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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 2018

HIGHLIGHTS OF 2018 GROUP RESULTS

- The Group faced various challenges in 2018, including but not limited to a domestic macroeconomic slowdown, the Sino-US trade tensions, the outbreak of swine flu, intensifying competition due to enhanced production capacity in the industry, and significant rise in costs of major raw materials, particularly corn kernels and coal.
- Our operating conditions experienced some difficulties during the first half of 2018 but subsequently improved during the second half of the year, which was mainly attributed to: (1) the increase in the MSG price and the improvement of revenue and profitability of the Amino acid segment, which as the key segment, accounted for a fairly large contribution of revenue and had a positive impact on our overall performance; (2) costs of major raw materials in the second half of the year remained stable and profit margins increased due to rising prices of major products; (3) the Group accelerated its destocking process amidst its improved operating efficiency; and (4) production efficiency has been further developed as a result of enhancement of production technologies.
- Overall revenue increased by 5.6% to approximately RMB13,764.6 million in 2018 (2017: RMB13,033.5 million). The increase in revenue was primarily due to (1) the increase in annual production capacity of starch sweeteners and threonine in the new Longjiang Plant, and (2) the increase in the sales volume of starch sweeteners, threonine and xanthan gum.

- Gross profit decreased by 13.6%, from approximately RMB2,979.5 million in 2017 to approximately RMB2,574.8 million in 2018, which was primarily due to the increase in major raw material costs, particularly corn kernels and coal, which could not fully be passed on to customers, and pricing pressure due to market competition. Gross profit margin of the Group decreased to 18.7% (2017: 22.9%).
- Profit attributable to Shareholders reached a record high of approximately RMB1,845.0 million (2017: RMB1,382.4 million), representing an increase of 33.5%, which was mainly due to a one-off net gain after income tax of approximately RMB1,102.8 million from the disposal of two wholly-owned subsidiaries of the Group which held parcels of land in Baoji.
- Earnings per share (Basic) was RMB72.45 cents (2017: RMB57.04 cents).
- Return on equity was 16.8% (2017: 14.6%).
- Final dividend of HK23.6 cents (2017: HK11.0 cents) per share has been recommended by the Board.
- The sum of paid interim dividend and proposed final dividend is HK27.8 cents per share (2017: HK19.8 cents).

ANNUAL RESULTS

The Board is pleased to announce the audited consolidated results of the Group prepared under HKFRS for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	<i>Note</i>	Years ended 31 December	
		2018	2017
		RMB'000	RMB'000
Revenue	3	13,764,645	13,033,501
Cost of sales		(11,189,875)	(10,054,030)
Gross profit		2,574,770	2,979,471
Selling and marketing expenses		(1,041,864)	(981,508)
Administrative expenses		(658,514)	(506,556)
Net impairment losses on financial assets		(7,114)	–
Other operating expenses		(47,832)	(17,249)
Other income	5	263,790	280,661
Other gains/(losses) – net	6	1,353,183	(40,033)
Operating profit		2,436,419	1,714,786
Finance income	7	15,828	46,414
Finance costs	7	(241,482)	(109,168)
Finance costs – net		(225,654)	(62,754)
Share of net profit of associates accounted for using the equity method		58	749
Profit before income tax		2,210,823	1,652,781
Income tax expense	4	(365,784)	(270,401)
Profit for the year and attributable to the Shareholders		1,845,039	1,382,380
Earnings per share for profit attributable to the Shareholders during the year <i>(expressed in RMB cents per share)</i>			
– basic	8	72.45	57.04
– diluted	8	72.39	55.46

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

		As at 31 December	
		2018	2017
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Leasehold land payments		778,558	1,393,941
Property, plant and equipment		10,309,977	9,234,061
Intangible assets		30,745	17,791
Investments accounted for using the equity method		36,354	31,396
Deferred income tax assets		184,076	182,447
		11,339,710	10,859,636
Current assets			
Inventories		3,262,093	3,229,895
Trade and other receivables	10	3,040,233	1,361,559
Cash and bank balances		2,690,284	515,444
		8,992,610	5,106,898
Total assets		20,332,320	15,966,534

		As at 31 December	
		2018	2017
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		244,436	244,436
Share premium		1,430,479	1,736,726
Other reserves		574,081	384,178
Retained earnings		8,755,348	7,094,765
Total equity		11,004,344	9,460,105
LIABILITIES			
Non-current liabilities			
Deferred income	11	785,971	721,936
Borrowings	12	2,487,389	560,265
Deferred income tax liabilities		16,650	16,650
Derivative financial instruments		29,882	–
		3,319,892	1,298,851
Current liabilities			
Trade, other payables and accruals	13	3,714,562	3,685,015
Contract liabilities		501,706	–
Current income tax liabilities		268,653	111,624
Borrowings	12	1,523,163	1,410,939
		6,008,084	5,207,578
Total liabilities		9,327,976	6,506,429
Total equity and liabilities		20,332,320	15,966,534

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

(i) *Compliance with HKFRS and HKCO*

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

(ii) *Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial liabilities (including derivative instruments) – measured at fair value

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

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

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

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

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

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

HKFRS 16 Leases

Nature of change

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

Impact

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

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

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

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

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

Date of adoption by Group

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

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

1.2 Changes in accounting policies

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

1.2(a) Impact on the financial statements

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

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

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

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

There is no material impact on the statement of profit or loss and other comprehensive income by adopting HKFRS 9 and HKFRS 15.

1.2(b) HKFRS 9 Financial Instruments – impact of adoption

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

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

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

- Debt instruments that are classified as available-for-sale financial assets;

- Debt instruments classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss

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

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

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

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

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

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

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

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

Financial assets – impairment

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

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

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

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

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

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

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

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

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

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

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

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

Revenue Recognition

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

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

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

Contract Liability

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

2.1 Provision for impairment of trade and other receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

2.2 Estimated impairment of property, plant and equipment

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

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

2.3 Useful lives of plant and equipment

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

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

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

The revenue of the Group for the years ended 31 December 2018 and 2017 are set out as follows:

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

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

	Amino acid <i>RMB'000</i>	Xanthan gum <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Revenue	<u>12,888,103</u>	<u>876,542</u>	–	<u>13,764,645</u>
Segment results	2,205,247	244,806	(13,634)	2,436,419
Finance costs – net (<i>Note 7</i>)				(225,654)
Share of net profit of associates accounted for using the equity method				<u>58</u>
Profit before income tax				2,210,823
Income tax expense (<i>Note 4</i>)				<u>(365,784)</u>
Profit for the year attributable to the Shareholders				<u>1,845,039</u>
Other segment items included in the consolidated income statement				
Depreciation	978,612	58,613	1,021	1,038,246
Amortisation of leasehold land payments	17,602	2,564	86	20,252
Amortisation of intangible assets	2,664	–	–	2,664
Gain on disposal of property, plant and equipment – net (<i>Note 6</i>)	(1,498)	–	–	(1,498)
Gain on disposal of subsidiaries (<i>Note 6</i>)	(1,297,469)	–	–	(1,297,469)
Impairment charges reversal for property, plant and equipment	(59,394)	–	–	(59,394)
	<u>2,182,471</u>	<u>11,742</u>	<u>684</u>	<u>2,194,897</u>
Additions to non-current assets	<u>2,182,471</u>	<u>11,742</u>	<u>684</u>	<u>2,194,897</u>

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

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

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

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Revenue	12,330,047	703,454	–	13,033,501
Segment results	1,629,902	116,792	(31,908)	1,714,786
Finance costs – net (<i>Note 7</i>)				(62,754)
Share of net profit of associates accounted for using the equity method				749
Profit before income tax				1,652,781
Income tax expense (<i>Note 4</i>)				(270,401)
Profit for the year attributable to the Shareholders				1,382,380
Other segment items included in the consolidated income statement				
Depreciation	802,783	63,847	1,272	867,902
Amortisation of leasehold land payments	21,164	2,464	86	23,714
Amortisation of intangible assets	2,031	–	–	2,031
Loss on disposal of property, plant and equipment – net (<i>Note 6</i>)	836	–	–	836
Impairment charges reversal for property, plant and equipment	(25,024)	–	–	(25,024)
Additions to non-current assets	2,316,471	2,693	45	2,319,209

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

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

There are no significant transactions between reportable segments.

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

Unallocated assets mainly comprise cash and bank balances, leasehold land payments, property, plant and equipment and other receivables held by Beijing Huijinhuaing Commercial Co., Ltd., Baoji Dingfeng, Baoji Baofeng, Hulunbeir Shengmin Agricultural Development Co., Ltd., Qiqihar Lifeng Logistics Co., Ltd., Xinjiang Nongfeng Equity Investment Co., Ltd. and non-PRC incorporated companies. For the year ended 31 December 2018, Baoji Dingfeng Properties Co., Ltd., and Baoji Baofeng Properties Co., were disposed as described in Note 6. Therefore, the unallocated assets does not comprise assets held by Baoji Dingfeng, and Baoji Baofeng as at 31 December 2018.

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

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

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

Disaggregation of revenue from contracts with customers

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

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

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

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

Liabilities related to contracts with customers

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

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

* Reclassified amounts – see Note 1.2 for explanation.

(i) Significant changes in contract liabilities

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

(ii) Revenue recognised in relation to contract liabilities

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

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

4. TAXATION

(a) Income tax expense

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

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

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

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

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

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

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

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

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

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

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

5. OTHER INCOME

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Amortisation of deferred income (<i>Note 11</i>)	77,815	96,542
Government grants related to expenses	41,131	48,708
Sales of waste products	126,037	112,348
Others	<u>18,807</u>	<u>23,063</u>
	<u><u>263,790</u></u>	<u><u>280,661</u></u>

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

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

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

6. OTHER GAINS/(LOSSES) – NET

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

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

7. FINANCE INCOME AND COSTS

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

(i) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 4.86%.

8. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	2018 <i>RMB cents</i>	2017 <i>RMB cents</i>
Total basic earnings per share attributable to the ordinary equity holders of the Group	<u>72.45</u>	<u>57.04</u>

(b) Diluted earnings per share

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

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

	2018 <i>RMB cents</i>	2017 <i>RMB cents</i>
Total diluted earnings per share attributable to the ordinary equity holders of the Group	<u>72.39</u>	<u>55.46</u>

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
<i>Basic earnings per share</i>		
Profit attributable to the ordinary equity holders of the Group used in calculating basic earnings per share	<u>1,845,039</u>	<u>1,382,380</u>
<i>Diluted earnings per share</i>		
Profit from continuing operations attributable to the ordinary equity holders of the Group:		
Used in calculating basic earnings per share	1,845,039	1,382,380
Add: interest expense on convertible bonds (net of tax)	<u>–</u>	<u>6,398</u>
Used in calculating diluted earnings per share	<u>1,845,039</u>	<u>1,388,778</u>
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	<u>1,845,039</u>	<u>1,388,778</u>

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

	2018 Number '000	2017 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (thousands)	2,546,734	2,423,400
Adjustments for calculation of diluted earnings per share:		
– Assumed exercise of share options (thousands)	1,945	4,421
– Assumed conversion of convertible bonds (thousands)	<u>–</u>	<u>76,156</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share (thousands)	<u>2,548,679</u>	<u>2,503,977</u>

(e) **Information concerning the classification of securities**

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

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

9. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Interim, paid	93,379	191,298
Final, proposed	<u>514,276</u>	<u>226,158</u>
	<u>607,655</u>	<u>417,456</u>

The final dividends paid in 2018 amounted to HKD280,141,000 (equivalent to RMB226,158,000) (2017: RMB176,815,000), representing HK11.0 cents (equivalent to RMB8.88 cents per share) (2017: RMB6.94 cents) per ordinary share of the Company.

At a meeting held on 19 March 2019, the Board proposed a final dividend of HKD601,029,000 (equivalent to RMB514,276,000) (2017: RMB226,158,000), representing HK23.6 cents (equivalent to RMB20.19 cents) (2017: RMB8.88 cents) per share to be distributed from the share premium account. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2018.

10. TRADE AND OTHER RECEIVABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade receivables (a)	622,778	509,204
Less: provision for impairment of trade receivables (b)	<u>(11,628)</u>	<u>(20,258)</u>
Trade receivables – net	611,150	488,946
Notes receivable (c)	520,241	562,423
Receivables arising from disposal of subsidiaries (d)	1,013,214	–
Receivables from former subsidiaries (e)	263,566	–
Deposits and others	92,321	46,553
Loan to a related party (<i>Note 15(c)</i>)	6,000	–
Loans to employees	2,172	2,299
– Loans to key management	–	–
– Loans to other employees	2,172	2,299
Value-added tax for future deduction	<u>336,460</u>	<u>193,258</u>
Trade and other receivables excluding prepayments	2,845,124	1,293,479
Prepayments for raw materials	<u>195,109</u>	<u>68,080</u>
	<u>3,040,233</u>	<u>1,361,559</u>

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

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

The Group generally sells its products to domestic customers and receives settlement either in cash or in the form of bank acceptance notes (Note (c)) upon delivery of goods. The bank acceptance notes usually have maturity dates within six months. Certain major customers in the PRC and overseas with good repayment history are offered credit terms of not more than three months.

- (b) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade. This resulted in an increase in the loss allowance on 1 January 2018 by RMB1,082,000 for trade receivables.

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

- (d) As at 31 December 2018, the balance of undiscounted receivables arising from the disposal of Baoji Dingfeng and Baoji Baofeng (Note 6) amounted to RMB1,034,616,000. The related impact of discounting amounting to RMB21,402,000 was considered based on the payment due dates set in the Share Transfer Agreements, resulting in a net balance of RMB1,013,214,000 as at 31 December 2018.

RMB183,269,000 were subsequently collected in February 2019.

- (e) As described in Note 6, Baoji Dingfeng and Baoji Baofeng had a total of RMB849,571,000 payables to certain other subsidiary of the Group at the date of disposal. During the year, the Group collected RMB586,005,000 resulting in a receivable balance of RMB263,566,000 as at 31 December 2018.

RMB151,625,000 were subsequently collected in February 2019.

- (f) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values as at the balance sheet date.
- (g) The carrying amounts of the Group's trade and other receivables excluding prepayments were denominated in the following currencies:

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

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

11. DEFERRED INCOME

	2018 RMB'000	2017 <i>RMB'000</i>
Government grants related to income tax credit from purchasing qualified equipment (a)	39,767	53,585
Government grants related to acquisition of environmental protection and technology improvement equipment (b)	674,964	596,031
Government grants related to urban planning of local PRC governments (c)	71,240	72,320
	785,971	721,936

The movements of the above government grants for the years ended 31 December 2018 and 2017 are as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
At beginning of the year	721,936	707,501
Granted during the year	141,850	110,977
Amortised as income (<i>Notes 5</i>)	(77,815)	(96,542)
At end of the year	785,971	721,936

- (a) Government grants related to income tax credit from purchasing qualified equipment represented reduction in income tax granted to Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng on the purchase of certain qualified equipment. Such income tax credits are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.
- (b) Government grants related to acquisition of environmental protection and technology improvement equipment are recorded as deferred income and amortised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.
- (c) Government grants related to urban planning of local PRC governments represented grants from the governments related to acquisition of assets. These grants received are recorded as deferred income, and will be amortised in the consolidated income statement on future development of the related assets.

12. BORROWINGS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Non-current		
Bank borrowings, unsecured	335,549	560,265
USD bonds (b)	2,151,840	–
	2,487,389	560,265
Current		
Bank borrowings, unsecured	653,363	415,000
Bank borrowings, secured	869,800	–
Corporate bonds (b)	–	995,939
	1,523,163	1,410,939
Total Borrowings	4,010,552	1,971,204

(a) **Borrowings**

At 31 December 2018, the Group's borrowings were repayable as follows:

	Bank borrowings		Other loans	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,523,163	415,000	–	995,939
Between 1 and 2 years	335,549	245,138	–	–
Between 2 and 5 years	–	315,127	2,151,840	–
	1,858,712	975,265	2,151,840	995,939

As at 31 December 2018, RMB869,800,000 borrowings were secured by restricted bank deposits (2017: all the bank borrowings were unsecured).

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

	2018	2017
Bank borrowings	4.86%	3.28%

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

	Carrying amount		Fair value	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings, unsecured	335,549	560,265	338,734	569,034
USD bonds (b)	2,151,840	–	2,201,104	–
	2,487,389	560,265	2,539,838	569,034

The fair value of the non-current bank borrowing at 31 December 2018 were RMB338,734,000 (2017: RMB569,034,000). The fair values of USD bonds at 31 December 2018 were RMB2,201,104,000. The fair value measurement of them is categorised within level 2 of the fair value hierarchy.

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

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

	2018	2017
	RMB'000	RMB'000
RMB	1,209,800	1,410,939
HKD	261,203	245,138
USD	2,539,549	315,127
	4,010,552	1,971,204

(b) **Loans other than bank borrowings**

USD bonds issued in August 2018

In August 2018, the Company issued USD bonds at a par value of USD350,000,000, which was denominated in USD with a fixed interest rate of 5.875% per annum. The bonds will mature in three years from the issuance date. The value of the liability, net of transaction costs of USD4,733,000, was determined at issuance of the bonds. As at 31 December 2018, a total of USD32,615,000 of such USD bonds were early redeemed.

Corporate bonds issued in November 2015

In November 2015, IM Fufeng issued corporate bonds at a par value of RMB1,000,000,000, which was denominated in RMB with a fixed interest rate of 3.98% per annum. The bonds will mature in three years from the issuance date. The value of the liability, net of transaction costs of RMB14,000,000, was determined at issuance of the bonds. As at 31 December 2018, the corporate bonds matured and were all redeemed.

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 price of HKD4.173 per share. The values of the liability component and the equity conversion component, net of transaction costs of RMB23,597,000, were determined upon issuance of the bonds. During the year ended 31 December 2015, a total of RMB53,760,000 of such convertible bonds were converted into 17,065,033 ordinary shares of the Company.

As at 31 December 2017, all of the outstanding 2013 CB was converted and allotted into 280,049,404 shares of the Company.

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

	2013 CB RMB'000	Total RMB'000
Liability component at 1 January 2017	934,241	934,241
Interest expense on convertible bonds (<i>Note 7</i>)	6,398	6,398
Conversion of convertible bonds	(940,639)	(940,639)
Liability component at 31 December 2017	<u> — </u>	<u> — </u>

13. TRADE, OTHER PAYABLES AND ACCRUALS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade payables (a)	1,511,982	1,451,471
Advances from customers	–	346,937
Payables for property, plant and equipment	1,309,099	1,013,726
Bank acceptance notes payable	64,716	83,795
Government compensation related to property, plant and equipment disposal received in advance	62,035	62,281
Salaries, wages and staff welfares payables	375,011	398,098
Interest payables	47,779	9,227
Government grants received in advance	1,571	2,039
Dividends payable	407	407
Other payables and accruals	341,962	317,034
	<u>3,714,562</u>	<u>3,685,015</u>

- (a) As at 31 December 2018 and 2017, the ageing analysis of trade payables based on invoice date was as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 3 months	1,325,253	1,014,534
3 to 6 months	80,224	218,759
6 to 12 months	40,429	151,949
1 to 2 years	40,701	44,024
Over 2 years	25,375	22,205
	<u>1,511,982</u>	<u>1,451,471</u>

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

14. COMMITMENTS

(a) Capital commitments

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Purchase of property, plant and equipment		
– Contracted but not yet incurred	<u>207,903</u>	<u>233,764</u>

(b) Operating lease commitments – the Group as lessee

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

	2018 RMB'000	2017 RMB'000
No later than 1 year	3,687	3,193
Later than 1 year and no later than 5 years	1,488	67
	5,175	3,260

15. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Li Xuechun is the controlling shareholder of the Group. The entities controlled by close family members of the controlling shareholder are regarded as related parties.

(a) Transactions with related parties

The following transactions occurred with related parties:

(1) Non-recurring connected transaction

	2018 RMB'000	2017 RMB'000
Services purchased from a related party*	43,129	28,222

* The Group acquired the construction services from an entity that is controlled by a close family member of controlling shareholder.

(2) Continuing connected transaction

	2018 RMB'000	2017 RMB'000
Sales of products to a related party*	72,129	20,812

* The Group sold products to an entity that is controlled by a close family member of controlling shareholder.

(b) Key management compensation

	2018 RMB'000	2017 RMB'000
Salaries and allowances	23,042	20,726
Pension costs – defined contribution plan	832	829
Share options granted to key management	6,529	10,191
	30,403	31,746

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

(c) Year-end balances with related parties

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

(1) Trade receivables from a related party

	2018 RMB'000	2017 <i>RMB'000</i>
– A company controlled by a close family member of the controlling shareholder	<u>1,457</u>	<u>7,604</u>

(2) Loan to a related party

	2018 RMB'000	2017 <i>RMB'000</i>
– Jilin COFCO	<u>6,000</u>	<u>–</u>

The loan to a related party is repayable within 1 year from the balance sheet date. The interest rate on the loan during the year was 4.35%.

(3) Other payables to a related party

	2018 RMB'000	2017 <i>RMB'000</i>
– A company controlled by a close family member of the controlling shareholder	<u>28,312</u>	<u>27,726</u>

(d) Terms and conditions

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Overview

The Group faced various challenges in 2018, including but not limited to: a domestic macroeconomic slowdown, the Sino-US trade tensions, the outbreak of swine flu, intensifying competition due to expansion of production capacity in the industry, and significant growth in costs of major raw materials (in particular corn kernels and coal). As a result, our operating conditions experienced some difficulties during the first half of 2018 but subsequently improved during the second half of the year, which was mainly attributed to: 1) the increase in

the MSG price and the improvement in revenue and profitability of the Amino Acid Segment which as the key segment accounted for a fairly large contribution of revenue and had a positive impact on our overall performance; 2) costs of major raw materials in the second half of the year remained stable and profit margins increased due to rising prices of major products; and 3) the Group accelerated its destocking process amidst its improved operating efficiency; 4) production efficiency has been further developed as a result of enhancement of production technologies.

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

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

Only by continuously upgrading our product quality and expanding our product range, can we transform gradually from the traditional, bulk-trade enterprise towards a modern, high-tech and high value-added supplier of biochemical products.

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

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

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

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

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

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

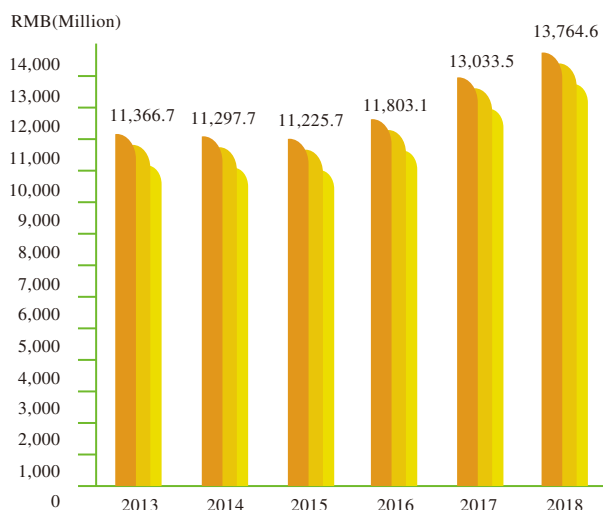
On the other hand, the sales of high-end amino acid products increased during the year ended of 31 December 2018, mainly due to the restructuring of our internal product portfolio. Despite lackluster conditions in the domestic consumer markets and stiff market competition, the Group's high-end amino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

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

Overall revenue of the Group slightly increased for the year ended 31 December 2018, and we was able to rely on the growth products such as starch sweeteners, threonine and high-end amino acid products and xanthan gum as well as effective implementation of cost controls to maintain our overall profitability. The high-end amino acid products successfully expanded in terms of product development and market share, and we are hopeful that we can become one of the world's leading suppliers of threonine and high-end amino acid products. The Group has also further enhanced its business strategy to adjust its production capacity according to market demand, which not only fully leverages the cost advantages of the Group but also supports the Group's pricing power to maximize its profitability. In terms of gross profit,

mainly as a result of cost pressure of our key raw materials and pricing pressure due to market competition, we recorded a decrease in its overall gross profit. However, as the Group recorded a one-off net gain after income tax from the disposal of two subsidiaries which held parcels of land in Baoji for approximately RMB1,102.8 million, the net profit of the Group in 2018 increased as compared to 2017.

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



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

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

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

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

Food additives Business

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

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

Animal nutrition and High-end amino acid Business

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

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

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

Xanthan gum Business

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

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

OPERATIONAL REVIEW OF THE GROUP

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

Turnover/Gross profit/Gross profit margin of the Group

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

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

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

Profit attributable to the Shareholders

	Years ended 31 December		Change %
	2018	2017	
	<i>RMB'000</i>	<i>RMB'000</i>	
As reported	<u>1,845,039</u>	<u>1,382,380</u>	<u>33.5</u>

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

Segment Highlights

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

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

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

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

Amino Acid Segment

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

Revenue and ASP

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

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

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

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

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

Food additives

MSG

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

In 2018, the Group revised its business strategy of MSG to adjust production capacity according to market demand and dominate the market with more competitive pricing. Although the Group strengthened the export of MSG products and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers, the export of MSG in term of sales decreased by 13.7% in 2018, which amounted to RMB1,051.8 million as compared to RMB1,218.4 million in 2017.

Starch sweeteners

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

Animal nutrition

Threonine

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

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

Corn refined products

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

High-end amino acid products

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

In 2018, the Group, through our wholly-owned subsidiary Shenhua Pharmaceutical, continued developing our new specialty ingredients such as hyaluronic acid and high-end amino acid products, with the aim of improving product diversity and increasing sales and penetration in the health and wellness, pharmaceutical and skin care related industries.

Others

Fertilisers

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

Gross profit and gross profit margin

The gross profit of this segment is set out below:

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

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

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

Production costs

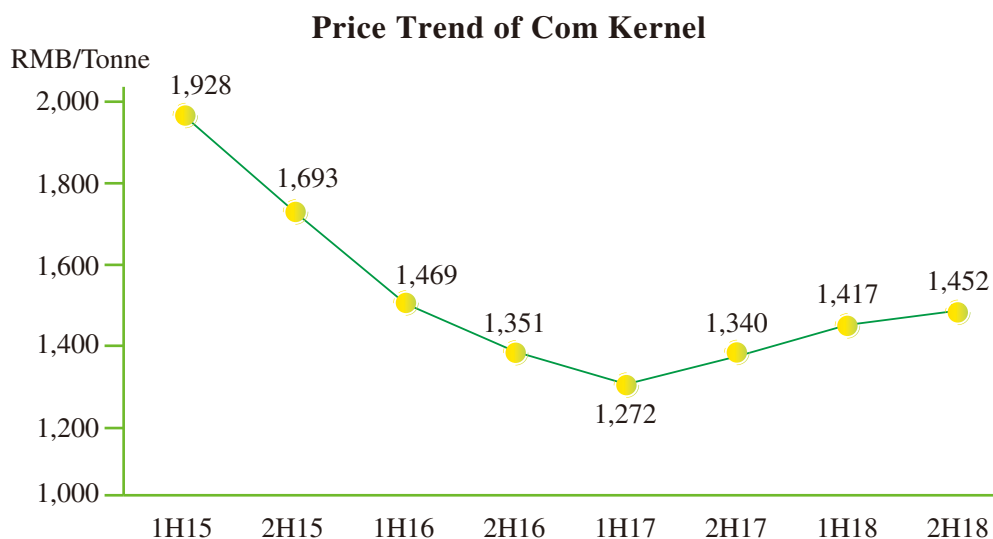
	Years ended 31 December				Change
	2018		2017		
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>%</i>
Major raw materials					
• Corn kernels	4,768,533	47.3	5,075,414	49.3	(6.0)
• Liquid ammonia	159,595	1.6	189,366	1.8	(15.7)
• Sulphuric acid	76,026	0.8	102,998	1.0	(26.2)
Energy					
• Coal	1,509,128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

Corn kernels

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

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

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



Liquid ammonia

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

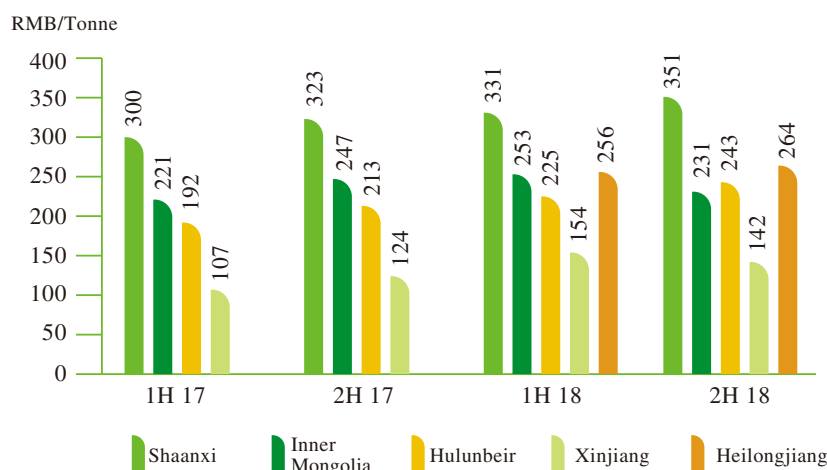
Sulphuric acid

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

Coal

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

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



Other production costs

The increase in cost of depreciation was mainly due to the opening of our new Longjiang Plant in the second half of 2017. On the other hand, the decreasing in cost of employee benefits was mainly due to the actual production volume of MSG decreasing during the year.

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 %
	2018	2017	
	<i>Tonnes</i>	<i>Tonnes</i>	
MSG			
Annual designed production capacity <i>(Note)</i>	1,330,000	1,280,000	3.9
Actual production output	945,173	1,266,855	(25.4)
Utilisation rate	71.1 %	99.0%	
Threonine			
Annual designed production capacity <i>(Note)</i>	228,500	156,000	46.5
Actual production output	200,312	161,384	24.1
Utilisation rate	87.7 %	103.5%	

Product	Years ended 31 December		Change %
	2018	2017	
	<i>Tonnes</i>	<i>Tonnes</i>	
Fertilisers			
Annual designed production capacity <i>(Note)</i>	1,080,000	1,080,000	–
Actual production output	748,211	1,075,675	(30.4)
Utilisation rate	69.3%	99.6%	
Starch sweeteners			
Annual designed production capacity <i>(Note)</i>	385,000	260,000	48.1
Actual production output	381,398	264,080	44.4
Utilisation rate	99.1%	101.6%	

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

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

Xanthan Gum Segment

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

Operation results

The table below set out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the years ended 31 December 2018 and 2017:

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

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

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

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

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

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

Gross profit and gross profit margin

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

Production costs

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

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

Corn kernels

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

Soybeans

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

Coal

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

Other production costs

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

OTHER FINANCIAL INFORMATION

Other income

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

Other gains

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

Selling and marketing expenses

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

Administrative expenses and net impairment loss on financial assets

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

Finance costs (net)

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

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

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

Staff costs

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

Depreciation

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

Continuing connected transaction

On 5 July 2017, the Company and Inner Mongolia Wo Feng Agricultural Development Company Limited (內蒙古沃豐農業發展有限公司, the “Purchaser”) entered into a Procurement Framework Agreement, pursuant to which the Company has agreed to supply the Purchaser fertiliser products during the term of the Procurement Framework Agreement. Pursuant to the Procurement Framework Agreement, the Company shall supply fertiliser products to the Purchaser on normal commercial terms, of which the sale price shall not be

lower than the price of similar products sold by the Company to independent third parties in its ordinary course of business. As at the date of the Procurement Framework Agreement, 68.06% equity interest of the Purchaser is held by Ms. Li Hongyu, the daughter of Mr. Li Xuechun, an executive Director and the chairman of the Board, and sister of Mr. Li Guangyu, an executive Director. Therefore the Purchaser is a connected person of the Company. The Company considers that working with the Purchaser, which has assembled an experienced and professional team to operate its fertiliser business and has in place an extensive sales and distribution network, will be beneficial to the future development of the fertiliser business of the Group.

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

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

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

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

Income tax expense

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

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

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

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

Strategic Investment

Co-developing the polylactide acid market with COFCO:

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

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

OUTLOOK

Amino acid segment

The Group will continuously explore the development of amino acid products for animal nutrition, high-end amino acid products for pharmaceutical, health care and beauty and food additives mainly as starch sweeteners, in order to improve product class and increase sales and penetration in health and wellness products, pharmaceutical entities and the skin care products field. Only by continuously upgrading our product quality and expanding our product range can we transform gradually from a traditional, bulk-trade enterprise towards a modern, high-tech and high value-added supplier of biochemical products.

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

Xanthan gum segment

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

Future Plan and Recent Development

- I. The Group's Phase II of the Longjiang Plant Project, located in Qiqihar, Heilongjiang Province, successfully commenced production and beginning in January 2019, the Group will export and distribute the new product, lysine. The Group's production and sales of lysine products completes and enriches its current product mix of animal nutrition products, creating a formula-based integrated sales line of "lysine, threonine, tryptophan and valine" products. This product line provides animal feed businesses and animal breeding customers with a blanket package of solutions, further strengthening the comprehensive competitiveness of our animal nutrition products. The Group will target specific overseas clients, including those from Japan, America, Europe, and Southeast Asia, and provide them with animal nutrition products.
- II. Since December 2018, the Sino-US Trade tensions have eased up, the impact of which has been gradually absorbed by our clients in the US. It is expected that the export business will gradually be back on track in 2019.
- III. Our clients from the domestic downstream sector remain fairly optimistic about the overall consumer market in China in 2019. With the consumer market rebound in sight, they are confident that the overall consumer market will perform better than in 2018.

- IV. From the perspective of the Group, taking into account a number of factors, including an improved financing environment in the PRC, the successful destocking of MSG, the successful overseas issuance of US\$350 million corporate bonds, and one-off gain from the disposal of land in Baoji by our Group during the year, we are in a sound financial position with sufficient cash on hand, and significantly improved efficiency of working capital. We will embrace the new challenges in the coming year by leveraging on our solid financial foundation.
- V. The Group will continue to strategically optimize its diversified production bases and focus on production costs reduction in Northeast China in 2019. In addition, the opening of the dedicated railway line for the Longjiang Plant will significantly reduce logistics costs and enhance operational efficiency. The dedicated railway line for our plant in Northeast China is expected to commence operation in mid-2019.

The Third 10-year Plan

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

Liquidity and Financial Resources

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

USD bonds

The Company issued USD350.0 million USD bonds for three years on 28 August 2018 with a fixed interest rate of 5.875% per annum. The gross proceeds of the USD bonds issue, before deduction of underwriting discounts and commissions and other estimated expenses in connection with the bonds issue, amounted to approximately US\$349.6 million, which the Company has mainly used to refinance existing debt and for business development purposes.

The Company completed the repurchase of US\$32,615,000 in aggregate principal amount of USD bonds (the “Repurchased Bonds”) which were repurchased from 6 November 2018 to 18 December 2018, representing approximately 9.3% of the aggregate principal amount of USD bonds originally issued. The Repurchased Bonds were cancelled before 31 December 2018 and the outstanding balance of USD bonds amounted to USD317,385,000 as at 31 December 2018.

Corporate bonds

On 5 November 2015, IM Fufeng issued corporate bonds at par value of RMB1 billion, which was denominated in RMB with a fixed interest of 3.98% per annum. The corporate bonds mature in three years from the issue date. The net proceeds were used to repay certain short-term bank loans and for general working capital purposes. These Corporate bonds were fully repaid during the year.

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

Material acquisition or disposal of subsidiary and associated company

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

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

Employees

As at 31 December 2018, the Group had approximately 13,900 employees. Employees’ remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc..

Contingent Liabilities

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

Charges on assets

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

The long term bank borrowings are secured by the pledge of the capital stock of certain subsidiaries of the Company, which are Acquest Honour Holdings Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group.

Gearing ratio

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

Foreign exchange exposure

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

Except for the above, the Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were, however, received for the export sales of products and the issuance of USD bonds. Such proceeds were subject to foreign exchange risk before receiving and converting them into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of USD bonds by remitting the necessary funds to the PRC and using the proceeds as soon as possible.

Dividend

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

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

Purchase, redemption or sales of listed securities of the Company

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

Corporate governance report

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. During the year of 2018, the Company has complied with the Code Provisions of the Revised CG Code except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Xiao Jian Lin and Mr. Mr. Qi Qing Zhong did not attend the annual general meeting of the Company held on 21 May 2018. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group.

Closure of register of members

The register of members of the Company will be closed from 9 May 2019 to 15 May 2019 (both dates inclusive), during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 15 May 2019, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 8 May 2019.

The register of members of the Company will be closed from 29 May 2019 to 31 May 2019 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 28 May 2019.

Annual general meeting

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

By order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Hong Kong, 19 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Li Xuechun, Mr. Zhao Qiang, Mr. Li Deheng, Mr. Pan Yuehong and Mr. Li Guangyu and the independent non-executive directors of the Company are Mr. Xiao Jian Lin, Mr. Xu Zheng Hong and Ms. Zheng Yu.

GLOSSARY

Absolute Divine	Absolute Divine Limited, an indirect wholly-owned subsidiary of the Company
Acquest Honour	Acquest Honour Holdings Limited, a wholly-owned subsidiary of the Company
ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技股份有限公司 (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 Huijinhuaying	Beijing Huijinhuaying Commercial Co., Ltd., an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
COFCO	China National Cereals, Oils and Foodstuffs Corporation
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Evonik	Evonik Nutrition & Care GmbH (贏創營養與消費化學品有限責任公司), having its registered office in Germany
Expand Base	Expand Based Limited, an indirect wholly-owned subsidiary of the Company
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
Hulunbeir Shengmin	呼倫貝爾市晟民農業開發有限責任公司 (Hulunbeir Shengmin Agriculture Development Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Fufeng	內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Plant	the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC
Jiangsu Fufeng	江蘇阜豐生物科技有限公司 (Jiangsu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Longjiang Fufeng	齊齊哈爾龍江阜豐生物科技有限公司 (Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Longjiang Plant	the production plant of the Group located at Qiqihar city, Heilongjiang Province, the PRC
MSG	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application
PLA	Polylactic acid
PRC	the People's Republic of China, which for the purpose of this announcement exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Procurement Framework Agreement	the procurement framework agreement entered into between the Company and the Purchaser dated 5 July 2017
Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC

Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company
Stock Exchange	the Stock Exchange of Hong Kong Limited
Summit Challenge	Summit Challenge Limited, an indirect wholly-owned subsidiary of the Company
Xinjiang Fufeng	新疆阜豐生物科技股份有限公司 (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
HKD	Hong Kong dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of the PRC
USD	United States dollars, the lawful currency of the United States of America
%	per cent