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Fufeng Group Limited 阜豐集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 546)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

HIGHLIGHTS OF GROUP RESULTS

- In 2013, the Group managed to continue increase its product mix and diversity. In addition to strong growth of xanthan gum business, high-end amino acid products also experienced significant positive development in terms of growth and market coverage and are now sold to customers in the food, healthcare, pharmaceutical and high-end skincare industries
- The production and sales volumes of MSG and xanthan gum reached historical new highs for the year
- Revenue increased by 2.3% to approximately RMB11,366.7 million (2012: RMB11,111.9 million). The growth was driven by the increase in sales volumes and average selling price of xanthan gum and high-end amino acid products in 2013
- Due to significant increases in the average selling price and sales volume in xanthan gum and the increasing revenue contribution of our product mix by high-end amino acid products, gross profit margin for the Group increased to about 18.5% (2012: 14.7%)
- Due to the stabilisation of MSG market in the second half of 2013, the overall gross profit margin of MSG segment increased to 12.6% (2012: 11.4%)
- As the result of the strong growth in the xanthan gum market, with both average selling price and sales volume increasing in 2013, the gross profit margin of Xanthan gum segment significantly increased to 58.3% (2012: 46.0%)
- Gross profit increased from approximately RMB1,637.5 million in 2012 to approximately RMB2,099.4 million in 2013
- Profit attributable to the Shareholders increased by about 18.7% to approximately RMB506.1 million (2012: RMB426.6 million)
- Earnings per share (Basic) was RMB25.13 cents (2012: RMB23.03 cents (Restated))
- Return on equity was 10.5% (2012: 11.2%)
- Final dividend of HK4 cents (2012: Nil) per share has been recommended by the Board
- The sum of paid interim dividend and proposed final dividend is HK6 cents per share (2012: Nil)

ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group prepared under HKFRS for the year ended 31 December 2013, together with the comparative figures for the year ended 31 December 2012, as follows:

Consolidated Income Statement

	Note	Year ended 31 December	
		2013 RMB'000	2012 RMB'000
Revenue	3	11,366,722	11,111,920
Cost of sales		(9,267,279)	(9,474,465)
Gross profit		2,099,443	1,637,455
Other income		152,468	129,317
Selling and marketing expenses		(710,267)	(570,487)
Administrative expenses		(541,490)	(440,143)
Other operating expenses		(76,093)	(37,039)
Other gain	4	936	15,976
Operating profit		924,997	735,079
Finance income		76,879	6,447
Finance costs		(367,179)	(251,313)
Finance costs – net		(290,300)	(244,866)
Profit before income tax		634,697	490,213
Income tax expense	5	(128,565)	(63,660)
Profit for the year and attributable to the Shareholders		506,132	426,553

		Year ended 31 December	
		2013	2012
		<i>RMB</i>	<i>RMB</i>
	<i>Note</i>		(Restated)
Earnings per share for profit attributable to the Shareholders			
during the year (expressed in RMB cents per share)			
– basic	6	25.13	23.03
– diluted	6	22.07	23.01

	Note	Year ended 31 December	
		2013 RMB'000	2012 RMB'000
Dividends	7	99,184	–

The Group has no other comprehensive income for the years ended 31 December 2013 and 2012.

Consolidated Balance Sheet

		As at 31 December	
		2013	2012
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Leasehold land payments		506,289	366,764
Property, plant and equipment		7,575,975	7,258,851
Intangible assets		51	54
Deferred income tax assets		88,232	40,012
		8,170,547	7,665,681
Current assets			
Inventories		1,516,878	1,415,225
Trade and other receivables	8	2,069,339	2,339,600
Short-term bank deposits		56,405	69,320
Cash and cash equivalents		805,999	481,126
		4,448,621	4,305,271
Total assets		12,619,168	11,970,952
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		203,644	175,921
Share premium			
– Proposed final dividend		65,925	–
– Others		636,948	240,518
Other reserves		194,143	58,972
Retained earnings		3,718,126	3,319,597
Total equity		4,818,786	3,795,008
LIABILITIES			
Non-current liabilities			
Deferred income		360,121	352,436
Borrowings	9	3,309,187	2,044,960
Deferred income tax liabilities		20,286	19,826
		3,689,594	2,417,222
Current liabilities			
Trade, other payables and accruals	10	2,890,997	3,303,957
Current income tax liabilities		51,884	47,085
Borrowings	9	1,167,907	2,407,680
		4,110,788	5,758,722
Total liabilities		7,800,382	8,175,944
Total equity and liabilities		12,619,168	11,970,952
Net current assets/(liabilities)		337,833	(1,453,451)
Total assets less current liabilities		8,508,380	6,212,230

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

1. Basis of preparation

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

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

1.1 Changes in accounting policy and disclosures

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

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

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

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

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

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

HKAS 27 (revised 2011), 'Separate financial statements', includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10.

1. Basis of preparation *(Continued)*

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

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

HKFRS 11, 'Joint arrangements', is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

HKFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

Amendment to HKAS19, 'Employee benefits'. These amendments eliminate the corridor approach and calculate finance expenses on a net funding basis.

Amendment to HKFRS 7, 'Financial instruments: Disclosures' on asset and liability offsetting. The amendments also require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

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

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

1. Basis of preparation *(Continued)*

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

- (b) *New standards, amendments and interpretations have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2013 and have not been early adopted by the Group*

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

Amendment to HKAS 32, 'Financial instruments: Presentation – Offsetting financial assets and financial liabilities'. These amendments are to the application guidance in HKAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. These amendments are effective for annual periods beginning on or after 1 January 2014.

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

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

Amendment to HKAS19 regarding defined benefit plans. This narrow scope amendment applies to contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits. This amendment is effective for annual periods beginning on or after 1 July 2014.

1. Basis of preparation *(Continued)*

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

- (b) *New standards, amendments and interpretations have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2013 and have not been early adopted by the Group (Continued)*

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

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

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

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

1. Basis of preparation *(Continued)*

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

- (b) *New standards, amendments and interpretations have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2013 and have not been early adopted by the Group (Continued)*

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

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

2. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

2.1 Estimated impairment of property, plant and equipment

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

A full impairment charge of RMB11,418,000 (2012: RMB461,000) arose in the specific assets mainly used by different cash-generating units of MSG production during the year ended 31 December 2013, resulting in the carrying amount of these assets being written down to zero.

2.2 Useful lives of plant and equipment

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

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

2.3 Estimated impairment of intangible assets

The Group tests annually whether intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

A full impairment charge of RMB1,482,000 (2012: RMB1,030,000) arose in the patents purchased during the year ended 31 December 2013, resulting in the carrying amount of these assets being written down to zero.

2.4 Borrowing costs eligible for capitalisation

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

2.5 PRC taxes

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

3. Segment Information

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

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

Manufacturing and sales of:

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

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

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

3. Segment Information *(Continued)*

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

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

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

	MSG <i>RMB'000</i>	Xanthan gum <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Revenue	9,912,473	1,454,249	–	11,366,722
Segment results	189,240	757,218	(21,461)	924,997
Finance costs – net				(290,300)
Profit before income tax				634,697
Income tax expense <i>(Note 5)</i>				(128,565)
Profit for the year				506,132
Other segment items included in the consolidated income statement				
Depreciation	641,671	47,054	1,596	690,321
Amortisation of leasehold land payments	7,467	633	–	8,100
Gain on disposal of property, plant and equipment	2,624	–	–	2,624

3. Segment Information *(Continued)*

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

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

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

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

3. Segment Information *(Continued)*

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

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

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

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

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

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

Revenues of approximately RMB458,229,000 (2012: RMB275,434,000) are derived from a single external customer. These revenues are attributable to the MSG segment.

4. Other gain

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

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

5. Income tax expense

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Current income tax		
– PRC enterprise income tax (“EIT”)	176,325	74,933
Deferred income tax	(47,760)	(11,273)
	128,565	63,660

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

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit in Hong Kong for the years ended 31 December 2013 and 2012.

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

6. Earnings per share

(a) Basic

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

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

6. Earnings per share *(Continued)*

(b) Diluted

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

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

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

7. Dividends

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

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

At a meeting held on 18 March 2014, the Board proposed a final dividend of HKD83,502,000 (equivalent to RMB65,925,000) (2012: Nil), representing HK4 cents (equivalent to RMB3.16 cents) (2012: Nil) per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2014.

8. Trade and Other Receivables

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

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

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

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

8. Trade and Other Receivables (Continued)

(a) (Continued)

As at 31 December 2013, trade receivables of RMB23,879,000 (2012: RMB9,390,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The directors considered that trade receivables that are less than twelve months past due are not impaired. The ageing analysis of these trade receivables is as follows:

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

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

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

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

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

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

8. Trade and Other Receivables *(Continued)*

- (c) As at 31 December 2013, notes receivables were all bank acceptance notes aged less than six months, including amount of RMB1,058,737,000 (2012: RMB1,209,634,000) that have been endorsed to settle the amounts payable to the Group's suppliers.
- (d) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values.
- (e) The carrying amounts of the Group's trade and other receivables excluding prepayments are denominated in the following currencies:

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

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

9. Borrowings

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

9. Borrowings (Continued)

(a) Borrowings

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

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

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

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

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

	2013	2012
Bank borrowings	5.65%	4.88%

The carrying amounts of bank borrowings approximate their fair value.

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

	2013	2012
	RMB'000	RMB'000
6 months or less	145,000	1,116,710
6 to 12 months	1,022,907	1,302,500
1 to 5 years	3,309,187	2,033,430
	4,477,094	4,452,640

9. Borrowings (Continued)

(a) Borrowings (Continued)

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

	2013 RMB'000	2012 RMB'000
RMB	2,485,529	1,649,535
USD	1,991,565	2,803,105
	4,477,094	4,452,640

(b) Convertible bonds

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

The Company issued convertible bonds with a total par value of RMB1,025,000,000 in April 2010 at a fixed interest rate of 4.5%. The bonds mature in five years from the issue date at their nominal value of RMB1,025,000,000 or can be converted into the Company's ordinary shares at the holder's option at the rate of HKD7.03 per share. The values of the liability component and the equity conversion component, net off transaction costs of RMB25,679,000, were determined upon issuance of the bonds.

The fair value of the liability component, which was included in non-current borrowings, was calculated using a market interest rate of 5.08% for equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

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

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

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

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

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

9. Borrowings (Continued)

(b) Convertible bonds (Continued)

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

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

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

(c) Senior notes

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

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

9. Borrowings (Continued)

(d) Medium-term note

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

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

10. Trade, other payables and accruals

	2013 RMB'000	2012 RMB'000
Trade payables (a)	1,208,736	1,417,579
Advances from customers (b)	370,121	594,833
Payables for leasehold land, property, plant and equipment	825,851	1,024,471
Salaries, wages and staff welfares payables	198,333	135,969
Interest payables – current portion	58,192	39,579
Bank acceptance notes payable	47,920	–
Government grants received in advance	46,870	10,337
Dividends payable	407	407
Other payables and accruals	134,567	80,782
	2,890,997	3,303,957

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

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

(b) Advances from customers represented cash advances received from customers for purchase of the Group's products and would be applied for settlement when sales occur.

(c) Trade and other payables are unsecured and interest-free. The carrying amounts of trade and other payables approximate their fair values and are mainly denominated in RMB.

11. Commitments

(a) Capital commitments

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

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

(b) Operating lease commitments – the Group as lessee

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

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

Management Discussion and Analysis

Business and Financial Review

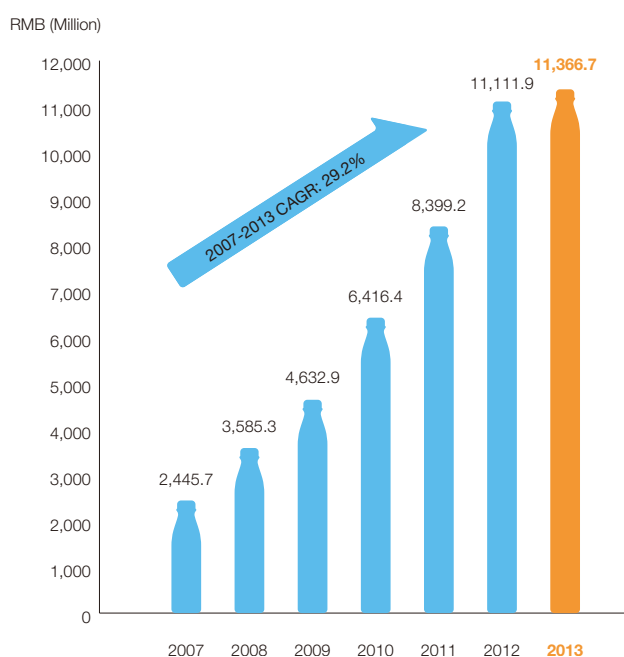
Overview

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

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

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

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



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

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

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

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

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

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

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

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

Rights issue

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

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

New convertible bonds

On 27 November 2013, the Company completed the issuance of the RMB975 million in aggregate RMB principal amount of USD Settled 3.0% Convertible Bonds due 2018 (the option to subscribe for up to a further aggregate principal amount of RMB125 million (equivalent to US\$20 million) USD settled 3.0% Convertible Bonds due 2018 was not exercised by the sole global of coordinator). The net proceeds was used to repay the syndicated bank loan of the Group and for general corporate and working capital purposes. Based on the initial conversion price of HKD4.173 per Share and assuming full conversion of the 2013 CB at the initial conversion price, the 2013 CB will convert into 297,114,448 Shares, representing approximately 14.23% of the existing issued share capital of the Group and approximately 12.46% of the issued share capital of the Group, as enlarged.

Market Overview

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

MSG segment

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

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

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

Xanthan gum segment

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

Operational Review of the Group

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

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

Turnover/Gross profit/Gross profit margin of the Group

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

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

Profit attributable to the Shareholders

	Years ended 31 December		Change
	2013	2012	%
	<i>RMB'000</i>	<i>RMB'000</i>	
As reported	506,132	426,533	18.7

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

Segment Highlights

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

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

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

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

MSG Segment

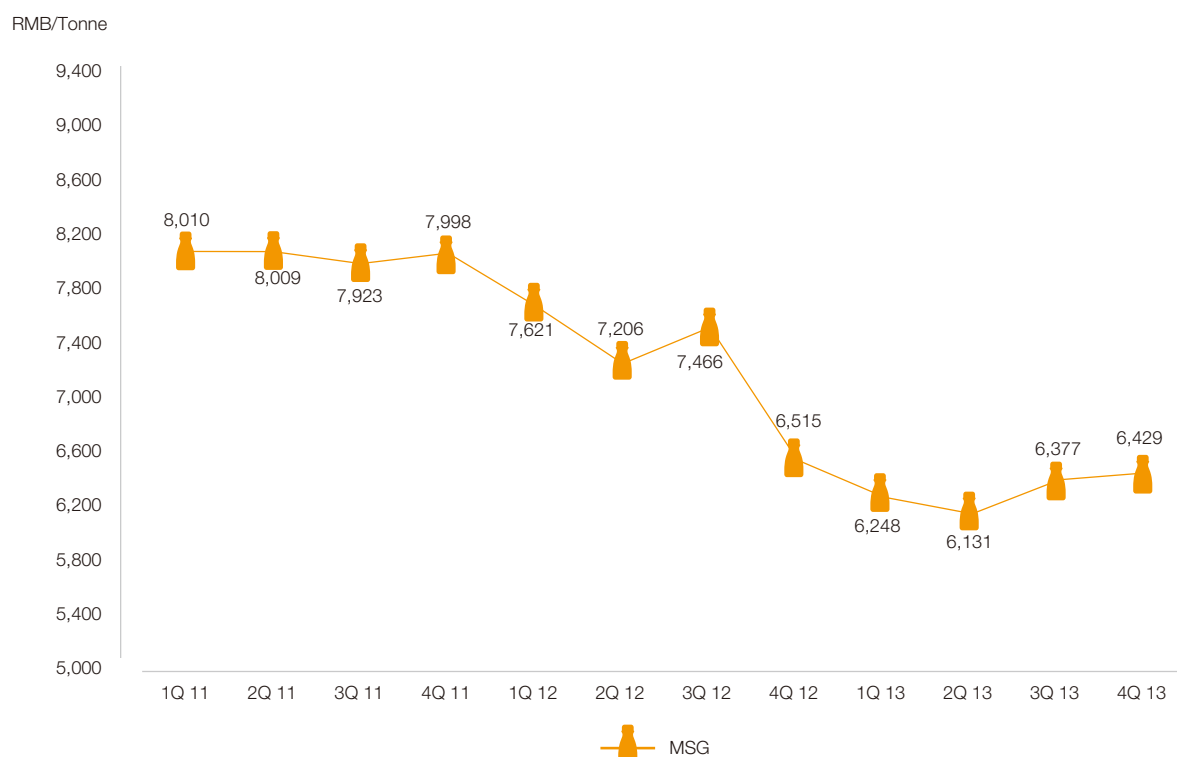
Revenue and ASP

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

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

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

Set out below is a chart showing the ASP of the Group's major products of MSG for each quarter from the first quarter of 2011 to the fourth quarter of 2013:



MSG

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

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

Fertilisers

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

Corn refined products

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

Starch sweeteners

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

Threonine and Lysine

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

High-end amino acid products

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

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

Gross Profit and Gross Profit Margin

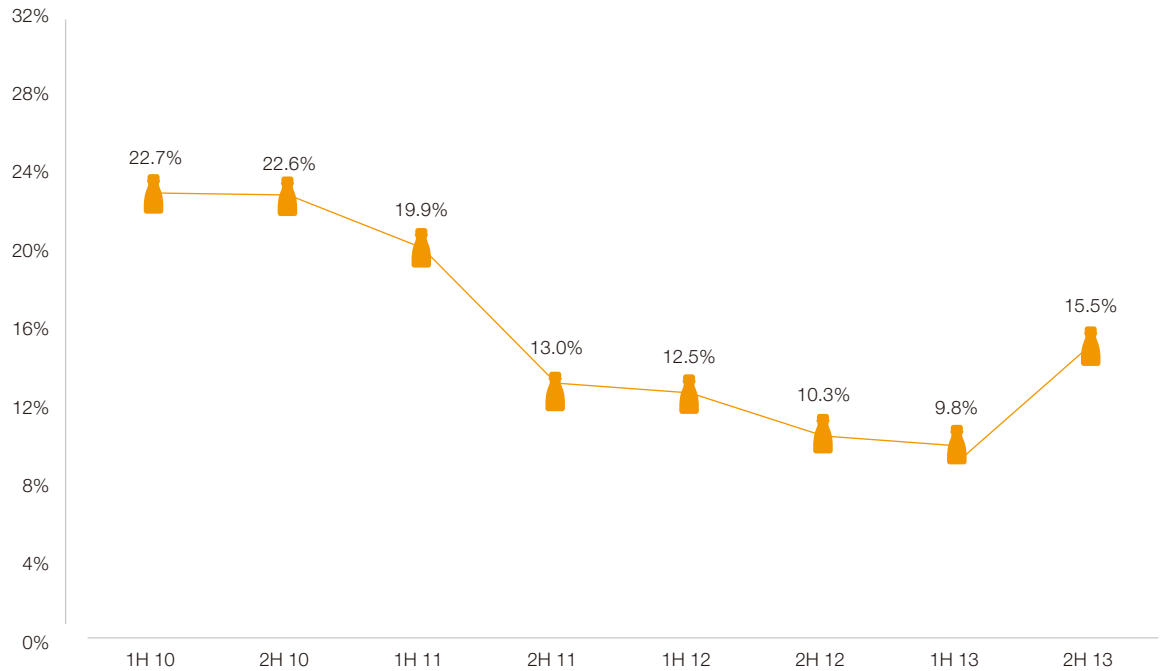
The gross profit of this segment is set out below:

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

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

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

Trend of Gross Profit Margin of MSG Segment



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

Production costs

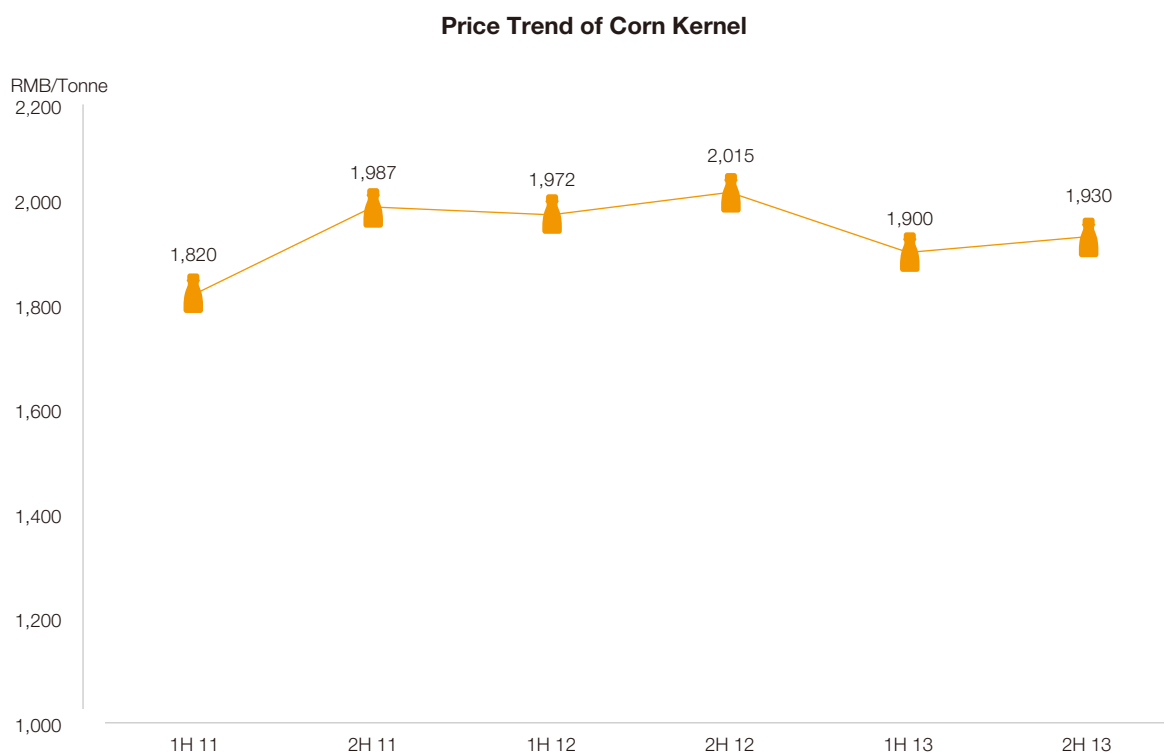
	Years ended 31 December				Change
	2013		2012		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	%
Major raw materials					
• Corn kernels	5,055,865	58.7	5,179,714	56.8	(2.4)
• Liquid ammonia	247,573	2.9	629,496	6.9	(60.7)
• Sulphuric acid	175,549	2.0	171,575	1.9	2.3
Energy					
• Coal	957,742	11.1	987,905	10.8	(3.1)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

Corn kernels

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

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

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



Liquid ammonia

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

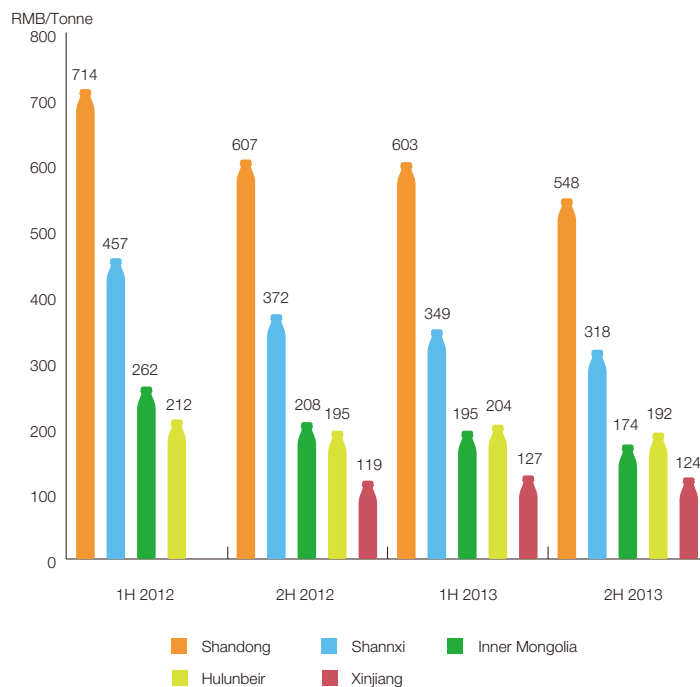
Sulphuric acid

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

Coal

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

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



Other production costs

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

Production

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

Product	Years ended 31 December		Change %
	2013 Tonnes	2012 Tonnes	
MSG			
Annual designed production capacity (<i>Note</i>)	1,050,000	1,008,333	4.1
Actual production output	983,227	965,896	1.8
Utilisation rate	93.6%	95.8%	
Glutamic acid			
Annual designed production capacity (<i>Note</i>)	820,000	786,667	4.2
Actual production output	791,810	802,140	(1.3)
Utilisation rate	96.6%	102.0%	
Fertilisers			
Annual designed production capacity (<i>Note</i>)	1,100,000	1,058,333	3.9
Actual production output	982,355	1,077,427	(8.8)
Utilisation rate	89.3%	101.8%	
Starch sweeteners			
Annual designed production capacity (<i>Note</i>)	190,000	140,000	35.7
Actual production output	162,463	103,523	56.9
Utilisation rate	85.5%	73.9%	

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

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

Xanthan Gum Segment

Operation results

The table below set out the sales amount, ASP, gross profit, gross profit ratio and utilisation rate of xanthan gum for the years ended 31 December 2013 and 2012:

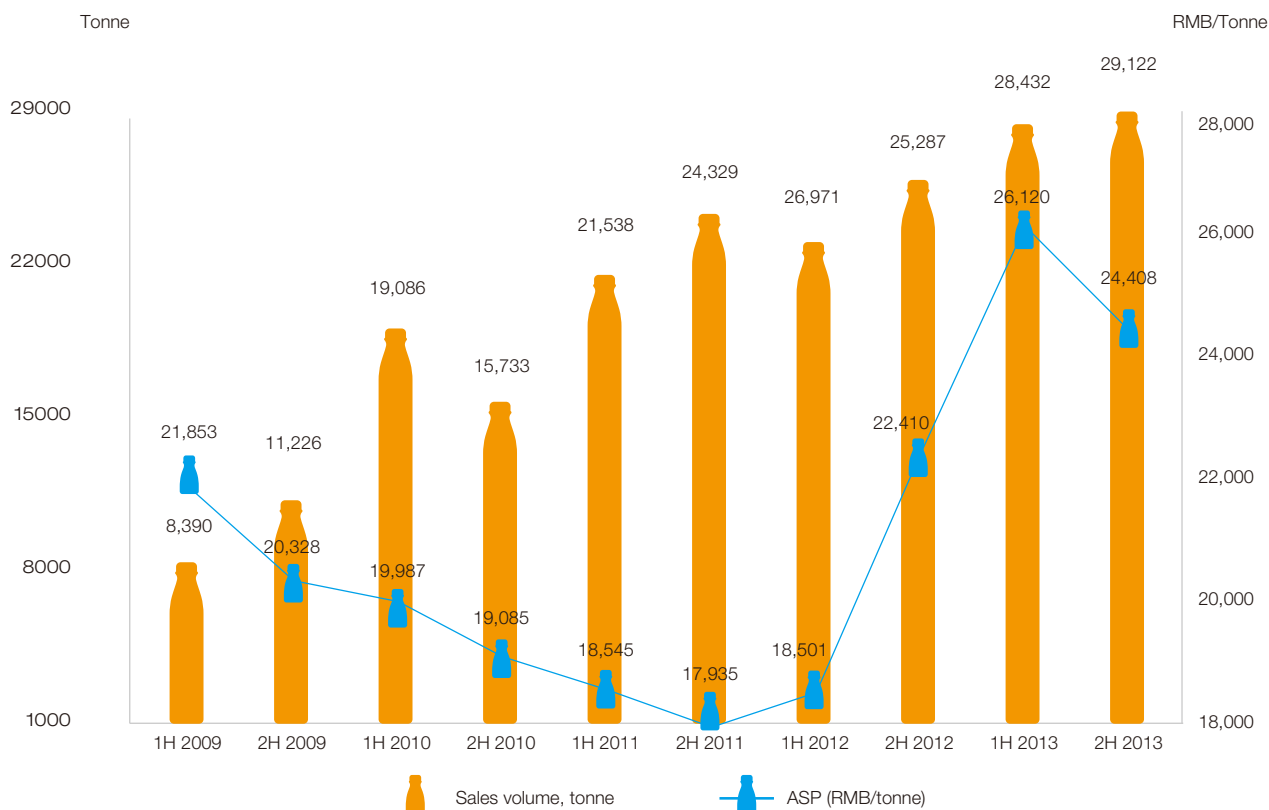
	Years ended 31 December		Change
	2013	2012	%
Revenue (RMB'000)	1,454,249	1,066,306	36.4
ASP (RMB/tonne)	25,254	20,392	23.8
Gross profit (RMB'000)	847,926	490,980	72.7
Gross profit margin (%)	58.3	46.0	12.3 ppts.
Annual designed production capacity (tonnes) (Note)	65,250	46,500	40.3
Actual production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

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

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

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

Sales and ASP



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

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

Gross profit and gross profit margin

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

Production costs

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

Corn kernels

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

Soybeans

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

Coal

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

Other production costs

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

Other Financial Information

Selling and marketing expenses

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

Administrative expenses

Administrative expenses increased by approximately RMB101.3 million or 23.0% in 2013. The increase was mainly due to increased depreciation and staff costs at the new Xinjiang Plant that started operations in the second half of 2012.

Finance costs (net)

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

Staff cost

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

Depreciation

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

Income tax expense

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

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財稅 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%.

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

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

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

Outlook

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

MSG segment

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

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

Xanthan gum segment

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

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

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

Future Plan and Recent Development

Relocation of manufacturing plant in Baoji

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

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

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

Development of high-end amino acid products

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

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

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

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

Overseas market expansion

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

Other Information

Liquidity and financial resources

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

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

Convertible Bonds

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

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

Senior Notes

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

Syndicated Bank Loan

The Company obtained a loan facility of USD150 million from a syndicate of banks in November 2012. The funds were to be exclusively used to repurchase the above mentioned 4.5% 2010 CB. The syndicated bank loan has been fully settled on 20 December 2013.

Medium-term note

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

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

Material acquisition or disposal of subsidiary and associated company

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

Employees

As at 31 December 2013, the Group had approximately 5,000 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

Contingent Liabilities

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

Charges on assets

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

Gearing ratio

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

Foreign exchange exposure

The Directors do not consider the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were however received for the export sales of products and issuance of senior notes and USD bank borrowings. Such proceeds were subject to foreign exchange risk before receiving and converting into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of senior notes and bank loans by remitting the necessary funds to the PRC and redemption of convertible bonds to utilise the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2013.

American Depositary Receipt Facility

The Company has established a sponsored, unlisted American Depositary Receipt ("ADR") facility, which has become effective on 19 June 2009. The Depositary is the Bank of New York Mellon. Each of the ADRs represents 20 ordinary shares of the Company. In the forming of the facility adopted by the Company, the ADRs will be issued against ordinary shares trading on the Main Board of the Stock Exchange of Hong Kong Limited that have been deposited with a custodian bank under the facility. The ADRs will be traded in the U.S. in an over-the-counter market.

Dividend

The Board recommended the declaration of a final dividend of HK4 cents per share, subject to shareholders' approval at the Annual General Meeting.

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

Purchase, redemption or sales of listed securities of the Company

The Company repurchased 1,697,000 shares in June 2013. Those shares were cancelled on 10 July 2013. The total consideration of the shares amounted to HKD3,888,000. Except the above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2013.

Corporate governance report

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. During the year of 2013, the Company has complied with the Code Provisions of the Revised CG Code except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Chen Ning and Mr. Liang Wenjun did not attend the annual general meeting of the Company held on 23 May 2013. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of shareholders.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises four independent non-executive directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2013, including the accounting principles and practices adopted by the Group.

Closure of register of members

The register of members of the Company will be closed from 2 May 2014 to 8 May 2014 (both dates inclusive), during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 8 May 2014, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) not later than 4:30 p.m. on 30 April 2014.

The register of members of the Company will be closed from 14 May 2014 to 16 May 2014 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) not later than 4:30 p.m. on 13 May 2014.

Annual general meeting

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

By Order of the Board
FUFENG GROUP LIMITED
Li Xuechun
Chairman

Hong Kong, 18 March 2014

As at the date of this announcement, the executive directors of the Company are Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng, Mr. Chen Yuan and Mr. Li Guangyu and the independent non-executive directors of the Company are Mr. Choi Tze Kit, Sammy, Mr. Chen Ning, Mr. Liang Wenjun and Ms. Zheng Yu.

Glossary

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技股份有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Beijing Huijinhuaing	Beijing Huijinhuaing Commercial Co., Ltd, an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
CAGR	cumulative average growth rate
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Directors	the director(s) of the Company
EIT Law	Enterprise Income Tax Law of the PRC which came into effect on 1 January 2008
Group	the Company and its subsidiaries
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技股份有限公司 (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股份有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Plant	the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC
Jiangsu Fufeng	江蘇阜豐生物科技股份有限公司 (Jiangsu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange

MSG	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application
PRC	the People's Republic of China, which for the purpose of this annual report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Stock Exchange	the Stock Exchange of Hong Kong Limited
Xinjiang Fufeng	新疆阜豐生物科技股份有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), and indirect wholly-owned subsidiary of the Company)
Xinjiang Plant	the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region
U.S.	the United States of America
RMB	Renminbi, the lawful currency of the PRC
HKD	Hong Kong dollars, the lawful currency of Hong Kong
USD	United States dollars, the lawful currency of the United States of America
EUR	Euro, the lawful currency of the participating states within the European Union
SGD	Singapore dollars, the lawful currency of Singapore
%	per cent