Fufeng Group Limited
阜豐集團有限公司

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

2019
Annual Report






CONTENTS

Chairman's Statement

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 2019.

Results for the Year and Business Overview

As at 31 December 2019, the audited turnover of the Group amounted to approximately RMB16.2 billion, representing an increase of 17.5% as compared with 2018. Net profit was approximately RMB1,137.2 million, representing a year-on-year increase of 53.2%, as compared with 2018 (excluding the result of the one-off net gain after income tax of approximately RMB1,102.8 million from the disposal of two parcels of land in Baoji in 2018).

In 2019, despite facing various challenges such as slowing macroeconomic growth and weak domestic consumption, the Group achieved growth for its major products in terms of both output and sales. Our inventory was maintained at a low level by adopting the principle of quick sale after production. In particular, as to the core business, the revenue of MSG products increased significantly. After years of industry consolidation, the sales price and market of MSG products benefited from a rationally competitive condition.

The major operating highlights of the Group in 2019 are as follows:

1. The price of MSG increased significantly as compared with 2018 and its sales volume rose.

2. The sales volume of starch sweeteners increased significantly.

3. Two dedicated railway lines were put into operation, thus reducing logistics costs and enhancing production efficiency.

In 2019, against the backdrop of a relatively unfavorable business environment, the Group adopted the following measures:

1. Vigorously exploring new export markets amid weak domestic demand.

2. Managing internal cost control and enhancing production efficiency.

The Board recommended payment of a final dividend of HK$8.0 cents per share, with the paid interim dividend and the final dividend to be paid totaling HK$17.3 cents per share, representing a dividend payout ratio of approximately 35%.

Diversified Business Portfolio

Our products are divided into five categories in terms of application: 1) Food additives (including MSG, compound seasoning, starch sweeteners, glutamic acid and corn oil), 2) Animal nutrition (including threonine, lysine and corn refined products), 3) Colloid (including xanthan gum and gellen gum), 4) High-end amino acid products (including valine, leucine, isoleucine, glutamine, hyaluronic acid, etc.), and 5) Other (including fertilisers, synthetic ammonia, pharmaceuticals, etc.).

Operational performances of our main products in 2019 are as follows:

MSG

The Group's MSG maintained a relatively satisfactory price through most of 2019, especially in the first half of the year. The turnover growth of the Group was mainly due to the increase in the price and sales volume of MSG. The ASP of MSG for the year was about RMB6,941 per tonne and sales volume of MSG was about 1.12 million tonnes in 2019, exceeding our sales target of 1.05 million tonnes for the year. The continuous growth of the MSG business helped to improve the overall results of the Group.

Starch Sweeteners

The sales volume of the Group's starch sweeteners achieved strong growth and reached approximately 650,000 tonnes in 2019 (2018: 373,861 tonnes), making it one of the major growth engines of the Group in 2019.

Animal Nutrition

Animal feed products faced challenges due to the sluggish feed industry and animal breeding industry caused by swine flu. The sales volume and price of our threonine and lysine both failed to meet our expectations set early for the year.

Xanthan Gum and High-end Amino Acid Products

The Group experienced some turbulence caused by the Sino-US trade tensions. For example, the exports of xanthan gum and high-end amino acid products to the US were affected to some extent. The sales volume of xanthan gum reached approximately 61,000 tonnes in 2019, but its price dropped and xanthan gum exhibited a downward trend in gross profit in 2019. The sales volume of high-end amino acid was also affected, showing a declining trend in 2019.

Actively Exploring International Markets

In the context of the overall slump in domestic consumption, we actively explored the international markets, recording a relatively high proportion of exports among industry peers. In terms of volume, the export of our MSG amounted to 211,000 tonnes this year (2018: 163,000 tonnes). We delivered a relatively good performance in terms of the export volume and prices given the weak domestic conditions. The export volume of our MSG, xanthan gum and glutamic acid remained ranking Top 1 in China. The ranking of the export volume of starch sweeteners rose from Top 3 in China in 2018 to Top 1 in China in 2019. The export of threonine accounted for 86.0% of our total threonine sales.

Chairman's Statement

Outlook and Future Plan

In 2020, China has been hit by the novel coronavirus epidemic, and we expect the business environment to become even more challenging. This year, we will focus on the strategy of strengthening root and culturing vitality (固本培元) by consolidating our market leadership (i.e. strengthening root) and strengthening our competitive advantages (i.e. culturing vitality). We will put more efforts into management and cost reduction.

Main tasks in 2020:

In terms of internal management:

1. Cost reduction in an all-round manner: we will aim to achieve cost reduction in the areas including production costs and repair and maintenance costs at various plants, raw material procurement costs, logistics costs (including warehouse costs), labor costs, administrative expenses and selling expenses.

In terms of market development and sales:

2. Increasing market share in key markets: as to the MSG exports, we aim to achieve significant breakthroughs in the exports of MSG to the Japanese and Korean markets this year; as to the animal amino acid (such as threonine and lysine), we strive to achieve great breakthroughs in the European and South American markets; as to the other niche products with relatively smaller scale, such as hyaluronic acid, we aim to expand production capacity and develop not only the high-end markets but also the low-end and middle markets. Furthermore, we will also strengthen the sales of our different varieties of products through bundling, such as the bundling of feed amino acid with threonine, lysine, tryptophan and valine.

3. Strengthening the performance appraisal of the marketing and sales team: the performance appraisal is to be conducted every six months as compared with once a year in the past, and staff who fail to perform satisfactorily based on the appraisal will be at risk of being eliminated.

4. Technology and research and development (R&D): we will collaborate with the industry leaders in global markets and technology research and development companies. The achievements of previous research and development efforts will be quickly transformed into products and sales, especially the sales of some new hydrosols. In terms of production technology, we will further improve technical indicators and certain production efficiency indicators based on the current technologies, enhance safety and quality awareness and reduce customer complaints.

Appreciation

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

Li Xuechun
Chairman

31 March 2020

Five-Year Summary

	Year				
	2015 *RMB'000*	2016 *RMB'000*	2017 *RMB'000*	2018 *RMB'000*	**2019** ***RMB'000***
Operating results – Summary					
Turnover	11,225,722	11,803,131	13,033,501	13,764,645	**16,170,850**
Gross profit	1,802,491	2,406,373	2,979,471	2,574,770	**3,260,634**
Profit before income tax	679,774	1,301,898	1,652,781	2,210,823	**1,399,264**
Profit attributable to Shareholders	516,261	1,092,512	1,382,380	1,845,039	**1,137,223**
Balance sheets – Summary					
Non-current assets	9,220,961	9,516,968	10,859,636	11,339,710	**11,465,996**
Current assets	4,629,217	4,939,134	5,106,898	8,992,610	**7,992,615**
Total assets	13,850,178	14,456,102	15,966,534	20,332,320	**19,458,611**
Non-current liabilities	2,761,158	2,647,336	1,298,851	3,319,892	**3,270,836**
Current liabilities	5,281,961	4,992,902	5,207,578	6,008,084	**4,811,306**
Net assets	5,807,059	6,815,864	9,460,105	11,004,344	**11,376,469**
Financial ratio					
Earnings per share (Basic) *(RMB Cents)*	24.36	51.37	57.04	72.45	**44.75**
Gross profit margin (%) *(Note 1)*	16	20	23	19	**20**
ROE (%) *(Note 2)*	9	16	15	17	**10**
Current ratio *(Note 3)*	0.88	0.99	0.98	1.50	**1.66**
Inventory turnover days (Day) *(Note 4)*	86	97	118	107	**104**
Debtors' turnover days (Day) *(Note 5)*	27	25	31	31	**37**
Trade receivable turnover days (Day) *(Note 6)*	13	13	15	17	**15**
Creditors' turnover days (Day) *(Note 7)*	49	58	56	52	**40**
Trade payable turnover days (Day) *(Note 8)*	47	48	53	50	**40**
Gearing ratio (%) *(Note 9)*	28	21	12	20	**17**

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. Yu Yao Ming (appointed on 20 March 2019)
Mr. Li Guangyu
Mr. Pan Yuehong (resigned on 20 March 2019)

Independent Non-executive Directors

Mr. Lau Chung Wai (appointed on 12 June 2019)
Ms. Zheng Yu
Mr. Xu Zheng Hong
Mr. Xiao Jian Lin (resigned on 12 June 2019)

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. Lau Chung Wai *(Chairman)* (appointed on 12 June 2019)
Ms. Zheng Yu
Mr. Xu Zheng Hong
Mr. Xiao Jian Lin (resigned on 12 June 2019)

Remuneration Committee

Mr. Lau Chung Wai *(Chairman)* (appointed on 12 June 2019)
Ms. Zheng Yu
Mr. Xu Zheng Hong
Mr. Xiao Jian Lin (resigned on 12 June 2019)

Nomination Committee

Mr. Li Xuechun *(Chairman)*
Mr. Lau Chung Wai (appointed on 12 June 2019)
Ms. Zheng Yu
Mr. Xu Zheng Hong
Mr. Xiao Jian Lin (resigned on 12 June 2019)

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

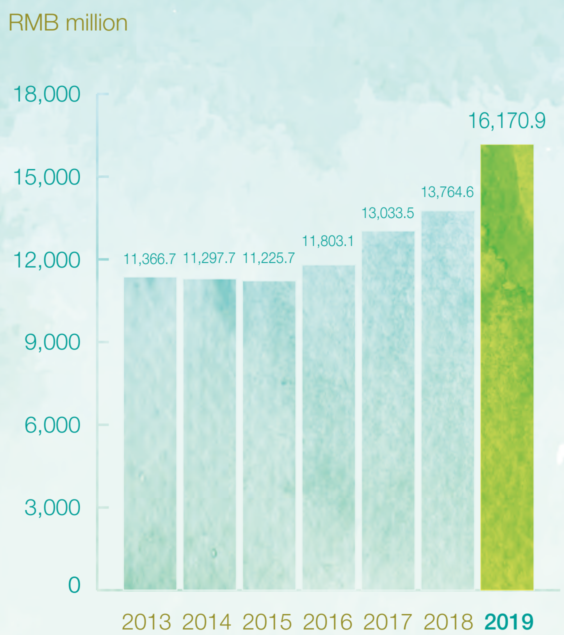
HULUNBEIR PLANT

XINJIANG PLANT

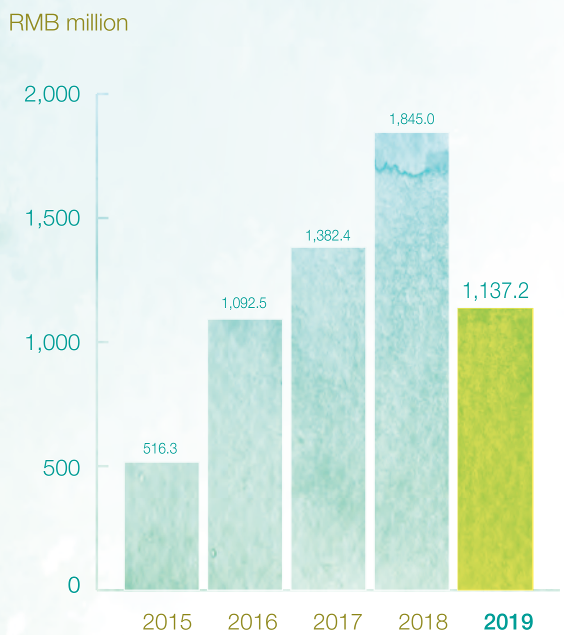
LONGJIANG PLANT

Financial Highlights

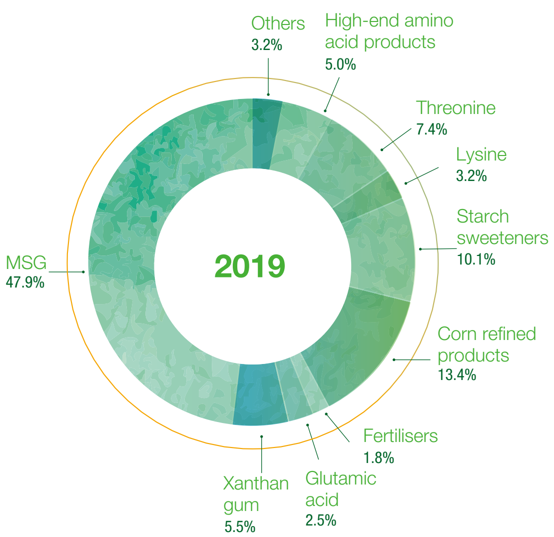
Turnover Growth

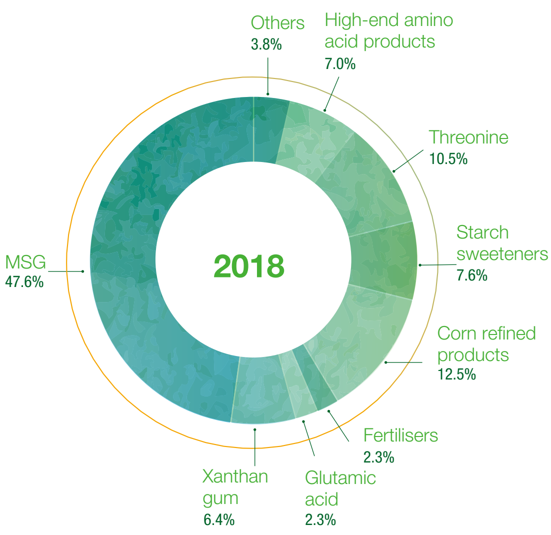


Profit Attribute to Shareholders

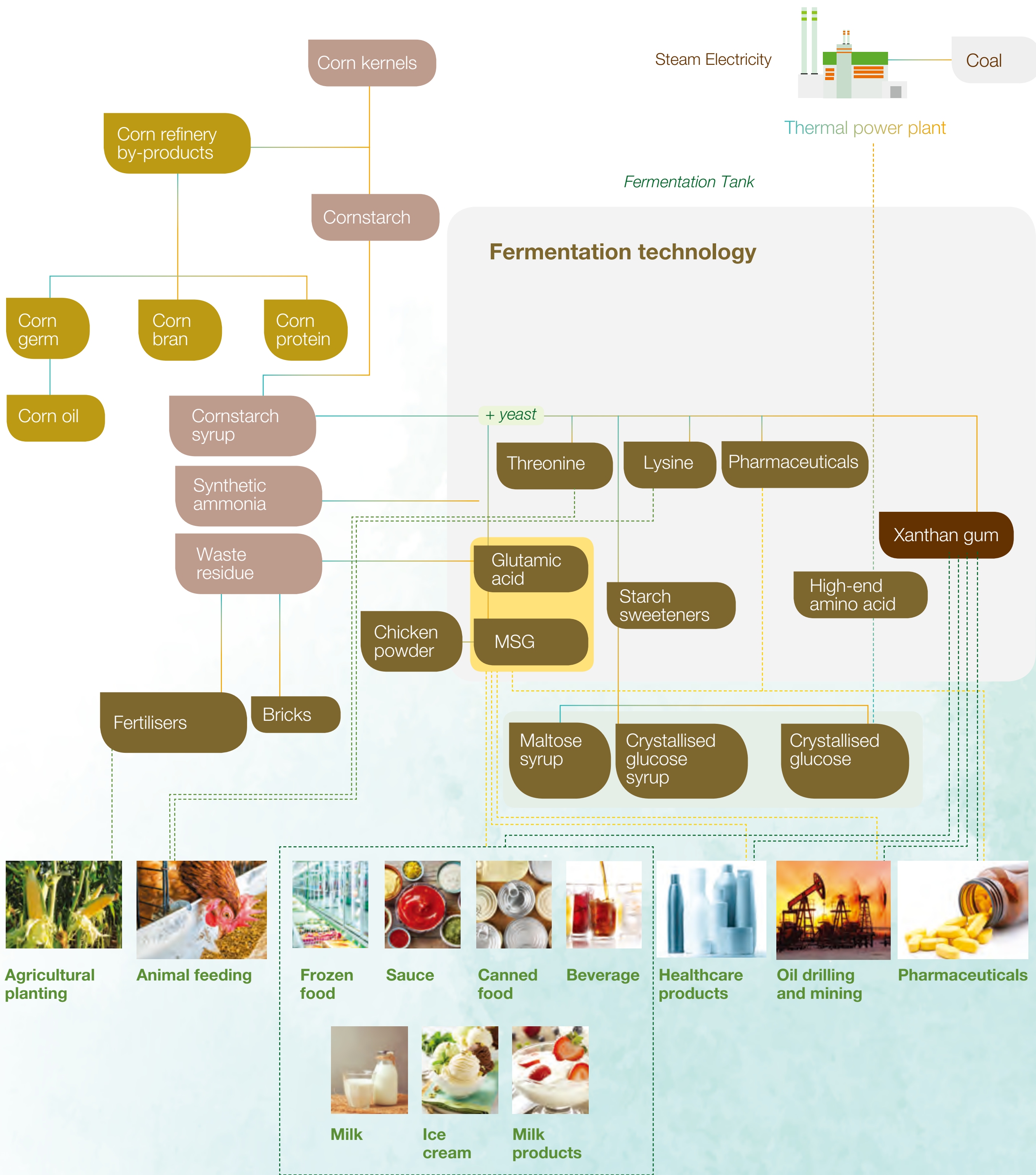


Revenue Analysis





Major Products Processing Map



Biographies of Directors and Senior Management

Executive Directors

李學純 (Li Xuechun), aged 68, 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 38 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 39.28% 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 52, is an executive Director and a chief executive officer of the Group. Mr. Zhao has over 24 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 21 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 51, 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 19 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 1.32% of the issued share capital of the Company.

俞堯明 (Yu Yao Ming), aged 50, 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 26 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 strategy planning of the Group and the Group's information system management.

李廣玉 (Li Guangyu), aged 41, 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 14 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

劉仲緯 (Lau Chung Wai), aged 37, was appointed as an Independent non-executive Director on 12 June 2019. Mr. Lau Chung Wai has over 14 years' experience in the field of accounting and financial management. Mr. Lau graduated from the Hong Kong University of Science and Technology with a bachelor of business administration in accounting in November 2004 and is a fellow practising member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau has been the chief financial officer and company secretary of Kwung's Holdings Limited, a company primarily engaged in original design manufacturer and supplier of home decoration product, since March 2019 and was responsible for overseeing the investment, legal and financial affairs. From August 2015 to March 2019, Mr. Lau served in Da Sen Holdings Group Limited (stock code: 1580) as the chief financial officer and company secretary. Mr. Lau also served as an independent non-executive director of Metropolis Capital Holdings Limited (stock code: 8621) since November 2018. Mr. Lau does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company. Save as disclosed above, Mr. Lau 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. Lau does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lau has entered into a service agreement with the Company commencing from 12 June 2019 for a term of two years 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.

Biographies of Directors and Senior Management

鄭豫 (Zheng Yu), aged 52, 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 20 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 49, was appointed as an Independent non-executive Director on 1 December 2018. Mr. Xu has over 21 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. 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

陳遠 (Chen Yuan), aged 51, 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 22 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 51 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 28 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 2.73% of the issued share capital of the Company.

趙蘭坤 (Zhao Lankun), aged 47, 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 26 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 2.73% of the issued share capital of the Company.

Company Secretary and Qualified Accountant

李偉然 (Lee Wai Yin), aged 51, 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 26 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 continued to be confronted with challenges in 2019, including but not limited to a slowing domestic macroeconomic growth, the Sino-US trade tensions and the epidemic of swine flu. Despite these challenges, our Food additives segment recorded a significant improvement in its overall performance, following years of efforts in industry consolidation, as compared with 2018. Net profit increased by RMB395.0 million, or 53.2%, year-over-year (excluding the result of the one-off net gain after income tax of approximately RMB1,102.8 million from the disposal of two parcels of land in Baoji in 2018), which was primarily driven by the increase in profitability of our Food additives segment for the year ended 31 December 2019.

Our operating performance greatly improved in 2019 as compared with 2018, mainly attributed to: 1) the improvement in revenue and profitability of the Food additives segment, which accounted for a fairly large contribution of overall Group revenue, driven by a significant increase in MSG price despite the increasing costs of major raw materials including corn kernels and coal, and therefore had a positive impact on our overall performance; and 2) production efficiency was further improved as a result of enhancement of production technologies.

Against the backdrop of a sluggish domestic economy, the Group's Food additives segment was still able to achieve better results in terms of industry development and market competition. This is mainly due to the entry of the MSG industry into a new landscape, including 1) a new phase of centralisation of production capacity emerging after years of industry consolidation; 2) reduced level of irrational competition in terms of pricing and production volume by our competitors; and 3) leading enterprises have taken the initiative to limit excess production capacity to control excessive supply in the market. As a result, a more rational competitive environment resulted in an improvement in the selling price of our MSG products.

The ASP of MSG was approximately RMB6,941 per tonne (2018: RMB6,085 per tonne), and the sales volume of MSG for the year ended 31 December 2019 increased to approximately 1,116,000 tonnes, boosting the profitability of the Food additives segment.

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. In addition, the Group made considerable efforts 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. We 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 meet market demand.

The Group recognised the importance of using advanced technologies to continually improve our production efficiency and develop new products. We 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.

The Group nonetheless experienced some turbulence caused by the Sino-US trade tensions. For example, the exports of xanthan gum and high-end amino acid to US were affected to some extent. The sales volume of xanthan gum reached approximately 61,000 tonnes in 2019, but recorded a decrease in ASP and thereby added pressure to the gross profit margin of our xanthan gum products in 2019. The sales volume of high-end amino acid was also affected, showing a declining trend in 2019.

Animal nutrition products underwent a difficult time due to the sluggish feed industry and animal breeding industry as a result of swine flu. The sales volume and price of our threonine and lysine both failed to meet our expectations.

As for Animal nutrition products, we expect the current weak conditions will continue for a period of time during 2020. In response to this, we have taken some corresponding countermeasures, allowing us to meet the demands of our customers, as well as reducing the negative impact on our profitability. These countermeasures include: 1) accepting orders that meet a set price, so as to focus on those customers that have high demand for high-end products; and 2) readjusting product mix to meet different market demands by modifying some of our production processes.

We continue to strategically optimize our production bases. Phase II of the Longjiang Plant Project successfully commenced operation in January 2019, representing a milestone for the Group in extending its competencies across the industry value chain, and thereby improving its overall market competitiveness. Upon completion, the Group became the leading enterprise in the global market with full corn processing capabilities.

Business performance analysis by major product segments instead of business segments

The original business analysis of Fufeng Group Company (the "Group") was mainly divided into two business segments, namely the amino acid segment and the xanthan gum segment. The amino acid segment includes the sales of three major categories of products, including: 1) Food additives (main products include MSG, compound seasoning, starch sweeteners, glutamic acid and com oil), 2) Animal nutrition (main products include threonine and corn refined products), and 3) High-end amino acid (main products include valine, leucine, isoleucine, glutamine, hyaluronic acid, etc.).The xanthan gum segment refers to the production and sales of colloids such as xanthan gum, welan gum and pectin.

Management Discussion and Analysis

In view of our more diversified portfolio of products due to the continuous development of the Group's businesses over the years, the Group's internal management has continued to evolve along its major product lines and therefore considers it more informative and reflective of underlying business realities to present our business performance analysis according to the following five product segments: 1. Food additives (main products include MSG, compound seasoning, starch sweeteners, glutamic acid and corn oil), 2. Animal nutrition (main products include threonine, lysine, and corn refined products), 3. Colloid (main products include xanthan gum and gellan gum), 4. High-end amino acid (main products include valine, leucine, isoleucine, glutamine, hyaluronic acid, etc.), and 5. Other (main products include fertilisers, synthetic ammonia, pharmaceuticals, etc.). As a result, since the Group adopts a centralized management and allocation of resources to the respective product segments, management considers it more appropriate, going forward, to set out our business analysis according to the product segments as set out in Note 5 to the consolidated financial statements.

In terms of the Food additives segment, the ASP of MSG significantly increased in 2019. 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 in a more price-friendly market environment in 2019. We recorded a significant increase in gross profit and gross profit margin of the MSG product, which positively affected the profit contribution from the MSG product during the year.

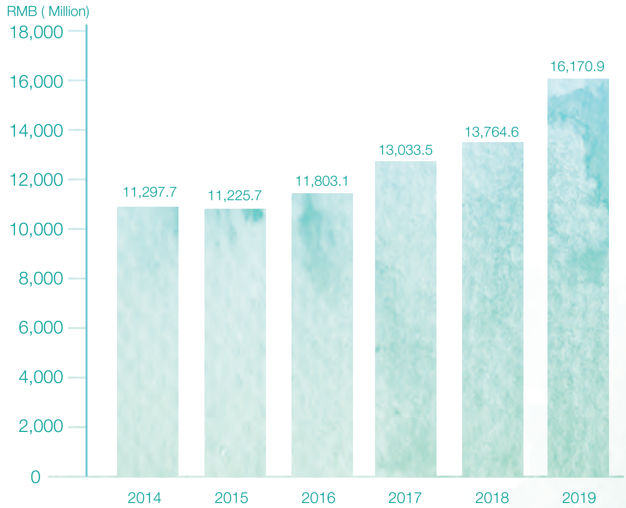
Additionally, the new Longjiang Plant Phase II commenced operation at the beginning of 2019 and the annual production capacity of starch sweeteners has increased to 720,000 tonnes. The sales revenue from starch sweeteners increased to approximately RMB1,627.8 million, representing an increase of 54.7%, as compared with 2018.

In terms of the Animal nutrition segment, the Group recorded a decreased contribution from the sales of threonine products due to the continuous impact of the swine flu in 2019.

In terms of the Colloid segment, the xanthan gum product has stabilized since the second half of 2018 as market conditions in the oil industry recover although oil prices continued to remain at a relatively low level. The ASP of xanthan gum decreased to about RMB14,725 per tonne during 2019, representing a decrease of 5.2%, as compared with 2018. In 2019, we managed to maintain the annual production capacity of xanthan gum at a reasonable level of 65,000 tonnes. The Group, as the largest xanthan gum manufacturer in the world, continued to dominate the global market share during the year ended 31 December 2019.

In terms of the High-end amino acid segment, revenue decreased during the year ended 31 December 2019, mainly due to sluggish economic growth and stiff market competition.

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



For the year ended 31 December 2019, the Group's revenue increased to approximately RMB16,170.9 million as compared with approximately RMB13,764.6 million for the year ended 31 December 2018. The increase in revenue was primarily due to the increase in the ASP and sales volume of MSG and increased revenue contribution from MSG, starch sweeteners and lysine.

The Group's overall gross profit increased from approximately RMB2,574.8 million in 2018 to approximately RMB3,260.6 million in 2019. This represents an increase of 26.6%, primarily due to the increase in the ASP and gross profit margin of MSG which is classified in the Food additives segment.

Food additives segment

In 2019, the ASP of MSG substantially increased by 14.1% as compared with 2018, which clearly represented a change of the MSG industry market environment. Peer competitors reduced their levels of irrational competition in terms of pricing and production volume. In addition, despite major raw material costs increasing during the year, the Group managed to reduce unit consumption and enhanced production efficiency by continuing to invest in research and development. Therefore, gross profit margin significantly increased as compared with 2018.

The production volume of MSG increased by approximately 19.2% and sales volume increased by approximately 3.7% in 2019 as compared with 2018, respectively. The increase in production and sales volume of MSG was mainly due to the improved market environment, which allowed us to leverage our industry position to increase market share. This strategy not only fully utilized the cost advantages of the Group but also leveraged on the Group's market position to maximize its profitability.

The production and sales volume of starch sweeteners significantly increased by approximately 93.3% and 73.9% in 2019 as compared with 2018, respectively. The production volume increased as a result of the new production capacity of starch sweeteners (300,000 tonnes) commencing operation in our new Longjiang Plant Phase II to meet strong market demand.

Management Discussion and Analysis

Animal nutrition segment

We continued to witness the sustained development of our threonine product in 2019. Threonine is a type of amino acid which is used as an animal feed additive. During the year, the total sales amount of threonine was approximately RMB1,196.2 million, representing a decrease of 17.5% as compared with 2018. The Group sold about 176,000 tonnes of threonine during the year as compared with about 186,000 tonnes in 2018. However, due to the outbreak of the swine flu in China since the second half of 2018, the ASP of threonine has substantially decreased, resulting in significant decreases in gross profit contribution and gross profit margin of threonine in 2019.

In addition, the new production capacity of lysine (200,000 tonnes) commenced operation in our new Longjiang Plant Phase II at the beginning of 2019. Sales of lysine, a new product, amounted to approximately RMB523.5 million in 2019 and it is classified as part of revenue in our Animal nutrition segment.

Colloid segment

The production volume of xanthan gum increased by 19.2% and the sales volume of xanthan gum increased by 7.5%, respectively, in 2019 as compared with 2018. The increase in production of xanthan gum was due to the stable market conditions tracking the global oil industry. The increase in sales volume of xanthan gum was due to our ability to increase market share.

On the other hand, the ASP of xanthan gum decreased by 5.2% as compared with 2018, as market conditions demonstrated a lackluster but stable condition tracking the global oil industry.

High-end amino acid segment

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 2019, sales of high-end amino acid products reached approximately RMB808.3 million, representing a decrease of 15.8% as compared with 2018. Our high-end amino acid products focus on the health and wellness and pharmaceutical materials industries and generally enjoy higher profitability. The goal of the Group is to become the clear market leader 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.

Overall, the diversity of the Group's product portfolio allowed the Group to maintain its overall revenue growth momentum in 2019.

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

	Years ended 31 December		Change
	2019	2018	%
Turnover *(RMB'000)*	**16,170,850**	13,764,645	17.5
Gross profit *(RMB'000)*	**3,260,634**	2,574,770	26.6
Gross profit margin *(%)*	**20.2**	18.7	1.5 ppts.

Although weakness in China's economy continued and major raw material costs demonstrated an upward trend in 2019, the performance of the Group in terms of gross profit and gross profit margin improved, particularly reflected in the Food additives segment. The ASP of MSG increased during the year and the effects from an increase in raw material costs, particularly the corn kernels and coal costs, were relatively small. In addition, increased revenue from starch sweeteners was mainly due to new production capacity of starch sweeteners in our Longjiang Plant Phase II commencing operation at the beginning of 2019. On the other hand, the ASP of other main products such as threonine, high-end amino acid, starch sweeteners and xanthan gum recorded decreases as compared with 2018 due to the weak Chinese economy. The overall gross profit of the Group increased by 26.6% in 2019.

Profit attributable to the Shareholders

	Years ended 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	%
As reported	**1,137,223**	1,845,039	(38.4)

Profit attributable to the Shareholders increased by 53.2% for the year ended 31 December 2019 as compared with 2018 (excluding the result of the one-off net gain after income tax of approximately RMB1,102.8 million from disposal of two parcels of land in Baoji in 2018). The improvement of market conditions of the Food additives segment was mainly due to the entry of the MSG industry into a new landscape, including 1) a new phase of centralisation of production capacity having emerged after years of industry consolidation; 2) reduced level of irrational competition in terms of pricing and production volume by our competitors; and 3) leading enterprises have taken the initiative to limit excess production capacity to control excessive supply in the market. In such case, selling prices of products are safeguarded, while the market operation proceeds amid rational competition.

Management Discussion and Analysis

Business highlights

The Group's products are organised into the sales of five product segments including: 1. Food additives (main products include MSG, compound seasoning, starch sweeteners, glutamic acid and corn oil), 2. Animal nutrition (main products include threonine, lysine and corn refined products), 3. Colloid (main products include xanthan gum and gellan gum), 4. High-end amino acid (main products include valine, leucine, isoleucine, glutamine, hyaluronic acid, etc.), and 5. Other (main products include fertilisers, synthetic ammonia, pharmaceuticals, etc.).

The table below highlights the operating results:

	Years ended 31 December 2019 *RMB'000*	Years ended 31 December 2018 *RMB'000*	Increase/ (Decrease) *%*
Revenue	**16,170,850**	13,764,645	17.5
Gross profit	**3,260,634**	2,574,770	26.6
Gross profit margin	**20.2%**	18.7%	1.5 ppts.
Operating results	**1,137,223**	1,845,039	(38.4)
Assets	**19,458,611**	20,332,320	(4.3)
Liabilities	**8,082,142**	9,327,976	(13.4)

The sections below describe the performance of the Group in more details.

Detailed sales and gross profit analysis by four major categories for the year ended 31 December 2019 and 2018.

For the year ended 31 December 2019

	Food additives *RMB'000*	**Animal nutrition** *RMB'000*	**Colloid** *RMB'000*	**High-end amino acid** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Revenue	**9,818,832**	**3,889,943**	**939,328**	**808,252**	**714,495**	**16,170,850**
Gross profit	**2,127,316**	**449,317**	**250,063**	**266,917**	**167,021**	**3,260,634**
Gross profit margin	**21.7%**	**11.6%**	**26.6%**	**33.0%**	**23.4%**	**20.2%**

For the year ended 31 December 2018

	Food additives *RMB'000*	Animal nutrition *RMB'000*	Colloid *RMB'000*	High-end amino acid *RMB'000*	Others *RMB'000*	Total *RMB'000*
Revenue	7,963,288	3,170,570	925,055	959,947	745,785	13,764,645
Gross profit	1,287,199	476,678	301,279	355,994	153,620	2,574,770
Gross profit margin	16.2%	15.0%	32.6%	37.1%	20.6%	18.7%

Revenue and ASP

The table below sets out the revenue of the Group by products for the years ended 31 December 2019 and 2018:

Product	Years ended 31 December 2019 *RMB'000*	2018 *RMB'000*	Change %
Food additives			
MSG	**7,743,897**	6,554,665	18.1
Starch sweeteners	**1,627,811**	1,052,157	54.7
Glutamic acid	**399,343**	319,092	25.1
Compound seasoning	**41,981**	29,219	43.7
Corn oil	**5,800**	8,155	(28.9)
Animal nutrition			
Corn refined products	**2,170,209**	1,721,092	26.1
Threonine	**1,196,217**	1,449,478	(17.5)
Lysine	**523,517**	–	n/a
Colloid			
Xanthan gum	**890,898**	876,542	1.6
Gellan gum	**48,430**	48,513	(0.2)
High-end amino acid			
High-end amino acid products	**808,252**	959,947	(15.8)
Others			
Fertilisers	**283,803**	314,078	(9.6)
Synthetic ammonia	**254,893**	250,572	1.7
Pharmaceuticals	**157,622**	148,250	6.3
Others	**18,177**	32,885	(44.7)
	16,170,850	13,764,645	17.5

Management Discussion and Analysis

Food additives

Revenue generated from the sales of Food additives products increased to approximately RMB9,818.8 million in 2019, representing an increase of approximately RMB1,855.5 million, or 23.3%, as compared with 2018, 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 the ASP of MSG during the year.

MSG

Against the backdrop of a sluggish domestic economy, the Group's MSG product was still able to achieve better results thanks to industry development and a new phase of market competition. This was mainly due to the MSG industry entering a new landscape, in which selling prices of products are safeguarded, while the market operation proceeds amid rational competition.

The Group maintained its market leadership in the MSG product through increased marketing efforts and competitive pricing. The ASP of MSG increased by 14.1%, from approximately RMB6,085 per tonne in 2018 to approximately RMB6,941 per tonne in 2019, which was mainly due to the new MSG industry market conditions, in which peer competitors reduced the level of irrational competition in terms of pricing and production volume. The sales volume slightly increased by 3.7%, from approximately 1,076,000 tonnes in 2018 to approximately 1,116,000 tonnes in 2019. As a result, turnover of MSG increased by 18.1% in 2019. In 2019, the Group continuously strengthened exports of MSG products and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers. The Group increased exports of MSG products from about RMB1,051.8 million in 2018 to about RMB1,494.4 million in 2019.

Starch sweeteners

Turnover of starch sweeteners increased by approximately 54.7% in 2019, which was primarily due to an increase in sales volume of starch sweeteners to approximately 650,000 tonnes in 2019. The annual production capacity of starch sweeteners increased to 720,000 tonnes as our new Longjiang Plant Phase II commenced operation at the beginning of 2019. The ASP of starch sweeteners decreased, from approximately RMB2,697 per tonne in 2018 to approximately RMB2,504 per tonne in 2019, whilst demand for our starch sweeteners was stable. 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 our new Longjiang Plant commenced operation in 2018. Threonine is classified as a major type of animal nutrition product, an essential amino acid which maintains body protein balance and promotes the growth of living things. Our threonine is mainly used as an animal feed additive. The total revenue of threonine decreased by about 17.5% in 2019 as compared with 2018, which was primarily due to the decreased ASP of threonine from approximately RMB7,713 per tonne in 2018 to approximately RMB6,782 per tonne in 2019. The decrease in ASP was mainly due to weakening market demand caused by the swine flu epidemic in China. Likewise, the sales volume of threonine decreased from approximately 186,000 tonnes in 2018 to approximately 176,000 tonnes in 2019.

Corn refined products

Bacterial protein is classified into the corn refined products category and the revenue of corn refined products increased by about 26.1% for the year ended 31 December 2019 as compared with 2018. This was mainly caused by additional annual production capacity of starch sweeteners. Therefore, our production and sales volume of corn refined products increased during the year. In addition, the ASP of bacterial protein slightly increased from approximately RMB2,324 per tonne in 2018 to approximately RMB2,354 per tonne in 2019, representing an increase of 1.3%.

Lysine

The new production capacity of lysine (200,000 tonnes) commenced operation in our new Longjiang Plant Phase II at the beginning of 2019. Sales of lysine, a new product, amounted to approximately RMB523.5 million in 2019 and it is classified as part of revenue in our Animal nutrition segment.

Colloid

Xanthan gum

The global market demand for xanthan gum was stable in 2019, which was mainly due to slow growth in the global economy and the stable market condition of the global oil industry. The Group continued to increase its market share and as one of the top three xanthan gum manufacturers, continued to dominate the global market.

Revenue generated from xanthan gum increased by 1.6%, from approximately RMB876.5 million in 2018 to approximately RMB890.9 million in 2019. The increase in revenue was due to a rise in sales volume during the year.

The Group's exports of xanthan gum decreased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed about 78.1% and 77.5% of total sales of xanthan gum in 2018 and 2019, respectively.

Global demand for xanthan gum was relatively stable during the year ended 31 December 2019. Sales volume increased by 7.5% and sales increased by 1.6% in 2019, respectively. The ASP of xanthan gum decreased to approximately RMB14,725 per tonne, representing a decrease of 5.2%.

Management Discussion and Analysis

High-end amino acid products

The total sales amount of High-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid, decreased to approximately RMB808.3 million in 2019 as compared with approximately RMB959.9 million in 2018. 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.

Other related products

Fertilisers

The ASP of fertilisers for the year ended 31 December 2019 was approximately RMB410 per tonne, representing an increase of RMB35, or about 9.3%, as compared with 2018. The sales volume of fertilisers decreased, while the ASP of fertilisers was in line with prevailing market conditions. As a result, the revenue of fertilisers decreased from RMB314.1 million for the year ended 31 December 2018 to RMB283.8 million for the year ended 31 December 2019. Meanwhile, the Group continued to enhance the development of high value added fertiliser products.

Gross Profit and Gross Profit Margin

The gross profit is set out below:

	Years ended 31 December		
	2019	2018	Change
Gross profit *(RMB'000)*	**3,260,634**	2,574,770	26.6%
Gross profit margin *(%)*	**20.2**	18.7	1.5ppts.

Increasing gross profit contribution was mainly due to the improved MSG industry environment as well as the ASP of MSG increasing significantly and the gross profit of MSG rising during the year. However, part of the positive effect from the Food additives segment was offset by the negative effect of lower gross profit contribution from our Animal nutrition segment, Colloid segment and High-end amino acid segment. Gross profit increased to approximately RMB3,260.6 million and gross profit margin increased by 1.5 percentage points to 20.2% for the year ended 31 December 2019. The Group continued to strengthen our market share and leading position in the amino acid industry as well as the portfolio of our products, such as starch sweeteners, animal nutrition and high-end amino acid products. We also maintained our competitive pricing strategy in order to expand market share and consolidate market position.

Production costs

	Years ended 31 December				
	2019		2018		Change
	RMB'000	**%**	*RMB'000*	%	%
Major raw materials					
• Corn kernels	**6,796,878**	**51.7**	4,913,626	46.0	38.3
• Liquid ammonia	**296,212**	**2.3**	159,595	1.5	85.6
• Sulphuric acid	**89,625**	**0.7**	76,026	0.7	17.9
• Soybeans	**43,511**	**0.3**	37,633	0.4	15.6
Energy					
• Coal	**1,976,551**	**15.0**	1,641,299	15.4	20.4
Depreciation	**1,008,590**	**7.7**	902,806	8.5	11.7
Employee benefits	**689,130**	**5.2**	603,864	5.7	14.1
Others	**2,255,743**	**17.1**	2,339,909	21.8	(3.6)
Total cost of production	**13,156,240**	**100.0**	10,674,758	100.0	23.2

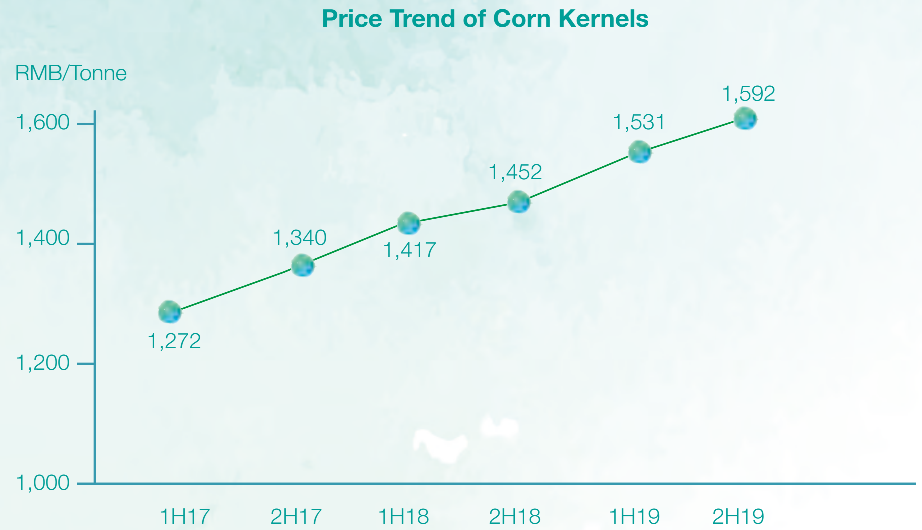
Corn kernels

In 2019, corn kernels accounted for approximately 51.7% (2018: 46.0%) of the total production cost, representing an increase of 5.7 percentage points, mainly due to 1) change in the cost structure of our products, particularly production volume of starch sweeteners, which increased by 93.3% to approximately 737,000 tonnes in 2019; 2) change in the price of corn kernels. The average price of corn kernels for the year ended 31 December 2019 was approximately RMB1,562 per tonne, representing an increase of 8.8% as compared with 2018. The increase in average unit cost of corn kernels for the year ended 31 December 2019 was due to the change in market conditions.

The total cost of corn kernels increased by 38.3% in 2019, which was mainly due to the increase in consumption volume as actual production volume of MSG, starch sweeteners and lysine increased during the year.

Management Discussion and Analysis

The following chart shows the price trend of corn kernels from the first half of 2017 to the second half of 2019:



Liquid ammonia

Liquid ammonia accounted for approximately 2.3% (2018: 1.5%) of total production cost in 2019. The average unit cost of liquid ammonia in 2019 decreased to approximately RMB2,739 per tonne, which represents a decrease of approximately RMB34 per tonne, or 1.2%, from 2018. Despite the average unit cost of liquid ammonia decreasing, the total cost of liquid ammonia increased by 85.6% in 2019, which was mainly due to the increased consumption volume as actual production scale increased during the year.

Sulphuric acid

Sulphuric acid accounted for approximately 0.7% (2018: 0.7%) of total production cost in 2019. The average unit cost of sulphuric acid decreased to approximately RMB231 per tonne, which represents a fall of approximately RMB135 per tonne, or 36.9%, from 2018.

Soybeans

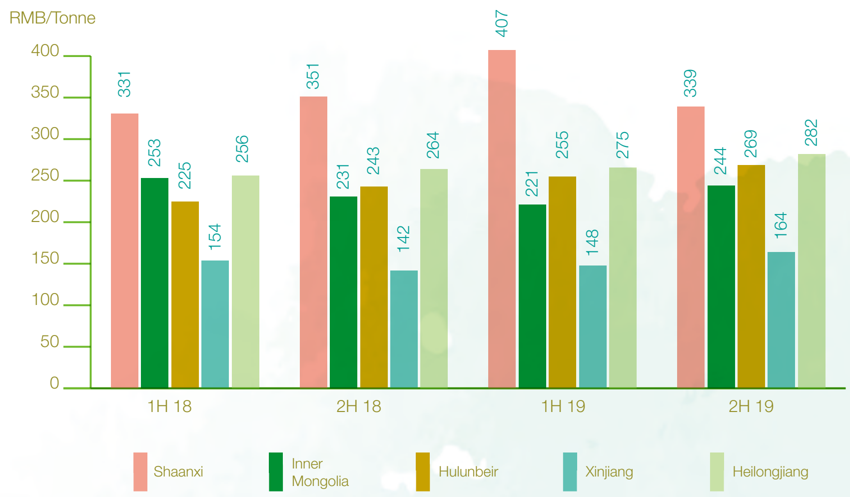
In 2019, soybeans accounted for approximately 0.3% (2018: 0.4%) of the total production cost. The average unit cost of soybeans maintained at approximately RMB3,775 per tonne.

Management Discussion and Analysis

Coal

Coal accounted for 15.0% (2018: 15.4%) of total production cost in 2019. The average unit cost of coal in 2019 was the RMB252 per tonne, which represents an increase of RMB18 per tonne, or 7.7%, as compared with 2018. The increase in the coal price was in line with the general increase in commodity prices.

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. 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 and employee benefits was mainly due to the increased annual production capacity of starch sweeteners and lysine in our Longjiang Plant since the first half of 2019.

Management Discussion and Analysis

Production

The annual designed production capacity of each of the major products by product categories were as follows:

	Years ended 31 December		
	2019	2018	Change
	Tonnes	*Tonnes*	*%*
Food additives			
MSG *(Note)*	**1,330,000**	1,330,000	–
Starch sweeteners *(Note)*	**720,000**	385,000	87.0
Animal nutrition			
Threonine *(Note)*	**243,000**	228,500	6.3
Lysine *(Note)*	**175,000**	–	n/a
Colloid			
Xanthan gum *(Note)*	**65,000**	64,167	1.3
Other			
Fertilisers *(Note)*	**1,080,000**	1,080,000	–

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

Analysis of Capacity Usage of Major Product Lines

The utilization rates of MSG and starch sweeteners, the two main products in Food additives segment in 2019, remained stable. MSG's business strategy has changed, and the Group set production volume according to market demand in order to minimize the risk from pricing competition. During the year, the utilization rate of MSG exceeded 80%. The annual production capacity of starch sweeteners increased to 720,000 tonnes, due to commencing of operation at our Phase II of the Longjiang Plant in the first half of 2019, resulting in increased production capacity of starch sweeteners. Starch sweeteners was in full production in 2019. Threonine, the Animal nutrition segment, was affected by the outbreak of swine flu and weak market sentiment. The Group determines its output based on market demand with capacity utilization rate of threonine exceeding 70% during the year. Xanthan gum product, as classified in the Colloid segment, had stable market demand. In 2019, the capacity utilization rate of xanthan gum also exceeded 90%.

Other Financial Information

Other income

In 2019, other income amounted to RMB447.7 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 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

Selling and marketing expenses increased by approximately RMB283.8 million, or 27.2%, in 2019. The 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

Administrative expenses increased by approximately RMB167.9 million, or 25.5%, in 2019. The increase mainly represented the expenses related to research and development increasing to RMB338.5 million, which were classified under administrative expenses. The increase was also due to the commencing of operations at our Phase II of Longjiang Plant in the first half of 2019, resulting in an increase in general operating costs.

Finance income

Finance income mainly represented the interest income from bank deposits. The interest income from bank deposits and bank balance amounted to RMB103.1 million, representing an increase of 551.5%. This was mainly due to the increase in our working capital in 2019.

Finance costs

The finance costs of the Group in 2019 included two main parts: interest expense and exchange loss on financial activities.

Interest expense increased by approximately RMB30.8 million, mainly due to an increase in interest expenses on the 3-year 5.875% USD bonds issued on 28 August 2018. In 2019, the Group recorded an exchange loss on financing activities of approximately RMB52.1 million (2018: 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 increased by approximately RMB147.4 million, or approximately 15.2%, from approximately RMB969.4 million in 2018 to approximately RMB1,116.8 million in 2019. The increase was mainly due to the increase in number of staff with the commencement of operations at our new Longjiang Plant Phase II in 2019 and the restoration of production capacity in IM Fufeng and Baoji Fufeng.

Depreciation

Depreciation expense of the Group increased by approximately RMB112.0 million, or 10.8%, from RMB1,038.2 million in 2018 to RMB1,150.2 million in 2019. The increase was mainly due to the commencing of operations at the Phase II of the Longjiang Plant at the beginning of 2019, and the recognition of depreciation of right-of-use assets due to the adoption of HKFRS 16 in 2019 which was recognised as amortisation of leasehold land payments in 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, "Wo Feng") entered into the Procurement Framework Agreement, pursuant to which the Company has agreed to supply Wo Feng fertiliser products during the term of the Procurement Framework Agreement. Pursuant to the Procurement Framework Agreement, the Company shall supply fertiliser products to Wo Feng 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 Wo Feng 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 Wo Feng is a connected person of the Company. The Company considers that working with Wo Feng, 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 Wo Feng's sales network and experienced sales team in the fertiliser industry.

The Company estimated that its sales volume of fertiliser products to Wo Feng 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 2019, the sales volume of fertilisers to Wo Feng under the Procurement Framework Agreement was approximately 126,259 tonnes, resulting in sales revenue of RMB60.3 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.

On 2 September 2019 (after trading hours), Hulunbeir Northeast Fufeng Biotechnologies Company Limited (a wholly-owned subsidiary of the Group) ("the Purchaser") and the shareholders of Wo Feng (the "Vendors") entered into a Share Purchase Agreement, pursuant to which the Purchaser agreed to purchase and the Vendors agreed to sell all the issued shares of Wo Feng at an aggregate consideration of RMB44.9 million (the "Acquisition").

As at the date of the Share Purchase Agreement, Wo Feng is owned as to 86.00% and 14.00% by 臨沂榮豐生物科技有限公司 (Lin Yi Rong Feng Biotechnologies Company Limited) (the "Vendor Company") and 18 individuals respectively. The Vendor Company is owned as to 86.57% 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 Vendor Company is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the Acquisition constitutes a connected transaction of the Company. The Vendor Company is also owned as to 2.57%, 2.57%, 1.00%, 0.86% and 6.43%

respectively by Ms. Li Weijia, the daughter of Mr. Li Deheng (an executive Director), Mr. Xu Guohua (a former executive Director who resigned in June 2017), Mr. Feng Jie, the son of Mr. Feng Zhenquan (a former executive Director who resigned in September 2016), Mr. Pan Yuehong (a former executive Director who resigned in March 2019), and certain other employees of the Group. The remaining 14.00% of Wo Feng's equity interest is held by 18 individuals who are senior management team of Wo Feng and are independent third parties of the Group.

Upon the completion of the Acquisition, Wo Feng became an indirect wholly-owned subsidiary of the Company, and will cease to be a connected person of the Company, hence the sale of fertiliser products under the Procurement Framework Agreement on longer constitutes a connected transaction of the Group under the Listing Rules.

Income tax expense

The income tax expenses for the year ended 31 December 2019 mainly represented the PRC Enterprise Income Tax ("EIT"). Seven subsidiaries of the Group, including Hulunbeir Fufeng, Shandong Fufeng, Shenhua Pharmaceutical, Baoji Fufeng, IM Fufeng, Xinjiang Fufeng and Longjiang Fufeng have obtained the approvals to become a new and high-technology enterprise and had been entitled to a preferential income tax rate of 15% (2018: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

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

Four subsidiaries of the Group, including Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate of 15% (2018: 15%).

The Group's subsidiaries in the PRC are subject to PRC EIT which is calculated based on the applicable tax rate of 25% (2018: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations except for those as discussed above.

The Group's subsidiaries in Hong Kong are subject to income tax at a rate of 8.25% (2018: 8.25%) on the estimated assessable profit for the year ended 31 December 2019.

The Group's subsidiary in United States is subject to state income tax at a rate of approximately 8.84% (2018: 8.84%) and a federal income tax at a rate of approximately 21% (2018: 21%) on the estimated assessable profit for the year ended 31 December 2019.

Strategic direction

Fufeng Group has been in business for twenty years and initiated our third "10 Year Plan" in 2019. By conducting a group-wide strategic analysis, we will, upon completion of production bases layout in the PRC and on top of our existing leading market positions, consider to proceed with production capacity distribution in other corn producing regions across the world as the main goal of our third "10 Year Plan". This represents our proposed path to the "Production Capacity Internationalization". Currently, we are in the middle of conducting certain preliminary investigation and research, identifying partnerships and exploring investment opportunities. As it becomes increasingly evident that the bio-fermentation industry will embrace customers, services and production capacity globally, we believe that our production will be extended to such overseas markets that enjoy resource advantages and proximity to customers. This is also in line with the general trajectory of industrial development and represents one of our key and strategic objectives in the coming years.

Future Plan and Recent Development

Outlook and Future Plan

In early 2020, China has been hit hard by the novel coronavirus epidemic, and we expect the business environment to become even more challenging. In 2020, we will focus on the strategy of fortressing and building on our existing strengths (固本培元) by further consolidating our market leadership and reinforcing our existing competitive advantages. We will also continue to put more efforts on strengthening our management capability and cost reduction.

Main tasks in 2020:

In terms of internal management:

1. Cost control: We aim to achieve cost reduction in areas including production costs and repair and maintenance costs at various plants, raw material procurement costs, logistics costs (including warehouse costs), labor costs, administrative expenses and selling expenses.

2. Fixed asset investment: Our fixed asset investment strategy is primarily in place in order for us to further increase our market share should the opportunity arise. As such, we will apply the strictest approval mechanism for any future planned fixed asset investment in order to ensure that in a challenging market. We aim to safeguard our financial position and also to ensure that investment returns of any future fixed assets to meet our expectations.

In terms of market development and sales:

3. Increasing market share in key markets: As to the MSG exports, we aim to achieve breakthroughs in the exports of MSG to the Japanese and Korean markets this year; as to the animal amino acid (such as threonine and lysine), we strive to penetrate the European and South American markets; as to the other niche products with relatively smaller scale, such as hyaluronic acid, we aim to expand production capacity and develop not only the high-end markets but also the low-end and middle markets. Furthermore, we will also focus on cross-selling abilities of our different varieties of products, such as the bundling of feed amino acid including threonine, lysine, tryptophan, and valine.

4. Technology and research and development (R&D): In addition to rely on our own R&D, we will collaborate with the industry leaders in global markets and technology research and development companies, to carry out various research and development of microbial strains. We believe such collaboration can result in a win-win situation for us and our partners and allow us to shorten the time required for our new products to reach the market, especially the sales of some new hydrosols. In terms of production technology, we will further improve technical indicators and certain production efficiency indicators based on the current technologies, enhance safety and quality awareness and reduce customer complaints.

Liquidity and Financial Resources

As at 31 December 2019, the Group's cash and cash equivalent and restricted bank deposits were RMB1,880.8 million (2018: RMB2,690.3 million) whereas current bank borrowings were approximately RMB935.2 million (2018: RMB1,523.2 million). Non-current bank borrowings and non-current other borrowings (including the balances of USD bonds) were approximately RMB261.2 million and RMB2,188.2 million (2018: RMB335.5 million and RMB2,151.8 million), respectively.

USD Bonds

The Company issued USD350 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 bond issue, amounted to approximately USD349.6 million, which was mainly used to refinance existing debt and for business development purposes.

The Company completed the repurchase of USD33,865,000 in aggregate principal amount of USD bonds (the "Repurchased Bonds"), which were repurchased from 6 November 2018 to 10 May 2019, representing approximately 9.7% of the aggregate principal amount of USD bonds originally issued. The Repurchased Bonds were cancelled before 30 June 2019 and the outstanding balance of USD bonds amounted to USD316,135,000 as at 31 December 2019.

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 2 September 2019, the Purchaser, a wholly-owned subsidiary of the Group, entered into the Share Purchase Agreement, pursuant to which the Purchaser agreed to purchase and the Vendors agreed to sell all the issued shares of Wo Feng at an aggregate consideration of RMB44.9 million. Wo Feng is an agricultural products company which is mainly focused on the sale and distribution of fertiliser products in the PRC. Wo Feng's sales network covers over 30 provinces and cities in the PRC and certain other countries and regions around the world, with more than 1,000 customers.

Except for the above, the Group had no other material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2019.

Employees

As at 31 December 2019, 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.

Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

Events After the Balance Sheet Date

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the China and other countries, including but not limited to, extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over people travelling and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing, etc. In the meantime, the COVID-19 outbreak has an unfavourable impact on the global macroeconomic environment which could have a temporary impact on the Group's business and economics activities in the local and overseas markets. In addition, the Group might have to experience longer turnover time for recovering its trade receivables and hence the associated credit risk may be increased. The Group has been proactively coordinating to seek the best solution, however, there is no solution yet as at the date on which this annual report was issued. Hence, the financial effect cannot be reasonable estimated as of the date of financial statements and the Group will closely monitor and continue to evaluate the aforesaid impact.

Charges on assets

As at 31 December 2019, no assets (2018: restricted bank deposits amount to RMB869.8 million) were pledged to certain banks for any bank borrowings (2018: RMB869.8 million) 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 2019, the total assets of the Group amounted to approximately RMB19,458.6 million (2018: RMB20,332.3million) whereas the total borrowings amounted to RMB3,384.6 million (2018: RMB4,010.6 million). The gearing ratio was approximately 17.4% (2018: 19.7%), which is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

In 2018 the Company entered into two USD100,000,000 foreign exchange swap agreement with Deutche Bank on 30 October 2018 and 3 November 2018, respectively. They were mainly for hedging the exposure to foreign exchange risk of the Company's USD Bonds which were issued on 28 August 2018.

In 2019, the Company entered into one USD38,000,000 foreign exchange swap agreement with the Bank of China (Hong Kong) Limited on 3 November 2019. It was fully for hedging the exposure to foreign exchange risk of the Company's a USD bank loan with the Bank of China (Hong Kong) Limited amount to USD38,000,000.

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 are denominated in RMB. Foreign currencies were, however, received for the export sales of products, the issuance of USD bonds and draw-down of bank borrowings. 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 and bank borrowings by partially applying cross currency swaps to mitigate exposures arising from the fluctuations in foreign currencies of bonds and borrowings.

Dividend

The Board recommended the declaration of a final dividend of HK8.0 cents per share, subject to Shareholders' approval at the annual general meeting.

The final dividend will be payable on or about 30 June 2020 to Shareholders whose names appear on the register of members of the Company on 10 June 2020.

Purchase, redemption or sales of listed securities of the Company

Month/Year	Number of Shares repurchased	Method of share repurchase	Prices per Share Highest HK$	Prices per Share Lowest HK$	Total paid HK$
May 2019	3,400,000	On the Exchange	4.01	3.68	13,102,857
August 2019	9,655,000	On the Exchange	3.76	3.65	35,986,591
September 2019	40,000	On the Exchange	3.70	3.70	148,460
Total	13,095,000				49,237,908

The Company repurchased 3,400,000 shares, 9,655,000 shares and 40,000 shares in May, August and September 2019, respectively. Those repurchased shares of 3,400,000 shares and 9,695,000 shares were cancelled on 6 June 2019 and 10 September 2019, respectively. The total consideration of the repurchased shares amounted to HKD49,237,908. In addition to the disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

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 2019, 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. Xu Zheng Hong did not attend the annual general meeting of the Company held on 15 May 2019. 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 2019, 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 25 May 2020 to 28 May 2020 (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 28 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 22 May 2020.

The register of members of the Company will be closed from 8 June 2020 to 10 June 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 5 June 2020.

Annual general meeting

The annual general meeting is expected to be held on 28 May 2020. 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 2019 Environmental, Social and Governance (the "ESG") Report for the period from 1 January 2019 to 31 December 2019, 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 (Fufeng Baoji 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 (Fufeng Xinjiang Biotechnologies Co., Ltd.) and 齊齊哈爾龍江豐生物科技有限公司 (Qiqiha'er Fufeng Longjiang Biotechnologies Co., Ltd.). Fufeng Group has been pursuing the sustainable business operation in terms of economic, social and environmental aspects, and has been in strict compliance with the regulatory requirements in relation to employment, human rights, labor interest, supply chain management, product liability and anti-corruption. The Report will illustrate the Group's performance in sustainable development from both environmental and social perspectives.

Regulatory Structure for Environmental, Social and Governance Issues

The Board of Directors of the Group will uniformly lead the management of the environmental, social and governance issues. A leading work group for the ESG issues, which comprises the members of the Board and senior management, 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, continues to discuss ESG policies, and takes the responsibility to promote the Group's sustainability performance on an annual basis.

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, who is a responsible enterprise and understands the importance of environmental protection for social development, will incorporate environmental protection into its daily work, and resolutely abide by the requirements of relevant laws and regulations. Fufeng Group will improve the management of various emissions, including wastewater, waste gas, greenhouse gases and hazardous or non-hazardous waste, while reducing waste of resources in daily production and operation. In 2019, the Group continued to increase its investments in environmental protection by implementing a number of energy saving and emission reduction measures, further exploring environmental protection technologies and processes related to daily production and operation, and constantly raising the environmental protection awareness of employees in all departments. These initiatives were aimed at minimizing the adverse environmental impacts brought pollution generated during daily production and operation process. In 2019, Fufeng Group did not experience any related violation or complaint.

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

In strict 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), 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), Air Pollution Prevention and Control Action Plan (大氣污染防治行動計劃) and 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), Fufeng Group continued to reduce such sewage, exhaust, greenhouse gases, hazardous and non-hazardous wastes that are discharged from the production and operation. In order to meet the emission standards under relevant national, provincial and municipal laws and regulations, the Group has established different management and control measures for various emissions to implement effective control targeted to various emissions, enabling the emissions to meet the relevant national, local and industrial discharge standards.

As for exhaust

As regards exhaust control, Fufeng Group is in strict compliance 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 management requirements made by the Group, including Environmental Protection Management System, the Exhaust Treatment and Control Procedures, the Boiler Denitrification Operating Regulation and the Desulfurization Operating Regulation, so as to ensure that the exhaust discharged meet the existing standards including the Technical Specification of Exhaust Gas Treatment Project for Ultra-low Emissions of Coal-fired Power Plants (HJ 2053-2018), 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 exhaust generated by Fufeng Group mainly comes from the nitrogen oxides (NO_x), sulfur dioxide (SO_2), foul odor, and smoke and dust produced by its various subsidiaries during normal production processes. In 2019, the Group continued to increase its investments in exhaust emission control, in which case, the Group and its various production companies constantly explored new technologies and upgraded our existing technologies. A dedicated department was established to take responsibility for the daily management of exhaust emissions. In addition, each production company has installed an on-line monitoring system, data of which is sent to the local environmental protection agencies through network connected to achieve joint monitoring with the environmental protection agencies. The Group is strictly prohibited from discharging the exhaust gas without treatment, all of which should not be discharged before meeting the relevant standards. Meanwhile, the Group and each production company remained in active collaboration with the national environmental protection authorities on annual inspection and spot checks. In 2019, all inspections carried out by the Group and each production company reached the national and local standards.

In 2019, the Group continued to strengthen its control over exhaust emissions amid rising sales, delivering an effective performance. The overall total exhaust emission decreased by 41.66 tonnes or 0.93% over the previous year, and the density decreased from 0.33 tonne/million RMB revenue to 0.27 tonne/million RMB revenue, a decrease of 18.18%.

Performance indicator	Unit	2018	2019
NO_x emissions	tonne	2,254.45	2,488.40
SO_2 emissions	tonne	1,777.44	1,583.98
Smoke and dust emissions	tonne	452.87	370.73
Total exhaust emission	tonne	4,484.76	4,443.11
Exhaust emission density*	tonne/million RMB revenue	0.33	0.27

* *The exhaust emission density in 2019 is calculated based on tonne/million RMB revenue*

In 2019, Fufeng Inner Mongolia fully sealed the corn immersion tanks, corn water tanks, and corn slur tanks in the starch production plant, using stainless steel plates. With the gas collection pipeline installed on the top, the exhaust gas was collected by the exhaust gas treatment system and discharged after being processed. The company sealed the outlets of 25 squeeze dryers and tube bundles, and capped the 14 suction filters, for the purpose of collecting all exhaust gas. It also built a new glass fiber reinforced plastic spray tower for washing treatment to reduce ambient odor emissions. In addition, the "Research and Development of Common Key Technologies for Waste Gas Treatment in the Amino Acid Fermentation Industry" independently researched and developed by Fufeng Inner Mongolia was the pioneering technology in the amino acid industry and completely solved the problem of odor, satisfying the international advanced standard according to the result appraisement.

In 2019, Fufeng Inner Mongolia used four production lines to have, the fertiliser flue gas generated by the compound fertiliser plant been treated by the original processing facility and delivered into the power-based boiler for combustion treatment via a closed stainless-steel pipeline. The modified treatment process for flue gas from fertiliser granulation is as follows: the flue gas will go through the closed pipeline, induced draft fans and plate heat exchanger for secondary heating after various treatment procedures including venturi dust removal, cooling by secondary spray scrubber, slag removal by sand and stone separator, cooling by plate heat exchanger, electrostatic-demister, low temperature plasma, which then will be delivered into the boilers of Power Plant 1 and Power Plant 2 for combustion. To date, the fertiliser granulator has been in stable operation for more than a year, and no burnt smell is found in the chimney outlet and the surrounding area of the plant. In 2019, the Fufeng Inner Mongolia applied for the patent headed "a flue gas treatment method and processing system (201910075777.7)" in respect to high-temperature combustion treatment for flue gas from fertilisers, which has received the eligibility notice on patent examination.

Besides Fufeng Inner Mongolia, Northeast Fufeng also adopted the inside-boiler calcium injection desulfurization technique in 2019. As opposed to wet desulfurization, this company launched the transformation project regarding external desulfurization for boiler flue gas, using white mud to desulfurize the boiler flue gas.

As for sewage

In terms of sewage control, in strict compliance with the requirements under the laws and regulations, including 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), and with reference to the requirements of the Environmental Protection Management System and the Administrative Measures on Sewage Discharge for Environmental Protection Treatment Plants issued by the Group, Fufeng Group monitors the sewage discharge, ensuring that the sewage discharged by each of the respective production companies meet the existing national sewage standards such as the Pollutant Discharge Standard for the MSG Industry (味精工業污染物排放標準) (GB19431-2004) and the Pollutant Discharge Standard for Urban Sewage Treatment Plants (城鎮污水處理廠污染物排放標準). In 2019, all companies of the Group continued to maintain the standards of sewage discharge.

The sewage discharged by various production companies mainly includes the waste water generated in the production process and the domestic sewage in the plant area. In 2019, the Group continued to improve the various systems and administrative measures in favor of waste water. Based on the indicators pinpointed for wastewater emission reduction, the Group has a special team for the management of waste water treatment, which will conduct regular inspection and appraisal, and implement real-time management on the discharge of various waste water, so as to avoid random or excessive discharge of the water treatment system and eradicate sewage pollution accidents, thus ensuring the standard discharge of production sewage and preventing water pollution. In addition, all production companies have specialised sewage treatment facilities and equipment in place and are 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.

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 go 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 2019, the Group recorded total sewage discharge of 12,395,246.19 tons, recycled sewage volume of 35,086,239.00 tons, total COD of 471.34 tons, and total N-NH_3 of 46.95 tons. The total recycled sewage volume in 2019 increased by 12,529,939 tons or 55.55% as compared to last year. The total sewage discharge of the Group increased by 32.81% as compared to last year, which was mainly due to a significant increase in water consumption following the fully resumed production of Fufeng Longjiang Project Phase II new corn processing plant with an annual capacity of 1,000,000 tones. In the meanwhile, Fufeng Baoji, which suspended production from February to August 2018, fully resumed production in 2019, resulting in an increase in the total sewage discharge of the Group in 2019.

Performance indicators	Unit	2018	2019
Total sewage discharge	tonne	9,332,916.07	12,395,246.19
Recycled sewage volume	tonne	22,556,300.00	35,086,239.00
COD	tonne	436.95	471.34
N-NH_3	tonne	61.67	46.95

In 2019, the pollutant discharge standard of Northeast Fufeng was higher than that of the local government. The current Pollutant Discharge Standard for the MSG Industry (味精工業污染物排放標準) provides that the emission standards for COD and ammonia nitrogen shall be ≤200mg/L and ≤50mg/L, respectively. However, the discharged sewage after treatment of the Company reaches Level A standard of the Pollutant Discharge Standard for Urban Sewage Treatment Plants (城鎮污水處理廠污染物排放標準), with COD and ammonia nitrogen emissions being ≤50mg/L and ≤8mg/L, respectively. This result is not only far better than the Pollutant Discharge Standard for the MSG Industry (味精工業污染物排放標準), but also better than Level B standard of the wastewater discharge standard for municipal wastewater treatment plants of Zhalantun City, with COD and ammonia nitrogen being ≤60mg/L and ≤15mg/L, respectively.

In 2019, Fufeng Xinjiang planned to invest RMB12 million in building a set of aerobic aeration system (comprising aeration tank, primary sedimentation basin and secondary sedimentation basin) on top of the existing sewage treatment station, increasing the oxygen-consumptive wastewater treatment capacity by 10,000 m^3/d. In the meantime, it optimizes and upgrades some supporting equipment of the existing sewage treatment station, such as the automation reform on evaporators. The reconstruction and expansion not only resolve the fully utilized aerobic sewage treatment capacity for existing projects, but also reserve extra sewage treatment capacity for subsequent projects. According to the Monitoring Report on the Inspection and Acceptance of the Environmental Protection for Completed Bio-fermentation Product Production Project of Xinjiang Fufeng Biotechnologies Co., Ltd. with an annual capacity of 160,000 tones (Xin Huan Yan Zi[HJY-2015-046]) (《新疆阜豐生物科技有限公司年產16萬噸生物發酵製品項目竣工環境保護驗收監測報告》新環驗字 [HJY-2015-046]), the monitoring results for the concentration of sewage before treatment are as follows: pH of 5.24-5.41, SS concentration of 162 mg/L, BOD of 51,290 mg/L, COD of 5,555 mg/L, and ammonia nitrogen 191 mg/L. The monitoring results for the concentration of discharged sewage after treatment are as follows: pH of 7.19-7.4, SS concentration of 33mg/L, BOD of 525 mg/L, COD of 61 mg/L, and ammonia nitrogen 1.1mg/L, which meets the relevant requirements of the Discharge Standard of Water Pollutants for Starch Industry (GB25461-2010) (《澱粉工業水污染物排放標準》). The treated sewage, which meets the discharge standard, was discharged to the desert area on the northern side of the project via the drainage pipeline of the industry park for the treatment by the Beishawo Sewage Reservoir project which is planned and constructed in the industry park.

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 2019, the Group's greenhouse gas emission mainly generated from industrial production emission and gasoline and diesel emission, which totaled 8,930,797.84 tons of carbon dioxide equivalent, representing an increase of 5.01% as compared to the previous year. Given a significant increase in sales in 2019, Fufeng Group actively implemented the overall energy management by strictly controlling utilization of coal and environmental efficiency. The concentration of greenhouse gases was 552.28 tCO_2e/million RMB revenue, representing a decrease of 10.61% as compared to the previous year.

Performance indicator	Unit	2018	2019
Emission from fuel coal combustion	tCO_2e	7,383,217.60	7,793,888.32
Raw coal emission	tCO_2e	845,183.05	912,540.94
Limestone emission	tCO_2e	83,758.15	55,185.14
Sodium carbonate emission	tCO_2e	105,509.58	78,402.99
Methane emission from sewage treatment	tCO_2e	50,604.85	43,520.85
Emission from vehicle fuel combustion	tCO_2e	13,431.25	6,206.67
Emission from external purchase of electricity	tCO_2e	22,921.81	41,052.93
Total emission of greenhouse gases	tCO_2e	8,504,626.29	8,930,797.84
Emission concentration of greenhouse gases*	tCO_2e/million RMB revenue	617.86	552.28

* *Emission concentration of greenhouse gases in 2019 was calculated based on tCO2e/million RMB revenue*

As for waste discharge

In 2019, Fufeng Group continually strengthened its waste discharge treatment. As a result, the Group attached great importance to and formulated the management documents, including the Administrative Measures on Solid Waste, the Hazardous Solid Waste Management System, Regulations for Landfill Site Management and the Administrative Measures on Industrial and Domestic Waste Disposal 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) and 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). The companies within the Group strictly complied with the relevant systems and regulations to implement the waste management.

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 that meets the standard will be recycled or properly treated. 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 fertilisers. 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. Each subsidiary reused non-hazardous waste. For example, the sugar dregs and bean dregs are reused in the feedstuff; the desulfurized sewage sludge is used as organic fertiliser; the coal ash is used as aerated brick, and sunflower slag is burned in a boiler or composted.

In 2019, Fufeng Inner Mongolia processed non-hazardous wastes such as coal fly ashes and slag into fertilisers. The coal ashes from thermal power plants are transported to the coal ash storage tank via the pneumatic conveying system, which are then transported into the batching tank. The fertiliser concentrated liquid and coal ashes from thermal power plants are mixed, grinded and batched in the Raymond mill and then put into a granulator for the fertiliser production by using slurry-spraying granulation. The tail temperature of the granulator is reduced by 80~100°C by increasing dry matter content of the feed liquid, improving the granulation conditions of the fertiliser, and reducing the viscosity of the feed liquid. As a result, the generation of flue gas is reduced at source, and each granulator doubles the spraying amount.

In 2019, Fufeng Group transferred a total of 258.90 tonnes of hazardous waste, mainly due to the emission of engine oil for maintenance and repair. The emission density increased by 4.42% as compared to 2018. The Group transferred a total of 816,659.79 tonnes of non-hazardous waste. The emission density decreased by 0.71% as compared to 2018. Each subsidiary reused non-hazardous waste. For example, the sugar dregs and bean dregs are reused in the feedstuff; the desulfurized sewage sludge is used as organic fertilizer; the coal ash is used as aerated brick, and sunflower slag is burned in a boiler or composted.

Performance indicators	Unit	2018	2019
Total discharge of hazardous waste	tonne	211.05	258.90
Total discharge of non-hazardous waste	tonne	700,023.98	816,659.79

Performance indicators	Unit	2018	2019
Emission intensity of hazardous waste*	tonne/million RMB revenue	0.02	0.02
Emission intensity of non-hazardous waste*	tonne/million RMB revenue	50.86	50.50

* *Emission intensity of hazardous and non-hazardous waste is calculated based on tonne/million RMB revenue in 2019*

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 fertilisers to further reduce and low the production of peculiar smell. The peculiar smell of the Company in 2019 was mainly generated from tail gas during the fertiliser production by using slurry-spraying granulation. After venturi dedusting, spray cooling, biosorption and plasma deodorization, and 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 has been striving to promote green and low-carbon development, and making tremendous efforts to conserve energy and reduce emissions 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》). Centering on the Outline of the 13th Five-Year Plan for National Economic and Social Development of the People's Republic of China, the Group, after taking into consideration its actual situations, proactively followed the latest policies, regulations and standards on energy conservation provided by national, local and industrial authorities, and continued improving management measures and increasing investments in technological transformation in the field of energy conservation. In 2019, through actively implementing the programme of improving resource efficiency, the Company continued to strengthen the environmental protection concept of reducing the impact on environment by energy conservation, thus minimize the unnecessary 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.

As for energy saving

Fufeng Group formulates and fully implements a series of rules and regulations according to the national GB/T23331—2012 standard, 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, in which case, these control procedures and systems will be constantly improved based on the annual actual situations. In addition, the Group 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. The Group makes great investments in rationalizing energy consumption, reducing energy costs, and improving energy efficiency, which is aimed at constantly improving the energy performance and energy management systems.

In 2019, the Group implemented a three-tier energy-saving management framework, in which the energy-saving tasks will be implemented by the energy-saving leading taskforce of the Group, the energy-saving offices of all members of the Group and functional department heads in charge of the energy-saving matters. Each subsidiary of the Group implements a three-tier energy-saving management system, under which, a leading group is established for energy conservation and emission reduction. The general manager acts as the leader of the energy management group, the deputy general manager as the deputy group leader, the production department as the manager and executor of the energy management and each factory manager as a group member. Each leading group from the subsidiaries organized the formulation of energy-saving management rules, energy-saving targets, and implementation. Supervisors shall carry out regular tour inspection over the energy consumption at the Company, including measurement and supervision, statistics check, and energy record access. Furthermore, these supervisors shall prepare effective energy analysis, and compile energy-saving reports.

In 2019, affected by the commencement of operation of the newly-established lysine hydrochloride workshop and the glucose production line Phase II of Fufeng Longjiang and the full resumed production of Fufeng Baoji, the electricity consumption of Fufeng Group from external purchase amounted to 58,233,400 kWh, representing an increase of 77.4% as compared to last year, while coal consumption also increased by 12.28%. Despite the significant increase in sales, the total energy intensity effectively decreased by 4.46%.

Total resources consumption in 2019:

Performance indicators	Unit	2018	2019
Electricity	kW•h	32,826,470.00	58,233,400.00
Coal	Tonne	4,576,629.67	5,138,690.55
Gasoline	Litre	53,807.68	51,184.00
Diesel	Tonne	4,213.48	1,969.74
Total energy intensity*	GJ per million RMB revenue	11,323.53	10,818.34

* *Total energy intensity is calculated based on GJ per million RMB revenue in 2019*

In 2019, Fufeng Group further improved its pilot circular economy projects. Fufeng Inner Mongolia continued to carry out the pilot circular economy project by building corm deep process industry chain and power station industry chain, 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 of industrial solid waste, the utilisation volume of industrial waste and the industrial water reuse rate were 99.6%, 52,320 tons and 84.81% respectively. The green space coverage rate of the Company was more than 20%.

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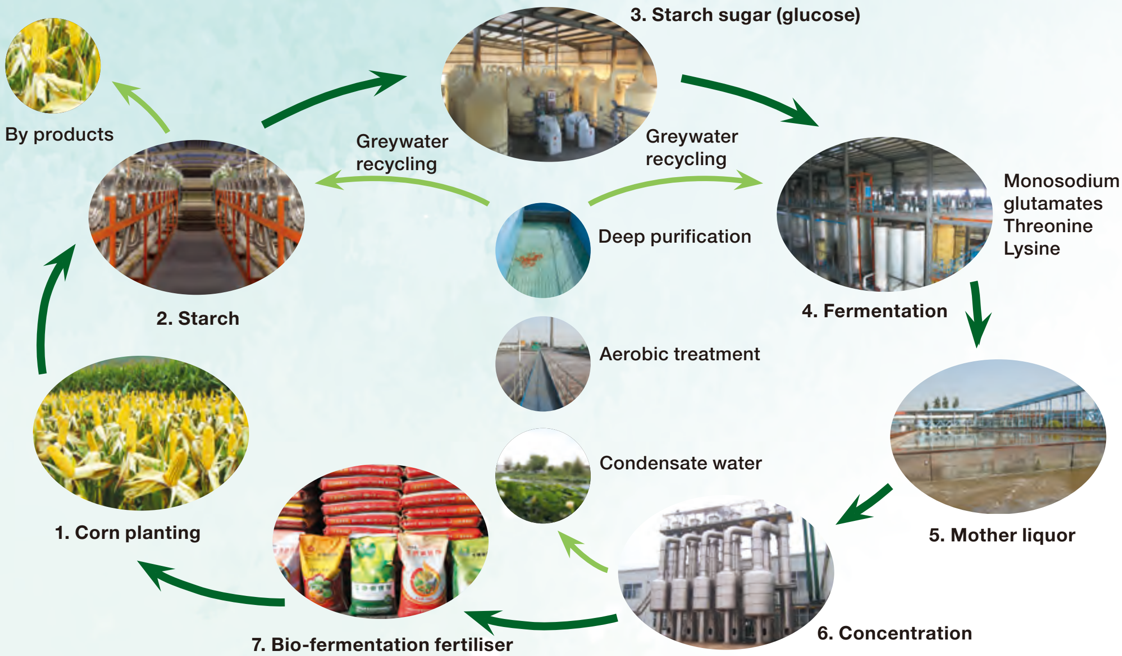

In 2019, in strict compliance with the requirements of GB/T23331—2012 Standard and applicable laws and regulations, Fufeng Inner Mongolia established, implemented, maintained and further enhanced the energy management systems of the Company, and prepared such system in a written form for implementation and maintenance purposes to ensure the purposes of reducing energy consumption and improving energy efficiency. The Company carried out a construction project of waste heat power generation this year, which generates electricity by using existing high-temperature and high-pressure steam to reduce the energy loss in the process of steam temperature reduction and pressure reduction. The electricity power generated by the generating unit is able to replace the external purchase of electricity to meet the existing power demand of the factory area and thus saving electricity. It can save 12,300 tons of coal per year, 3,089,000 kWh of electricity per year, 1,200 tons of water per year, and 16,000 tons of gas per year.

In 2019, Northeast Fufeng implemented energy-saving measures for waste heat recovery, to recycle and reuse the waste heat of steam and circulation water with heat by optimizing the starch liquefaction and saccharification production process, performing technological transformation on the drying process of tube bundle dryer for recovery, recycling and reusing the sodium glutamate crystallization circulation water for heating and recycling and reusing the oxygen enrichment steam calorimeter in the power boiler deaerator.

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 awareness 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 to continuously improve the relevant water conservation projects of the respective member of the Group. In 2019, the total water consumption of the Group was 20,809,237 tonnes, representing an increase of 2,716,553 tonnes as compared with 2018, mainly attributable to the full operation of Fufeng Longjiang Project Phase II and full resumption of production of Fufeng Baoji. The total water consumption intensity of the Group was 1.29 tonne/thousand RMB revenue in 2019.

Performance indicator	Unit	2018	2019
Total water consumption	tonne	18,092,684.00	20,809,237.00
Total water consumption intensity*	tonne/thousand RMB revenue	1.31	1.29

* *Total water consumption intensity is calculated based on tonne/thousand RMB revenue in 2019*

In 2019, Fufeng Inner Mongolia conducted a reclaimed water recycling project, which achieved an obvious result in water saving, with a comprehensive water production rate of 92.23% through the process of softening and sedimentation, multi-media filtration, ultrafiltration and reverse osmosis. At the same time, Northeast Fufeng implemented emission reduction measures for reclaimed water in 2019, which treated reclaimed and recycled water, biological aerated filter, mechanical clarifying tank, sand filter (filtering microscopical impurities in water through physical filtration), manganese sand filter (filtering suspended substance in water through twice filtration), ultrafiltration system (filtering tiny suspended substance in water through third filtration), reverse osmosis (degrading salt content in water), mixed bed (removing metal ions and chloride ions in water) and reclaimed water, to fully comply with the requirements of recycling and reuse of water resource, and reduced the amount of fresh water used, so as to enable the Company to develop in compliance with the requirements of national environmental protection, energy saving and emission reduction policies. In 2019, the total recycling volume amounted to 800,000 tons.

Packaging materials

Packaging materials used by the Group are mainly composite packaging materials, paper packaging materials and plastic packaging materials. Due to the sales growth of the Group, the full resumption of production of Fufeng Baoji and the commencement of operation of the newly established lysine hydrochloride workshop and the glucose production line Phase II of Fufeng Longjiang in 2019, the consumption of paper packaging materials of the Group increased significantly in 2019 due to the increased output. Set out below is the total amount of various packaging materials consumed in 2019:

Performance indicator	Unit	2018	2019
Composite packaging materials	tonne	12,361.05	11,410.11
Paper packaging materials	tonne	1,776.40	11,161.32
Plastic packaging materials	tonne	647.07	508.93

A3 Environmental and Natural Resources

In 2019, Fufeng 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. The Group and its members have qualifications for hazardous waste treatment, and clearly stipulate the economic procedures to be adopted in the occurrence of incidents that may cause environmental pollution. The Group reports all environmental-related information to local relevant departments in a timely manner, and will cooperate with relevant departments to conduct analysis and investigation to ensure that the Company has no significant impact on the environment and natural resources.

In 2019, Fufeng Xinjiang engaged the companies with professional hazardous waste treatment qualifications (such as hazardous waste business licenses) to dispose of hazardous wastes such as waste engine oil and waste reagents, for the purpose of effectively preventing the damage to the environment by improper leakage and disposal of hazardous wastes. On 20 April 2019, under the organization of the Ganquanbao Management Committee, Fufeng Xinjiang sent a team of 30 employees to participate in the Greening Ganquan Tree Planting Activity (綠化甘泉植樹活動), with a view to decorating the Industrial Park by planting trees. In addition, Fufeng Xinjiang organized a publicity event of “I am a Participant in Defending the Blue Sky” (藍天保衛戰，我是行動者), in which Environmental Protection Bureau of Ganquanbao Economic Development Zone (甘泉堡經開區環保局), representatives from the Hongliu Village Committee and Wutong Village Committee, and middle management and more than 400 employees of the Company participated. The event appeals to everyone to enhance their awareness of environmental protection, and encouraged them to turn environmental protection into a habit in their daily life by respecting and complying with nature, enhancing awareness of conservation and environmental protection, actively participating in environmental protection, and thus vigorously creating a good atmosphere for actively participating in environmental protection.

B Society

B1 Employment

Fufeng Group believes that talent is an important asset and is vital to the business success and future development of the Group. We have been committed to providing an equal, respectful and diverse working environment for the employees of the Company, so that each employee can enjoy a good development within the Company. 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 within the Group.

- **Employment**

  In 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》), the Group has established a complete personnel management system and formulated the Recruitment Process System by adhering to the principles of fairness and openness to provide positions suitable for employees. The Group has developed clear position setting, employment process and recruitment principles. The Group recruits talents through various channels and hires talents upon comprehensive evaluation by the Company. Based on the employment conditions and requirements of recruitment positions, 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 to attract excellent talent. The Management Regulations on the Probation and Remuneration of the Intermediate and Senior Staff of Fufeng Group, the Remuneration Management Measures of Fufeng Group and the Staff Position Grade Management Measures of Fufeng Group Limited issued by the Group expressly stipulate its compensation policies for staff at different departments and levels, being annual-salary remuneration system for management personnel, hierarchy based remuneration system for technicians, four-tier remuneration system for general staff, 21-level remuneration system applicable to management, technology, function and administrative and supportive sequence, sales sequence remuneration system applicable to sales staff, and operation sequence remuneration system applicable to front-line workers. Every year, Fufeng Group is committed to ensuring that the average remuneration offered to its staff is competitive in the regions where its business operations are located, making timely adjustments to its remuneration policies with the assistance of external parties in response to changes in the external environment, and paying salaries in full and on time to effectively protect the legitimate rights and interests of employees.

- **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. In the meanwhile, 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 gradually improves the Staff Leave System and provides paternity leave for male employees and menstrual leave for female employees.

- **Talents development**

  The Group firmly believes that the talents are the most valuable assets of the Company and attaches great importance to the shared growth. The Group's human resources department and Business Schools regularly provide targeted induction trainings for various new employees to help new employees to understand the corporate culture and job requirements so that they can adapt to their work content and working environment as soon as possible. In the employee career development project, the Group will provide employees with appropriate trainings based on social development and the Group's development needs, so that they can keep up with the needs of the times and keep pace with the times. The Group actively creates a favorable development environment where talents can demonstrate their specialised skills in a planned way. 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 mechanism to 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 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 in public holidays to enrich leisure life and improve physical and mental health of its employees in all respects.

  (1) Cultural and sports activities

  On 1 May 2019, in order to celebrate Labor Day, Fufeng Baoji held employee sports games including tug-of-war, basketball, and other fun activities, in which all employees participated to release their work pressure. On 1 October 2019, in order to celebrate National Day, the Group carried out National Day Fun Competitive Activities, including 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.




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(2) New Year's Eve party

At the end of 2019, in order to welcome the arrival of 2020, Fufeng Group held the New Year's Day Gala of "Fighting for Fufeng and Chasing the Future", in which the Chairman and general manager of the Group and leaders from all members of the Group participated, for close contact and interaction with grassroots employees. This strengthened the relation between employees and leaders, and enriched employees' daily lives.

(3) *20th Anniversary Celebration*

The year of 2019 marks the 20th anniversary of the establishment of Fufeng Group. The Group held a grand celebration with the theme of "new starting point, new journey, new dream", in which all leaders participated and employees actively participated. The celebration looked back on the development history of Fufeng Group over the past 20 years, praised the outstanding employees for their contribution to the Group, and made an outlook on the future development of the Group, which strengthened the employees' sense of belonging to the Group.

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(4) *Collective Wedding Ceremony*

On 29 June 2019, the fifth large wedding ceremony of Northeast Company was held, where a number of young couples at Fufeng Group walked into the sacred marriage hall in the blessings of leaders and colleagues of the company. Northeast Company 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.

- **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 recruitment and promotion.

B2 Health and Safety

In 2019, Fufeng Group believes that staff safety is an important pre-condition of the sustainable development of the Group by taking 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.

In 2019, the Group has developed a comprehensive and regulative safe production system by continuously improving its system on safe production and occupational health responsibilities, system on hidden dangers investigation and rectification, system on accident report, investigation and handling, system on fire safety management, system on special operation management, and system on related party management, etc. The Group has further improved its dual prevention mechanism and created sound safety management atmosphere in accordance with the requirements of the national, provincial and municipal governments.

- **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) Production Safety

  In order to further strengthen the safety management work of all relevant parties, the Group improved its "Reward and Punishment System for Safe Production" and "Special Operation Management System", specifying various requirements and safety measures and increasing penalties for violations. During the construction of the project, the Group regularly conducts safety education training assessment for construction personnel of relevant parties. During the training process, except explaining safety know-how and relevant rules of the Company's safety management, the Group further enhanced the safety awareness of construction personnel through accident case training, thus reducing the possibilities of accidents of related parties.

In addition, the Group increased more efforts to identify and detect potential risks and relevant supervision and investigation, to strengthen the safety management at site. The improvement of safety management mainly lies in continuous improvement of human behavior, equipment defects, and working environment, while the identification of equipment defects and dangerous sources of working environment mainly lies in the intensity of identification, detection and rectification of potential risks. In 2019, as for identification and detection of potential risks, the Group conducted various special safety inspections in combination with factors such as seasonal characteristics and production characteristics except daily inspections and monthly comprehensive inspections. The unsafety of objects and dangerous in the operating environment were regulated and managed by enhancing equipment, improving protective facilities, and adding safety signs.

Daily inspection of key parts and positions in all subsidiaries was carried out, and any hidden danger problems found during inspection was notified to relevant responsible departments in a timely manner and rectified immediately. The company has special personnel to conduct daily inspections so as to identify and rectify hidden dangers in a timely manner, for those which will endanger personal safety would be assessed immediately; the Group conducts comprehensive inspections on management of each departments and conducts relevant safety assessment at the end of the month. According to the requirements of higher-level government departments and the Company's safety situation, special inspections of hazardous chemicals, fire-fighting facilities, special equipment, safe electricity, summer defense, and winter defense have been conducted in a timely manner to establish the concept of "hidden dangers will be accidents". Based on the risk classification control and the safety production responsibility system, and in accordance with national laws and regulations, standards, experience and lessons from accidents, the Company formed a closed loop composed of a safety hidden checklist for the position, team, workshop and the Company, hidden danger rectification notice and hidden danger receipt list to clarify the content and responsibilities and improve enforceability.

Meanwhile, the Group conducted accident case warning education to enhance employees ability to prevent accidents. In order to improve employees awareness of safety accidents, the Group collected relevant accident cases, produced accident case warning signs, and hung them at various process positions to enable employees to fully understand the causes and consequences of various accidents, so as to further enhance their safety awareness and improve their ability to prevent accidents. All members of the Group have strengthened safety training and education, to enhance the safety awareness of all employees, and control unsafe behaviors. As the youngest subsidiary of the Group, Fufeng Longjiang's new recruits account for a large proportion of the Company's total number of employees. As its staff composition is mainly composed of students who have just entered the society and the surplus labor in the surrounding areas, most of them lack of experience in industrial enterprises, and their safety knowledge and awareness need to be improved. In view of the abovementioned situation, Fufeng Longjiang carried out safety education and trainings in terms of special operations, identification of dangerous sources, "13 articles" of unsafe behaviors, safe operation of motor vehicles in the plant, and a daily question and especially for the first-line management above the team leader, conducted regular training and assessment, for the purpose of improving the safety awareness of all employees and controlling unsafe behaviors of employees. All of these measures above have significantly improved the safety awareness of all employees and ensured the safe operation in accordance with safety requirements and operating procedures.

The Group strictly implements management and control on special operation to reduce the probability of accidents, and implements key supervision on processes, equipment, facilities, places and positions with significant safety risks. In 2019, Fufeng Longjiang strengthened the management of eight special operations. Since the safety accidents caused by inadequate safety management of special operations such as fire, ascent, and equipment modification accounted for a large proportion of the total number of accidents, the Company formulated a management system for equipment inspection and maintenance, which designated the equipment installation, replacement, inspection and maintenance operations as the Company's ninth special operation. In respect of the management of the nine special operations, in addition to strict review and approval on the operation ticket, the Company checks the implementation of safety measures on site, and designates the responsible person. The Company requires that the safety staff of each workshop verify the guardian on site, and carry out the operation only when the safety measures are in place. The focus is to strengthen the identification of dangerous sources on the operation site and the supervision of the implementation of safety measures at early stage and mid-term of the operation. Corrective measures are taken in a timely manner when any hidden hazard is found. If violations are found, the responsible person will be subject to punishment. In addition, the Company regularly organizes training and assessment of illegal personnel to fundamentally improve the safety awareness of personnel involved in special operations.

(2) *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 corresponding 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.

In order to ensure the performance of the security work and the sufficiency of the emergency rescue force, all members of the Company increase efforts in the daily trainings and fire emergency skills training and emergency drills of security personnel. In terms of emergency rescue, rescue teams can arrive at the scene as soon as possible and immediately start rescue through daily drills. The Company conducts 24 hours monitoring of major fire areas, and maintenance of all fire protection facilities in accordance with standard requirements to ensure that fire protection facilities are in good condition. In 2019, Fufeng Longjiang formulated the "Fire Emergency Rescue Plan" and conducted training and drills for related employees, which improved the fire prevention and emergency rescue capabilities of employees and the Company. In addition, Fufeng Longjiang set up a voluntary fire brigade to deal with various firefighting accidents in time to effectively ensure the safety of employees.

(3) *Occupational Health*

In strict compliance with requirements of the Prevention and Control of Occupational Diseases Law of the PRC and the Production Safety Law of the PRC, Fufeng Group and its members have formulated the Responsibility System for Safe Production and Occupational Health, which clearly stipulates the responsibilities of various departments in the prevention and control of occupational diseases, and regulates "Three Simultaneities" of occupational health, occupational hazard factor detection, occupational health pre-post, post-post physical examination, and the distribution of protection supplies for occupational disease.

B3 Development and Training

Fufeng Group attaches great importance to the development and training of employees, and strives to create a development planning and training mechanism that meets Fufeng Group's development standards while taking into account the personal development needs of employees. According to the different development stages of the Group, regular training is provided to employees. Regular induction trainings are provided to new employees to enable them to fully understand the Group's development history and business processes, and help them quickly join in Fufeng Group. For recruited employees, training will be conducted according to the needs of employees' positions, and training courses will be updated in time to improve the comprehensive knowledge and skills of employees, and realize the simultaneous development of employees and the Group.

In 2019, Fufeng Group further strengthened the engine role of Fufeng Business Schools in employee development and training. Greater efforts were invested into the Fufeng Business School to fully utilize the organisation function of our Fufeng Business School in our training and strengthen 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. Fufeng Group fully tapped 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 second batch of internal trainers. In 2019, to strongly support the establishment of the information resource management platform of the Group, the Business Schools of the Group also organized a number of improvement courses in professional fields, which were widely recognized by employees.

Environmental, Social and Governance Report

B4 Labor Standards

As clearly stipulated in Fufeng Group System on the Recruitment Process formulated by Fufeng Group, Fufeng 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. The 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

The suppliers with first-class standards are essential to Fufeng Group's pursuit of high-quality products. In order to ensure that suppliers maintain their capabilities of supplying high-standard products, we have developed an effective and pragmatic supply chain management system, and implemented integrated management on the quality of product and service and social responsibility of suppliers, to continuously improve the sense of responsibility and ability of suppliers, and achieve win-win development of social responsibility with our supply chain partners on the basis of mutually beneficial cooperation and mutual benefit. The Group 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, and formulated systems and documents to standardize operation. 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.

The supply department of each subsidiary of the Group performs its daily management duties to suppliers in strict accordance with relevant system 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. As to any failure to meet the criteria, the supplier will be required to take corrective actions. The Group will promptly replace those suppliers who persistently failed to meet its criteria and actively secured alternative suppliers to ensure its high quality service standards for customers.

B6 Product Responsibility

Fufeng Group attaches great importance to product quality management to ensure the safety of foods, 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, the Group vigorously implements the international standardized management systems to ensure the normalization and standardization of our work. On the other hand, the Group invests heavily in acquisition of hardware to develop the production environment, techniques, and equipment of its subsidiaries 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.

- **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 highly control and manage its production processes. The Group manages product quality by adopting such standards as ISO 9001:2015 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 monosodium glutamate (MSG), threonine, glutamic acid, starch sweeteners (edible glucose and isomerized sugar), xanthan gum, chicken essence, corn oil and other products. The Group's quality control department carries out product quality control training from time to time every year to ensure a constant improvement in the professionalism of our skilled employees.

The Group highly 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.

Currently, 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 independent testing. Different products are inspected according to different inspection frequencies, such as every week, every batch, or every six months, to ensure that each inspection index meets national standards. This standardizes the inspection order and behavior, and achieves the validity and timeliness of production analysis inspection. In addition, the Group has an internal testing mechanism and testing technology center, and has established the "Regulations for the Daily Management of the Testing Technology Center" to coordinate with external testing mechanisms to ensure the quality supervision of the Group's products.

- **Rights and Interests of Consumers**

Fufeng Group has persisted in listening and understanding the true opinions of consumers for many years, and actively follow up and deal with feedbacks promptly. The "Management System for Customer Complaint and Return and Replacement of Goods" was formulated to deal with customer complaints in a timely and effective manner, improve customer information management and service quality, enhance product quality, and better serve the market. 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 2019.

The Group has established the Product Recall Procedures and the Product Recall Emergency Response Plan to regulate and direct the emergency handling work and to effectively prevent, timely control and reduce the harmful effects of food safety incidents. Such procedure and plan safeguard the public health and life safety, while protecting the economic benefits of customers and the Group's corporate image, and define the duties and work procedures of the product recall procedure. The Group and each of its subsidiary formulate recall drill plans for different products every year. In 2019, the Group did not experience any product recall.

- **Advertisement and Trademark**

  When selecting advertising media, Fufeng Group will conduct a scientific evaluation over the target audiences. In addition to ensuring accurate selection, Fufeng 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, the 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

Fufeng Group always considers integrity as the cornerstone of the sustainable and healthy development of the Group. In order to prevent the occurrence of corruption and bribery, 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》), guides the establishment of a sound anti-corruption mechanism, and has established and constantly improved the Administrative Regulation on Anti-Corruption of Fufeng Group. Meanwhile, in respect of system, the Group has newly formulated and issued systems and rules such as the External Codes of Conduct of Fufeng Group and System of Declaration of Conflict of Interest of Fufeng Group. The Group advocates adherence to the code of integrity, and fully implements the integrity work for every employee. Fufeng Group conducts integrity building and professional ethics training for all employees every year, to promotes a culture of integrity, and constantly strengthen employees' awareness of anti-unfair competition.

The Group has established the Anti-Fraud 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 an Agreement against Commercial Bribery (Procurement). 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 requires all marketing personnel and customers to enter into an Agreement against Commercial Bribery (Marketing), and the sales management department will inspect sales staff to help them actively implement the integrity policy. At the same time, the Group's audit department identified and determined integrity and fraud as the key monitoring item for the audit of departure, and managed it as the top veto item.

A sound monitoring and reporting mechanism is established within the Group 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 human resources and audit 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. In 2019, the Group conducted trainings in a variety of forms for supervisory personnel to improve business quality and ability to perform duties.

B8 Community Investment

Fufeng Group fulfills its social obligations, and uses its own resources and influence to make contribution to the region where its subsidiaries are located. 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.

In 2019, the Group and Shandong Fufeng made substantial social donations. On 9 September 2019, the Group's middle and senior management was arranged to participate in the "99 Public Welfare Day" donation campaign with a donation amount of RMB116,000 to the Shandong Charity Federation. On 18 March 2019, Shandong Fufeng Fermentation Co., Ltd. made a donation of RMB600,000 to the Junan County Red Cross Society, which is utilized to assist the incumbent and retired employees of Fufeng Group, as well as the underprivileged patients in need of osteopathic treatment, in medical treatment. On 28 April 2019, Shandong Fufeng Fermentation Co., Ltd. mad a donation of RMB100,000 to Junan Charity General Association. On the morning of 18 October 2019, the cadres of government organs and enterprises within the economic development zone were rallied to run the "Charity Donation Day" campaign. By focusing on the livelihood priorities, the economic development zone fully tapped into the cluster strengths of the enterprises within the zone, and therefore achieved noticeable results in their commitments to the charity and relief work by proactively launching various charity funding campaigns, including "Serious Sickness Assistance Donation", and "Charity Donation Day". At the donation ceremony, Shandong Fufeng Fermentation Co., Ltd. donated RMB20,000.

In 2019, our Fufeng Inner Mongolia assisted local Xiaogangfang Village with their spring plowing, and reduced the pressure of purchasing agricultural products by offering 100 tons of free fertilizers at a value of RMB100,000, which successfully addressed the arability challenge. Prior to the Chinese Spring Festival in 2019, Fufeng Inner Mongolia's management visited 20 underprivileged households in Xiaogangfang Village with gifts worth RMB8,000, including overcoats, rice, edible oil, and noodles and flour. During the Mid-Autumn Festival in 2019, Fufeng Inner Mongolia's management visited the underprivileged households in Xiaogangfang Village, Yaogou Town with gifts as a gesture of solicitude, including rice, noodles, oil, mooncakes, and milk.

In June 2019, our Xinjiang company organized the "Ethnic Unity Visit" campaign, pursuant to which, the management of the company visited various key underprivileged families admitted to the aid program in Hongliu Village and Wutong Village, bringing these extremely underprivileged families daily necessities, including rice, noodles, and oil, as a gesture of affinity and solicitude. This helped promote an amicable community relationship between the company and the minority ethnicities, and strengthen the ethnic unity, which in return will continue to shore up the foundation of harmonizing ethnic members, collaborating with each other to overcome challenges, and seeking common development. In September 2019, the company worked with Urumuqi Corps Blood Donation Center and led the voluntary public blood donation campaign headed "My Blood for Motherland in Celebration of the 70th Anniversary", during which, 57 employees of the company donated their blood in a total volume of 18,900 milliliters.

On 10 September 2019, the Organizing Committee for the Fourteenth National Winter Games and Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd. entered into a contract in Zhalantun in connection with financial assistance for the Fourteenth National Winter Games, manifesting the strong support and passion for the sports industry nationwide.

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 2019, the Company had complied with the Revised CG Code for the year from 1 January 2019 to 31 December 2019 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. Xu Zheng Hong did not attend the annual general meeting of the Company held on 15 May 2019. 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. Yu Yao Ming and Mr. Li Guangyu; and (ii) three Independent non-executive Directors, Mr. Lau Chung Wai, 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 26 years of working experience in finance and accounting including over 12 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. Yu Yao Ming	✓	✓
Mr. Li Guangyu	✓	✓
Independent non-executive Directors		
Mr. Lau Chung Wai (appointed on 12 June 2019)	✓	N/A
Mr. Xu Zheng Hong	✓	✓
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 2019, 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 2019 is set out below:

Director	Board meeting attendance	Annual general meeting attendance
Executive Directors		
Mr. Li Xuechun *(Chairman)*	7/7	1/1
Mr. Zhao Qiang	7/7	0/1
Mr. Li Deheng	7/7	0/1
Mr. Yu Yao Ming	7/7	0/1
Mr. Li Guangyu	6/7	0/1
Independent non-executive Directors		
Mr. Lau Chung Wai (appointed on 12 June 2019)	1/7	0/1
Ms. Zheng Yu	7/7	1/1
Mr. Xu Zheng Hong	7/7	0/1

Corporate Governance Functions

The Board is responsible for performing the functions set out in the Code Provision D.3.1 of the CG Code.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

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	4,003
Non-audit services	1,135
	5,138

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

Audit Committee

The Audit Committee, established with written terms of reference in compliance with the Code, comprises three Independent non-executive Directors, Mr. Lau Chung Wai, Mr. Xu Zheng Hong and Ms. Zheng Yu. Mr. Lau Chung Wai 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 2019, two Audit Committee meetings were held with Mr. Xu Zheng Hong and Ms. Zheng Yu attended all the meetings. Mr. Lau Chung Wai attended one Audit Committee meeting during 2019 (as Mr. Lau is appointed as independent non- executive director on 12 June 2019).

The purpose of the meetings was to review the Group's results for the year 2018, the interim results for the year 2019 as well as discussing the risk management assessment and the internal control review and the audit of the Group. The Group's 2018 annual report and 2019 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

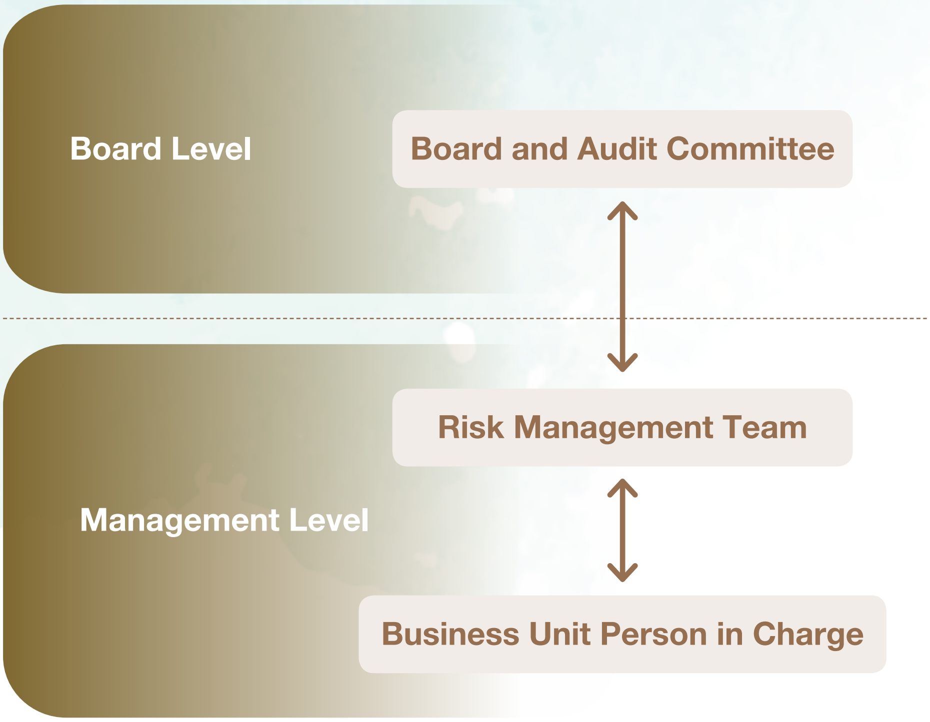
The Board acknowledges that an effective system of internal control and risk management practices are essential in ensuring good corporate governance and pursuing the achievement of the strategic goals of the Group. The Board also acknowledges that it is the Board's responsibility to ensure that the 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 2019, 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 2019 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. Lau Chung Wai (appointed on 12 June 2019), Mr. Xu Zheng Hong and Ms. Zheng Yu. Mr. Lau Chung Wai 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 2019, one Remuneration Committee meeting was held. Mr. Lau Chung Wai, Mr. Xu Zheng Hong and Ms. Zheng Yu attended the meeting. The meeting of the Remuneration committee was duly held for reviewing and determination of the annual remuneration packages of the executive Directors. The Remuneration committee consults the chairman and general manager about its proposals relating to the remuneration of other executive Directors.

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 2019 fell within the following band:

	Number of Individuals
RMB500,001 to RMB1,000,000	2
RMB3,500,001 to RMB4,000,000	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. Lau Chung Wai, Mr. Xu Zheng Hong and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Nomination Committee. For the year ended of 31 December 2019, 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.

2019	Investor Relations Events
Jan	Deutsche Bank – China Corporate Day, Hong Kong
Mar	2018 Annual Results Roadshow, Hong Kong
May	J.P. Morgan's 15th Annual Global China Summit, Beijing
July	CICC (Chemical) arranges investors and analysts to make exclusive site visit at Longjiang Base of Fufeng Group
Aug	2019 Interim Results Roadshow, Hong Kong, Beijing, Shanghai
Sep	Finance Asia's China Fixed Income Summit, HK
Dec	Gelonghui – Global Investment Carnival 2019, Shenzhen

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 2019.

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 2019 are set out under the consolidated income statement on page 94.

Interim dividend paid after the interim period of HK9.3 cents (equivalent to RMB8.34 cents (2018: HK4.2 cents (equivalent to RMB3.67 cents)) per Share totaling HKD235,628,000 (equivalent to RMB211,387,000). The difference between declared and paid interim dividends was due to the decreased ordinary shares as a result of the repurchase of the share of the Company. The Board recommends the payment of a final dividend of HK8.0 cents (equivalent to RMB7.30 cents) per Share totaling HKD202,691,000 (equivalent to RMB184,941,000) for the year ended 31 December 2019.

Material Acquisitions or Disposal of Subsidiaries and Associated Companies

On 2 September 2019, the Purchaser, a wholly-owned subsidiary of the Group, entered into the Share Purchase Agreement, pursuant to which the Purchaser agreed to purchase and the Vendors agreed to sell all the issued shares of Wo Feng at an aggregate consideration of RMB44.9 million. Wo Feng is an agricultural products company which is mainly focused on the sale and distribution of fertiliser products in the PRC. Wo Feng's sales network covers over 30 provinces and cities in the PRC and certain other countries and regions around the world, with more than 1,000 customers.

Except for the above, the Group had no other material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2019.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Notes 24, 25 and 36 to the consolidated 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 14 to the consolidated financial statements.

Share Capital

Details of the movement in share capital of the Company are set out in Note 22 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2019, the Company's reserves available for distribution to the Shareholders amounted to RMB269,093,000 (2018: RMB942,381,000).

Directors

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

Executive Directors

Mr. Li Xuechun *(Chairman)*
Mr. Zhao Qiang
Mr. Li Deheng
Mr. Yu Yao Ming (appointed on 20 March 2019)
Mr. Li Guangyu
Mr. Pan Yuehong (resigned on 20 March 2019)

Independent Non-executive Directors

Mr. Lau Chung Wai (appointed on 12 June 2019)
Mr. Xu Zheng Hong
Ms. Zheng Yu
Mr. Xiao Jian Lin (resigned on 12 June 2019)

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. Zhao Qiang and Mr. Li Deheng 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. Lau Chung Wai 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. Zhao Qiang and Mr. Li Deheng, 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 5 June 2017 and the Listing Date, respectively. They are 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, Mr. Lau Chung Wai, proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company for two years commencing from 12 June 2019 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 2019, 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 29, 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 continued to be confronted with challenges in 2019, including but not limited to a slowing domestic macroeconomic growth, the Sino-US trade tensions and the epidemic of swine flu. Despite these challenges, our Food additives segment recorded a significant improvement in its overall performance, following years of efforts in industry consolidation, as compared with 2018. Net profit increased by RMB395.0 million, or 53.2%, year-over-year (excluding the result of the one-off net gain after income tax of approximately RMB1,102.8 million from the disposal of two parcels of land in Baoji in 2018), which was primarily driven by the increase in profitability of our Food additives segment for the year ended 31 December 2019.

Our operating performance greatly improved in 2019 as compared with 2018, mainly attributed to: 1) the improvement in revenue and profitability of the Food additives segment, which accounted for a fairly large contribution of overall Group revenue, driven by a significant increase in MSG price despite the increasing costs of major raw materials including corn kernels and coal, and therefore had a positive impact on our overall performance; and 2) production efficiency was further improved as a result of enhancement of production technologies.

Against the backdrop of a sluggish domestic economy, the Group's Food additives segment was still able to achieve better results in terms of industry development and market competition. This is mainly due to the entry of the MSG industry into a new landscape, including 1) a new phase of centralisation of production capacity emerging after years of industry consolidation; 2) reduced level of irrational competition in terms of pricing and production volume by our competitors; and 3) leading enterprises have taken the initiative to limit excess production capacity to control excessive supply in the market. As a result, a more rational competitive environment resulted in an improvement in the selling price of our MSG products.

The ASP of MSG was approximately RMB6,941 per tonne (2018: RMB6,085 per tonne), and the sales volume of MSG for the year ended 31 December 2019 increased to approximately 1,116,000 tonnes, boosting the profitability of the Food additives segment.

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. In addition, the Group made considerable efforts 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. We 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 meet market demand.

The Group recognised the importance of using advanced technologies to continually improve our production efficiency and develop new products. We 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.

The Group nonetheless experienced some turbulence caused by the Sino-US trade tensions. For example, the exports of xanthan gum and high-end amino acid to US were affected to some extent. The sales volume of xanthan gum reached approximately 61,000 tonnes in 2019, but recorded a decrease in ASP and thereby added pressure to the gross profit margin of our xanthan gum products in 2019. The sales volume of high-end amino acid was also affected, showing a declining trend in 2019.

Animal nutrition products underwent a difficult time due to the sluggish feed industry and animal breeding industry as a result of swine flu. The sales volume and price of our threonine and lysine both failed to meet our expectations.

As for Animal nutrition products, we expect the current weak conditions will continue for a period of time during 2020. In response to this, we have taken some corresponding countermeasures, allowing us to meet the demands of our customers, as well as reducing the negative impact on our profitability. These countermeasures include: 1) accepting orders that meet a set price, so as to focus on those customers that have high demand for high-end products; and 2) readjusting product mix to meet different market demands by modifying some of our production processes.

We continue to strategically optimize our production bases. Phase II of the Longjiang Plant Project successfully commenced operation in January 2019, representing a milestone for the Group in extending its competencies across the industry value chain, and thereby improving its overall market competitiveness. Upon completion, the Group became the leading enterprise in the global market with full corn processing capabilities.

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 2019, 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)*	995,217,461 Shares	39.28%
Li Deheng	The Company	Interests of controlled corporation *(Note 2)*	33,320,160 Shares	1.32%
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, as at 31 December 2019, 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 2019, 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	995,217,461 Shares	39.28%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	995,217,461 Shares	39.28%
Treetop Asset Management SA	The Company	Beneficial interests	432,837,314 Shares	17.08%

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 995,217,461 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, as at 31 December 2019, 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.

Directors' Report

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.

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 2019, 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 2,533,639,037 Shares of the Company as at 31 December 2019.

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 8.39% of the issued share capital of 2,533,639,037 Shares of the Company as at 31 December 2019.

In addition, the outstanding number of the shares available for issue under the New Share Option Scheme is 212,668,463, representing 8.39% of the issued share capital of 2,533,639,037 Shares of the Company as at 31 December 2019.

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 2019, are as follows:

		Number of share options							
Director and eligible employees	Note	At 1 January 2019	Granted during the Year	Exercised during the Year	Forfeited during the Year	At 31 December 2019	Date of grant	Revised/ Adjusted exercise price (HKD)	Exercise period
Under the Post-IPO Share Option Scheme									
Eligible employees	A	3,600,000	–	–	(800,000)	2,800,000	9/4/2015	5.69	9/4/2016 – 8/4/2020
Zheng Yu *(Independent non-executive Director)*	B	300,000	–	–	–	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	B	12,000,000	–	–	–	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
		21,200,000	–	–	(800,000)	20,400,000			

A) The 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 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 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%

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 2019.

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 2019.

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 31 March 2020, 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.

Permitted Indemnity Provisions

During the year ended 31 December 2019 and as at 31 December 2019, the Company has purchased liabilities insurance for the Directors, which provides appropriate insurance for the Group's directors. At no time during the year ended 31 December 2019 and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of Directors or an associated company.

Directors' Report

Purchase, Redemption or Sales of Listed Securities of the Company

Month/Year	Number of Shares repurchased	Method of share repurchase	Prices per Share Highest HK$	Prices per Share Lowest HK$	Total paid HK$
May 2019	3,400,000	On the Exchange	4.01	3.68	13,102,857
August 2019	9,655,000	On the Exchange	3.76	3.65	35,986,591
September 2019	40,000	On the Exchange	3.70	3.70	148,460
Total	13,095,000				49,237,908

The Company repurchased 3,400,000 shares, 9,655,000 shares and 40,000 shares in May, August and September 2019, respectively. Those repurchased shares of 3,400,000 shares and 9,695,000 shares were cancelled on 6 June 2019 and 10 September 2019, respectively. The total consideration of the repurchased shares amounted to HKD49,237,908. In addition to the disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

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 35 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

31 March 2020

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 194, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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 these matters.

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 RMB16,171 million for the year ended 31 December 2019. 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 2019 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 Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2020

Consolidated Income Statement

For the year ended 31 December 2019

		Years ended 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**16,170,850**	13,764,645
Cost of sales	*8*	**(12,910,216)**	(11,189,875)
Gross profit		**3,260,634**	2,574,770
Selling and marketing expenses	*8*	**(1,325,638)**	(1,041,864)
Administrative expenses	*8*	**(826,447)**	(658,514)
Net impairment losses on financial assets	*3.1(b)*	**(37,869)**	(7,114)
Other operating expenses	*8*	**(23,993)**	(47,832)
Other income	*6*	**447,695**	263,790
Other gains – net	*7*	**58,299**	1,353,183
Operating profit		**1,552,681**	2,436,419
Finance income	*10*	**103,118**	15,828
Finance costs	*10*	**(253,268)**	(241,482)
Finance costs – net	*10*	**(150,150)**	(225,654)
Share of net (loss)/profit of associates accounted for using the equity method	*11b*	**(3,267)**	58
Profit before income tax		**1,399,264**	2,210,823
Income tax expense	*12*	**(262,041)**	(365,784)
Profit for the year attributable to the shareholders		**1,137,223**	1,845,039
Earnings per share for profit attributable to the shareholders during the year *(expressed in RMB cents per share)*			
– basic	*13*	**44.75**	72.45
– diluted	*13*	**44.74**	72.39

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 2019

	Years ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**1,137,223**	1,845,039
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year attributable to the shareholders	**1,137,223**	1,845,039

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

Consolidated Balance Sheet

As at 31 December 2019

		As at 31 December	
		2019	2018
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	10,457,268	10,309,977
Right-of-use assets	15	778,591	–
Leasehold land payments	15(b)	–	778,558
Intangible assets	16	40,663	30,745
Investments accounted for using the equity method	11b	28,187	36,354
Derivative financial instruments	18	14,649	–
Deferred income tax assets	29	146,638	184,076
Total non-current assets		11,465,996	11,339,710
Current assets			
Inventories	20	3,627,147	3,262,093
Trade, other receivables and prepayments	19	2,484,697	3,040,233
Cash and bank balances	21	1,880,771	2,690,284
Total current assets		7,992,615	8,992,610
Total assets		19,458,611	20,332,320
LIABILITIES			
Non-current liabilities			
Other payables	26	63,148	–
Deferred income	28	710,281	785,971
Borrowings	27	2,449,380	2,487,389
Lease liabilities	15	497	–
Deferred income tax liabilities	29	40,650	16,650
Derivative financial instruments	18	6,880	29,882
Total non-current liabilities		3,270,836	3,319,892
Current liabilities			
Trade, other payables and accruals	26	3,148,996	3,714,562
Contract liabilities	5	624,714	501,706
Current income tax liabilities		101,593	268,653
Borrowings	27	935,170	1,523,163
Lease liabilities	15	833	–
Total current liabilities		4,811,306	6,008,084
Total liabilities		8,082,142	9,327,976

Consolidated Balance Sheet *(Continued)*

As at 31 December 2019

		As at 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
EQUITY			
Capital and reserves attributable to the shareholders			
Share capital	*22*	**243,261**	244,436
Share premium	*22*	**663,634**	1,430,479
Other reserves	*25*	**665,819**	574,081
Retained earnings	*24*	**9,803,755**	8,755,348
Total equity		**11,376,469**	11,004,344
Total equity and liabilities		**19,458,611**	20,332,320

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

The financial statements on pages 94 to 194 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

Li Xuechun
Director

Zhao Qiang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

		Attributable to the shareholders				
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Restated total equity at 1 January 2018		244,436	1,736,726	384,178	7,093,683	9,459,023
Comprehensive Income						
Profit for the year	24	–	–	–	1,845,039	1,845,039
Total comprehensive income		–	–	–	1,845,039	1,845,039
Transactions with the shareholders						
Profit appropriation	24, 25	–	–	183,374	(183,374)	–
Employee share option schemes:						
– Value of employee services	23, 25	–	–	6,529	–	6,529
Dividends	22	–	(319,537)	–	–	(319,537)
Others	22	–	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
Balance at 1 January 2019		244,436	1,430,479	574,081	8,755,348	11,004,344
Comprehensive Income						
Profit for the year	24	–	–	–	1,137,223	1,137,223
Total comprehensive income		–	–	–	1,137,223	1,137,223
Transactions with the shareholders						
Profit appropriation	24, 25	–	–	88,816	(88,816)	–
Employee share option schemes:						
– Value of employee services	23, 25	–	–	2,922	–	2,922
Repurchase of shares of the Company	22	(1,175)	(41,873)	–	–	(43,048)
Dividends	22	–	(724,972)	–	–	(724,972)
Total transactions with the shareholders		(1,175)	(766,845)	91,738	(88,816)	(765,098)
Balance at 31 December 2019		243,261	663,634	665,819	9,803,755	11,376,469

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 2019

	Note	Years ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	1,439,752	1,856,866
Interest paid		(184,239)	(136,865)
Income tax paid		(363,353)	(210,383)
Net cash generated from operating activities		892,160	1,509,618
Cash flows from investing activities			
Payment for acquisition of a subsidiary, net of cash acquired	33(b)	(34,512)	–
Payments for property, plant and equipment		(1,631,015)	(1,716,781)
Payments for leasehold land payments	15(b)	–	(119,841)
Withdrawn/(payment for) investment in an associate	11b	4,900	(4,900)
Payment of intangible assets	16	(15,184)	(15,618)
Payments for financial assets at fair value through profit or loss	7	(67,344)	–
Repayment of loans by/(loan to) a related party	34(c)	6,000	(6,000)
Loan to a third party	19(e)	(470,000)	–
Proceeds from disposal of property, plant and equipment	31(c)	3,813	5,922
Proceeds from disposal of leasehold land payments	31(d)	–	11,790
Proceeds from disposal of subsidiaries, net of cash disposed	31(b)	1,016,693	143,766
Proceeds from sale of financial assets at fair value through profit or loss	7	68,968	–
Repayments of loan from former subsidiaries	19(d)	261,209	586,005
Repayment of loans by a third party	19(e)	400,000	–
Assets-related government grants received		79,247	141,138
Interest received	10	103,118	15,828
Placement of restricted bank deposits	21(a)	(1,100,000)	(869,800)
Proceeds from restricted bank deposits	21(a)	1,969,800	–
Proceeds from term deposits	21	52,000	22,100
Placement of term deposits	21	(40,000)	(22,000)
Net cash generated from/(used in) investing activities		607,693	(1,828,391)
Cash flows from financing activities			
Dividends paid to the Company's shareholders		(735,078)	(319,537)
Proceeds from bank borrowings	31(f)	2,962,128	3,520,524
Proceeds from issuance of USD bonds	31(f)	–	2,350,299
Repayments of bank borrowings	31(f)	(3,637,900)	(2,692,925)
Repayments of corporate bonds	27(b),31(f)	–	(1,000,000)
Redemption of USD bonds	31(f)	(8,364)	(224,133)
Repurchase of shares of the Company	22	(43,048)	–
Loan from a third party		60,000	–
Principal elements of lease payments	31(f)	(1,365)	–
Net cash (used in)/generated from financing activities		(1,403,627)	1,634,228
Net increase in cash and cash equivalents		96,226	1,315,455
Cash and cash equivalents at beginning of the year	21	1,734,943	419,488
Cash and cash equivalents at end of the year	21	1,831,169	1,734,943

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 2019

1. General Information

Fufeng Group Limited (the "Company") and its subsidiaries (together, the "Group") manufacture and sell fermentation-based food additives, 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 31 March 2020.

2. Summary of Significant Accounting Policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Fufeng Group Limited and its subsidiaries.

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 assets and liabilities (including derivative instruments) are measured at fair value.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

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 2019:

- HKFRS 16 *Leases*
- *Prepayment Features with Negative Compensation – Amendments to HKFRS 9*
- *Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28*
- *Annual Improvements to HKFRS Standards 2015 – 2017 Cycle*
- *Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19*
- Interpretation 23 *Uncertainty over Income Tax Treatments*.

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. 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 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
Amendments to HKFRS 3	Definition of business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.26.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.86%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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

2.2 Changes in accounting policies *(Continued)*

(ii) Measurement of lease liabilities

	2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	5,175
Discounted using the lessee's incremental borrowing rate of at the date of initial application	5,008
(Less): short-term leases not recognised as a liability	(2,733)
Lease liability recognised as at 1 January 2019	**2,275**
Of which are:	
Current lease liabilities	867
Non-current lease liabilities	1,408
	2,275

(iii) Measurement of right-of-use assets

The Group's leasehold land payments meet the definition of right-of-use assets under HKFRS 16 and hence have been reclassified accordingly at their carrying amounts as at 1 January 2019. The associated right-of-use assets for property and equipment leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 ***RMB'000***	1 January 2019 *RMB'000*
Leasehold land-use rights	**777,141**	778,558
Buildings	**1,372**	2,249
Equipment	**78**	103
Total right-of-use assets	**778,591**	780,910

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

2.2 Changes in accounting policies *(Continued)*

(iii) Measurement of right-of-use assets *(Continued)*

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by RMB780,910,000
- Prepayments – decrease by RMB77,000
- Leasehold land payments – decrease by RMB778,558,000
- Lease liabilities – increase by RMB2,275,000

There was no impact on retained earnings on 1 January 2019.

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.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

Inter-company 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 method

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 are recognised as a reduction in the carrying amount of the investment.

Where 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 consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes 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. This may mean that 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. Summary of Significant Accounting Policies *(Continued)*

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

2.5 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

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

2.6 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 of the Company that make strategic decisions.

2.7 Foreign currency translation

(i) 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.

(ii) 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 of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and dividends 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".

(iii) 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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

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".

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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

2.9 Intangible assets

(i) 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.

(ii) 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.

(iii) 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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

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 the end of each reporting period.

2.11 Financial assets

(i) Classification

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.

(ii) 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.

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

2.11 Financial assets *(Continued)*

(iii) 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. There are three measurement categories into which the Group classifies its debt instruments:

- 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.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net with other gains/(losses) in the period in which it arises.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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

2.11 Financial assets *(Continued)*

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. 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 19 for further details.

For notes receivables measured at FVOCI, the Group measured the impairment as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of the notes receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

For other receivables, the Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience, incorporating the forward-looking information on macroeconomic factors affecting the ability of the debtors.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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 Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.13 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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 under "Other gains/losses – net".

The fair values of derivative financial instruments are disclosed in Note 18. 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

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

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.

2.15 Trade 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 19 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.16 Cash and cash equivalents

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 30 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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.

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.

2.21 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 income 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.

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

2.21 Current and deferred income tax *(Continued)*

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

Deferred income 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 income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities and when the deferred income tax balances relate to the same taxation authority. Current income 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.

Current and deferred income tax is recognised in profit or loss.

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. Summary of Significant Accounting Policies *(Continued)*

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates four 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).

(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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

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

2.24 Revenue recognition

Sales of goods

The Group manufactures and sells a range of fermentation-based food additives, 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, 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.

The products is often sold with restrospective volume discounts based on aggregate sales over a 12 month period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discount, using expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

As 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 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to the shareholders of the Company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

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

2.26 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 32(b)). Leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payment is allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability, and

- any lease payments made at or before the commencement date.

Right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of warehouse are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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

2.27 Dividend distribution

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

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.

2.29 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated 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).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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

Instrument used by the Group

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 majority of the transactions denominated and settled in RMB.

However, foreign currencies, mainly USD and HKD, are received from sales of products to countries or areas outside the PRC ("Export sales"), the issuance of USD bonds and draw-down of borrowings. In 2019, the Company borrowed a bank loan of USD38,000,000. Export sales denominated in foreign currencies amounted to approximately 28% (2018: 28%) of the Group's total revenue for the year ended 31 December 2019. 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 and 2019, the Group manages the currency risk arising from proceeds from draw down of USD bonds and bank borrowings by partially applying cross currency swaps to mitigate exposures arising from the fluctuations in foreign currencies of bonds and borrowings.

The cross currency swaps in relation to USD bonds and borrowings do not satisfy the requirements for hedge accounting (but are considered as 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

31 December 2019	USD RMB'000	HK RMB'000	EUR RMB'000	SGD RMB'000	JPY RMB'000	Total RMB'000
Cash and bank balances *(Note 21(b))*	904,782	10,940	353	118	–	916,193
Trade, other receivables and prepayments *(Note 19(g))*	426,450	–	–	–	–	426,450
Borrowings *(Note 27(a))*	(2,533,347)	–	–	–	–	(2,533,347)
Trade, other payables and accruals	(43,660)	–	–	–	–	(43,660)

31 December 2018	USD RMB'000	HK RMB'000	EUR RMB'000	SGD RMB'000	JPY RMB'000	Total RMB'000
Cash and bank balances *(Note 21(b))*	947,852	9,923	37,074	114	62	995,025
Trade, other receivables and prepayments *(Note 19(g))*	483,066	–	–	–	–	483,066
Borrowings *(Note 27(a))*	(2,539,549)	(261,203)	–	–	–	(2,800,752)
Trade, other payables and accruals	(46,110)	(453)	–	–	–	(46,563)

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

Amounts recognised in the consolidated income statement

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

	2019 *RMB'000*	2018 *RMB'000*
Amounts recognised in the consolidated income statement		
Other gains – net *(Note 7)*	**(17,903)**	(75,307)
Finance costs *(Note 10)*	**52,111**	71,169
Total net foreign exchange losses/(gains) recognised in profit before income tax for the period	**34,208**	(4,138)

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

At 31 December 2019, 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 RMB140,684,000 (2018: RMB159,160,000) higher/lower without considering the impact of cross currency swaps, 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.

(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 USD bonds, bank borrowings and lease liabilities. The carrying amounts and fair values of USD bonds and non-current borrowings have been disclosed in Note 27. The fair value of lease liabilities approximates to their carrying amount, as the impact of discounting is not significant.

At 31 December 2019, 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 RMB1,492,000 (2018: RMB2,158,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at FVOCI and at 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.

The Group's investment in debt instruments are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

(ii) Impairment of financial assets

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

While deposit with banks, including term deposits and restricted bank deposits, notes receivable and loan to a third party are also subject to the impairment requirements of HKFRS 9, identified impairment loss was immaterial.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

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 2019 or 1 January 2019 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 for trade receivables as at 31 December 2019 and 31 December 2018 was determined under HKFRS 9 as follows:

	Within 3 months *RMB'000*	3 to 12 months *RMB'000*	Over 12 months *RMB'000*	Total *RMB'000*
31 December 2019				
Expected loss rate	0.97%	12.53%	95.94%	
Gross carrying amount	599,413	57,761	6,183	663,357
Total loss allowance	5,821	7,238	5,932	18,991

	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 2019

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables *(Continued)*

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

	Trade receivables	
	2019	2018
	RMB'000	*RMB'000*
Opening loss allowance as at 1 January	**11,628**	21,340
Provision for impairment loss allowances	**37,869**	7,114
Receivables written-off during the year as uncollectible	**(30,506)**	(16,826)
Closing loss allowance at 31 December	**18,991**	11,628

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.

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables including the loan to a third party. 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.

Net impairment losses on financial assets recognised in profit and loss

During the years ended 31 December 2019 and 2018, the following losses were recognised in "Net impairment losses on financial assets", respectively in the consolidated income statement in relation to impaired financial assets:

	2019	2018
	RMB'000	*RMB'000*
Impairment losses		
– loss allowance for trade receivables	**37,869**	7,114

(c) Liquidity risk

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

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

(a) non-derivative financial liabilities, and

(b) net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flow.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

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*	Above 5 years *RMB'000*	Total contractual cash flows *RMB'000*
The Group					
At 31 December 2019					
Non-derivatives					
Borrowings	938,810	2,232,401	242,820	–	3,414,031
Interests payments on borrowings (i)	167,346	139,883	6,810	–	314,039
Lease liabilities	975	484	31	–	1,490
Trade and other payables (excluding non-financial liabilities)	2,784,162	–	17,100	65,130	2,866,392
Total non-derivatives	3,891,293	2,372,768	266,761	65,130	6,595,952
Derivatives					
Gross settled (cross currency swaps)					
– (inflow)	(89,794)	(116,214)	(243,360)	–	(449,368)
– outflow	92,919	119,721	249,630	–	462,270
	3,125	3,507	6,270	–	12,902
Total	3,894,418	2,376,275	273,031	65,130	6,608,854

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

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*	Over 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

(i) The interests on borrowings are calculated based on bank borrowings and USD bonds held as at 31 December 2019 and 2018 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2019 and 2018 respectively.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and

- 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% (2018: 40%).The gearing ratios at 31 December 2019 and 2018 were as follows:

	2019 *RMB'000*	2018 *RMB'000*
Total borrowings *(Note 27)*	**3,384,550**	4,010,552
Total assets	**19,458,611**	20,332,320
Gearing ratio	**17.39%**	19.73%

The decrease in the gearing ratio of the Group was mainly due to the decrease in borrowings after the repayment of borrowings in 2019.

3. Financial Risk Management *(Continued)*

3.2 Capital management *(Continued)*

(a) Risk management *(Continued)*

(i) Loan covenants

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial convenants:

- the ratio of consolidated total borrowings to consolidated EBITDA in respect of any relevant period shall not at any time exceed 3:1;
- the consolidated tangible net worth shall not be less than RMB4,500,000,000; and
- the ratio of consolidated total liabilities to consolidated tangible net worth shall not at any time exceed 2.5:1.

"Consolidated tangible net worth" was calculated by the total equity minus the intangible assets and deferred income tax assets.

The Group has complied with these covenants throughout the reporting period. As at 31 December 2019, the ratio of consolidated total borrowings to consolidated EBITDA was 1.25 (2018: 1.15), the consolidated tangible net worth was RMB11,189,168,000 (2018: RMB10,789,523,000) and the ratio of consolidated total liabilities to consolidated tangible net worth was 0.72 (2018: 0.86).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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 2019					
Financial assets					
Derivative financial instruments	*18*	**–**	**14,649**	**–**	**14,649**
Notes receivable measured at FVOCI	*19(h)*	**–**	**972,971**	**–**	**972,971**
Total financial assets		**–**	**987,620**	**–**	**987,620**
Financial liabilities					
Derivative financial instruments	*18*	**–**	**6,880**	**–**	**6,880**

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 assets					
Notes receivable measured at FVOCI	*19(h)*	–	520,241	–	520,241
Financial liabilities					
Derivative financial instruments	*18*	–	29,882	–	29,882

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 assets and 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.

3. Financial Risk Management *(Continued)*

3.3 Fair value estimation *(Continued)*

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

(i) Fair value hierarchy (Continued)

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.

(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 (eg 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 Note 3.1(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.

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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

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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

5. Segment Information

The chief operating decision-maker has been identified as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources.

In prior years, the original business analysis of the Group was mainly divided into two business segments, namely the amino acid segment and the xanthan gum segment.

From 1 January 2019, in view of more diversified portfolio of products due to the continuous development of the Group's businesses over the years, the executive directors consider it more informative and reflective of underlying business realities to examine the business performance of the Group according to the following product segments:

– Food additives segment: manufacturing and sales of food additives products, including monosodium glutamate ("MSG"), starch sweeteners, glutamic acid, compound seasoning and corn oil;

– Animal nutrition segment: manufacturing and sales of animal nutrition products, including corn refined products, threonine and lysine;

– Colloid segment: manufacturing and sales of colloid products, including xanthan gum and gellan gum;

– High-end amino acid segment: manufacturing and sales of high-end amino acid products; and

– Other segment: manufacturing and sales of other products, including fertilisers, synthetic ammonia, pharmaceuticals and others.

The executive directors assess the performance of the business segment based on gross profit of the above five product segments.

Considering the consistent technical process of production and highly shared production equipment and resources, the segment assets and liabilities cannot reflect the segment asset allocation effectively anymore and make little sense when assessing the business performance of the above five product segments. Therefore, from this year, the executive directors do not consider to review the assets and liabilities by segments.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

5. Segment Information *(Continued)*

The revenue of the Group for the years ended 31 December 2019 and 2018 are set out as follows:

Products by segments	2019 *RMB'000*	2018 *RMB'000*
Food additives		
MSG	**7,743,897**	6,554,665
Starch sweeteners	**1,627,811**	1,052,157
Glutamic acid	**399,343**	319,092
Compound seasoning	**41,981**	29,219
Corn oil	**5,800**	8,155
	9,818,832	7,963,288
Animal nutrition		
Corn refined products	**2,170,209**	1,721,092
Threonine	**1,196,217**	1,449,478
Lysine	**523,517**	–
	3,889,943	3,170,570
Colloid		
Xanthan gum	**890,898**	876,542
Gellan gum	**48,430**	48,513
	939,328	925,055
High-end amino acid		
High-end amino acid products	**808,252**	959,947
Others		
Fertilisers	**283,803**	314,078
Synthetic ammonia	**254,893**	250,572
Pharmaceuticals	**157,622**	148,250
Others	**18,177**	32,885
	714,495	745,785
	16,170,850	13,764,645

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

5. Segment Information *(Continued)*

The segment information for the year ended 31 December 2019 is as follows:

	Food additives *RMB'000*	Animal nutrition *RMB'000*	Colloid *RMB'000*	High-end amino acid *RMB'000*	Others *RMB'000*	Group *RMB'000*
Revenue	**9,818,832**	**3,889,943**	**939,328**	**808,252**	**714,495**	**16,170,850**
Cost of sales	**(7,691,516)**	**(3,440,626)**	**(689,265)**	**(541,335)**	**(547,474)**	**(12,910,216)**
Gross profit	**2,127,316**	**449,317**	**250,063**	**266,917**	**167,021**	**3,260,634**

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

	Food additives *RMB'000*	Animal nutrition *RMB'000*	Colloid *RMB'000*	High-end amino acid *RMB'000*	Others *RMB'000*	Group *RMB'000*
Revenue	7,963,288	3,170,570	925,055	959,947	745,785	13,764,645
Cost of sales	(6,676,089)	(2,693,892)	(623,776)	(603,953)	(592,165)	(11,189,875)
Gross profit	1,287,199	476,678	301,279	355,994	153,620	2,574,770

The Group's revenue from its external customers in the PRC amounted to RMB11,699,633,000 (2018: RMB9,884,292,000) and the total revenue from external customers in Europe and other countries amounted to RMB4,471,217,000 (2018: RMB3,880,353,000).

The Group's total non-current assets located in the PRC other than deferred income tax assets and derivative financial instruments amounted to RMB11,302,866,000 (2018: RMB11,155,012,000), and the total non-current assets located in Hong Kong, the United States of America and Singapore other than deferred income tax assets and derivative financial instruments amounted to RMB1,843,000 (2018: RMB622,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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 geographical regions:

2019	Sales of goods		
	Overseas	PRC	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers	4,471,217	11,699,633	16,170,850
Timing of revenue recognition			
At a point in time	4,471,217	11,699,633	16,170,850

2018	Sales of goods		
	Overseas	PRC	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers	3,880,353	9,884,292	13,764,645
Timing of revenue recognition			
At a point in time	3,880,353	9,884,292	13,764,645

Approximately 72% (2018: 72%) of the Group's revenue is generated from sales to customers in the PRC. The remaining 28% (2018: 28%) of the Group's revenue is generated from the sales to overseas countries including the Europe, the Vietnam, the Latin America, Thailand, the United States of America and Kingdom of Saudi Arabia.

Liabilities related to contracts with customers

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

	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
Contract liabilities – sales of goods	624,714	501,706

(i) Changes in contract liabilities

The increase in 2019 was due to the increase in advance from customers.

In the current reporting period, all the contract liability at the beginning of the period were recognized as revenue.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

6. Other Income

	2019	2018
	RMB'000	*RMB'000*
Amortisation of deferred income *(Note 28)*	**160,184**	77,815
Government grants related to expenses	**112,636**	41,131
Sales of waste products	**127,154**	126,037
Others	**47,721**	18,807
	447,695	263,790

Government grants relating to expenses are deferred and recognised in the profit or loss over the period necessary to match them with the expenses 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.

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

7. Other Gains – Net

	2019 *RMB'000*	2018 *RMB'000*
Gain on disposal of subsidiaries *(Note 31(b))*	**–**	1,297,469
(Loss)/gain on disposal of property, plant and equipment – net *(Note 31(c))*	**(2,370)**	1,498
Gain on disposal of leasehold land payments *(Note 31(d))*	**–**	5,900
Net (loss)/gain on compensation from insurance company	**(3,121)**	2,891
Net foreign exchange gains *(Note 3.1)*	**17,903**	75,307
Fair value gains/(losses) on changes in fair value of derivative financial instruments *(Note 18)*	**37,651**	(29,882)
Gain on disposal of financial assets at fair value through profit or loss	**1,624**	–
Loss on prepayments	**(8,667)**	–
Negative goodwill gained from acquisition *(Note 33)*	**15,369**	–
Others	**(90)**	–
	58,299	1,353,183

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 Properties Co., Ltd. ("Baoji Dingfeng") and Baoji Baofeng Properties Co., Ltd. ("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 15(b)), 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 2019

8. Expenses By Nature

	2019	2018
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work in progress	**(270,776)**	576,832
Raw materials and consumables used*	**11,484,418**	9,213,972
Employee benefit expenses *(Note 9)**	**1,116,774**	969,372
Depreciation		
– Property, plant and equipment *(Note 14)**	**1,132,209**	1,038,246
– Right-of-use assets *(Note 15)*	**17,998**	–
Amortisation of leasehold land payments *(Note 15(b))*	**–**	20,252
Provision for/(reversal of) impairment charges for property, plant and equipment *(Note 14)*	**52,868**	(59,394)
Amortisation of intangible assets *(Note 16)*	**5,333**	2,664
Transportation expenses	**914,166**	643,122
Utilities purchased	**67,912**	20,519
Travelling and office expenses	**41,344**	43,519
Provision for inventory write-down *(Note 20)*	**41,644**	17,649
Auditors' remuneration		
– Audit services	**4,003**	3,997
– Non-audit services	**1,135**	1,899
Land use tax, real estate tax and other taxes	**156,149**	161,817
Advertisement fees	**25,131**	16,732
Others	**295,986**	266,887
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**15,086,294**	12,938,085

* The Group incurred expenses amounting to a total of approximately RMB338,489,000 and RMB228,464,000 related to research and development of new products, and development of new manufacturing techniques, etc. for the years ended 31 December 2019 and 2018 respectively. All of these expenses are charged to "Administrative expenses", and mainly 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".

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

9. Employee Benefit Expenses Including Directors' Emoluments

	2019 *RMB'000*	2018 *RMB'000*
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	**1,037,139**	908,200
– Pension costs – defined contribution plans (a)	**76,713**	54,643
– Share options granted to directors and employees *(Note 25)*	**2,922**	6,529
	1,116,774	969,372

(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 2019 included three directors (2018: two) whose emoluments are reflected in the analysis shown in Note 37. The emoluments payable to the remaining two (2018: three) individual during the year are as follows:

	2019 *RMB'000*	2018 *RMB'000*
Salaries and allowances	**3,155**	3,896
Pension costs – defined contribution plans	**32**	83
Share options granted	**1,841**	2,684
	5,028	6,663

For the years ended 31 December 2019 and 2018, 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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

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

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

The remunerations paid to the above non-director individuals for the years ended 31 December 2019 and 2018 fell within the following bands.

	Number of individuals	
	2019	2018
Emolument bands *(in HK dollar)*		
HKD1,000,001 – HKD1,500,000	**1**	2
HKD4,000,001 – HKD4,500,000	**1**	–
HKD4,500,001 – HKD5,000,000	**–**	1
	2	3

10. Finance Income and Costs

	2019	2018
	RMB'000	*RMB'000*
Finance income:		
Interest income on bank deposits and bank balances	**(103,118)**	(15,828)
	(103,118)	(15,828)
Finance costs:		
Interest expense		
– Bank borrowings	**71,573**	126,244
– USD bonds *(Note 27(b))*	**137,640**	49,409
– Corporate bonds *(Note 27(b))*	**–**	37,228
Interest charges paid for lease liabilities *(Note 15)*	**88**	–
Net foreign exchange losses on financing activities *(Note 3.1)*	**52,111**	71,169
	261,412	284,050
Amount capitalised (i)	**(8,144)**	(42,568)
Finance costs expensed	**253,268**	241,482
Net finance costs	**150,150**	225,654

(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 5.17% for the year ended 31 December 2019 (4.86% for the year ended 31 December 2018).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

11a. Subsidiaries

As at 31 December 2019, 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
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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

11a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
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
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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

11a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
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
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
Qingdao Yuemei Cosmetics Co., Ltd.	PRC	RMB15,843,000	Sales of cosmetic products in the PRC
Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd. ("Longjiang Fufeng") (a)	PRC	RMB1,300,000,000	Manufacture and sales of threonine, lysine, 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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

11a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Paid-up capital	Principal activities & place of operation
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
Inner Mongolia Wofeng Agriculture Development Co., Ltd. ("Wofeng") (b)	PRC	RMB40,000,000	Sales of fertilisers and other related products in the PRC
Qiqihar Hefeng Investment Center (Limited partnership) ("Hefeng") (c)	PRC	RMB300,000,000	Practice investment in corn intensive processing projects
Inner Mongolia Xiangfeng chemical Co., Ltd. ("Xiangfeng") (d)	PRC	RMB100,000,000	Sales of synthesis ammonia in the PRC

(a) The registered capital and paid-up capital of Longjiang Fufeng were increased by RMB300,000,000 to RMB1,300,000,000 in February 2019, which was injected by Hefeng.

(b) Wofeng was established on 15 February 2017, with a registered capital of RMB40,000,000 and paid-up capital of RMB40,000,000. It was acquired by Hulunbeir Fufeng in October 2019 as described in Note 33.

(c) Hefeng was established on 17 October 2018, with a registered capital of RMB300,000,000 and paid-up capital of RMB300,000,000, of which 80% were held by Hulunbeir Fufeng and 20% were held by certain third parties. As of 31 December 2019, RMB63,148,000 representing 20% of the paid-up capital of Hefeng and the accrued interest, is classified as other payables (Note 26(d)) considering such amount is repayable in 7 years with fixed interest rate, which is a debt in substance.

(d) Xiangfeng was established on 13 May 2019, with a registered capital of RMB100,000,000 and paid-up capital of RMB100,000,000. It was wholly owned by Hulunbeir Fufeng.

(e) Fufeng Co., Ltd. was established on 25 February 2016, with a registered capital of JPY1,000,000. It was wholly owned by Trans-Asia and was deregistered in May 2019.

(f) Xinjiang Nongfeng Equity Investment Co., Ltd. was established on 8 December 2017, with a registered capital of RMB30,000,000 and paid-up capital of RMB10,000,000. It was wholly owned by Hulunbeir Fufeng and was deregistered in September 2019.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

11b. Investments Accounted for Using the Equity Method

The amounts recognised in the consolidated balance sheet are as follows:

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
Associates	**28,187**	36,354

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

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Associates	**(3,267)**	58

Investment in associates

Set out below is the associate of the Group as at 31 December 2019.

Nature of investment in associates as at 31 December 2019

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

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.

The Group previously held 49% equity investment in Xinjiang Baipai Biotechnologies Co., Ltd.. In March 2019, the Group had withdrawn all of its previous capital contribution to the associate of RMB4,900,000.

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.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

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 2019 and 2018 which is accounted for using the equity method.

	Jilin COFCO	
	2019	2018
	RMB'000	*RMB'000*
Total assets	**372,460**	320,745
Total liabilities	**278,504**	215,898
Net assets	**93,956**	104,847
Revenue	**107,417**	18,650
Net (loss)/profit and total comprehensive (loss)/income	**(10,891)**	194

12. Taxation

(a) Income tax expense

	2019	2018
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax ("EIT")	**203,672**	364,649
– Hong Kong income tax	**(4,098)**	673
– US income tax	**1,466**	2,091
Total current income tax	**201,040**	367,413
Deferred income tax *(Note 29)*	**61,001**	(1,629)
	262,041	365,784

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 8.25% (2018: 8.25%) on the estimated assessable profit for the year ended 31 December 2019.

The Group's subsidiary in Singapore is subject to income tax at a rate of 17% (2018: 17%) for the year ended 31 December 2019.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

12. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

The Group's subsidiary in United States is subject to state income tax at a rate of approximately 8.84% (2018: 8.84%) and a federal income tax at a rate of approximately 21% (2018: 21%) on the estimated assessable profit for the year ended 31 December 2019.

The Group's subsidiaries in the PRC are subject to PRC EIT which is calculated based on the applicable tax rate of 25% (2018: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations except for those as discussed below:

Seven subsidiaries of the Group including Hulunbeir Fufeng, Shandong Fufeng, Shenhua Pharmaceutical, Baoji Fufeng, IM Fufeng, Xinjiang Fufeng and Longjiang Fufeng have obtained the approvals to become a new and high-technology enterprise and are entitled to a preferential income tax rate of 15% (2018: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財税[2011]58號"關於深入實施西部大開發戰略有關稅收政策問題的通知"), companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government will be entitled to a preferential tax rate of 15%. Four subsidiaries of the Group including 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 aforesaid preferential tax rate of 15% (2018: 15%).

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

	2019 *RMB'000*	2018 *RMB'000*
Profit before income tax expense	**1,399,264**	2,210,823
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**380,375**	621,690
Preferential tax of certain subsidiaries	**(109,718)**	(242,139)
Research and development tax credit	**(44,175)**	(14,528)
Unrecognised tax losses	**34,861**	256
Expenses not deductible for tax purposes	**902**	772
Income not subject to tax	**(204)**	(267)
	262,041	365,784

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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.

	2019 ***RMB cents***	2018 *RMB cents*
Total basic earnings per share attributable to the shareholders	**44.75**	72.45

(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.

	2019 ***RMB cents***	2018 *RMB cents*
Total diluted earnings per share attributable to the shareholders	**44.74**	72.39

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

	2019 ***RMB'000***	2018 *RMB'000*
Basic earnings per share		
Profit attributable to the shareholders used in calculating basic earnings per share	**1,137,223**	1,845,039
Diluted earnings per share		
Profit attributable to the shareholders used in calculating diluted earnings per share	**1,137,223**	1,845,039

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

13. Earnings Per Share *(Continued)*

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

	2019	2018
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share *(thousands)*	**2,541,150**	2,546,734
Adjustments for calculation of diluted earnings per share:		
– Assumed exercise of share options *(thousands)*	**911**	1,945
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share *(thousands)*	**2,542,061**	2,548,679

(e) Information concerning the classification of securities

The Company has one category of dilutive potential ordinary shares: share options. 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 8,100,000 outstanding share options issued in April 2015, December 2016, and August 2017 (2018: 23,200,000 outstanding share options issued in April 2015, August 2017 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 2019 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 2019. 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 2019

14. Property, Plant and Equipment

	2019					
	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 2019	4,120,264	10,248,813	228,940	89,563	1,635,077	16,322,657
Acquisition of a subsidiary	–	6,095	31	–	6,965	13,091
Additions	14,379	121,979	28,318	7,526	1,153,879	1,326,081
Transfer upon completion	686,868	1,261,123	–	–	(1,947,991)	–
Disposals	(1,301)	(9,650)	(1,543)	(205)	–	(12,699)
At 31 December 2019	4,820,210	11,628,360	255,746	96,884	847,930	17,649,130
Accumulated depreciation						
At 1 January 2019	(1,226,359)	(4,472,858)	(166,435)	(48,783)	–	(5,914,435)
Acquisition of a subsidiary	–	(618)	(3)	–	–	(621)
Charge for the year *(Note 8)*	(193,814)	(913,010)	(15,196)	(10,189)	–	(1,132,209)
Disposals	381	5,755	235	145	–	6,516
At 31 December 2019	(1,419,792)	(5,380,731)	(181,399)	(58,827)	–	(7,040,749)
Provision for impairment loss						
At 1 January 2019	(34,282)	(63,060)	(194)	(709)	–	(98,245)
Impairment charge *(Note c)*	(9,038)	(42,424)	(881)	(525)	–	(52,868)
At 31 December 2019	(43,320)	(105,484)	(1,075)	(1,234)	–	(151,113)
Net book value						
At 31 December 2019	3,357,098	6,142,145	73,272	36,823	847,930	10,457,268

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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

	2018					
	Plant and building	Machinery	Furniture and fixtures	Vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 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 c)*	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 2019

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

(a) As at 31 December 2019, no plant and machinery was pledged as security for the Group's borrowings (2018: Nil).

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

	2019 *RMB'000*	2018 *RMB'000*
Cost of sales	1,008,590	902,806
Administrative expenses	123,619	135,440
	1,132,209	1,038,246

(c) During the year ended 31 December 2018, provision for impairment loss of RMB59,394,000 was reversed for the assets in the sulphuric acid workshop.

However, due to the sulphuric acid market purchase price continued to fall and remained at a low level, the Group stopped the production of sulphuric acid for its own use again in December 2019 and the carrying amounts of the related idle machineries amounted to RMB25,600,000. Besides that, certain machineries and equipments with carrying amount of RMB27,268,000 mainly used in production of threonine, high-end amino acid products, starch sweetener and colloid products were corroded and impaired in 2019. The Group did not expect any future benefits or residual value that could be recovered from these machineries because they had been highly corroded during the production process. In view of the above, a full provision for impairment of RMB52,868,000 was recognised during the year ended 31 December 2019, which was recorded in "Cost of sales" in the consolidated income statement.

(d) As at 31 December 2019, plant and buildings of the Group with a total net book value of RMB514,934,000 were without real estate titles and the Group is in the process to secure the relevant real estate certificates (2018: RMB362,379,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

15. Leases

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated balance sheet

The balance sheet shows the following amounts relating to leases:

	2019 *RMB'000*	1 January 2019 * *RMB'000*
Right-of-use assets		
Leasehold land-use rights (a)	777,141	778,558
Buildings	1,372	2,249
Equipment	78	103
	778,591	780,910
Lease liabilities		
Current	833	867
Non-current	497	1,408
	1,330	2,275

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

15. Leases *(Continued)*

(i) Amounts recognised in the consolidated balance sheet *(Continued)*

(a) Leasehold land-use rights

Leasehold land-use rights represent prepaid operating lease payments for the leasehold land (with lease terms of 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:

	2019 *RMB'000*
Cost	
At beginning of the year	856,605
Additions	420
Acquisition of a subsidiary	15,259
At end of the year	872,284
Depreciation	
At beginning of the year	(78,047)
Charge for the year (ii)	(17,096)
At end of the year	(95,143)
Net book value	
At end of the year	777,141

As at 31 December 2019, there was no leasehold land pledged as security for the Group's borrowings (2018: Nil).

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

As at 31 December 2019, 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 RMB213,530,000 (2018: RMB202,074,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

15. Leases *(Continued)*

(ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	Note	2019 *RMB'000*	2018 *RMB'000*
Depreciation charge of right-of-use assets			
Leasehold land-use rights		**17,096**	–
Buildings		**877**	–
Equipment		**25**	–
	8	**17,998**	–
Interest expense (included in finance cost)	*10*	**88**	–
Expense relating to short-term leases (included in administrative expenses)		**14,414**	–

The total cash outflow for leases in 2019 was RMB15,779,000.

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods of 1 to 3 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

15(b).Leasehold Land Payments

As of 31 December 2018, leasehold land payments represent prepaid operating lease payments for the leasehold land (with lease terms of 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*
Cost	
At beginning of the year	1,477,205
Additions	119,841
Disposal of leasehold land payments	(5,890)
Disposal of subsidiaries	(734,551)
At end of the year	856,605
Amortisation	
At beginning of the year	(83,264)
Charge for the year *(Note 8)*	(20,252)
Disposal of subsidiaries	25,469
At end of the year	(78,047)
Net book value	
At end of the year	778,558

From 1 January 2019, leasehold land payments are reclassified as lease under HKFRS16 (refer to Note 2.2).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

16. Intangible Assets

	Patents *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
At 1 January 2018			
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
Year ended 31 December 2019			
Opening net book amount	1,955	28,790	30,745
Additions	200	14,984	15,184
Acquisition of a subsidiary	–	67	67
Amortisation *(Note 8)*	(156)	(5,177)	(5,333)
Closing net book amount	1,999	38,664	40,663
At 31 December 2019			
Cost	20,672	51,659	72,331
Accumulated amortisation	(677)	(12,995)	(13,672)
Accumulated impairment	(17,996)	–	(17,996)
Net book amount	1,999	38,664	40,663

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

17. Financial Instruments by Category

The Group holds the following financial instruments:

	Note	2019 RMB'000	2018 RMB'000
Financial assets			
Financial assets at amortised cost			
Trade and other receivables *	19	774,683	1,988,423
Cash and bank balances	21	1,880,771	2,690,284
Financial assets at FVOCI	19(h)	972,971	520,241
Derivative financial instruments at FVPL	18	14,649	–
		3,643,074	5,198,948
Financial liabilities			
Liabilities at amortised cost			
Trade and other payables *	26	2,847,310	3,275,538
Borrowings	27	3,384,550	4,010,552
Lease liabilities**	15	1,330	–
Derivative financial instruments at FVPL	18	6,880	29,882
		6,240,070	7,315,972

* Excluding non-financial assets and liabilities and notes receivable

** See Note 2.2 for details about the impact from changes in accounting policies.

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 2019

18. 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:

	2019 *RMB'000*	2018 *RMB'000*
Non-current assets		
– Cross currency swaps (a)	14,649	–
Non-current liabilities		
– Cross currency swaps (a)	–	29,882
– Cross currency swaps (b)	6,880	–
	6,880	29,882

(a) USD200,000,000 Cross currency swaps in 2018

In 2018, the Company entered into cross currency swaps contracts which are non-hedging derivatives and maturing in August 2021. As at 31 December 2019 and 2018, the derivative financial assets and liabilities as recognised based on the fair value of these cross currency swaps contracts amounted to RMB14,649,000 and RMB29,882,000 respectively. For information about the methods and assumptions used in determining the fair value of these derivatives, please refer to Note 3.3.

The notional principal amounts of the outstanding cross currency swaps contracts at 31 December 2019 were USD200,000,000 (2018: USD200,000,000) and an unrealised gain of RMB44,531,000 (2018: an unrealised loss of RMB29,882,000) was recognised in "Other gains – net" (Note 7).

(b) USD38,000,000 Cross currency swaps in 2019

In 2019, the Company entered into cross currency swaps contract which is non-hedging derivatives and maturing in September 2022. As at 31 December 2019, the derivative financial liabilities as recognised based on the fair value of this cross currency swaps contract amounted to RMB6,880,000. For information about the methods and assumptions used in determining the fair value of this derivative, please refer to Note 3.3.

The notional principal amounts of the outstanding cross currency swaps contract at 31 December 2019 was USD38,000,000 and an unrealised loss of RMB6,880,000 was recognised in "Other gains – net" (Note 7).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

19. Trade, Other Receivables and Prepayments

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables (a)	**663,357**	622,778
Less: provision for impairment loss allowance (b)	**(18,991)**	(11,628)
Trade receivables – net	**644,366**	611,150
Receivables arising from disposal of subsidiaries (c)	**17,818**	1,013,214
Receivables from former subsidiaries (d)	**2,357**	263,566
Deposits and others	**38,710**	92,321
Loan to a related party *(Note 34(c))*	**–**	6,000
Loan to a third party (e)	**70,000**	–
Loans to employees	**1,432**	2,172
– Loans to key management	**–**	–
– Loans to other employees	**1,432**	2,172
Value-added tax for future deduction	**409,757**	336,460
Trade and other receivables excluding notes receivable and prepayments	**1,184,440**	2,324,883
Notes receivable (h)	**972,971**	520,241
Prepayments for raw materials	**327,286**	195,109
	2,484,697	3,040,233

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

19. Trade, Other Receivables and Prepayments *(Continued)*

(a) As at 31 December 2019 and 2018, the ageing analysis of trade receivables (including amounts due from related party of trading nature) based on invoice date was as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 3 months	**599,413**	542,820
3 ~12 months	**57,761**	64,998
Over 12 months	**6,183**	14,960
	663,357	622,778

The Group generally sells its products to domestic customers and receives settlement either in cash or in the form of bank acceptance notes (Note (h)) 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.

(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. Note 3.1(b) provides for details about the calculation of the allowance.

(c) As at 31 December 2019, the balance of undiscounted receivables arising from the disposal of Baoji Dingfeng and Baoji Baofeng (Note 7) amounted to RMB17,923,000 (2018: RMB1,034,616,000). The related impact of discounting amounting to RMB105,000 (2018: RMB21,402,000) was considered based on the payment due dates set in the Share Transfer Agreements, resulting in a net balance of RMB17,818,000 (2018: RMB1,013,214,000) as at 31 December 2019. The remaining receivable of RMB17,923,000 was fully collected in January 2020.

(d) 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 RMB261,209,000 (2018: RMB586,005,000) from the former subsidiaries and the remaining receivable balance amounted to RMB2,357,000 (2018: RMB263,566,000) as at 31 December 2019. The remaining balance of RMB2,357,000 was fully collected in January 2020.

(e) The loan to a third party was arranged via a financial trust company, which is due for collection within 1 year from the balance sheet date. The interest rate on the loan during the year ended 31 December 2019 was 13.45% per annum.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

19. Trade, Other Receivables and Prepayments *(Continued)*

(f) Except for the loan to a third party as discussed above in Note (e), 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 notes receivable and prepayments were denominated in the following currencies:

	2019 *RMB'000*	2018 *RMB'000*
– RMB	**757,990**	1,841,817
– USD	**426,450**	483,066
	1,184,440	2,324,883

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.

(h) As at 31 December 2019, notes receivable were all bank acceptance notes aged less than six months, and included a total amount of RMB822,006,000 (2018: RMB465,793,000) that have been endorsed to the suppliers. As the notes receivables are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, they are measured at FVOCI.

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Current assets		
Notes receivable measured at FVOCI	**972,971**	520,241

On endorsing these notes receivable, there is no any related balance within the FVOCI reserve need to be reclassified to other gains/(losses) within profit or loss due to the fair value is equal to its face amount and no premium was recognised.

Information about the methods and assumptions used in determining fair value is provided in Note 3.3.

All of the financial assets at FVOCI are denominated in RMB.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

20. Inventories

	2019 RMB'000	2018 RMB'000
Raw materials	**1,935,848**	1,816,818
Work-in-progress	**257,142**	156,524
Finished goods	**1,434,157**	1,288,751
	3,627,147	3,262,093

(i) Amounts recognised in profit or loss

Inventories recognised as an expense during the year ended 31 December 2019 amounted to RMB11,213,642,000 (2018: RMB9,790,804,000). These were included in cost of sales amounted to RMB10,969,446,000 (2018: RMB9,616,528,000) and administrative expenses amounted to RMB244,196,000 (2018: RMB174,276,000).

Write-downs of inventories to net realisable value amounted to RMB41,644,000 (2018: RMB17,649,000). These were recognised as an expense during the year ended 31 December 2019 and included in "Cost of sales" in the consolidated income statement.

21. Cash And Bank Balances

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents		
– Cash on hand	**369**	407
– Cash in banks	**1,830,800**	1,734,536
	1,831,169	1,734,943
Term deposits over 3 months and within one year	**10,000**	22,000
Cash and bank balances	**1,841,169**	1,756,943
Restricted bank deposits (a)	**39,602**	933,341
Total cash and bank balances (b)	**1,880,771**	2,690,284

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

21. Cash And Bank Balances *(Continued)*

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

	2019 *RMB'000*	2018 *RMB'000*
Issuance of bank acceptance notes	**39,560**	63,000
Secured bank borrowing	**–**	869,800
Others	**42**	541
	39,602	933,341

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

	2019 *RMB'000*	2018 *RMB'000*
– RMB	**964,578**	1,695,259
– USD	**904,782**	947,852
– HKD	**10,940**	9,923
– EUR	**353**	37,074
– SGD	**118**	114
– JPY	**–**	62
	1,880,771	2,690,284

(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 0.27% per annum for the year ended 31 December 2019 (2018: 0.69%).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

22. Share Capital and Premium

	Number of shares (thousands)	Amount		
		Ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2018	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
Repurchase of shares of the Company	(13,095)	(1,175)	(41,873)	(43,048)
Dividends	–	–	(724,972)	(724,972)
	(13,095)	(1,175)	(766,845)	(768,020)
At 31 December 2019	2,533,639	243,261	663,634	906,895

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 2019 and 2018.

In May 2019, the Company acquired 3,400,000 of its own ordinary shares through purchases on The Stock Exchange of Hong Kong Limited. The total consideration of HKD13,103,000 (equivalent to RMB11,217,000) paid for repurchase of these shares has been deducted from the ordinary share premium and ordinary share capital due to the shares were cancelled in June 2019.

In August 2019 and September 2019, the Company separately acquired 9,655,000 and 40,000 of its own ordinary shares respectively through purchases on The Stock Exchange of Hong Kong Limited. The total consideration of HKD 35,987,000 and HKD148,000 respectively (equivalent to RMB31,698,000 and RMB133,000) paid for repurchase of these shares have been deducted from the ordinary share premium and ordinary share capital due to the shares were cancelled in September 2019.

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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

23. 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 2019 and 2018.

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

	2019		2018	
	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	3,600
Forfeited	**5.69**	**(800)**	5.69	–
At 31 December	**5.69**	**2,800**	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 Directors based on the expected future performance and dividend policy of the Group.

In April 2019, one employee resigned and thus all the related 800,000 share options were forfeited during the year ended 31 December 2019.

The attributable amount credited to the consolidated income statement during the year ended 31 December 2019 was approximately RMB1,071,000 (2018: the attributable amount charged to the consolidated income statement was approximately RMB432,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

23. 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 2019 and 2018.

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

	2019		2018	
	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**	**12,300**	3.50	13,900
Forfeited	**3.50**	**–**	3.50	(1,600)
At 31 December	**3.50**	**12,300**	3.50	12,300

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 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 employees resigned and thus all the related 1,600,000 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 2019 was approximately RMB2,122,000 (2018:RMB3,831,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

23. Share-Based Payment *(Continued)*

(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 2019 and 2018.

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

	2019		2018	
	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%

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

The attributable amount charged to the consolidated income statement during the year ended 31 December 2019 was approximately RMB70,000 (2018:RMB115,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

23. Share-Based Payment *(Continued)*

(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 2019 and 2018.

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

	2019		2018	
	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	4.96	5,000
At 31 December	4.96	5,000	4.96	5,000

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

The attributable amount charged to the consolidated income statement during the year ended 31 December 2019 was approximately RMB1,801,000 (2018: RMB2,155,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

24. Retained Earnings

	The Group 2019 RMB'000	2018 RMB'000
Restated at 1 January	**8,755,348**	7,093,683
Profit for the year	**1,137,223**	1,845,039
Profit appropriation to statutory reserves *(Note 25)*	**(88,816)**	(183,374)
At 31 December	**9,803,755**	8,755,348

25. Other Reserves

	Capital reserve *(Note (a))* RMB'000	Statutory reserve *(Note (b))* RMB'000	Share-based payment reserve *(Note 23)* RMB'000	Total RMB'000
1 January 2018	(370,760)	732,985	21,953	384,178
Profit appropriation *(Note 24)*	–	183,374	–	183,374
Employee share option schemes				
– Value of employee services				
(Notes 9, 23)	–	–	6,529	6,529
31 December 2018	(370,760)	916,359	28,482	574,081
Profit appropriation *(Note 24)*	–	88,816	–	88,816
Employee share option schemes				
– Value of employee services				
(Notes 9, 23)	–	–	2,922	2,922
31 December 2019	(370,760)	1,005,175	31,404	665,819

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

25. 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.

26. Trade, Other Payables and Accruals

	2019 *RMB'000*	2018 *RMB'000*
Trade payables (a, b)	**1,403,779**	1,511,982
Payables for property, plant and equipment (b)	**1,008,881**	1,309,099
Bank acceptance notes payable	**110**	64,716
Government compensation related to property, plant and equipment disposal received in advance (c)	**–**	62,035
Salaries, wages and staff welfares payables	**363,385**	375,011
Interest payables	**45,420**	47,779
Government grants received in advance	**1,042**	1,571
Dividends payable	**407**	407
Other payables and accruals	**389,120**	341,962
	3,212,144	3,714,562
Less: non-current portion		
Other payables (d)	**(63,148)**	–
	3,148,996	3,714,562

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

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

(a) As at 31 December 2019 and 2018, the ageing analysis of trade payables based on invoice date was as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 3 months	**1,175,515**	1,325,253
3 to 6 months	**139,512**	80,224
6 to 12 months	**22,435**	40,429
1 to 2 years	**25,149**	40,701
Over 2 years	**41,168**	25,375
	1,403,779	1,511,982

(b) As disclosed in Note 19(h), notes receivable amounted to RMB822,006,000 (2018: RMB465,793,000) were endorsed to the suppliers of trade payable and payables for property, plant and equipment amounting to RMB559,135,000 and RMB262,871,000, respectively (2018: RMB232,862,000 and RMB232,931,000, respectively).

(c) In 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 2018, RMB573,510,000 had been applied to compensate the disposal of property, plant and equipment during 2015, 2016 and 2017 while RMB573,756,000 had been applied during 2018. The remaining balance of RMB62,035,000 was recorded in "Trade, other payables and accruals" as at 31 December 2018. During the year ended 31 December 2019, the Group completed the plant relocation and the compensation balance of RMB62,035,000 was recognised as other income of government grants related to expenses accordingly.

(d) The non-current portion of other payables is a borrowing from certain third parties, which is repayable in 7 years from the balance sheet date. The interest rate on such other payables during the year ended 31 December 2019 was 5.25% per annum.

(e) Except for the borrowing from certain third parities as discussed in Note(d), 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

27. Borrowings

	2019 RMB'000	2018 RMB'000
Non-current		
Bank borrowings, unsecured	261,202	335,549
USD bonds (b)	2,188,178	2,151,840
	2,449,380	2,487,389
Current		
Bank borrowings, unsecured	935,170	653,363
Bank borrowings, secured	–	869,800
	935,170	1,523,163
Total borrowings	3,384,550	4,010,552

(a) Borrowings

At 31 December 2019, the Group's borrowings were repayable as follows:

	Bank borrowings		USD bonds	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Within 1 year	935,170	1,523,163	–	–
Between 1 and 2 years	–	335,549	2,188,178	–
Between 2 and 5 years	261,202	–	–	2,151,840
	1,196,372	1,858,712	2,188,178	2,151,840

As at 31 December 2019, none of borrowings were secured by restricted bank deposits (2018: RMB869,800,000).

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

	2019	2018
Bank borrowings	5.17%	4.86%

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

27. Borrowings *(Continued)*

(a) Borrowings *(Continued)*

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

	Carrying amount		Fair value	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings, unsecured	**261,202**	335,549	**266,101**	338,734
USD bonds (b)	**2,188,178**	2,151,840	**2,256,032**	2,201,104
	2,449,380	2,487,389	**2,522,133**	2,539,838

The fair value of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 2 of the fair value hierarchy (Note 3.3).

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

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

	2019	2018
	RMB'000	*RMB'000*
RMB	**851,203**	1,209,800
HKD	**–**	261,203
USD	**2,533,347**	2,539,549
	3,384,550	4,010,552

(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. During the year ended 31 December 2019, a total of USD1,250,000 (2018: 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. The corporate bonds matured in November 2018 and were fully redeemed by the Group.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

28. Deferred Income

	2019 *RMB'000*	2018 *RMB'000*
Government grants related to income tax credit from purchasing qualified equipment (a)	**30,847**	39,767
Government grants related to acquisition of environmental protection and technology improvement equipment (b)	**679,434**	674,964
Government grants related to urban planning of local PRC governments (c)	**–**	71,240
	710,281	785,971

The movements of the above government grants for the years ended 31 December 2019 and 2018 are as follows:

	2019 *RMB'000*	2018 *RMB'000*
At beginning of the year	**785,971**	721,936
Granted during the year	**84,494**	141,850
Amortised as income *(Note 6, 31)*	**(160,184)**	(77,815)
At end of the year	**710,281**	785,971

(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, Xinjiang Fufeng and Longjiang 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.

During the year ended 31 December 2019, the government grants related to urban planning for land compensation of RMB71,240,000 was amortised as other income in this period due to the Group completed the plant relocation.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

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 income tax assets and liabilities are as follows:

	2019 *RMB'000*	2018 *RMB'000*
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**90,123**	124,306
– Deferred income tax assets to be recovered within 12 months	**56,515**	59,770
	146,638	184,076
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(40,650)**	(16,650)
Deferred income tax assets, net	**105,988**	167,426

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

	2019 *RMB'000*	2018 *RMB'000*
Beginning balance of the year	**167,426**	165,797
Acquisition of a subsidiary	**(437)**	–
(Charged)/credited to consolidated income statement *(Note 12)*	**(61,001)**	1,629
Ending balance of the year	**105,988**	167,426

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

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 1 January 2018	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
(Charged)/credited to consolidated income statement	–	(2,696)	(5,427)	(4,190)	3,650	(8,163)	(16,826)
At 31 December 2019	–	1,388	97,272	35,117	27,627	6,355	167,759

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 tax losses amounted to RMB235,270,000 as at 31 December 2019 (2018: RMB6,009,000) 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 2019 and 2018, the expiry date of such tax losses is as follows:

Expiry date	**2019** ***RMB'000***	2018 *RMB'000*
2019	**–**	1,370
2020	**1,363**	1,363
2021	**1,514**	1,514
2022	**1,117**	1,118
2023	**640**	644
2024	**2,660**	–
2029	**227,976**	–
	235,270	6,009

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

29. Deferred Income Tax *(Continued)*

Deferred income tax liabilities:

	Capitalisation of borrowing costs *RMB'000*	Withholding tax on unremitted earnings of certain subsidiaries *RMB'000*	Lump-sum deduction of depreciation difference *RMB'000*	Total *RMB'000*
At 1 January 2018	646	16,650	–	17,296
Credited to consolidated income statement	(137)	–	–	(137)
At 31 December 2018	509	16,650	–	17,159
Acquisition of a subsidiary	–	–	437	437
(Credited)/charged to consolidated income statement	(137)	24,000	20,312	44,175
At 31 December 2019	372	40,650	20,749	61,771

According to the corporate income tax law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies, including those incorporated in Hong Kong.

Such withholding tax is recorded under deferred income tax. During the year ended 31 December 2018, Trans-Asia, a subsidiary of the Company, acquired qualification for the lower tax rate of 5% for dividend received from its subsidiaries in mainland China. The Group revised its estimate of Trans-Asia for the accrual based on 5% instead of 10% while the withholding tax rate for other subsidiaries in Hong Kong were based on 10%. During the year ended 31 December 2019, withholding tax of RMB24,000,000 has been provided as the Group expects Mainland China subsidiaries to distribute the retained earnings of RMB440,000,000 as at 31 December 2019 (2018: nil) in the foreseeable future.

Deferred income tax liabilities as at 31 December 2019 of RMB573,706,000 (2018: RMB473,819,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC, totalling RMB10,460,594,000 (2018: RMB9,476,372,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

30. Dividends

	2019 *RMB'000*	2018 *RMB'000*
Interim, paid	**211,387**	93,379
Final, proposed	**184,941**	514,276
	396,328	607,655

The final dividends paid in 2019 amounted to HKD600,237,000 (equivalent to RMB513,585,000) (2018: RMB226,158,000), representing HK23.6 cents (equivalent to RMB20.19 cents per share) (2018: RMB8.88 cents) per ordinary share of the Company. The difference between proposed and paid final dividends was due to the decreased ordinary shares as a result of the repurchase of shares of the Company.

At a meeting held on 31 March 2020, the Board proposed a final dividend of HKD202,691,000 (equivalent to RMB184,941,000) (2018: RMB514,276,000), representing HK8.0 cents (equivalent to RMB7.30 cents) (2018: RMB20.19 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 2020.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

31. Cash Generated from Operations

(a) Cash generated from operations

	2019 *RMB'000*	2018 *RMB'000*
Profit before income tax	**1,399,264**	2,210,823
Adjustments for:		
– Provision for inventory write-down *(Note 20)*	**41,644**	17,649
– Net impairment losses on financial assets	**37,869**	7,114
– Provision for/(reversal of) impairment charge for property, plant and equipment *(Note 14)*	**52,868**	(59,394)
– Depreciation of property, plant and equipment *(Note 14)*	**1,132,209**	1,038,246
– Depreciation of right-of-use assets *(Note 15)*	**17,998**	–
– Amortisation of leasehold land payments *(Note 15(b))*	**–**	20,252
– Amortisation of intangible assets *(Note 16)*	**5,333**	2,664
– Amortisation of deferred income *(Note 28)*	**(160,184)**	(77,815)
– Gain on disposal of subsidiaries – net *(Note 7)*	**–**	(1,297,469)
– Gain on disposal of leasehold land payments *(Note d)*	**–**	(5,900)
– Gain on disposal of financial assets through profit or loss *(Note 7)*	**(1,624)**	–
– Fair value (gains)/losses on derivative financial instruments *(Note 7)*	**(37,651)**	29,882
– Gain on compensation from insurance company after offsetting losses *(Note 7)*	**–**	(2,891)
– Loss/(gain) on disposal of property, plant and equipment – net *(Note c)*	**2,370**	(1,498)
– Employee share option schemes *(Notes 9, 23)*	**2,922**	6,529
– Interest income *(Note 10)*	**(103,118)**	(15,828)
– Interest expenses *(Note 10)*	**201,157**	170,313
– Foreign exchange losses on financing activities *(Note 10)*	**52,111**	71,169
– Negative goodwill gained from acquisition *(Note 33)*	**(15,369)**	–
Changes in working capital:		
– Inventories	**(402,085)**	(49,847)
– Trade, other receivables and prepayments	**(644,821)**	(402,455)
– Restricted bank deposits	**23,939**	10,315
– Trade, other payables and accruals	**(165,080)**	185,007
Cash generated from operations	**1,439,752**	1,856,866

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

31. Cash Generated from Operations *(Continued)*

(b) Proceeds from disposal of subsidiaries

	2019	2018
	RMB'000	*RMB'000*
Gain on disposal of subsidiaries – net *(Note 7)*	**–**	1,297,469
Net liabilities of subsidiaries disposed (excluding cash and bank balances)	**–**	(140,489)
Decrease/(increase) in other receivables, net of unrealised financing income *(Note 19(c))*	**995,396**	(1,013,214)
Amortised as income from unrealised financing income of other receivables	**21,297**	–
Proceeds from disposal of subsidiaries, net of cash disposed	**1,016,693**	143,766

For the year ended 31 December 2018, 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, 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

	2019	2018
	RMB'000	*RMB'000*
Net book amount for disposals *(Note 14)*	**6,183**	4,670
(Loss)/gain on disposal of property, plant and equipment – net *(Note 7)*	**(2,370)**	1,498
Decrease in other payables for government compensation related to property, plant and equipment received in advance *(Note 26(c))*	**–**	(246)
Proceeds from disposal of property, plant and equipment	**3,813**	5,922

(d) Proceeds from disposal of leasehold land payments

	2019	2018
	RMB'000	*RMB'000*
Net book amount for disposals *(Note 15(b))*	**–**	5,890
Gain on disposal of leasehold land payments *(Note 7)*	**–**	5,900
Proceeds from disposal of property, plant and equipment	**–**	11,790

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

31. Cash Generated from Operations *(Continued)*

(e) Major non-cash transactions

During the year ended 31 December 2019, the Group purchased property, plant and equipment and raw materials and recorded related payables without cash outflow in the amount of RMB577,489,000 and RMB664,322,000, respectively (2018: RMB1,313,815,000 and RMB623,390,000, respectively).

(f) Reconciliation of liabilities from financing activities

This section sets out an analysis of liabilities from financing activities and the related movements for the years ended 2019 and 2018:

	Borrowings due within 1 year *RMB'000*	Borrowings due after 1 year *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2018	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)	–	–
– Amortisation of borrowing costs	8,039	7,171	–	15,210
At 31 December 2018	1,523,163	2,487,389	–	4,010,552
Recognised on adoption of HKFRS 16 *(Note 2.2)*	–	–	2,275	2,275
Addition of lease *(Note 15)*	–	–	420	420
Cash flows				
– Inflow from financing activities	2,702,000	260,128	–	2,962,128
– Outflow from financing activities	(3,637,900)	(8,364)	(1,365)	(3,647,629)
Foreign exchange adjustments	1,079	40,926	–	42,005
Other non-cash movements				
– Reclassification	345,170	(345,170)	–	–
– Amortisation of borrowing costs	1,658	14,471	–	16,129
At 31 December 2019	935,170	2,449,380	1,330	3,385,880

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2019

32. Commitments

(a) Capital commitments

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

	2019 *RMB'000*	2018 *RMB'000*
Purchase of property, plant and equipment – Contracted but not yet incurred	**102,821**	207,903

(b) Non-cancellable operating leases

The Group leases various offices, equipments and warehouses under non-cancellable operating lease agreements expiring within two months to three years. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term leases, see Note 15 for further information.

The Group's future aggregate minimum lease payments under these non-cancellable operating leases not recognised in the financial statements were as follows:

	2019 *RMB'000*	2018 *RMB'000*
No later than 1 year	**3,084**	3,687
Later than 1 year and no later than 5 years	**107**	1,488
	3,191	5,175

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

33. Business Combination

(a) Summary of acquisition

On 9 October 2019, Fufeng Group Limited acquired 100% of the equity interest in Wofeng, a related company which operates in producing and selling fertilisers. The acquired business contributed revenues of RMB38,510,000 and net loss of RMB1,288,000 to the Group for the period from 9 October 2019 to 31 December 2019. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets which had applied from 9 October 2019, together with the consequential tax effects. For the acquisition, the Group has a negative goodwill of RMB15,369,000 which represents the excess of fair value of net assets acquired over the purchase consideration.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	2019 *RMB'000*
Purchase consideration (refer to (b) below):	
Cash paid	**44,900**

The assets and liabilities as of 9 October 2019 recognised as a result of the acquisition are as follows:

	Fair value *RMB'000*
Cash and bank balances	**10,388**
Prepayments	**48,225**
Inventories	**4,613**
Property, plant and equipments *(Note 14)*	**12,470**
Right-of-use assets *(Note 15)*	**15,259**
Intangible assets *(Note 16)*	**67**
Trade and other payables	**(30,316)**
Deferred income tax liabilities *(Note 29)*	**(437)**
Net identifiable assets acquired	**60,269**
Less: Negative goodwill	**(15,369)**
Purchase consideration paid	**44,900**

There were no acquisitions in the year ending 31 December 2018.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

33. Business Combination *(Continued)*

(b) Purchase consideration – cash outflow

	2019 *RMB'000*
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	**44,900**
Less: cash and bank balances acquired	**(10,388)**
Net outflow of cash – investing activities	**34,512**

34. 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

	2019 *RMB'000*	2018 *RMB'000*
Business combination from a related party *(Note 33(a))*	**44,900**	–
Services purchased from a related party (i)	**510**	43,129
	45,410	43,129

(i) The Group received construction services from an entity that is controlled by a close family member of the controlling shareholder.

(2) Continuing connected transaction

	2019 *RMB'000*	2018 *RMB'000*
Sales of products to a related party*	**60,320**	72,129

* The Group sold products to an entity that is controlled by a close family member of the controlling shareholder. The entity was acquired by the Group in October 2019 (Note 33).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

34. Related Party Transactions and Balances *(Continued)*

(b) Key management compensation

	2019 *RMB'000*	2018 *RMB'000*
Salaries and allowances	**19,038**	23,042
Pension costs – defined contribution plan	**811**	832
Share options granted to key management *(Note 25)*	**2,922**	6,529
	22,771	30,403

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.

(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

	2019 *RMB'000*	2018 *RMB'000*
– A company controlled by a close family member of the controlling shareholder	**–**	1,457

(2) Loan to a related party

	2019 *RMB'000*	2018 *RMB'000*
– Jilin COFCO	**–**	6,000

During the year, the loan to a related party was fully collected. The interest rate on the loan during the year was 4.35%.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

34. Related Party Transactions and Balances *(Continued)*

(c) Year-end balances with related parties *(Continued)*

(3) Other payables to a related party

	2019 RMB'000	2018 RMB'000
– A company controlled by a close family member of the controlling shareholder	3,758	28,312

(d) Terms and conditions

Sales and purchase transactions conducted with related parties were based on the price lists in force and terms that would be available to third parties.

35. Events after the Balance Sheet Date

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the China and other countries, including but not limited to, extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over people travelling and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing, etc. In the meantime, the COVID-19 outbreak has an unfavourable impact on the global macroeconomic environment which could have a temporary impact on the Group's business and economics activities in the local and overseas markets. In addition, the Group might have to experience longer turnover time for recovering its trade receivables and hence the associated credit risk may be increased. The Group has been proactively coordinating to seek the best solution, however, there is no solution yet as at the date on which this set of financial statements were authorised for issue. Hence, the related financial effect cannot be reasonably estimated as of the date of these consolidated financial statements and the Group will closely monitor and continue to evaluate the aforesaid impact.

The final dividend described in Note 30 was proposed.

Other than the above disclosed, 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 2019

36. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		365	597
Investment in subsidiaries		460,066	460,066
Right-of-use assets		1,182	–
Derivative financial instruments		14,649	–
Total non-current assets		476,262	460,663
Current assets			
Loans to subsidiaries		1,025,396	979,633
Due from subsidiaries		2,001,895	2,597,304
Deposits and other receivables		596	745
Cash and cash equivalents		94,765	65,512
Total current assets		3,122,652	3,643,194
Total assets		3,598,914	4,103,857
EQUITY			
Capital and reserves attributable to the shareholders			
Share capital		243,261	244,436
Share premium		663,634	1,430,479
Other reserves	*(a)*	31,404	28,482
Accumulated losses	*(a)*	(394,541)	(488,098)
Total equity		543,758	1,215,299
LIABILITIES			
Non-current liabilities			
Borrowings		2,449,380	2,487,389
Lease liabilities		735	–
Derivative financial instruments		6,880	29,882
Total non-current liabilities		2,456,995	2,517,271
Current liabilities			
Borrowings		345,170	261,203
Due to subsidiaries		189,025	38,540
Lease liabilities		349	–
Other payables and accruals		63,617	71,544
Total current liabilities		598,161	371,287
Total liabilities		3,055,156	2,888,558
Total equity and liabilities		3,598,914	4,103,857

The balance sheet of the Company was approved by the Board of Directors on 31 March 2020 and was signed on its behalf.

Li Xuechun
Director

Zhao Qiang
Director

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

36. Balance Sheet and Reserve Movement of the Company *(Continued)*

(a) Reserve movement of the Company

	Accumulated losses *RMB'000*	Other reserves *RMB'000*
At 1 January 2018	(373,997)	21,953
Loss for the year	(114,101)	–
Employee share option schemes:		
– Value of employee services	–	6,529
At 31 December 2018	(488,098)	28,482
At 1 January 2019	(488,098)	28,482
Profit for the year	93,557	–
Employee share option schemes:		
– Value of employee services	–	2,922
At 31 December 2019	(394,541)	31,404

37. Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The emoluments of every director for the years ended 31 December 2019 and 2018 are set out as below:

	2019				
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	–	2,779	–	16	2,795
Zhao, Qiang	–	4,500	948	54	5,502
Li, Deheng	–	1,158	–	54	1,212
Yu, Yaoming (vi)	–	951	–	54	1,005
Li, Guangyu	–	599	–	54	653
Pan, Yuehong (iii)	–	274	–	13	287
Independent Non-executive Directors:					
Zheng, Yu	211	–	57	–	268
Liu, Zhongwei (vii)	93	–	–	–	93
Xu, Zhenghong (v)	–	–	–	–	–
Xiao, Jianlin (iv)	80	–	–	–	80
	384	10,261	1,005	245	11,895

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

37. Benefits and Interests of Directors *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

			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	–	4,500	1,565	52	6,117
Li, Deheng	–	1,100	–	52	1,152
Pan, Yuehong (iii)	–	900	–	52	952
Li, Guangyu	–	788	–	52	840
Independent Non-executive Directors:					
Zheng, Yu	203	–	94	–	297
Xu, Zhenghong (v)	–	–	–	–	–
Qi, Qingzhong (ii)	–	–	–	–	–
Xiao, Jianlin (iv)	150	–	–	–	150
	353	10,064	1,659	223	12,299

(i) Other benefits include share option granted.

(ii) Resigned on 1 December 2018.

(iii) Resigned on 20 March 2019

(iv) Resigned on 12 June 2019.

(v) Appointed on 1 December 2018.

(vi) Appointed on 20 March 2019

(vii) Appointed on 12 June 2019.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2019

37. Benefits and Interests of Directors *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

There was no bonus paid to the directors of the Company for the years ended 31 December 2019 and 2018.

No payment was made to directors as retirement benefits during the years ended 31 December 2019 and 2018.

No payment was made to directors as compensation for the early termination of the appointment during the years ended 31 December 2019 and 2018.

No payment was made to the any third parties for making available directors' services during the years ended 31 December 2019 and 2018.

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 2019 and 2018.

No director waived or agreed to waive any remuneration for the year ended 31 December 2019 (2018: Mr. Qi Qingzhong agreed to waive the remuneration of RMB92,000).

(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

2019	Share price High (HKD)	Share price Low (HKD)	Turnover Share ('000)
January	3.58	3.22	25,127,600
February	4.11	3.34	115,486,394
March	4.47	3.78	124,061,109
April	4.38	3.98	77,522,064
May	4.23	3.55	60,259,526
June	4.38	3.75	42,321,209
July	4.39	3.83	41,759,646
August	3.92	3.46	55,926,179
September	4.01	3.52	29,919,083
October	3.88	3.47	32,328,640
November	3.64	3.38	20,162,126
December	3.55	3.20	28,641,807

Issued capital at 31 December 2019 2,533,639,037 Shares

Closing price at 31 December 2019 HKD3.43 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
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
IM Fufeng	內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Plant	the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC
Listing 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
PRC	the People's Republic of China, which for the purpose of this report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Procurement Framework Agreement	the procurement framework agreement entered into between the Company and Inner Mongolia Wo Feng Agricultural Development Company Limited (內蒙古沃豐農業發展有限公司) dated 5 July 2017
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

Glossary *(Continued)*

Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Share Purchase Agreement	the share purchase agreement dated 2 September 2019 entered into between the Purchaser and the Vendors in relation to the sale and purchase of all the issued shares of the Target Company
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