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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 2014

HIGHLIGHTS OF GROUP RESULTS

- Riding on the successful consolidation of the MSG market, the Group was able to register an increase in its overall gross profit and net profit during 2014 as compared to 2013. Even though overall revenue of the Group remained fairly stable during the year under comparison, the Group was able to increase overall profitability through several price increases in MSG, successful commercialisation of new products in the high-end amino acids and gum space, and effective implementation of cost controls
- In 2014, the Group continued to enhance its product mix and diversity. In particular, our high-end amino acid products 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 xanthan gum and starch sweeteners reached historical new highs for the year
- Threonine business saw particularly strong momentum with revenue increasing from RMB327.1 million in 2013 to RMB566.0 million in 2014
- Overall revenue remained relatively stable at approximately RMB11,297.7 million (2013: RMB11,366.7 million). The slight decrease in revenue was primarily caused by the decrease in the average selling price of xanthan gum, although sales volume of xanthan gum increased, and slight decrease in the sales volume of MSG
- Gross profit increased from approximately RMB2,099.4 million in 2013 to approximately RMB2,166.9 million in 2014. Gross profit margin of the Group increased to about 19.2% (2013: 18.5%)
- ASP of MSG witnessed an upward trend in the second half of 2014. The overall gross profit margin of MSG segment increased to 14.6% (2013: 12.6%)
- The xanthan gum market saw additional competition in 2014. While the ASP of xanthan gum decreased in 2014, the sales volume of xanthan gum increased as our production capacity expansion. As a result, we managed to increase our market share. The gross profit margin of Xanthan gum segment decreased to 52.7% (2013: 58.3%)
- Profit attributable to the Shareholders increased by about 23.8% to approximately RMB626.4 million (2013: RMB506.1 million)
- Earnings per share (Basic) was RMB29.98 cents (2013: RMB25.13 cents)
- Return on equity was 11.7% (2013: 10.5%)
- Final dividend of HK4.4 cents (2013: HK4 cents) per share has been recommended by the Board
- The sum of paid interim dividend and proposed final dividend is HK7.4 cents per share (2013: HK6 cents)

ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group prepared under HKFRS for the year ended 31 December 2014, together with the comparative figures for the year ended 31 December 2013, as follows:

Consolidated Income Statement

For the year ended 31 December 2014

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Revenue	3	11,297,696	11,366,722
Cost of sales		(9,130,831)	(9,267,279)
Gross profit		2,166,865	2,099,443
Other income		192,803	152,468
Selling and marketing expenses		(706,243)	(710,267)
Administrative expenses		(458,362)	(541,490)
Other operating expenses		(74,681)	(76,093)
Other gain		–	936
Operating profit		1,120,382	924,997
Finance income		–	76,879
Finance costs		(346,206)	(367,179)
Finance costs – net		(346,206)	(290,300)
Profit before income tax		774,176	634,697
Income tax expense	4	(147,748)	(128,565)
Profit for the year and attributable to the Shareholders		626,428	506,132

		Year ended 31 December	
		2014	2013
	Note	RMB	RMB
Earnings per share for profit attributable to the Shareholders during the year (expressed in RMB cents per share)			
– basic	5	29.98	25.13
– diluted	5	28.67	22.07

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Dividends	6	123,256	99,184

Consolidated Balance Sheet

As at 31 December 2014

		As at 31 December	
		2014	2013
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Leasehold land payments		1,748,704	506,289
Property, plant and equipment		7,470,082	7,575,975
Intangible assets		2,554	51
Deferred income tax assets		113,655	88,232
		9,334,995	8,170,547
Current assets			
Inventories		1,946,014	1,516,878
Trade and other receivables	7	1,451,721	2,069,339
Short-term bank deposits		164,983	56,405
Cash and cash equivalents		796,564	805,999
		4,359,282	4,448,621
Total assets		13,694,277	12,619,168
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		205,243	203,644
Share premium			
– Proposed final dividend		73,536	65,925
– Others		565,450	636,948
Other reserves		206,770	194,143
Retained earnings		4,318,067	3,718,126
Total equity		5,369,066	4,818,786
LIABILITIES			
Non-current liabilities			
Deferred income	8	536,550	360,121
Borrowings	9	3,702,482	3,309,187
Deferred income tax liabilities		19,040	20,286
		4,258,072	3,689,594
Current liabilities			
Trade, other payables and accruals	10	3,203,415	2,890,997
Current income tax liabilities		50,559	51,884
Borrowings	9	813,165	1,167,907
		4,067,139	4,110,788
Total liabilities		8,325,211	7,800,382
Total equity and liabilities		13,694,277	12,619,168
Net current assets		292,143	337,833
Total assets less current liabilities		9,627,138	8,508,380

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1 Basis of Preparation

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

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

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

1.1 Changes in accounting policy and disclosures

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

The following standards and amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2014 and do not result in any significant impact on the Group's financial statements.

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

Amendment to HKAS 36, 'Impairment of assets' on recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

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

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

1. Basis of Preparation *(Continued)*

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

(b) New standards and interpretations not yet adopted

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

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

		Effective for annual periods beginning on or after
HKFRS 8	Operating segments	1 July 2014
HKAS 16	Property, plant and equipment	1 July 2014
HKAS 38	Intangible assets	1 July 2014
HKAS 24	Related Party Disclosures	1 July 2014

Annual improvements 2013. These amendments include changes from the 2011-2013 cycle of the annual improvements project, that affect the below standards:

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

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

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

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

1. Basis of Preparation *(Continued)*

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

(b) New standards and interpretations not yet adopted (Continued)

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

HKFRS15, 'Revenue from Contracts with Customers'. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach : (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition: HK(IFRIC) 13 Customer Loyalty Programmes, HK(IFRIC) 15 Agreements for the Construction of Real Estate, HK(IFRIC) 18 Transfers of Assets from Customers and SIC-31 Revenue— Barter Transactions Involving Advertising Services. These amendments are effective for annual periods beginning on or after 1 January 2017.

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

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

2. 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.

Certain machineries mainly used for MSG segment were impaired in 2014 because of substantial reduction in demand and profitability, and a full impairment charge of RMB58,381,000 (2013: RMB11,418,000) was recorded during the year ended 31 December 2014.

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 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.

2.3 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 RMB861,000 (2013: RMB1,482,000) was recorded in relation to certain patents purchased during the year ended 31 December 2014.

2.4 Net realisable value of inventories

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

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, pharmaceuticals and bricks; and
- manufacturing and sales of xanthan gum

Approximately 78% (2013: 81%) of the Group's revenue are generated from the PRC.

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

The revenue of the Group for the years ended 31 December 2014 and 2013 are set out as follows:

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

3. Segment Information *(Continued)*

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

	MSG RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Revenue	9,949,870	1,347,826	–	11,297,696
Segment results	492,340	644,982	(16,940)	1,120,382
Finance costs – net				(346,206)
Profit before income tax				774,176
Income tax expense <i>(Note 4)</i>				(147,748)
Profit for the year				626,428
Other segment items included in the consolidated income statement				
Depreciation	662,565	42,949	1,597	707,111
Amortisation of leasehold land payments	11,707	348	86	12,141
Amortisation of intangible assets	247	–	–	247
Gain on disposal of property, plant and equipment	16,316	–	–	16,316
Loss on disposal of property, plant and equipment	6,416	–	–	6,416
Impairment charges for property, plant and equipment	58,381	–	–	58,381
Impairment charges for intangible assets	861	–	–	861
Capital expenditure	1,180,749	67,837	1,114,122	2,362,708

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

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

3. Segment Information *(Continued)*

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 4</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
Amortisation of intangible assets	3	–	–	3
Gain on disposal of property, plant and equipment	2,624	–	–	2,624
Impairment charges for property, plant and equipment	11,418	–	–	11,418
Impairment charges for intangible assets	1,482	–	–	1,482
Capital expenditure	1,015,949	164,082	151	1,180,182

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

	MSG <i>RMB'000</i>	Xanthan gum <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
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

3. Segment Information *(Continued)*

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

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

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

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

4. Income Tax Expense

	2014 RMB'000	2013 RMB'000
Current income tax		
– PRC enterprise income tax ("EIT")	174,417	176,325
Deferred income tax	(26,669)	(47,760)
	147,748	128,565

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

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

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

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

5. Earnings Per Share

(a) Basic

Basic earnings per share for the years ended 31 December 2014 and 2013 are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

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

(b) Diluted

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

For the year ended 31 December 2014, outstanding convertible bonds issued in April 2010 are anti-diluted which are not included in calculation of diluted earnings per share.

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

6. Dividends

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

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

At a meeting held on 24 March 2015, the Board proposed a final dividend of HKD92,823,000 (equivalent to RMB73,536,000) (2013: RMB65,925,000), representing HK4.4 cents (equivalent to RMB3.49 cents) (2013: RMB3.16 cents) per share from share premium account. 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 ended 31 December 2015.

7. Trade and Other Receivables

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

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

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

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

7. Trade and Other Receivables *(Continued)*

(a) *(Continued)*

As at 31 December 2014, trade receivables of RMB11,838,000 (2013: RMB23,879,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The directors considered that trade receivables that are less than twelve months past due are not impaired. The ageing analysis of these trade receivables is as follows:

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

- (b) As of 31 December 2014, trade receivables of RMB4,510,000 (2013: RMB4,510,000) were impaired and fully provided for. The individually impaired receivables mainly relate to Shenhua Pharmaceutical, a wholly-owned subsidiary. It was assessed that none of these receivables are expected to be recovered as they existed before the Group acquired Shenhua Pharmaceutical in 2008, which are long overdue and relate to individual customers with doubtful repayment ability. The ageing of these receivables is as follows:

	2014 RMB'000	2013 RMB'000
Past due over 12 months	4,510	4,510

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

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

- (c) As at 31 December 2014, notes receivable were all bank acceptance notes aged less than six months, including amount of RMB614,612,000 (2013: RMB1,058,737,000) that have been endorsed to settle the amounts payable to the Group's suppliers.
- (d) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values.

7. Trade and Other Receivables *(Continued)*

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

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

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

8. Deferred Income

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Government grants related to income tax credit from purchasing qualified equipments	115,119	120,533
Government grants related to acquisition of environment protection and technology improvement equipments	325,328	239,588
Government grants related to urban planning of local PRC governments	96,103	–
	536,550	360,121

Deferred income represented government grants related to purchase of assets and urban planning of local PRC governments.

9. Borrowings

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

(a) Borrowings

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

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

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

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

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

	2014	2013
Bank borrowings	6.10%	5.65%

9. Borrowings (Continued)

(a) Borrowings (Continued)

The carrying amounts of borrowings approximate their fair value.

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

	2014 RMB'000	2013 RMB'000
6 months or less	423,165	145,000
6 to 12 months	390,000	1,022,907
1 to 5 years	3,702,482	3,309,187
	4,515,647	4,477,094

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

	2014 RMB'000	2013 RMB'000
RMB	2,691,772	2,485,529
USD	1,823,875	1,991,565
	4,515,647	4,477,094

(b) Convertible bonds

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

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

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

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

According to the conversion price adjustment term of the offering memorandum of 2010 CB, the conversion price is adjusted from HKD7.03 per share to HKD6.56 per share after the Company's right issue in May 2013.

9. Borrowings (Continued)

(b) Convertible bonds (Continued)

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

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

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

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

	2010 CB RMB'000	2013 CB RMB'000	Total RMB'000
Liability component at 1 January 2013	179,074	–	179,074
Net proceeds from convertible bonds issued			
on 27 November 2013	–	951,403	951,403
Equity component	–	(62,104)	(62,104)
Liability component of initial recognition			
on 27 November 2013	–	889,299	889,299
Interest expense on convertible bonds	3,018	4,833	7,851
Interest paid	(4,374)	–	(4,374)
Redemption of convertible bonds	(164,542)	–	(164,542)
Liability component at 31 December 2013	13,176	894,132	907,308
Including:			
– Interest payable – current portion	149	2,438	2,587
– Carrying amount at 31 December 2013	13,027	891,694	904,721
Liability component at 1 January 2014	13,176	894,132	907,308
Interest expense on convertible bonds	732	58,617	59,349
Interest paid	(594)	(29,250)	(29,844)
Liability component at 31 December 2014	13,314	923,499	936,813
Including:			
– Interest payable – current portion	149	2,438	2,587
– Carrying amount at 31 December 2014	13,165	921,061	934,226

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

9. Borrowings *(Continued)*

(c) Senior notes

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

The fair value of the senior notes at 31 December 2014 amounted to RMB1,858,646,000 (2013: RMB1,904,300,000).

(d) Medium-term note

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

The fair value of the medium-term note approximated its carrying amounts as at 31 December 2014.

10. Trade, Other Payables and Accruals

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

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

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

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

- (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:

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Overview

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

The Group continued to fine-tune the management of its production facility and capacity of each plant in order to match ongoing market demand. The Group also actively explored the development of new specialty ingredients such as specialty gum products and hyaluronic acid and high-end amino acid products, in order to improve product diversity, increase sales and penetration in healthcare, pharmaceutical and skin care related industries. Only by continuously upgrading our product quality and expanding our product range can we transform gradually from the traditional, bulk-trade enterprise towards a modern, a high-tech and high value-added supplier of biochemical products.

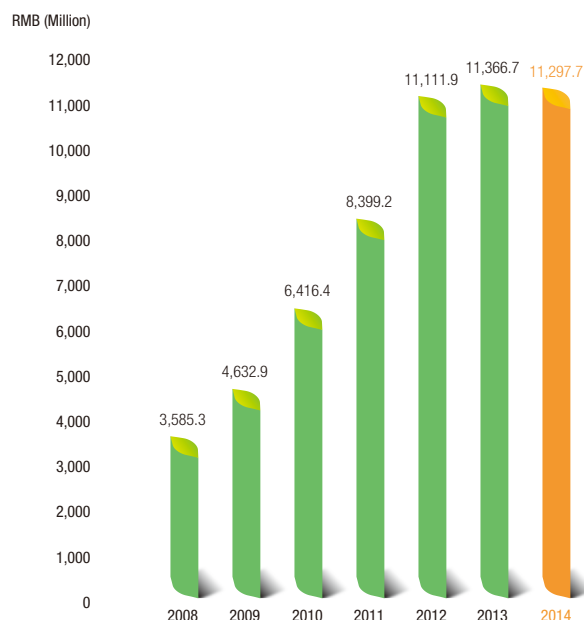
Despite ongoing challenges in the MSG market, the Group was able to register a moderate increase in its overall gross profit and net profit during 2014 compared to 2013. Even though overall revenue of the Group remained fairly stable during the year under comparison, the Group was able to rely on new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

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

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

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

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



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

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

In view of the challenging market conditions, the Group also had to actively implement cost controls by leveraging on its economies of scale and production capability to manage its costs effectively.

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

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

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

High-end Amino Acid Business

The high-end amino acid business, as a sub-segment of the MSG business, is a relatively new growth driver of the Group. The Group was able to leverage on its ability to develop different type of corn-based biochemical products with its fermentation technology to develop high-end amino acid products. The high-end amino acid products included valine (纈氨酸), leucine (亮氨酸), isoleucine (異亮氨酸) and glutamine (谷氨醯胺) etc. During the year, the total sales amount of high-end amino acid products was approximately RMB341.2 million as compared to RMB211.4 million in 2013, representing an increase of 61.4%. Our high-end amino acid products generally enjoy a higher profit margin and focus on healthcare and pharmaceutical materials industries.

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

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

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

Plant relocation

Relocation of Shandong Plant

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

Relocation of Baoji Plant

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

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

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

Market Overview

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

On the other hand, the market demand for xanthan gum remained relatively stable in 2014 due to the continued demand from the oil industry and the food and beverage industry in 2014. Even though costs of major raw materials including corn kernels and coal remained relatively stable during the year as compared to 2013, the Group remained committed to controlling costs and improving operational efficiencies in the face of pricing pressure of MSG. The Group will continue to review and adjust its pricing strategy and production capacity planning in order to further its market share going forward.

MSG segment

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

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

Xanthan gum segment

The global market demand for xanthan gum was stable in 2014 and the Group has managed to capture such market opportunity by continuing to increase its production capacity and market share since 2009. The Group is now the largest producers in the world for xanthan gum in terms of production capacity, which the market is now dominated by the global top three xanthan gum producers.

Operational Review of the Group

The new Xinjiang Plant Phase 1 and Phase 2 have been fully operational since the first half of 2013 and the second half of 2014, respectively, allowing the Group to achieve a record level of production scale of xanthan gum and high-end amino acid in 2014 as a result of the increase in production capacity.

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

Turnover/Gross profit/Gross profit margin of the Group

	Year ended 31 December		Change
	2014	2013	%
Turnover (RMB'000)	11,297,696	11,366,722	(0.6)
Gross profit (RMB'000)	2,166,865	2,099,443	3.2
Gross profit margin (%)	19.2	18.5	0.7 pts.

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

Profit attributable to the Shareholders

	Years ended 31 December		
	2014	2013	Change
	RMB'000	<i>RMB'000</i>	%
As reported	626,428	506,132	23.8

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

Segment Highlights

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

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

	Years ended 31 December 2014			Years ended 31 December 2013			Increase/(Decrease)		
	Xanthan		Group	Xanthan		Group	Xanthan		Group
	MSG	gum		MSG	gum		MSG	gum	
	RMB'000	RMB'000	RMB'000	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	%	%	%
Revenue	9,949,870	1,347,826	11,297,696	9,912,473	1,454,249	11,366,722	0.4	(7.3)	(0.6)
Gross profit	1,456,452	710,413	2,166,865	1,251,517	847,926	2,099,443	16.4	(16.2)	3.2
Gross profit ratio	14.6%	52.7%	19.2%	12.6%	58.3%	18.5%	2.0 ppts.	(5.6) ppts.	0.7 ppts.
Segment results	492,340	644,982		189,240	757,218		160.2	(14.8)	
Segment net assets									
Assets	8,683,179	3,658,365		9,735,742	2,548,438		(10.8)	43.6	
Liabilities	4,022,494	1,071,167		4,346,701	516,701		(7.5)	107.3	
Net assets	4,660,685	2,587,198		5,389,041	2,031,737		(13.5)	27.3	

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

MSG Segment

Revenue and average selling price ("ASP")

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

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

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

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



MSG

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

In 2014, the Group also strengthened the export of MSG products and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers. The export of MSG in term of sales volume increased by approximately 27.1% in 2014, which amounted to about RMB942.9 million as compared to about RMB742.5 million in 2013.

Fertilisers

Due to a drop in market demand, the ASP of fertilisers decreased from approximately RMB705 per tonne in 2013 to approximately RMB651 per tonne in 2014, representing a decrease of about 7.7%, which is in line with prevailing market conditions.

Corn refined products

In line with the cost of corn, the ASP of corn refined products remained fairly stable during 2014. The revenue of corn refined products decreased by about 2.7% in 2014 as compared with that in 2013, which is in line with the consumable volume of corn kernels for production in 2014.

Starch sweeteners

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

Threonine

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

High-end amino acid products

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

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

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

Gross Profit and Gross Profit Margin

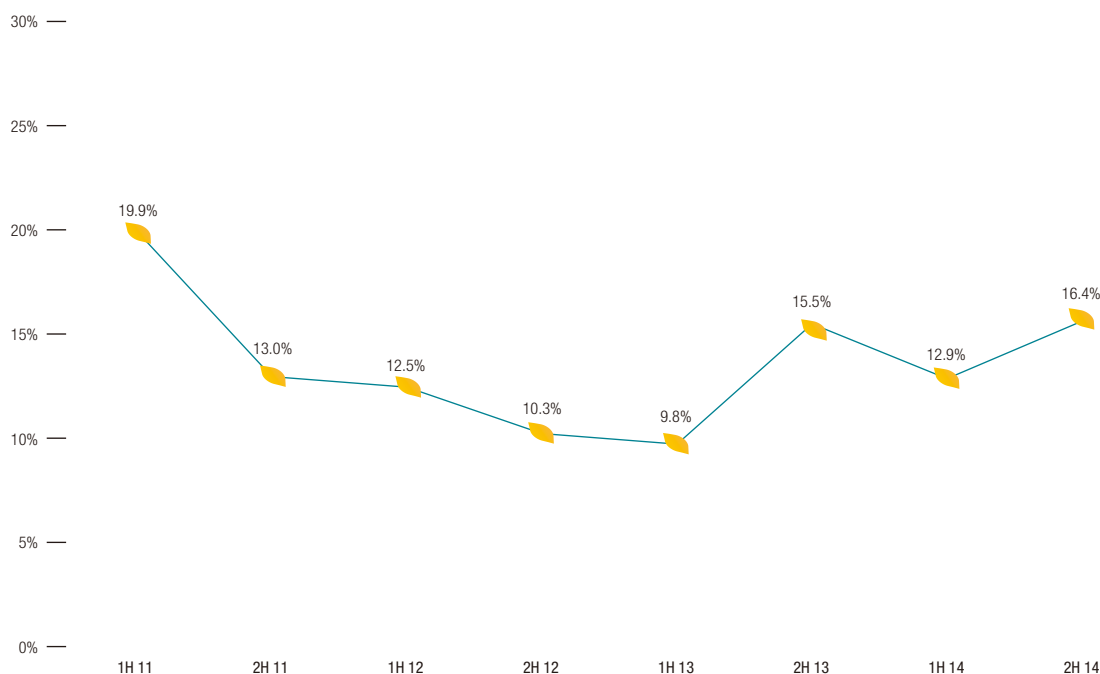
The gross profit of this segment is set out below:

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

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

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

Trend of Gross Profit Margin of MSG Segment



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

Production costs

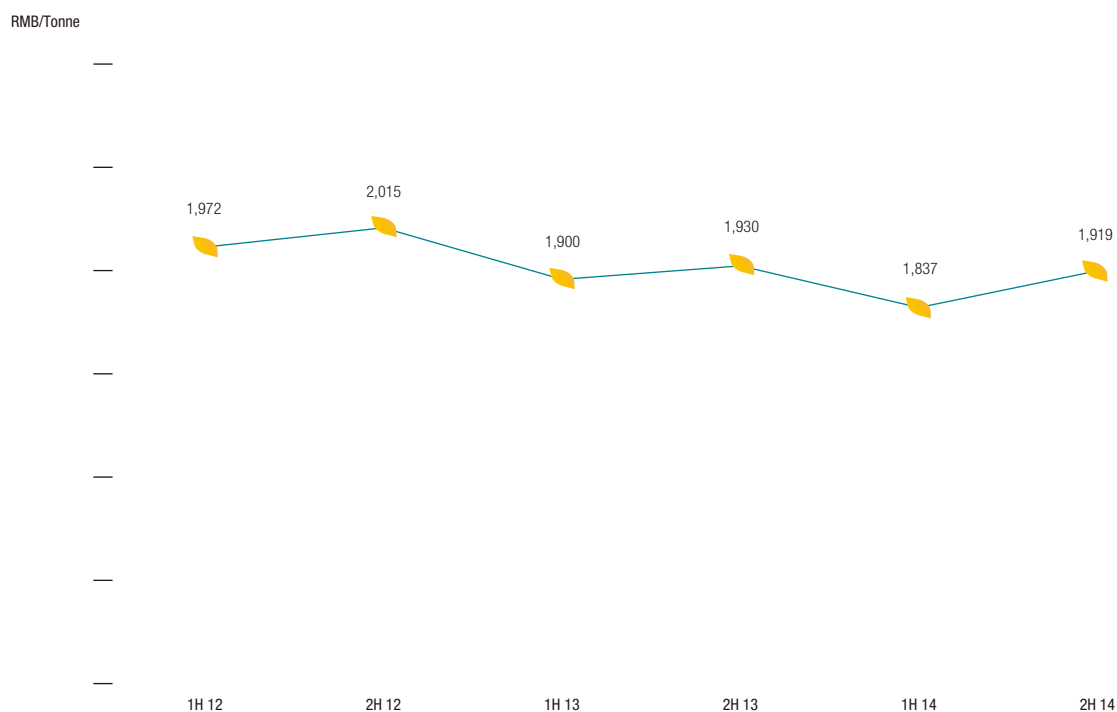
	Years ended 31 December				Change %
	2014		2013		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	
Major raw materials					
• Corn kernels	5,368,246	62.1	5,055,865	58.7	6.2
• Liquid ammonia	108,847	1.3	247,573	2.9	(56.0)
• Sulphuric acid	117,519	1.4	175,549	2.0	(33.1)
Energy					
• Coal	899,717	10.4	957,742	11.1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

Corn kernels

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

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

Average Unit Cost Trend of Corn Kernels



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

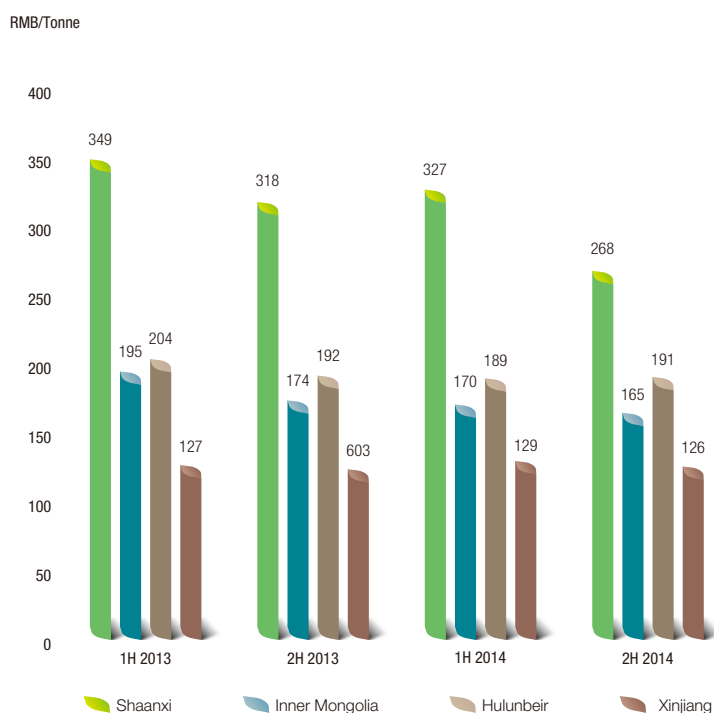
Sulphuric acid

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

Coal

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

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



Other production costs

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

Production

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

Product	Years ended 31 December		Change %
	2014 Tonnes	2013 Tonnes	
MSG			
Annual designed production capacity (Note)	995,000	1,050,000	(5.2)
Actual production output	942,926	983,227	(4.1)
Utilisation rate	94.8%	93.6%	
Glutamic acid			
Annual designed production capacity (Note)	790,000	820,000	(3.7)
Actual production output	761,276	791,810	(3.9)
Utilisation rate	96.4%	96.6%	
Fertilisers			
Annual designed production capacity (Note)	1,025,000	1,100,000	(6.8)
Actual production output	901,240	982,355	(8.3)
Utilisation rate	87.9%	89.3%	
Starch sweeteners			
Annual designed production capacity (Note)	250,000	190,000	31.6
Actual production output	252,157	162,463	55.2
Utilisation rate	100.9%	85.5%	

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

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

Xanthan Gum Segment

Operation results

The table below set out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the years ended 31 December 2014 and 2013:

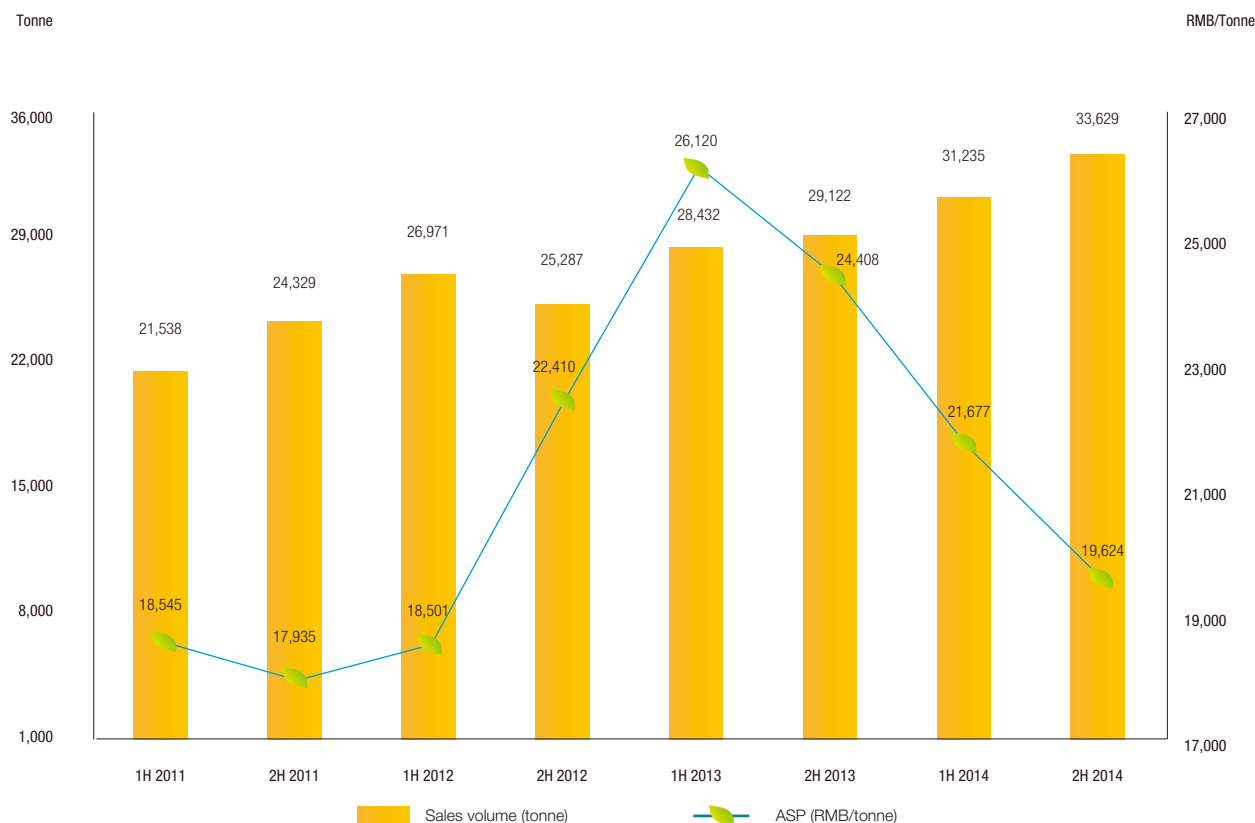
	Years ended 31 December		Change %
	2014	2013	
Revenue (RMB'000)	1,347,826	1,454,249	(7.3)
ASP (RMB/tonne)	20,613	25,254	(18.4)
Gross profit (RMB'000)	710,413	847,926	(16.2)
Gross profit margin (%)	52.7	58.3	(5.6) ppts.
Annual designed production capacity (tonnes) (Note)	82,000	65,250	25.7
Actual production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

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

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

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

Sales volume and ASP



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

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

Gross profit and gross profit margin

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

Production costs

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

Corn kernels

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

Soybeans

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

Coal

In 2014, coal accounted for approximately 16.4% (2013: 18.4%) of the total production costs of this segment. The Group took full advantage of the relatively low coal cost that the Group was able to source and utilise locally in our IM Plant and Xinjiang Plant. The average unit cost of coal in 2014 was approximately RMB159 per tonne, which represents a decrease of approximately RMB18 per tonne or 10.2% from that of 2013.

Other production costs

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

Other Financial Information

Selling and marketing expenses

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

Administrative expenses

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

Finance costs (net)

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

Staff cost

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

Depreciation

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

Income tax expense

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

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

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

Four subsidiaries of the Group including Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate of 15% (2013: 15%).

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

Outlook

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

With MSG industry consolidation generally completed, the Group expects that the operating environment to be slightly better in 2015 as compared to 2014. The Group will keep abreast of the market and seize opportunities to continue to increase our market share by leveraging on our economies of scale of the MSG business. As a market leader, the Group will strive to play its part in creating a sustainable competitive environment for the MSG industry.

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

Future Plan and Recent Development

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

MSG segment

MSG business

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

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

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

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

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

Xanthan gum segment

Xanthan gum business

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

Research and development

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

Overseas market expansion

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

Liquidity and Financial Resources

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

Convertible Bonds

The Group issued RMB820.0 million in convertible bonds with a fixed rate of 4.5% per year on 1 April 2010, together with bond options of RMB205.0 million on 22 April 2010 (“2010 CB”). In November 2012, the Company repurchased a principal amount of RMB843.8 million of the 2010 CB resulting in an outstanding principal amount of 2010 CB of RMB181.2 million as at 31 December 2012. On 1 March 2013, certain holders of 2010 CB irrevocably exercised their right to request the Company to redeem RMB168 million principal amount of 2010 CB on 2 April 2013. The current outstanding principal amount of 2010 CB is RMB13.2 million.

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

Senior Notes

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

Medium-Term Note

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

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

Material acquisition or disposal of subsidiary and associated company

The Group had no material acquisition or disposal of the subsidiaries or associated companies for the year ended 31 December 2014.

Employees

As at 31 December 2014, the Group had approximately 6,000 employees. Employees' (including Directors of the Company) remuneration are determined in line with market rate and has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

Contingent Liabilities

As at 31 December 2014, the Group had no material contingent liabilities.

Charges on assets

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

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

Gearing ratio

As at 31 December 2014, the total assets of the Group amounted to approximately RMB13,694.3 million (2013: RMB12,619.2 million) whereas the total borrowings amounted to RMB4,515.6 million (2013: RMB4,477.1 million). The gearing ratio was approximately 33.0% (2013: 35.5%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

The Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were, however, received for the export sales of products and the issuance of convertible bonds and senior notes. Such proceeds were subject to foreign exchange risk before receiving and converting them into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of convertible bonds and senior notes by remitting the necessary funds to the PRC and using the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2014.

American Depositary Receipt Facility

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

Dividend and dividend policy

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

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

Purchase, redemption or sales of listed securities of the Company

The Company repurchased 833,000 shares and 705,000 shares in November and December 2014 respectively. Those repurchased shares were cancelled on 21 November 2014 and 2 January 2015. The total consideration of the repurchased shares amounted to HKD5,126,000. Except for the above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year ended 31 December 2014.

Corporate governance report

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company’s corporate governance practices are based on the principles and code provisions (“Code Provisions”) set out in the Code of Corporate Governance Practices (the “Former CG Code”) which was subsequently revised as the Corporate Governance Code (the “Revised CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and came into full effect on 1 April 2012. During the year of 2014, the Company has complied with the Code Provisions of the Revised CG Code except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Chen Ning and Mr. Liang Wenjun did not attend the annual general meeting of the Company held on 8 May 2014. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises four independent non-executive directors, and is responsible for reviewing the Group’s audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group’s consolidated financial statements for the year ended 31 December 2014, including the accounting principles and practices adopted by the Group.

Closure of register of members

The register of members of the Company will be closed from 11 May 2015 to 15 May 2015 (both dates inclusive), during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 15 May 2015, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s branch registrar in Hong Kong: Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on 8 May 2015.

The register of members of the Company will be closed from 26 May 2015 to 29 May 2015 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s branch registrar in Hong Kong: Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on 22 May 2015.

Annual general meeting

The annual general meeting is expected to be held on 15 May 2015. A notice convening the annual general meeting will be dispatched to the Shareholders in due course.

By order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Hong Kong, 24 March 2015

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 and Mr. Li Guangyu and the independent non-executive directors of the Company are Mr. Choi Tze Kit, Sammy, Mr. Chen Ning, Mr. Qi Qing Zhong 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
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
EIT Law	Enterprise Income Tax Law of the PRC which came into effect on 1 January 2008
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