average number of shares used as the denominator

	2018 Number	2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (thousands)	**2,546,734**	2,423,400
Adjustments for calculation of diluted earnings per share:		
– Assumed exercise of share options (thousands)	**1,945**	4,421
– Assumed conversion of convertible bonds (thousands)	**–**	76,156
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share (thousands)	**2,548,679**	2,503,977

(e) Information concerning the classification of securities

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.

The 23,200,000 outstanding share options issued in April 2015, August 2017 and December 2017 (2017: 18,200,000 outstanding share options issued in April 2015 and December 2017) are not included in the calculation of diluted earnings per share because the average market price of ordinary shares for the year ended 31 December 2018 did not exceed the exercise prices of each tranche of the share options, hence the share options are antidilutive for the year ended 31 December 2018. These options could potentially dilute basic earnings per share in the future.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

14. Leasehold Land Payments

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

	2018 *RMB'000*	2017 *RMB'000*
Cost		
At beginning of the year	1,477,205	1,473,492
Additions	119,841	3,713
Disposal of leasehold land payments	(5,890)	–
Disposal of subsidiaries *(Note 7)*	(734,551)	–
At end of the year	856,605	1,477,205
Amortisation		
At beginning of the year	(83,264)	(59,550)
Charge for the year *(Note 8)*	(20,252)	(23,714)
Disposal of subsidiaries *(Note 7)*	25,469	–
At end of the year	(78,047)	(83,264)
Net book value		
At end of the year	778,558	1,393,941

As at 31 December 2018, there was no leasehold land pledged as security for the Group's borrowings (2017: Nil).

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

As at 31 December 2018, the Group was still in the process of applying for the ownership certificates for various parcels of leasehold land with a total carrying amount of RMB202,074,000 (2017: RMB221,418,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

15. Property, Plant and Equipment

	2018					
	Plant and building *RMB'000*	Machinery *RMB'000*	Furniture and fixtures *RMB'000*	Vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2018	3,954,494	9,552,009	216,780	76,369	474,371	14,274,023
Additions	5,577	234,051	16,018	15,897	1,787,895	2,059,438
Transfer upon completion	161,364	465,825	–	–	(627,189)	–
Disposals	(1,171)	(3,072)	(3,858)	(2,703)	–	(10,804)
At 31 December 2018	4,120,264	10,248,813	228,940	89,563	1,635,077	16,322,657
Accumulated depreciation						
At 1 January 2018	(933,055)	(3,749,590)	(158,275)	(41,403)	–	(4,882,323)
Charge for the year *(Note 8)*	(293,733)	(723,468)	(11,394)	(9,651)	–	(1,038,246)
Disposals	429	200	3,234	2,271	–	6,134
At 31 December 2018	(1,226,359)	(4,472,858)	(166,435)	(48,783)	–	(5,914,435)
Provision for impairment loss						
At 1 January 2018	(56,469)	(100,267)	(194)	(709)	–	(157,639)
Reversal of Impairment charge *(Note 8)*	22,187	37,207	–	–	–	59,394
At 31 December 2018	(34,282)	(63,060)	(194)	(709)	–	(98,245)
Net book value						
At 31 December 2018	2,859,623	5,712,895	62,311	40,071	1,635,077	10,309,977

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

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

	2017					
	Plant and building *RMB'000*	Machinery *RMB'000*	Furniture and fixtures *RMB'000*	Vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2017	3,472,858	7,952,127	200,856	61,503	371,487	12,058,831
Additions	17,339	495,231	15,924	16,471	1,759,817	2,304,782
Transfer upon completion	464,297	1,115,139	–	–	(1,579,436)	–
Disposals	–	(10,488)	–	(1,605)	(77,497)	(89,590)
At 31 December 2017	3,954,494	9,552,009	216,780	76,369	474,371	14,274,023
Accumulated depreciation						
At 1 January 2017	(675,154)	(3,153,905)	(147,360)	(40,974)	–	(4,017,393)
Charge for the year *(Note 8)*	(257,901)	(597,478)	(10,915)	(1,608)	–	(867,902)
Disposals	–	1,793	–	1,179	–	2,972
At 31 December 2017	(933,055)	(3,749,590)	(158,275)	(41,403)	–	(4,882,323)
Provision for impairment loss						
At 1 January 2017	(63,200)	(103,216)	(194)	(709)	(15,344)	(182,663)
Reversal of Impairment charge *(Note 8)*	9,272	15,752	–	–	–	25,024
Transfer upon completion	(2,541)	(12,803)	–	–	15,344	–
At 31 December 2017	(56,469)	(100,267)	(194)	(709)	–	(157,639)
Net book value						
At 31 December 2017	2,964,970	5,702,152	58,311	34,257	474,371	9,234,061

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

(a) As at 31 December 2018, no plant and machinery was pledged as security for the Group's borrowings (2017: Nil).

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

	2018 *RMB'000*	2017 *RMB'000*
Cost of sales	**902,806**	782,351
Administrative expenses	**135,440**	85,551
	1,038,246	867,902

(c) During the year ended 31 December 2014, the Group received RMB635,791,000 from the local PRC governments as a compensation for disposal of property, plant and equipment related to plant relocation. As at 31 December 2017, RMB573,510,000 had been applied to compensate the disposal of property, plant and equipment during 2015, 2016 and 2017. The remaining balance of RMB62,281,000 was recorded in "Trade, other payables and accruals" as at 31 December 2017 (Note 25). During the year ended 31 December 2018, further assets amounting to RMB246,000 were disposed of, and the compensation balance was reduced by the same amount accordingly.

(d) During the year ended 31 December 2018, due to the increase of sulphuric acid market purchase price, the Group has put an idle workshop back into the production of sulphuric acid for its own use since January 2018. Although the sulphuric acid is used internally as a raw material of MSG, the group of assets in the sulphuric acid workshop, reported under Amino acid segment, has been identified as one cash-generating unit because there is an active market exists for sulphuric acid. This group of assets in the sulphuric acid workshop had been fully impaired in prior years. The Group reassessed its recoverable amount using the value in use method to be RMB59,394,000 as at 31 December 2018. Therefore, of the total impairment provision of RMB83,686,000 set aside in prior years, RMB59,394,000 was reversed (2017: RMB25,024,000) (Note 8) during the year ended 31 December 2018, which was credited to "Cost of sales" in the consolidated income statement.

The value in use calculation used pre-tax cash flow projections based on the financial budgets approved by management. The pre-tax discount rate used in the calculations was 13% (2017: 13%).

(e) As at 31 December 2018, plant and buildings of the Group with a total net book value of RMB362,379,000 were without real estate titles and the Group is in the process to secure the relevant real estate certificates (2017: RMB202,406,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

16. Intangible Assets

	Patents *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
At 1 January 2017			
Cost	18,329	10,201	28,530
Accumulated amortisation	(225)	(3,419)	(3,644)
Accumulated impairment	(17,996)	–	(17,996)
Transferred to disposal group classified as held for sale	2,113	105	2,218
Net book amount	2,221	6,887	9,108
Year ended 31 December 2017			
Opening net book amount	2,221	6,887	9,108
Additions	30	10,684	10,714
Amortisation *(Note 8)*	(145)	(1,886)	(2,031)
Closing net book amount	2,106	15,685	17,791
At 31 December 2017			
Cost	20,472	20,990	41,462
Accumulated amortisation	(370)	(5,305)	(5,675)
Accumulated impairment	(17,996)	–	(17,996)
Net book amount	2,106	15,685	17,791
Year ended 31 December 2018			
Opening net book amount	2,106	15,685	17,791
Additions	–	15,618	15,618
Amortisation *(Note 8)*	(151)	(2,513)	(2,664)
Closing net book amount	1,955	28,790	30,745
At 31 December 2018			
Cost	20,472	36,608	57,080
Accumulated amortisation	(521)	(7,818)	(8,339)
Accumulated impairment	(17,996)	–	(17,996)
Net book amount	1,955	28,790	30,745

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

17. Financial Instruments by Category

The Group holds the following financial instruments:

	Note	2018 RMB'000	2017 RMB'000
Financial assets			
Financial assets at amortised cost			
Trade and other receivables *	18	2,508,664	1,100,221
Cash and bank balances	20	2,690,284	515,444
		5,198,948	1,615,665
Financial liabilities			
Liabilities at amortised cost			
Trade and other payables *	25	3,275,538	2,875,253
Borrowings	26	4,010,552	1,971,204
Derivative financial instruments			
Held for trading at FVPL	27	29,882	–
		7,315,972	4,846,457

* Excluding non-financial assets and liabilities

The Group's exposure to various risks associated with the financial instruments is described in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

18. Trade and Other Receivables

	2018 RMB'000	2017 RMB'000
Trade receivables (a)	622,778	509,204
Less: provision for impairment of trade receivables (b)	(11,628)	(20,258)
Trade receivables – net	611,150	488,946
Notes receivable (c)	520,241	562,423
Receivables arising from disposal of subsidiaries (d)	1,013,214	–
Receivables from former subsidiaries (e)	263,566	–
Deposits and others	92,321	46,553
Loan to a related party *(Note 33(c))*	6,000	–
Loans to employees	2,172	2,299
– Loans to key management	–	–
– Loans to other employees	2,172	2,299
Value-added tax for future deduction	336,460	193,258
Trade and other receivables excluding prepayments	2,845,124	1,293,479
Prepayments for raw materials	195,109	68,080
	3,040,233	1,361,559

(a) As at 31 December 2018 and 2017, the ageing analysis of trade receivables (including amounts due from related party of trading nature) based on invoice date was as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	542,820	402,822
3–12 months	64,998	60,765
Over 12 months	14,960	45,617
	622,778	509,204

The Group generally sells its products to domestic customers and receives 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. Certain major customers in the PRC and overseas with good repayment history are offered credit terms of not more than three months.

18. Trade and Other Receivables *(Continued)*

(b) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase in the loss allowance on 1 January 2018 by RMB1,082,000, Note 3.1(b) provides for details about the calculation of the allowance.

(c) As at 31 December 2018, notes receivable were all bank acceptance notes aged less than six months, and included a total amount of RMB465,793,000 (2017: RMB509,926,000) that have been endorsed to the suppliers.

(d) As at 31 December 2018, the balance of undiscounted receivables arising from the disposal of Baoji Dingfeng and Baoji Baofeng (Note 7) amounted to RMB1,034,616,000. The related impact of discounting amounting to RMB21,402,000 was considered based on the payment due dates set in the Share Transfer Agreements, resulting in a net balance of RMB1,013,214,000 as at 31 December 2018.

RMB183,269,000 were subsequently collected in February 2019. The remaining balances are expected to be collected in 2019 according to the agreed payment schedule.

(e) As described in Note 7, Baoji Dingfeng and Baoji Baofeng had a total of RMB849,571,000 payables to certain other subsidiary of the Group at the date of disposal. During the year, the Group collected RMB586,005,000 resulting in a receivable balance of RMB263,566,000 as at 31 December 2018.

RMB151,625,000 were subsequently collected in February 2019. The remaining balances are expected to be collected in 2019 according to the agreed payment schedule.

(f) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values as at the balance sheet date.

(g) The carrying amounts of the Group's trade and other receivables excluding prepayments were denominated in the following currencies:

	2018 *RMB'000*	2017 *RMB'000*
– RMB	**2,362,058**	756,710
– USD	**483,066**	536,769
	2,845,124	1,293,479

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

19. Inventories

	2018 RMB'000	2017 RMB'000
Raw materials	1,816,818	1,200,640
Work-in-progress	156,524	126,866
Finished goods	1,288,751	1,902,389
	3,262,093	3,229,895

(i) Amounts recognised in profit or loss

Inventories recognised as an expense during the year ended 31 December 2018 amounted to RMB9,790,804,000 (2017: RMB8,649,792,000). These were included in cost of sales amounted to RMB9,616,528,000 (2017: RMB8,581,636,000) and administrative expenses amounted to RMB174,276,000 (2017: RMB68,156,000).

Write-downs of inventories to net realisable value amounted to RMB17,649,000 (2017: RMB17,375,000). These were recognised as an expense during the year ended 31 December 2018 and included in "Cost of sales" in consolidated income statement.

20. Cash and Bank Balances

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents		
– Cash on hand	407	472
– Cash in banks	1,734,536	419,016
	1,734,943	419,488
Term deposits over 3 months and within one year	22,000	22,100
Cash and bank balances	1,756,943	441,588
Restricted bank deposits (a)	933,341	73,856
Total cash and bank balances (b)	2,690,284	515,444

20. Cash and Bank Balances *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Secured bank borrowing	**869,800**	–
Issuance of bank acceptance notes	**63,000**	72,817
Others	**541**	1,039
	933,341	73,856

(b) Total cash and bank balances are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
– RMB	**1,695,259**	263,955
– USD	**947,852**	220,434
– EUR	**37,074**	6,467
– HKD	**9,923**	24,401
– SGD	**114**	129
– JPY	**62**	58
	2,690,284	515,444

(c) 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.

(d) The weighted average effective interest rate on cash and bank balances placed with banks by the Group was 0.69% per annum for the year ended 31 December 2018 (2017: 0.46%).

21. Share Capital and Premium

	Number of shares (thousands)	Amount		
		Ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2017	2,126,685	207,222	462,639	669,861
Dividends	–	–	(368,113)	(368,113)
Issue of ordinary shares	140,000	12,407	666,737	679,144
Conversion of convertible bonds	280,049	24,807	975,463	1,000,270
	420,049	37,214	1,274,087	1,311,301
At 31 December 2017	2,546,734	244,436	1,736,726	1,981,162
Dividends	–	–	(319,537)	(319,537)
Others	–	–	13,290	13,290
	–	–	(306,247)	(306,247)
At 31 December 2018	2,546,734	244,436	1,430,479	1,674,915

The total number of authorised share capital of the Company comprised 10,000,000,000 ordinary shares with a par value of HKD0.10 each as at 31 December 2018 and 2017.

In April 2017, 140,000,000 new ordinary shares were subscribed and placed to not less than six independent professional, institutional and individual investors at a price of HKD5.55 per share. Therefore the share capital increased by RMB12,407,000 and the share premium increased by RMB666,737,000.

As at 31 December 2017, all of the outstanding convertible bonds issued in November 2013 ("2013 CB") has been converted and allotted into 280,049,404 ordinary shares of the Company. Therefore the share capital increased by RMB24,807,000 and the share premium increased by RMB915,832,000. Accordingly, the other reserve of RMB59,631,000 of 2013 CB was transferred to share premium in 2017 (Note 24).

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.

22. Share-Based Payment

(a) Share options granted on 9 April 2015

The Company granted to certain eligible employees share options to subscribe for an aggregate of 16,600,000 ordinary shares of the Company on 9 April 2015. These options vest in tranches over a period of up to 5 years. There were no options being exercised during the years ended 31 December 2018 and 2017.

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

	2018		2017	
	Average exercise price in HKD per share option	Options (thousands)	Average exercise price in HKD per share option	Options (thousands)
At 1 January	5.69	3,600	5.69	9,600
Forfeited	5.69	–	5.69	(6,000)
At 31 December	5.69	3,600	5.69	3,600

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB30,216,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 April 2015
Average share price	HKD4.89
Exercise price	HKD5.69
Expected life of options	5.0 years
Expected volatility	43.11%
Expected dividend yield	2.26%
Risk free rate	0.99%

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 Board based on the expected future performance and dividend policy of the Group.

In December 2017, one employee resigned and thus all the related 6,000,000 share options were forfeited during the year ended 31 December 2017, which were reclassified from other reserves to retained earnings.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2018 was approximately RMB432,000 (2017: RMB4,249,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

22. Share-Based Payment *(Continued)*

(b) Share options granted on 9 November 2016

The Company granted to certain eligible employees share options to subscribe for an aggregate of 14,700,000 ordinary shares of the Company on 9 November 2016. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the years ended 31 December 2018 and 2017.

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

	2018		2017	
	Average exercise price in HKD per share option	Options (thousands)	Average exercise price in HKD per share option	Options (thousands)
At 1 January	3.50	13,900	3.50	13,900
Forfeited	3.50	(1,600)	3.50	–
At 31 December	3.50	12,300	3.50	13,900

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB17,515,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 November 2016
Average share price	HKD3.45
Exercise price	HKD3.50
Expected life of options	6.0 years
Expected volatility	44.79%
Expected dividend yield	2.15%
Risk free rate	1.39%

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.

In 2018, two employee resigned and thus all the related 1,600,000 share options were forfeited during the year ended 31 December 2018.

22. Share-Based Payment *(Continued)*

(b) Share options granted on 9 November 2016 *(Continued)*

The attributable amount charged to the consolidated income statement during the year ended 31 December 2018 was approximately RMB3,831,000 (2017: RMB4,922,000).

(c) Share options granted on 30 December 2016

The Company granted to certain eligible employee share options to subscribe for an aggregate of 300,000 ordinary shares of the Company on 30 December 2016. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the years ended 31 December 2018 and 2017.

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

	2018		2017	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**3.82**	**300**	3.82	300
At 31 December	**3.82**	**300**	3.82	300

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB414,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 30 December 2016
Average share price	HKD3.81
Exercise price	HKD3.82
Expected life of options	6.0 years
Expected volatility	44.52%
Expected dividend yield	2.18%
Risk free rate	1.70%

22. Share-Based Payment *(Continued)*

(c) Share options granted on 30 December 2016 *(Continued)*

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 Board 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 2018 was approximately RMB115,000 (2017: RMB118,000).

(d) Share options granted on 25 August 2017

The Company granted to certain eligible employee share options to subscribe for an aggregate of 5,000,000 ordinary shares of the Company on 25 August 2017. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the years ended 31 December 2018 and 2017.

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

	2018		2017	
	Average exercise price in HKD per share option	Options (thousands)	Average exercise price in HKD per share option	Options (thousands)
At 1 January	4.96	5,000	–	–
Issued	4.96	–	4.96	5,000
At 31 December	4.96	5,000	4.96	5,000

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

22. Share-Based Payment *(Continued)*

(d) Share options granted on 25 August 2017 *(Continued)*

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB7,852,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 25 August 2017
Average share price	HKD4.95
Exercise price	HKD4.96
Expected life of options	6.0 years
Expected volatility	44.41%
Expected dividend yield	3.75%
Risk free rate	1.37%

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 Board 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 2018 was approximately RMB2,155,000 (2017: RMB898,000).

(e) Share options granted on 29 December 2017

The Company granted to certain eligible employees share options to subscribe for an aggregate of 1,600,000 ordinary shares of the Company on 29 December 2017. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the years ended 31 December 2018 and 2017.

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

	2018		2017	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**5.12**	**1,600**	–	–
Issued	**5.12**	**–**	5.12	1,600
Forfeited	**5.12**	**(1,600)**	5.12	–
At 31 December	**5.12**	**–**	5.12	1,600

22. Share-Based Payment *(Continued)*

(e) Share options granted on 29 December 2017 *(Continued)*

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB2,591,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 29 December 2017
Average share price	HKD5.10
Exercise price	HKD5.12
Expected life of options	6.0 years
Expected volatility	43.61%
Expected dividend yield	3.64%
Risk free rate	1.68%

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 Board based on the expected future performance and dividend policy of the Group.

In 2018, two employees resigned and thus all the related 1,600,000 share options were forfeited during the year ended 31 December 2018.

The attributable amount credited to the consolidated income statement during the year ended 31 December 2018 was approximately RMB4,000 (2017: the attributable amount charged to the consolidated income statement was approximately RMB4,000).

22. Share-Based Payment *(Continued)*

(f) Share options granted on 28 June 2018

The Company granted to certain eligible employee share options to subscribe for an aggregate of 2,000,000 ordinary shares of the Company on 28 June 2018. These options vest in tranches over a period of up to 6 years. There were no options being exercised during the years ended 31 December 2018.

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

	2018		2017	
	Average exercise price in HKD per share option	Options (thousands)	Average exercise price in HKD per share option	Options (thousands)
At 1 January	–	–	–	–
Issued	3.76	2,000	–	–
Forfeited	3.76	(2,000)	–	–
At 31 December	3.76	–	–	–

The fair value, which was determined by an independent qualified appraiser using Binominal option pricing model, of the options as at the grant date was approximately RMB1,795,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 28 June 2018
Average share price	HKD3.45
Exercise price	HKD3.76
Expected life of options	6.0 years
Expected volatility	43.81%
Expected dividend yield	3.42%
Risk free rate	2.21%

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 Board based on the expected future performance and dividend policy of the Group.

In August 2018, one employee resigned and thus all the related 2,000,000 share options were forfeited during the year ended 31 December 2018.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2018 was nil.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

23. Retained Earnings

	The Group	
	2018	2017
	RMB'000	*RMB'000*
At 31 December as originally presented	**7,094,765**	5,826,023
Change in accounting policy *(Note 2.2(a))*	**(1,082)**	–
Restated at 1 January	**7,093,683**	5,826,023
Profit for the year	**1,845,039**	1,382,380
Profit appropriation to statutory reserves *(Note 24)*	**(183,374)**	(116,594)
Expiry of share options issued	**–**	2,956
At 31 December	**8,755,348**	7,094,765

24. Other Reserves

	Convertible bonds *(Notes 21, 26)* *RMB'000*	Capital reserve *(Note (a))* *RMB'000*	Statutory reserve *(Note (b))* *RMB'000*	Share-based payment reserve *(Note 22)* *RMB'000*	Total *RMB'000*
1 January 2017	59,631	(370,760)	616,391	14,718	319,980
Profit appropriation *(Note 23)*	–	–	116,594	–	116,594
Employee share option schemes					
– Value of employee services *(Notes 9, 22)*	–	–	–	10,191	10,191
– Expiry of share options issued	–	–	–	(2,956)	(2,956)
Conversion of convertible bonds *(Note 21)*	(59,631)	–	–	–	(59,631)
31 December 2017	–	(370,760)	732,985	21,953	384,178
Profit appropriation *(Note 23)*	–	–	183,374	–	183,374
Employee share option schemes					
– Value of employee services *(Notes 9, 22)*	–	–	–	6,529	6,529
31 December 2018	**–**	**(370,760)**	**916,359**	**28,482**	**574,081**

24. Other Reserves *(Continued)*

(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.

25. Trade, Other Payables and Accruals

	2018	2017
	RMB'000	*RMB'000*
Trade payables (a)	**1,511,982**	1,451,471
Advances from customers *(Note 2.2)*	**–**	346,937
Payables for property, plant and equipment	**1,309,099**	1,013,726
Bank acceptance notes payable	**64,716**	83,795
Government compensation related to property, plant and equipment disposal received in advance *(Note 15)*	**62,035**	62,281
Salaries, wages and staff welfares payables	**375,011**	398,098
Interest payables	**47,779**	9,227
Government grants received in advance	**1,571**	2,039
Dividends payable	**407**	407
Other payables and accruals	**341,962**	317,034
	3,714,562	3,685,015

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

(a) As at 31 December 2018 and 2017, the ageing analysis of trade payables based on invoice date was as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**1,325,253**	1,014,534
3 to 6 months	**80,224**	218,759
6 to 12 months	**40,429**	151,949
1 to 2 years	**40,701**	44,024
Over 2 years	**25,375**	22,205
	1,511,982	1,451,471

(b) 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.

26. Borrowings

	2018	2017
	RMB'000	*RMB'000*
Non-current		
Bank borrowings, unsecured	**335,549**	560,265
USD bonds (b)	**2,151,840**	–
	2,487,389	560,265
Current		
Bank borrowings, unsecured	**653,363**	415,000
Bank borrowings, secured	**869,800**	–
Corporate bonds (b)	**–**	995,939
	1,523,163	1,410,939
Total Borrowings	**4,010,552**	1,971,204

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

26. Borrowings *(Continued)*

(a) Borrowings

At 31 December 2018, the Group's borrowings were repayable as follows:

	Bank borrowings		Other loans	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**1,523,163**	415,000	**–**	995,939
Between 1 and 2 years	**335,549**	245,138	**–**	–
Between 2 and 5 years	**–**	315,127	**2,151,840**	–
	1,858,712	975,265	**2,151,840**	995,939

As at 31 December 2018, RMB869,800,000 borrowings were secured by restricted bank deposits (2017: all the bank borrowings were unsecured).

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

	2018	2017
Bank borrowings	**4.86%**	3.28%

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

	Carrying amount		Fair value	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings, unsecured	**335,549**	560,265	**338,734**	569,034
USD bonds (b)	**2,151,840**	–	**2,201,104**	–
	2,487,389	560,265	**2,539,838**	569,034

The fair value of the non-current bank borrowing at 31 December 2018 were RMB338,734,000 (2017: RMB569,034,000). The fair value of USD bonds at 31 December 2018 were RMB2,201,104,000. The fair value measurement of them is categorised within level 2 of the fair value hierarchy.

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

26. Borrowings *(Continued)*

(a) Borrowings *(Continued)*

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

	2018 *RMB'000*	2017 *RMB'000*
RMB	**1,209,800**	1,410,939
HKD	**261,203**	245,138
USD	**2,539,549**	315,127
	4,010,552	1,971,204

(b) Loans other than bank borrowings

USD bonds issued in August 2018

In August 2018, the Company issued USD bonds at a par value of USD350,000,000, which was denominated in USD with a fixed interest rate of 5.875% per annum. The bonds will mature in three years from the issuance date. The value of the liability, net of transaction costs of USD4,733,000, was determined at issuance of the bonds. As at 31 December 2018, a total of USD32,615,000 of such USD bonds were early redeemed.

Corporate bonds issued in November 2015

In November 2015, IM Fufeng issued corporate bonds at a par value of RMB1,000,000,000, which was denominated in RMB with a fixed interest rate of 3.98% per annum. The bonds would mature in three years from the issuance date. The value of the liability, net of transaction costs of RMB14,000,000, was determined at issuance of the bonds. As at 31 December 2018, the corporate bonds matured and were all redeemed.

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 would 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 could be converted into the Company's ordinary shares at the holder's option at the price 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. During the year ended 31 December 2015, a total of RMB53,760,000 of such convertible bonds were converted into 17,065,033 ordinary shares of the Company.

As at 31 December 2017, all of the outstanding 2013 CB was converted and allotted into 280,049,404 ordinary shares of the Company.

26. Borrowings *(Continued)*

(b) Loans other than bank borrowings *(Continued)*

2013 CB *(Continued)*

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

	2013 CB *RMB'000*	Total *RMB'000*
Liability component at 1 January 2017	934,241	934,241
Interest expense on convertible bonds *(Note 10)*	6,398	6,398
Conversion of convertible bonds	(940,639)	(940,639)
Liability component at 31 December 2017	–	–

27. Derivative Financial Instruments

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging accounting criteria, they are accounted for at fair value through profit or loss below. The Group has the following derivative financial instruments:

	2018 ***RMB'000***	2017 *RMB'000*
Non-current liabilities		
– Cross currency swaps	**29,882**	–

During the year, the Company entered into cross currency swaps contracts which were non-hedging derivatives and were classified as non-current liabilities. For information about the methods and assumptions used in determining the fair value of derivatives, please refer to Note 3.3.

The notional principal amounts of the outstanding cross currency swap contracts at 31 December 2018 were USD200,000,000 (2017: nil) and an unrealised loss of RMB29,882,000 (2017: nil) was recognised in "Other gains/(losses) – net" (Note 7).

28. Deferred Income

	2018 *RMB'000*	2017 *RMB'000*
Government grants related to income tax credit from purchasing qualified equipment (a)	39,767	53,585
Government grants related to acquisition of environmental protection and technology improvement equipment (b)	674,964	596,031
Government grants related to urban planning of local PRC governments (c)	71,240	72,320
	785,971	721,936

The movements of the above government grants for the years ended 31 December 2018 and 2017 are as follows:

	2018 *RMB'000*	2017 *RMB'000*
At beginning of the year	721,936	707,501
Granted during the year	141,850	110,977
Amortised as income *(Notes 6,31)*	(77,815)	(96,542)
At end of the year	785,971	721,936

(a) Government grants related to income tax credit from purchasing qualified equipment represented reduction in income tax granted to Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng on the 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 environmental 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, and 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 2018

29. Deferred Income Tax

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:

	2018 ***RMB'000***	2017 *RMB'000*
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**124,306**	100,327
– Deferred income tax assets to be recovered within 12 months	**59,770**	82,120
	184,076	182,447
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(16,650)**	(16,650)
Deferred income tax assets, net	**167,426**	165,797

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

	2018 ***RMB'000***	2017 *RMB'000*
Beginning balance of the year	**165,797**	167,746
Credited/(Charged) to consolidated income statement *(Note 12)*	**1,629**	(1,949)
Ending balance of the year	**167,426**	165,797

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

29. Deferred Income Tax *(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 31 December 2016	661	6,834	79,634	45,507	45,498	7,045	185,179
Credited/(Charged) to consolidated income statement	4,223	(3,913)	5,931	(2,606)	(4,727)	(994)	(2,086)
At 31 December 2017	4,884	2,921	85,565	42,901	40,771	6,051	183,093
(Charged)/Credited to consolidated income statement	(4,884)	1,163	17,134	(3,594)	(16,794)	8,467	1,492
At 31 December 2018	**–**	**4,084**	**102,699**	**39,307**	**23,977**	**14,518**	**184,585**

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 operating losses amounted to RMB19,789,000 as at 31 December 2018 (2017: RMB19,145,000) that can be carried forward to offset against future taxable income, because it was uncertain whether there would be sufficient profit to offset in the near future. As at 31 December 2018 and 2017, the expiry date of such tax operating losses is as follows:

Expiry date	2018 *RMB'000*	2017 *RMB'000*
2019	**1,370**	1,370
2020	**6,155**	6,155
2021	**5,717**	5,717
2022	**5,903**	5,903
2023	**644**	–
	19,789	19,145

29. Deferred Income Tax *(Continued)*

Deferred income tax liabilities:

	Capitalisation of borrowing costs *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2017	783	16,650	17,433
Credited to consolidated income statement	(137)	–	(137)
At 31 December 2017	646	16,650	17,296
Credited to consolidated income statement	(137)	–	(137)
At 31 December 2018	509	16,650	17,159

According to the new corporate income tax law, a 10% withholding tax will be levied on the immediate holding companies established out of Mainland China, in respect of earnings generated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign immediate holding companies. During the year, no withholding tax has been provided as the Board has confirmed that the Group does not expect Mainland China subsidiaries to distribute the retained earnings as at 31 December 2018 in the foreseeable future.

Deferred income tax liabilities as at 31 December 2018 of RMB473,819,000 (2017: RMB384,638,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC, totalling RMB9,476,372,000 (2017: RMB7,692,760,000).

30. Dividends

	2018 ***RMB'000***	2017 *RMB'000*
Interim, paid	**93,379**	191,298
Final, proposed	**514,276**	226,158
	607,655	417,456

The final dividends paid in 2018 amounted to HKD280,141,000 (equivalent to RMB226,158,000) (2017: RMB176,815,000), representing HK11.0 cents (equivalent to RMB8.88 cents per share) (2017: RMB6.94 cents) per ordinary share of the Company.

At a meeting held on 19 March 2019, the Board proposed a final dividend of HKD601,029,000 (equivalent to RMB514,276,000) (2017: RMB226,158,000), representing HK23.6 cents (equivalent to RMB20.19 cents) (2017: RMB8.88 cents) per share to be distributed from the share premium account. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2019.

31. Cash Generated from Operations

(a) Cash generated from operations

	2018 *RMB'000*	2017 *RMB'000*
Profit before income tax	**2,210,823**	1,652,781
Adjustments for:		
– Provision for inventory *(Note 19)*	**17,649**	17,375
– Provision for receivables impairment *(Note 3.1(b))*	**7,114**	19,973
– Reversal of impairment charge for property, plant and equipment *(Note 15)*	**(59,394)**	(25,024)
– Depreciation *(Note 15)*	**1,038,246**	867,902
– Amortisation of intangible assets *(Note 16)*	**2,664**	2,031
– Amortisation of leasehold land payments *(Note 14)*	**20,252**	23,714
– Amortisation of deferred income *(Note 28)*	**(77,815)**	(96,542)
– Gain on disposal of subsidiaries – net *(Note 7)*	**(1,297,469)**	–
– Gain on disposal of leasehold land payments *(Note d)*	**(5,900)**	–
– Fair value losses on derivative financial instruments *(Note 27)*	**29,882**	–
– Gain on compensation from insurance company after offsetting losses *(Note 7)*	**(2,891)**	(4,178)
– (Gains)/Losses on disposal of property, plant and equipment – net *(Note c)*	**(1,498)**	836
– Employee share option schemes *(Notes 9, 22)*	**6,529**	10,191
– Interest income *(Note 10)*	**(15,828)**	(6,978)
– Interest expenses *(Note 10)*	**170,313**	109,168
– Foreign exchange losses/(gains) on financing activities *(Note 10)*	**71,169**	(39,436)
Changes in working capital:		
– Inventories	**(49,847)**	(765,359)
– Trade and other receivables	**(402,455)**	(343,027)
– Restricted bank deposits	**10,315**	386,605
– Trade, other payables and accruals	**185,007**	(272,362)
Cash generated from operations	**1,856,866**	1,537,670

31. Cash Generated from Operations *(Continued)*

(b) Proceeds from disposal of subsidiaries

	2018 RMB'000	2017 RMB'000
Gain on disposal of subsidiaries – net *(Note 7)*	**1,297,469**	–
Net book amount for disposal of subsidiaries (excluding cash and bank balances)	**(140,489)**	–
Increase in other receivables, net of unrealized financing income *(Note 18(d))*	**(1,013,214)**	–
Proceeds from disposal of subsidiaries, net of cash disposed	**143,766**	–

The net equity of Baoji Dingfeng and Baoji Baofeng were disposed of at RMB1,178,401,000. As described in Note 7, the assets and liabilities of Baoji Dingfeng and Baoji Baofeng at the date of disposal included the parcels of leasehold land with carrying values of RMB506,510,000 and RMB202,572,000, respectively (Note 14), cash and bank balances of RMB19,000 in total and loan payables to certain other subsidiary of the Group of RMB849,571,000 in total.

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

	2018 RMB'000	2017 RMB'000
Net book amount for disposals *(Note 15)*	**4,670**	86,618
Gains/(Losses) on disposal of property, plant and equipment – net *(Note 7)*	**1,498**	(836)
Decrease in other payables for government compensation related to property, plant and equipment received in advance *(Note 15, 25)*	**(246)**	(77,497)
Proceeds from disposal of property, plant and equipment	**5,922**	8,285

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

31. Cash Generated from Operations *(Continued)*

(d) Proceeds from disposal of leasehold land payments

	2018 *RMB'000*	2017 *RMB'000*
Net book amount for disposals *(Note 14)*	**5,890**	–
Gain on disposal of leasehold land payments *(Note 7)*	**5,900**	–
Proceeds from disposal of property, plant and equipment	**11,790**	–

(e) Major non-cash transactions

During the year ended 31 December 2018, the Group purchased property, plant and equipment and recorded related payables without cash outflow in the amount of RMB1,313,815,000 (2017: RMB1,013,726,000).

(f) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the years ended 2018 and 2017:

	Borrowings due within 1 year *RMB'000*	Borrowings due after 1 year *RMB'000*	Total *RMB'000*
Net debt as at 1 January 2017	1,176,793	1,923,185	3,099,978
Cash flows			
– Inflow from financing activities	1,235,000	575,887	1,810,887
– Outflow from financing activities	(1,987,832)	–	(1,987,832)
Foreign exchange adjustments	(21,163)	(18,273)	(39,436)
Other non-cash movements			
– Conversion of convertible bonds	–	(931,944)	(931,944)
– Reclassification	991,241	(991,241)	–
– Amortization of borrowing costs	16,900	2,651	19,551
Net debt as at 31 December 2017	1,410,939	560,265	1,971,204
Cash flows			
– Inflow from financing activities	3,520,524	2,350,299	5,870,823
– Outflow from financing activities	(3,692,925)	(224,133)	(3,917,058)
Foreign exchange adjustments	31,448	38,925	70,373
Other non-cash movements			
– Reclassification	245,138	(245,138)	–
– Amortization of borrowing costs	8,039	7,171	15,210
Net debt as at 31 December 2018	1,523,163	2,487,389	4,010,552

32. Commitments

(a) Capital commitments

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

	2018 *RMB'000*	2017 *RMB'000*
Purchase of property, plant and equipment		
– Contracted but not yet incurred	**207,903**	233,764

(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:

	2018 *RMB'000*	2017 *RMB'000*
No later than 1 year	**3,687**	3,193
Later than 1 year and no later than 5 years	**1,488**	67
	5,175	3,260

33. Related Party Transactions and Balances

Mr. Li Xuechun is the controlling shareholder of the Group. The entities controlled by close family members of the controlling shareholder are regarded as related parties.

(a) Transactions with related parties

The following transactions occurred with related parties:

(1) Non-recurring connected transaction

	2018 *RMB'000*	2017 *RMB'000*
Services purchased from a related party*	**43,129**	28,222

* The Group received construction services from an entity that is controlled by a close family member of the controlling shareholder.

(2) Continuing connected transaction

	2018 *RMB'000*	2017 *RMB'000*
Sales of products to a related party*	**72,129**	20,812

* The Group sold products to an entity that is controlled by a close family member of the controlling shareholder.

(b) Key management compensation

	2018 *RMB'000*	2017 *RMB'000*
Salaries and allowances	**23,042**	20,726
Pension costs – defined contribution plan	**832**	829
Share options granted to key management *(Note 24)*	**6,529**	10,191
	30,403	31,746

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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

33. Related Party Transactions and Balances *(Continued)*

(c) Year-end balances with related parties

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

(1) Trade receivables from a related party

	2018 *RMB'000*	2017 *RMB'000*
– A company controlled by a close family member of the controlling shareholder	1,457	7,604

(2) Loan to a related party

	2018 *RMB'000*	2017 *RMB'000*
– Jilin COFCO	6,000	–

The loan to a related party is repayable within 1 year from the balance sheet date. The interest rate on the loan during the year was 4.35%.

(3) Other payables to a related party

	2018 *RMB'000*	2017 *RMB'000*
– A company controlled by a close family member of the controlling shareholder	28,312	27,726

(d) Terms and conditions

Sales and purchase transactions to related parties during the year were based on the price lists in force and terms that would be available to third parties.

34. Events after the Balance Sheet Date

Other than the proposed final dividend described in Note 30, there was no significant event of the Group occurred after the balance sheet date.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2018

35. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		597	21
Investment in subsidiaries		460,066	460,066
		460,663	460,087
Current assets			
Loans to subsidiaries		979,633	912,310
Due from subsidiaries		2,597,304	819,187
Deposits and other receivables		745	658
Cash and cash equivalents		65,512	29,779
		3,643,194	1,761,934
Total assets		4,103,857	2,222,021
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		244,436	244,436
Share premium		1,430,479	1,736,726
Other reserves	*(a)*	28,482	21,953
Retained earnings	*(a)*	(488,098)	(373,997)
Total equity		1,215,299	1,629,118
LIABILITIES			
Non-current liabilities			
Borrowings		2,487,389	560,265
Derivative financial instruments		29,882	–
		2,517,271	560,265
Current liabilities			
Borrowings		261,203	–
Due to subsidiaries		38,540	14,173
Other payables and accruals		71,544	18,465
		371,287	32,638
Total liabilities		2,888,558	592,903
Total equity and liabilities		4,103,857	2,222,021

The balance sheet of the Company was approved by the Board of Directors on 19 March 2019 and was signed on its behalf.

Li Xuechun
Director

Zhao Qiang
Director

35. Balance Sheet and Reserve Movement of the Company *(Continued)*

(a) Reserve movement of the Company

	Retained earnings *RMB'000*	Other reserves *RMB'000*
At 1 January 2017	(247,648)	74,349
Loss for the year	(129,305)	–
Conversion of convertible bonds	–	(59,631)
Value of employee services	–	10,191
Expiry of share options issued	2,956	(2,956)
At 31 December 2017	(373,997)	21,953
At 1 January 2018	(373,997)	21,953
Loss for the year	(114,101)	–
Value of employee services	–	6,529
At 31 December 2018	(488,098)	28,482

36. Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The emoluments of every director for the years ended 31 December 2018 and 2017 are set out as below:

	2018				
Name of Director	Fees	Salary	Other benefits (i)	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors:					
Li, Xuechun	–	2,776	–	15	2,791
Zhao, Qiang (vi)	–	4,500	1,565	52	6,117
Li, Deheng	–	1,100	–	52	1,152
Pan, Yuehong (vii)	–	900	–	52	952
Li, Guangyu	–	788	–	52	840
Independent Non-executive Directors:					
Zheng, Yu	203	–	94	–	297
Qi, Qingzhong (iv)	–	–	–	–	–
Xu, Zhenghong (viii)	–	–	–	–	–
Xiao, Jianlin (v)	150	–	–	–	150
	353	10,064	1,659	223	12,299

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2018

36. Benefits and Interests of Directors *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

	2017				
Name of Director	Fees *RMB'000*	Salary *RMB'000*	Other benefits (i) *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Total *RMB'000*
Executive Directors:					
Li, Xuechun	–	2,776	–	16	2,792
Zhao, Qiang (vi)	–	4,500	1,674	49	6,223
Li, Deheng	–	1,101	–	49	1,150
Xu, Guohua (ii)	–	1,000	–	49	1,049
Pan, Yuehong (vii)	–	892	–	49	941
Li, Guangyu	–	800	–	49	849
Independent Non-executive Directors:					
Zheng, Yu	308	–	100	–	408
Sun, Yuguo (iii)	213	–	100	–	313
Qi, Qingzhong (iv)	200	–	100	–	300
Xiao, Jianlin (v)	40	–	–	–	40
	761	11,069	1,974	261	14,065

(i) Other benefits include share option granted.
(ii) Resigned on 5 June 2017.
(iii) Resigned on 25 September 2017.
(iv) Resigned on 1 December 2018.
(v) Appointed on 26 September 2017.
(vi) Appointed on 5 June 2017.
(vii) Appointed on 5 June 2017.
(viii) Appointed on 1 December 2018.

There was no bonus paid to the directors of the Company for the years ended 31 December 2018 and 2017.

36. Benefits and Interests of Directors *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

No payment was made to directors as retirement benefits during the years ended 31 December 2018 and 2017.

No payment was made to directors as compensation for the early termination of the appointment during the years ended 31 December 2018 and 2017.

No payment was made to the any third parties for making available directors' services during the years ended 31 December 2018 and 2017.

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the years ended 31 December 2018 and 2017.

During the year ended 31 December 2018, Mr. Qi Qingzhong agreed to waive the remuneration of RMB92,000 for the year ended 31 December 2018 (2017: Nil).

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Share Information

Stock Code 546

Board lot 1,000 Shares

Price and turnover

2018	Share price High (HKD)	Share price Low (HKD)	Turnover Share ('000)
January	5.74	4.95	100,277
February	5.80	4.94	77,363
March	5.41	4.33	98,870
April	4.84	4.32	63,058
May	4.66	4.08	50,415
June	4.40	3.28	61,454
July	3.89	3.35	73,819
August	4.21	3.50	143,665
September	3.94	3.51	36,080
October	3.92	3.21	34,326
November	3.75	3.01	25,815
December	3.38	3.94	20,681

Issued capital at 31 December 2018 2,546,734,037 Shares

Closing price at 31 December 2018 HKD3.31 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 Baofeng	寶雞寶豐置業有限公司 (Baoji Baofeng Properties Co., Ltd.), an indirect wholly-owned subsidiary of the Company, which was disposed of on August 2018
Baoji Dingfeng	寶雞鼎豐置業有限公司 (Baoji Dingfeng Properties Co., Ltd.), an indirect wholly-owned subsidiary of the Company, which was disposed of on August 2018
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
COFCO	China National Cereals, Oils and Foodstuffs Corporation
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Evonik	Evonik Nutrition & Care GmbH (贏創營養與消費化學品有限責任公司), having its registered office in Germany
Expand Base	Expand Based Limited, an indirect wholly-owned subsidiary of the Company
Fufeng Singapore	Fufeng (Singapore) Pte. Ltd., an indirect wholly-owned subsidiary of the Company
Group	the Company and its subsidiaries
Hero Elite	Hero Elite Limited, a company with limited liability, the issued share capital of which is owned as the 14.3% by 王龍祥 (Wang Longxiang), 14.3% by 來鳳堂 (Lai Fengtang), 14.3% by 劉振余 (Liu Zhenyu), 14.3% by 趙蘭坤 (Zhao Lankun), 10.7% by 王俊任 (Wang Junren), 10.7% by 嚴紅偉 (Yan Hongwei), 10.7% by 李曼山 (Li Manshan) and 10.7% by 沈德權 (Shen Dequan)

Glossary *(Continued)*

HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Hulunbeir Plant	the production plant of the Group located at Hulunbeir, Inner Monogolia Autonomous Region, the PRC
Hulunbeir Shengmin	呼倫貝爾市晟民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
Longjiang Fufeng	齊齊哈爾龍江阜豐生物科技有限公司 (Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Longjiang Plant	the production plant of the Group located at Qiqihar city, Heilongjiang Province, the PRC
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
PLA	Polylactic acid
PRC	the People's Republic of China, which for the purpose of this announcement exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

Glossary *(Continued)*

Procurement Framework Agreement	the procurement framework agreement entered into between the Company and the Purchaser dated 5 July 2017
Proposed Spin-off	the proposed spin-off of Shenhua Health Holdings Limited by the Company to be effected by way of the Distribution
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
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
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
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
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
HKD	Hong Kong dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of the PRC
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
JPY	Japan Yen, the lawful currency of Japan
%	per cent