

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **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 2019**

#### **HIGHLIGHTS OF 2019 GROUP RESULTS**

- The Group continued to be confronted with challenges in 2019, including but not limited to a slowing domestic macroeconomic growth, the Sino-US trade tensions and the epidemic of swine flu. Despite these challenges, our Food additives segment recorded a significant improvement in its overall performance, following years of efforts in industry consolidation, as compared with 2018.
- Profit attributable to the Shareholders for the year ended 31 December 2019 amounted to approximately RMB1,137.2 million, which represented an increase of 53.2% as compared with 2018 (excluding the result of the one-off net gain after income tax of approximately RMB1,102.8 million from disposal of two parcels of land in Baoji in 2018).
- Overall revenue increased by 17.5% to approximately RMB16,170.9 million in 2019 (2018: RMB13,764.6 million). The increase in revenue was primarily due to the increase in the ASP and sales volume of MSG and increased revenue contribution from MSG, starch sweeteners and lysine.
- The Group's overall gross profit increased from approximately RMB2,574.8 million in 2018 to approximately RMB3,260.6 million in 2019. This represents an increase of 26.6%, primarily due to the increase in the ASP and gross profit margin of MSG.
- Earnings per share (Basic) was RMB44.75 cents (2018: RMB72.45 cents).

- Return on equity was 10.0% (2018: 16.8%).
- Final dividend of HK8.0 cents (2018: HK23.6 cents) per share has been recommended by the Board.
- The sum of paid interim dividend and proposed final dividend is HK17.3 cents per share (2018: HK27.8 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 2019, together with the comparative figures for the year ended 31 December 2018, as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2019*

|                                                                                                                                    | <i>Note</i> | <b>Years ended 31 December</b> |                |
|------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------------------------|----------------|
|                                                                                                                                    |             | <b>2019</b>                    | <b>2018</b>    |
|                                                                                                                                    |             | <b>RMB'000</b>                 | <b>RMB'000</b> |
| Revenue                                                                                                                            | 3           | <b>16,170,850</b>              | 13,764,645     |
| Cost of sales                                                                                                                      |             | <b>(12,910,216)</b>            | (11,189,875)   |
| <b>Gross profit</b>                                                                                                                |             | <b>3,260,634</b>               | 2,574,770      |
| Selling and marketing expenses                                                                                                     |             | <b>(1,325,638)</b>             | (1,041,864)    |
| Administrative expenses                                                                                                            |             | <b>(826,447)</b>               | (658,514)      |
| Net impairment losses on financial assets                                                                                          |             | <b>(37,869)</b>                | (7,114)        |
| Other operating expenses                                                                                                           |             | <b>(23,993)</b>                | (47,832)       |
| Other income                                                                                                                       | 5           | <b>447,695</b>                 | 263,790        |
| Other gains – net                                                                                                                  | 6           | <b>58,299</b>                  | 1,353,183      |
| <b>Operating profit</b>                                                                                                            |             | <b>1,552,681</b>               | 2,436,419      |
| Finance income                                                                                                                     | 7           | <b>103,118</b>                 | 15,828         |
| Finance costs                                                                                                                      | 7           | <b>(253,268)</b>               | (241,482)      |
| Finance costs – net                                                                                                                |             | <b>(150,150)</b>               | (225,654)      |
| Share of net (loss)/profit of associates accounted for using the equity method                                                     |             | <b>(3,267)</b>                 | 58             |
| <b>Profit before income tax</b>                                                                                                    |             | <b>1,399,264</b>               | 2,210,823      |
| Income tax expense                                                                                                                 | 4           | <b>(262,041)</b>               | (365,784)      |
| <b>Profit for the year attributable to the shareholders</b>                                                                        |             | <b>1,137,223</b>               | 1,845,039      |
| <b>Earnings per share for profit attributable to the shareholders during the year</b><br><i>(expressed in RMB cents per share)</i> |             |                                |                |
| – basic                                                                                                                            | 8           | <b>44.75</b>                   | 72.45          |
| – diluted                                                                                                                          | 8           | <b>44.74</b>                   | 72.39          |

# CONSOLIDATED BALANCE SHEET

As at 31 December 2019

|                                                   |      | As at 31 December |                   |
|---------------------------------------------------|------|-------------------|-------------------|
|                                                   |      | 2019              | 2018              |
|                                                   | Note | RMB'000           | RMB'000           |
| <b>ASSETS</b>                                     |      |                   |                   |
| <b>Non-current assets</b>                         |      |                   |                   |
| Property, plant and equipment                     |      | 10,457,268        | 10,309,977        |
| Right-of-use assets                               |      | 778,591           | –                 |
| Leasehold land payments                           |      | –                 | 778,558           |
| Intangible assets                                 |      | 40,663            | 30,745            |
| Investments accounted for using the equity method |      | 28,187            | 36,354            |
| Derivative financial instruments                  |      | 14,649            | –                 |
| Deferred income tax assets                        |      | 146,638           | 184,076           |
| <b>Total non-current assets</b>                   |      | <b>11,465,996</b> | <b>11,339,710</b> |
| <b>Current assets</b>                             |      |                   |                   |
| Inventories                                       |      | 3,627,147         | 3,262,093         |
| Trade, other receivables and prepayments          | 10   | 2,484,697         | 3,040,233         |
| Cash and bank balances                            |      | 1,880,771         | 2,690,284         |
| <b>Total current assets</b>                       |      | <b>7,992,615</b>  | <b>8,992,610</b>  |
| <b>Total assets</b>                               |      | <b>19,458,611</b> | <b>20,332,320</b> |
| <b>LIABILITIES</b>                                |      |                   |                   |
| <b>Non-current liabilities</b>                    |      |                   |                   |
| Other payables                                    | 13   | 63,148            | –                 |
| Deferred income                                   | 11   | 710,281           | 785,971           |
| Borrowings                                        | 12   | 2,449,380         | 2,487,389         |
| Lease liabilities                                 |      | 497               | –                 |
| Deferred income tax liabilities                   |      | 40,650            | 16,650            |
| Derivative financial instruments                  |      | 6,880             | 29,882            |
| <b>Total non-current liabilities</b>              |      | <b>3,270,836</b>  | <b>3,319,892</b>  |

|                                                              |             | <b>As at 31 December</b> |                       |
|--------------------------------------------------------------|-------------|--------------------------|-----------------------|
|                                                              |             | <b>2019</b>              | <b>2018</b>           |
|                                                              | <i>Note</i> | <b><i>RMB'000</i></b>    | <b><i>RMB'000</i></b> |
| <b>Current liabilities</b>                                   |             |                          |                       |
| Trade, other payables and accruals                           | 13          | <b>3,148,996</b>         | 3,714,562             |
| Contract liabilities                                         | 3           | <b>624,714</b>           | 501,706               |
| Current income tax liabilities                               |             | <b>101,593</b>           | 268,653               |
| Borrowings                                                   | 12          | <b>935,170</b>           | 1,523,163             |
| Lease liabilities                                            |             | <b>833</b>               | –                     |
| <b>Total current liabilities</b>                             |             | <b>4,811,306</b>         | 6,008,084             |
| <b>Total liabilities</b>                                     |             | <b>8,082,142</b>         | 9,327,976             |
| <b>EQUITY</b>                                                |             |                          |                       |
| <b>Capital and reserves attributable to the shareholders</b> |             |                          |                       |
| Share capital                                                |             | <b>243,261</b>           | 244,436               |
| Share premium                                                |             | <b>663,634</b>           | 1,430,479             |
| Other reserves                                               |             | <b>665,819</b>           | 574,081               |
| Retained earnings                                            |             | <b>9,803,755</b>         | 8,755,348             |
| <b>Total equity</b>                                          |             | <b>11,376,469</b>        | 11,004,344            |
| <b>Total equity and liabilities</b>                          |             | <b>19,458,611</b>        | 20,332,320            |

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2019*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 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 that certain financial assets and liabilities (including derivative instruments) are 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 2019:

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

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 1.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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

## 1.2 Changes in accounting policies

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

As indicated in Note 1.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

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

(i) *Practical expedients applied*

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

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

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

(ii) *Measurement of lease liabilities*

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

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

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

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

|                                  | <b>31 December</b><br><b>2019</b><br><i>RMB'000</i> | 1 January<br>2019<br><i>RMB'000</i> |
|----------------------------------|-----------------------------------------------------|-------------------------------------|
| Leasehold land-use rights        | 777,141                                             | 778,558                             |
| Buildings                        | 1,372                                               | 2,249                               |
| Equipment                        | 78                                                  | 103                                 |
|                                  | <hr/>                                               | <hr/>                               |
| <b>Total right-of-use assets</b> | <b>778,591</b>                                      | 780,910                             |
|                                  | <hr/> <hr/>                                         | <hr/> <hr/>                         |

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

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

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

## **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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

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

### **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 judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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

### **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 reporting 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 of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources.

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

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

- Food additives segment: manufacturing and sales of food additives products, including monosodium glutamate ("MSG"), starch sweeteners, glutamic acid, compound seasoning and corn oil;
- Animal nutrition segment: manufacturing and sales of animal nutrition products, including corn refined products, threonine and lysine;
- Colloid segment: manufacturing and sales of colloid products, including xanthan gum and gellan gum;

- High-end amino acid segment: manufacturing and sales of high-end amino acid products; and
- Other segment: manufacturing and sales of other products, including fertilisers, synthetic ammonia, pharmaceuticals and others.

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

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

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

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

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

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

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

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

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

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

#### Disaggregation of revenue from contracts with customers

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

|                                 | <b>Sales of goods</b>       |                        |                          |
|---------------------------------|-----------------------------|------------------------|--------------------------|
|                                 | <b>Overseas<br/>RMB'000</b> | <b>PRC<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
| 2019                            |                             |                        |                          |
| Revenue from external customers | <u>4,471,217</u>            | <u>11,699,633</u>      | <u>16,170,850</u>        |
| Timing of revenue recognition   |                             |                        |                          |
| At a point in time              | <u>4,471,217</u>            | <u>11,699,633</u>      | <u>16,170,850</u>        |
| 2018                            |                             |                        |                          |
|                                 | <b>Sales of goods</b>       |                        |                          |
|                                 | <b>Overseas<br/>RMB'000</b> | <b>PRC<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
| Revenue from external customers | <u>3,880,353</u>            | <u>9,884,292</u>       | <u>13,764,645</u>        |
| Timing of revenue recognition   |                             |                        |                          |
| At a point in time              | <u>3,880,353</u>            | <u>9,884,292</u>       | <u>13,764,645</u>        |

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

#### Liabilities related to contracts with customers

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

|                                       | <b>31 December<br/>2019<br/>RMB'000</b> | 31 December<br>2018<br>RMB'000 |
|---------------------------------------|-----------------------------------------|--------------------------------|
| Contract liabilities – sales of goods | <b><u>624,714</u></b>                   | <u>501,706</u>                 |

#### (i) *Changes in contract liabilities*

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

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

## 4. TAXATION

### (a) Income tax expense

|                                     | <b>2019<br/>RMB'000</b> | 2018<br>RMB'000 |
|-------------------------------------|-------------------------|-----------------|
| Current income tax                  |                         |                 |
| – PRC enterprise income tax (“EIT”) | <b>203,672</b>          | 364,649         |
| – Hong Kong income tax              | <b>(4,098)</b>          | 673             |
| – US income tax                     | <b><u>1,466</u></b>     | <u>2,091</u>    |
| Total current income tax            | <b>201,040</b>          | 367,413         |
| Deferred income tax                 | <b><u>61,001</u></b>    | <u>(1,629)</u>  |
|                                     | <b><u>262,041</u></b>   | <u>365,784</u>  |

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

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

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

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

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

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

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

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

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

**5. OTHER INCOME**

|                                                    | 2019<br><i>RMB'000</i> | 2018<br><i>RMB'000</i> |
|----------------------------------------------------|------------------------|------------------------|
| Amortisation of deferred income ( <i>Note 11</i> ) | 160,184                | 77,815                 |
| Government grants related to expenses              | 112,636                | 41,131                 |
| Sales of waste products                            | 127,154                | 126,037                |
| Others                                             | 47,721                 | 18,807                 |
|                                                    | <u><u>447,695</u></u>  | <u><u>263,790</u></u>  |

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

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

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

## 6. OTHER GAINS – NET

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

In 2018, the Group entered into Share Transfer Agreements with certain companies owned by a third party group to dispose of the Group's equity interest in Baoji Dingfeng Properties Co., Ltd. ("Baoji Dingfeng") and Baoji Baofeng Properties Co., Ltd. ("Baoji Baofeng"), indirectly held subsidiaries of the Company. The net equity of Baoji Dingfeng and Baoji Baofeng were disposed of at RMB1,178,401,000. 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

|                                                     | 2019<br>RMB'000       | 2018<br>RMB'000       |
|-----------------------------------------------------|-----------------------|-----------------------|
| <i>Finance income:</i>                              |                       |                       |
| Interest income on bank deposits and bank balances  | (103,118)             | (15,828)              |
|                                                     | <u>(103,118)</u>      | <u>(15,828)</u>       |
| <i>Finance costs:</i>                               |                       |                       |
| Interest expense                                    |                       |                       |
| – Bank borrowings                                   | 71,573                | 126,244               |
| – USD bonds                                         | 137,640               | 49,409                |
| – Corporate bonds                                   | –                     | 37,228                |
| Interest charges paid for lease liabilities         | 88                    | –                     |
| Net foreign exchange losses on financing activities | 52,111                | 71,169                |
|                                                     | <u>261,412</u>        | <u>284,050</u>        |
| Amount capitalised (i)                              | <u>(8,144)</u>        | <u>(42,568)</u>       |
| <b>Finance costs expensed</b>                       | <u>253,268</u>        | <u>241,482</u>        |
| <b>Net finance costs</b>                            | <u><u>150,150</u></u> | <u><u>225,654</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, which was 5.17% for the year ended 31 December 2019 (4.86% for the year ended 31 December 2018).

## 8. EARNINGS PER SHARE

### (a) Basic earnings per share

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

|                                                                 | 2019<br>RMB cents   | 2018<br>RMB cents   |
|-----------------------------------------------------------------|---------------------|---------------------|
| Total basic earnings per share attributable to the shareholders | <u><u>44.75</u></u> | <u><u>72.45</u></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.

|                                                                   | <b>2019</b><br><i>RMB cents</i> | 2018<br><i>RMB cents</i> |
|-------------------------------------------------------------------|---------------------------------|--------------------------|
| Total diluted earnings per share attributable to the shareholders | <b>44.74</b>                    | 72.39                    |

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

|                                                                                        | <b>2019</b><br><i>RMB'000</i> | 2018<br><i>RMB'000</i> |
|----------------------------------------------------------------------------------------|-------------------------------|------------------------|
| <i>Basic earnings per share</i>                                                        |                               |                        |
| Profit attributable to the shareholders used in calculating basic earnings per share   | <b>1,137,223</b>              | 1,845,039              |
| <i>Diluted earnings per share</i>                                                      |                               |                        |
| Profit attributable to the shareholders used in calculating diluted earnings per share | <b>1,137,223</b>              | 1,845,039              |

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

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

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

The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The 8,100,000 outstanding share options issued in April 2015, December 2016, and August 2017 (2018: 23,200,000 outstanding share options issued in April 2015, August 2017 and December 2017) are not included in the calculation of diluted earnings per share because the average market price of ordinary shares for the year ended 31 December 2019 did not exceed the exercise prices of each tranche of the share options, hence the share options are antidilutive for the year ended 31 December 2019. These options could potentially dilute basic earnings per share in the future.

## 9. DIVIDENDS

|                 | 2019<br><i>RMB'000</i> | 2018<br><i>RMB'000</i> |
|-----------------|------------------------|------------------------|
| Interim, paid   | 211,387                | 93,379                 |
| Final, proposed | <u>184,941</u>         | <u>514,276</u>         |
|                 | <u><b>396,328</b></u>  | <u><b>607,655</b></u>  |

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

At a meeting held on 31 March 2020, the Board proposed a final dividend of HKD202,691,000 (equivalent to RMB184,941,000) (2018: RMB514,276,000), representing HK8.0 cents (equivalent to RMB7.30 cents) (2018: RMB20.19 cents) per share to be distributed from the share premium account. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2020.

## 10. TRADE, OTHER RECEIVABLES AND PREPAYMENTS

|                                                                        | 2019<br><i>RMB'000</i>  | 2018<br><i>RMB'000</i>  |
|------------------------------------------------------------------------|-------------------------|-------------------------|
| Trade receivables (a)                                                  | 663,357                 | 622,778                 |
| Less: provision for impairment loss allowance (b)                      | <u>(18,991)</u>         | <u>(11,628)</u>         |
| Trade receivables – net                                                | 644,366                 | 611,150                 |
| Receivables arising from disposal of subsidiaries (c)                  | 17,818                  | 1,013,214               |
| Receivables from former subsidiaries (d)                               | 2,357                   | 263,566                 |
| Deposits and others                                                    | 38,710                  | 92,321                  |
| Loan to a related party ( <i>Note 16(c)</i> )                          | –                       | 6,000                   |
| Loan to a third party (e)                                              | 70,000                  | –                       |
| Loans to employees                                                     | 1,432                   | 2,172                   |
| – Loans to key management                                              | –                       | –                       |
| – Loans to other employees                                             | <u>1,432</u>            | <u>2,172</u>            |
| Value-added tax for future deduction                                   | <u>409,757</u>          | <u>336,460</u>          |
| Trade and other receivables excluding notes receivable and prepayments | <b>1,184,440</b>        | 2,324,883               |
| Notes receivable (h)                                                   | 972,971                 | 520,241                 |
| Prepayments for raw materials                                          | <u>327,286</u>          | <u>195,109</u>          |
|                                                                        | <u><b>2,484,697</b></u> | <u><b>3,040,233</b></u> |

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

|                 | <b>2019</b><br><b>RMB'000</b> | 2018<br><i>RMB'000</i> |
|-----------------|-------------------------------|------------------------|
| Within 3 months | <b>599,413</b>                | 542,820                |
| 3 ~12 months    | <b>57,761</b>                 | 64,998                 |
| Over 12 months  | <b>6,183</b>                  | 14,960                 |
|                 | <b>663,357</b>                | 622,778                |

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

- (b) Impairment and risk exposure

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

- (c) As at 31 December 2019, the balance of undiscounted receivables arising from the disposal of Baoji Dingfeng and Baoji Baofeng (Note 6) amounted to RMB17,923,000 (2018: RMB1,034,616,000). The related impact of discounting amounting to RMB105,000 (2018: RMB21,402,000) was considered based on the payment due dates set in the Share Transfer Agreements, resulting in a net balance of RMB17,818,000 (2018: RMB1,013,214,000) as at 31 December 2019. The remaining receivable of RMB17,923,000 was fully collected in January 2020.
- (d) As described in Note 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 RMB261,209,000 (2018: RMB586,005,000) from the former subsidiaries and the remaining receivable balance amounted to RMB2,357,000 (2018: RMB263,566,000) as at 31 December 2019. The remaining balance of RMB2,357,000 was fully collected in January 2020.
- (e) The loan to a third party was arranged via a financial trust company, which is due for collection within 1 year from the balance sheet date. The interest rate on the loan during the year ended 31 December 2019 was 13.45% per annum.
- (f) Except for the loan to a third party as discussed above in Note (e), trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values as at the balance sheet date.
- (g) The carrying amounts of the Group's trade and other receivables excluding notes receivable and prepayments were denominated in the following currencies:

|       | <b>2019</b><br><b>RMB'000</b> | 2018<br><i>RMB'000</i> |
|-------|-------------------------------|------------------------|
| – RMB | <b>757,990</b>                | 1,841,817              |
| – USD | <b>426,450</b>                | 483,066                |
|       | <b>1,184,440</b>              | 2,324,883              |

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

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

|                                    | <b>31 December<br/>2019<br/>RMB'000</b> | 31 December<br>2018<br>RMB'000 |
|------------------------------------|-----------------------------------------|--------------------------------|
| <b>Current assets</b>              |                                         |                                |
| Notes receivable measured at FVOCI | <b><u>972,971</u></b>                   | <u>520,241</u>                 |

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

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

## 11. DEFERRED INCOME

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

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

|                                       | 2019<br><i>RMB'000</i> | 2018<br><i>RMB'000</i> |
|---------------------------------------|------------------------|------------------------|
| At beginning of the year              | 785,971                | 721,936                |
| Granted during the year               | 84,494                 | 141,850                |
| Amortised as income ( <i>Note 5</i> ) | <u>(160,184)</u>       | <u>(77,815)</u>        |
| At end of the year                    | <u>710,281</u>         | <u>785,971</u>         |

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

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

## 12. BORROWINGS

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

### (a) Borrowings

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

|                       | <b>Bank borrowings</b> |                        | <b>USD bonds</b>       |                        |
|-----------------------|------------------------|------------------------|------------------------|------------------------|
|                       | 2019<br><i>RMB'000</i> | 2018<br><i>RMB'000</i> | 2019<br><i>RMB'000</i> | 2018<br><i>RMB'000</i> |
| Within 1 year         | 935,170                | 1,523,163              | –                      | –                      |
| Between 1 and 2 years | –                      | 335,549                | 2,188,178              | –                      |
| Between 2 and 5 years | 261,202                | –                      | –                      | 2,151,840              |
|                       | <u>1,196,372</u>       | <u>1,858,712</u>       | <u>2,188,178</u>       | <u>2,151,840</u>       |

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

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

|                 | 2019         | 2018         |
|-----------------|--------------|--------------|
| Bank borrowings | <u>5.17%</u> | <u>4.86%</u> |

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

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

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

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

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

|     | 2019             | 2018           |
|-----|------------------|----------------|
|     | <i>RMB'000</i>   | <i>RMB'000</i> |
| RMB | <b>851,203</b>   | 1,209,800      |
| HKD | –                | 261,203        |
| USD | <b>2,533,347</b> | 2,539,549      |
|     | <b>3,384,550</b> | 4,010,552      |

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

***USD bonds issued in August 2018***

In August 2018, the Company issued USD bonds at a par value of USD350,000,000, which was denominated in USD with a fixed interest rate of 5.875% per annum. The bonds will mature in three years from the issuance date. The value of the liability, net of transaction costs of USD4,733,000, was determined at issuance of the bonds. During the year ended 31 December 2019, a total of USD1,250,000 (2018: USD32,615,000) of such USD bonds were early redeemed.

***Corporate bonds issued in November 2015***

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

### 13. TRADE, OTHER PAYABLES AND ACCRUALS

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

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

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

- (b) As disclosed in Note 10(h), notes receivable amounted to RMB822,006,000 (2018: RMB465,793,000) were endorsed to the suppliers of trade payable and payables for property, plant and equipment amounting to RMB559,135,000 and RMB262,871,000, respectively (2018: RMB232,862,000 and RMB232,931,000, respectively).
- (c) In 2014, the Group received RMB635,791,000 from the local PRC governments as a compensation for disposal of property, plant and equipment related to plant relocation. As at 31 December 2018, RMB573,510,000 had been applied to compensate the disposal of property, plant and equipment during 2015, 2016 and 2017 while RMB573,756,000 had been applied during 2018. The remaining balance of RMB62,035,000 was recorded in “Trade, other payables and accruals” as at 31 December 2018. During the year ended 31 December 2019, the Group completed the plant relocation and the compensation balance of RMB62,035,000 was recognised as other income of government grants related to expenses accordingly.
- (d) The non-current portion of other payables is a borrowing from certain third parties, which is repayable in 7 years from the balance sheet date. The interest rate on such other payables during the year ended 31 December 2019 was 5.25% per annum.
- (e) Except for the borrowing from certain third parties as discussed in Note(d), trade and other payables are unsecured and interest-free. The carrying amounts of trade and other payables approximate their fair values and are mainly denominated in RMB.

## 14. COMMITMENTS

### (a) Capital commitments

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

|                                                                                | 2019<br><i>RMB'000</i> | 2018<br><i>RMB'000</i> |
|--------------------------------------------------------------------------------|------------------------|------------------------|
| Purchase of property, plant and equipment<br>– Contracted but not yet incurred | <u>102,821</u>         | <u>207,903</u>         |

### (b) Non-cancellable operating leases

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

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

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

|                                             | 2019<br><i>RMB'000</i> | 2018<br><i>RMB'000</i> |
|---------------------------------------------|------------------------|------------------------|
| No later than 1 year                        | 3,084                  | 3,687                  |
| Later than 1 year and no later than 5 years | <u>107</u>             | <u>1,488</u>           |
|                                             | <u>3,191</u>           | <u>5,175</u>           |

## 15. BUSINESS COMBINATION

### (a) Summary of acquisition

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

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

|                                                           | 2019<br><i>RMB'000</i> |
|-----------------------------------------------------------|------------------------|
| Purchase consideration (refer to (b) below):<br>Cash paid | <u>44,900</u>          |

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

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

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

**(b) Purchase consideration – cash outflow**

|                                                             | <b>2019<br/>RMB'000</b> |
|-------------------------------------------------------------|-------------------------|
| Outflow of cash to acquire subsidiary, net of cash acquired |                         |
| Cash consideration                                          | 44,900                  |
| Less: cash and bank balances acquired                       | (10,388)                |
|                                                             | <hr/>                   |
| Net outflow of cash – investing activities                  | 34,512                  |
|                                                             | <hr/> <hr/>             |

**16. 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**

|                                                                 | <b>2019<br/>RMB'000</b> | 2018<br>RMB'000 |
|-----------------------------------------------------------------|-------------------------|-----------------|
| Business combination from a related party ( <i>Note 15(a)</i> ) | 44,900                  | –               |
| Services purchased from a related party ( <i>i</i> )            | 510                     | 43,129          |
|                                                                 | <hr/>                   | <hr/>           |
|                                                                 | 45,410                  | 43,129          |
|                                                                 | <hr/> <hr/>             | <hr/> <hr/>     |

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

(2) *Continuing connected transaction*

|                                       | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---------------------------------------|-----------------|-----------------|
| Sales of products to a related party* | <u>60,320</u>   | <u>72,129</u>   |

\* The Group sold products to an entity that is controlled by a close family member of the controlling shareholder. The entity was acquired by the Group in October 2019 (Note 15).

(b) **Key management compensation**

|                                           | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-------------------------------------------|-----------------|-----------------|
| Salaries and allowances                   | 19,038          | 23,042          |
| Pension costs – defined contribution plan | 811             | 832             |
| Share options granted to key management   | <u>2,922</u>    | <u>6,529</u>    |
|                                           | <u>22,771</u>   | <u>30,403</u>   |

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

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

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

(1) *Trade receivables from a related party*

|                                                                                | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--------------------------------------------------------------------------------|-----------------|-----------------|
| – A company controlled by a close family member of the controlling shareholder | <u>–</u>        | <u>1,457</u>    |

(2) *Loan to a related party*

|                                     | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-------------------------------------|-----------------|-----------------|
| – Jilin COFCO Biomaterial Co., Ltd. | <u>–</u>        | <u>6,000</u>    |

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

(3) *Other payables to a related party*

|                                                                                | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--------------------------------------------------------------------------------|-----------------|-----------------|
| – A company controlled by a close family member of the controlling shareholder | <u>3,758</u>    | <u>28,312</u>   |

(d) **Terms and conditions**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS AND FINANCIAL REVIEW

#### Overview

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

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

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

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

As the leader in the industry, the Group managed to achieve stable development for its core business and also further consolidated its leading position in the market. In addition, the Group made considerable efforts in developing high-value fermentation products in order to diversify its revenue stream, enhance profitability and provide impetus for the long-term sustainable growth of the Group. We continued to actively strengthen our competitiveness by constantly improving the production technology to achieve better cost effectiveness and strategically utilise the production facility and capacity of each plant in order to meet market demand.

The Group recognised the importance of using advanced technologies to continually improve our production efficiency and develop new products. We actively explored the development of amino acid products for animal nutrition, high-end amino acid products for pharmaceutical, health care and beauty, and food additives mainly as starch sweeteners, in order to improve product diversity and increase sales and penetration in the health and wellness, pharmaceutical and skincare related industries.

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

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

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

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

### **Business performance analysis by major product segments instead of business segments**

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

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

In terms of the Food additives segment, the ASP of MSG significantly increased in 2019. The Group was able to maintain its leadership in terms of market share and sales volume by leveraging its cost advantages to adopt competitive pricing in a more price-friendly market environment in 2019. We recorded a significant increase in gross profit and gross profit margin of the MSG product, which positively affected the profit contribution from the MSG product during the year.

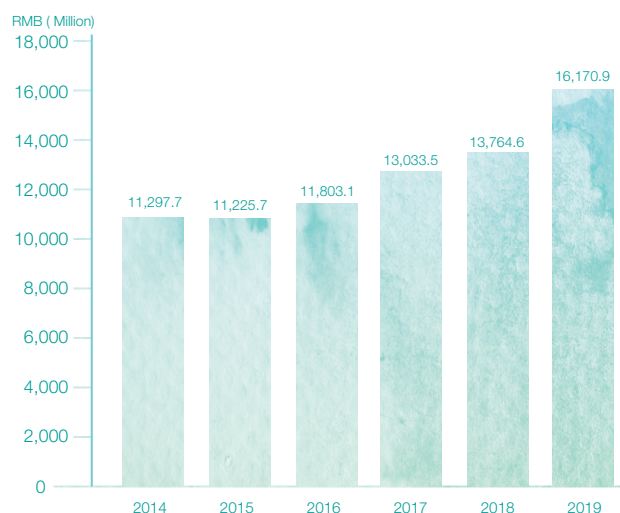
Additionally, the new Longjiang Plant Phase II commenced operation at the beginning of 2019 and the annual production capacity of starch sweeteners has increased to 720,000 tonnes. The sales revenue from starch sweeteners increased to approximately RMB1,627.8 million, representing an increase of 54.7%,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

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

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

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

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



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

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

### **Food additives segment**

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

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

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

## **Animal nutrition segment**

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

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

## **Colloid segment**

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

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

## **High-end amino acid segment**

The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging the Group's fermentation technology. The high-end amino acid products include valine 纈氨酸, leucine 亮氨酸, isoleucine 異亮氨酸, glutamine 谷氨醯胺 and hyaluronic acid 透明質酸, etc. In 2019, sales of high-end amino acid products reached approximately RMB808.3 million, representing a decrease of 15.8% as compared with 2018. Our high-end amino acid products focus on the health and wellness and pharmaceutical materials industries and generally enjoy higher profitability. The goal of the Group is to become the clear market leader by market share for several of our key amino acid products. The development and production of these products will add further diversity to the Group's product and revenue mix. The Group also plans to extend its business scope from the production and sales of typical amino acid products for bulk trade to those of high end products.

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

## OPERATIONAL REVIEW OF THE GROUP

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

### Turnover/Gross profit/Gross profit margin of the Group

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

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

### Profit attributable to the Shareholders

|             | Years ended 31 December |                | Change<br>% |
|-------------|-------------------------|----------------|-------------|
|             | 2019                    | 2018           |             |
|             | <i>RMB'000</i>          | <i>RMB'000</i> |             |
| As reported | <b>1,137,223</b>        | 1,845,039      | (38.4)      |

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

## Business highlights

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

The table below highlights the operating results:

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

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

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

### *For the year ended 31 December 2019*

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

***For the year ended 31 December 2018***

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

***Revenue and ASP***

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

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

### *Food additives*

Revenue generated from the sales of Food additives products increased to approximately RMB9,818.8 million in 2019, representing an increase of approximately RMB1,855.5 million, or 23.3%, as compared with 2018, mainly attributed to the increase in the revenue of MSG and starch sweeteners. The increased revenue of MSG was primarily due to the effect of an increase in the ASP of MSG during the year.

### *MSG*

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

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

### *Starch sweeteners*

Turnover of starch sweeteners increased by approximately 54.7% in 2019, which was primarily due to an increase in sales volume of starch sweeteners to approximately 650,000 tonnes in 2019. The annual production capacity of starch sweeteners increased to 720,000 tonnes as our new Longjiang Plant Phase II commenced operation at the beginning of 2019. The ASP of starch sweeteners decreased, from approximately RMB2,697 per tonne in 2018 to approximately RMB2,504 per tonne in 2019, whilst demand for our starch sweeteners was stable. It became apparent that our new production capacity of starch sweeteners could be properly absorbed by the market during the year.

## ***Animal nutrition***

### ***Threonine***

Threonine is a growth product of the Group, with annual production capacity increasing to 243,000 tonnes as our new Longjiang Plant commenced operation in 2018. Threonine is classified as a major type of animal nutrition product, an essential amino acid which maintains body protein balance and promotes the growth of living things. Our threonine is mainly used as an animal feed additive. The total revenue of threonine decreased by about 17.5% in 2019 as compared with 2018, which was primarily due to the decreased ASP of threonine from approximately RMB7,713 per tonne in 2018 to approximately RMB6,782 per tonne in 2019. The decrease in ASP was mainly due to weakening market demand caused by the swine flu epidemic in China. Likewise, the sales volume of threonine decreased from approximately 186,000 tonnes in 2018 to approximately 176,000 tonnes in 2019.

### ***Corn refined products***

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

### ***Lysine***

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

### ***Colloid***

#### ***Xanthan gum***

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

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

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

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

### ***High-end amino acid products***

The total sales amount of High-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid, decreased to approximately RMB808.3 million in 2019 as compared with approximately RMB959.9 million in 2018. The high-end amino acid market is one of the key markets that the Group remains focused on developing and strengthening. The Group aims to create a series of high-end amino acid products by capitalising on our research and development capabilities and resources.

### ***Other related products***

#### ***Fertilisers***

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

### ***Gross Profit and Gross Profit Margin***

The gross profit is set out below:

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

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

### *Production costs*

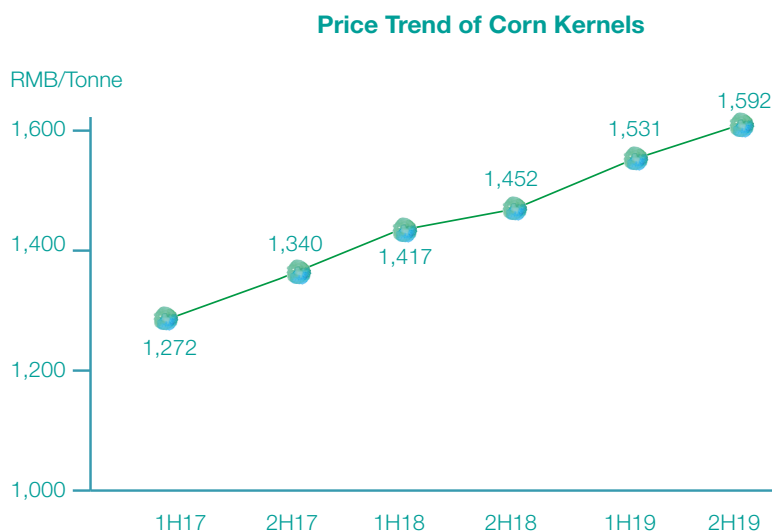
|                          | Years ended 31 December  |                     |                          |                     | Change<br>%        |
|--------------------------|--------------------------|---------------------|--------------------------|---------------------|--------------------|
|   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

### *Corn kernels*

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

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

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



#### *Liquid ammonia*

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

#### *Sulphuric acid*

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

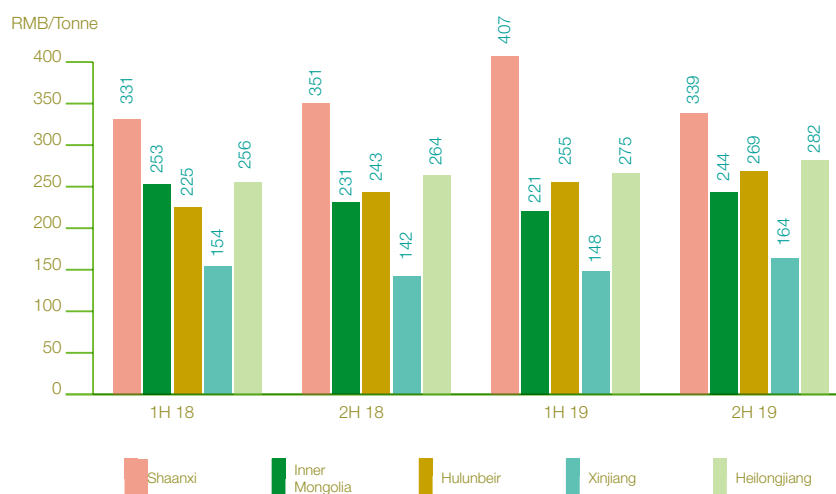
#### *Soybeans*

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

## Coal

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

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



## Other production costs

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

## ***Production***

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

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

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

## **Analysis of Capacity Usage of Major Product Lines**

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

## **OTHER FINANCIAL INFORMATION**

### **Other income**

In 2019, other income amounted to RMB447.7 million, which was mainly comprised of the income from the sales of waste products, amortisation of deferred income and government grants.

### **Other gains**

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

### **Selling and marketing expenses**

Selling and marketing expenses increased by approximately RMB283.8 million, or 27.2%, in 2019. The increase in selling and marketing expenses was mainly due to an increase in transportation costs, which was in line with the increase in sales volume of our major products. Marketing and promotional expenses also increased as part of a campaign to strengthen the Group's brand.

### **Administrative expenses**

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

### **Finance income**

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

### **Finance costs**

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

Interest expense increased by approximately RMB30.8 million, mainly due to an increase in interest expenses on the 3-year 5.875% USD bonds issued on 28 August 2018. In 2019, the Group recorded an exchange loss on financing activities of approximately RMB52.1 million (2018: RMB71.2 million), mainly due to the exchange loss of USD bonds and bank borrowings denominated in USD.

### **Staff costs**

Staff costs of the Group increased by approximately RMB147.4 million, or approximately 15.2%, from approximately RMB969.4 million in 2018 to approximately RMB1,116.8 million in 2019. The increase was mainly due to the increase in number of staff with the commencement of operations at our new Longjiang Plant Phase II in 2019 and the restoration of production capacity in IM Fufeng and Baoji Fufeng.

### **Depreciation**

Depreciation expense of the Group increased by approximately RMB112.0 million, or 10.8%, from RMB1,038.2 million in 2018 to RMB1,150.2 million in 2019. The increase was mainly due to the commencing of operations at the Phase II of the Longjiang Plant at the beginning of 2019, and the recognition of depreciation of right-of-use assets due to the adoption of HKFRS 16 in 2019 which was recognised as amortisation of leasehold land payments in 2018.

### **Continuing connected transaction**

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

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

The Company estimated that its sales volume of fertiliser products to Wo Feng under the Procurement Framework Agreement would be 120,000 tonnes, 250,000 tonnes and 350,000 tonnes for the years ending 31 December 2017, 2018 and 2019, respectively. The annual cap of the revenue would be RMB54 million, RMB112.5 million and RMB157.5 million for the years ending 31 December 2017, 2018 and 2019, respectively. During 2019, the sales volume of fertilisers to Wo Feng under the Procurement Framework Agreement was approximately 126,259 tonnes, resulting in sales revenue of RMB60.3 million.

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

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

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

As at the date of the Share Purchase Agreement, Wo Feng is owned as to 86.00% and 14.00% by 臨沂榮豐生物科技有限公司 (Lin Yi Rong Feng Biotechnologies Company Limited) (the “Vendor Company”) and 18 individuals respectively. The Vendor Company is owned as to 86.57% by Ms. Li Hongyu, the daughter of Mr. Li Xuechun (an executive Director and the chairman of the Board) and sister of Mr. Li Guangyu (an executive Director). Therefore the Vendor Company is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the Acquisition constitutes a connected transaction of the Company. The Vendor Company is also owned as to 2.57%, 2.57%, 1.00%, 0.86% and 6.43% respectively by Ms. Li Weijia, the daughter of Mr. Li Deheng (an executive Director), Mr. Xu Guohua (a former executive Director who resigned in June 2017), Mr. Feng Jie, the son of Mr. Feng Zhenquan (a former executive Director who resigned in September 2016), Mr. Pan Yuehong (a former executive Director who resigned in March 2019), and certain other employees of the Group. The remaining 14.00% of Wo Feng’s equity interest is held by 18 individuals who are senior management team of Wo Feng and are independent third parties of the Group.

Upon the completion of the Acquisition, Wo Feng became an indirect wholly-owned subsidiary of the Company, and will cease to be a connected person of the Company, hence the sale of fertiliser products under the Procurement Framework Agreement no longer constitutes a connected transaction of the Group under the Listing Rules.

## **Income tax expense**

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

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

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

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

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

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

## **Strategic direction**

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

## **FUTURE PLAN AND RECENT DEVELOPMENT**

### **Outlook and Future Plan**

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

Main tasks in 2020:

In terms of internal management:

1. Cost control: We aim to achieve cost reduction in areas including production costs and repair and maintenance costs at various plants, raw material procurement costs, logistics costs (including warehouse costs), labor costs, administrative expenses and cost of sales.
2. Fixed asset investment: Our fixed asset investment strategy is primarily in place in order for us to further increase our market share should the opportunity arise. As such, we will apply the strictest approval mechanism for any future planned fixed asset investment in order to ensure that in a challenging market. We aim to safeguard our financial position and also to ensure that investment returns of any future fixed assets to meet our expectations.

In terms of market development and sales:

3. Increasing market share in key markets: As to the MSG exports, we aim to achieve breakthroughs in the exports of MSG to the Japanese and Korean markets this year; as to the animal amino acid (such as threonine and lysine), we strive to penetrate the European and South American markets; as to the other niche products with relatively smaller scale, such as hyaluronic acid, we aim to expand production capacity and develop not only the high-end markets but also the low-end and middle markets. Furthermore, we will also focus on cross-selling abilities of our different varieties of products, such as the bundling of feed amino acid including threonine, lysine, tryptophan, and valine.
4. Technology and research and development (R&D): In addition to rely on our own R&D, we will collaborate with the industry leaders in global markets and technology research and development companies, to carry out various research and development of microbial strains. We believe such collaboration can result in a win-win situation for us and our partners and allow us to shorten the time required for our new products to reach the market, especially the sales of some new hydrosols. In terms of production technology, we will further improve technical indicators and certain production efficiency indicators based on the current technologies, enhance safety and quality awareness and reduce customer complaints.

## **Liquidity and Financial Resources**

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

### **USD Bonds**

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

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

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

### **Material acquisition or disposal of subsidiary and associated company**

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

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

## **Employees**

As at 31 December 2019, the Group had approximately 13,900 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

## **Contingent Liabilities**

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

## **Events After the Balance Sheet Date**

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

## **Charges on assets**

As at 31 December 2019, no assets (2018: restricted bank deposits amount to RMB869.8 million) were pledged to certain banks for any bank borrowings (2018: RMB869.8 million) of the Group.

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

## **Gearing ratio**

As at 31 December 2019, the total assets of the Group amounted to approximately RMB19,458.6 million (2018: RMB20,332.3million) whereas the total borrowings amounted to RMB3,384.6 million (2018: RMB4,010.6 million). The gearing ratio was approximately 17.4% (2018: 19.7%). which is calculated based on the Group's total interest-bearing borrowings over total assets.

## **Foreign exchange exposure**

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

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

Except for the above, the Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities are denominated in RMB. Foreign currencies were, however, received for the export sales of products, the issuance of USD bonds and draw-down of bank borrowings. Such proceeds were subject to foreign exchange risk before receiving and converting them into RMB. The foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of USD bonds and bank borrowings by partially applying cross currency swaps to mitigate exposures arising from the fluctuations in foreign currencies of bonds and borrowings.

## **Dividend**

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

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

## Purchase, redemption or sales of listed securities of the Company

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

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

## Corporate governance report

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. During the year of 2019, the Company has complied with the Code Provisions of the Revised CG Code except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Xiao Jian Lin and Mr. Xu Zheng Hong did not attend the annual general meeting of the Company held on 15 May 2019. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

## **Audit Committee**

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group.

## **Closure of register of members**

The register of members of the Company will be closed from 25 May 2020 to 28 May 2020 (both dates inclusive), during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 28 May 2020, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 22 May 2020.

The register of members of the Company will be closed from 8 June 2020 to 10 June 2020 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 5 June 2020.

## **Annual general meeting**

The annual general meeting is expected to be held on 28 May 2020. A notice convening the annual general meeting will be dispatched to the Shareholders in due course.

By order of the Board  
**Fufeng Group Limited**  
**Li Xuechun**  
*Chairman*

Hong Kong, 31 March 2020

*As at the date of this announcement, the executive directors of the Company are Mr. Li Xuechun, Mr. Zhao Qiang, Mr. Li Deheng, Mr. Yu Yao Ming and Mr. Li Guangyu and the independent non-executive directors of the Company are Mr. Lau Chung Wai, 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 Baofeng   | 寶雞寶豐置業有限公司 (Baoji Baofeng Properties Co., Ltd.), an indirect wholly-owned subsidiary of the Company, which was disposed of on August 2018  |
| Baoji Dingfeng  | 寶雞鼎豐置業有限公司 (Baoji Dingfeng Properties Co., Ltd.), an indirect wholly-owned subsidiary of the Company, which was disposed of on August 2018 |
| Baoji Fufeng    | 寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company                                  |
| Baoji Plant     | the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC                                             |
| Board           | the board of Directors                                                                                                                     |
| Code            | Code on Corporate Governance Practice under Appendix 14 of the Listing Rules                                                               |
| COFCO           | China National Cereals, Oils and Foodstuffs Corporation                                                                                    |
| Company         | Fufeng Group Limited                                                                                                                       |
| Director(s)     | the director(s) of the Company                                                                                                             |
| 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                                                                                                    |
| Hong Kong       | the Hong Kong Special Administrative Region of the PRC                                                                                     |

|                                 |                                                                                                                                                                                 |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Hulunbeir Fufeng                | 呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company                                                     |
| Hulunbeir Plant                 | the production plant of the Group located at Hulunbeir, Inner Monogolia Autonomous Region, the PRC                                                                              |
| IM Fufeng                       | 內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company                                                                  |
| IM Plant                        | the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC                                                                                          |
| Listing 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              |
| 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 Inner Mongolia Wo Feng Agricultural Development Company Limited (內蒙古沃豐農業發展有限公司) dated 5 July 2017      |
| Share Purchase Agreement        | the share purchase agreement dated 2 September 2019 entered into between the Purchaser and the Vendors in relation to the sale and purchase of all the issued shares of Wo Feng |
| 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 Junan County (莒南縣), Shandong Province, the PRC                                                                                     |

|                        |                                                                                                                                                                                            |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Share(s)               | share(s) in the share capital of the Company                                                                                                                                               |
| Shareholder(s)         | holder(s) of the Share(s)                                                                                                                                                                  |
| Shenhua Pharmaceutical | 江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company |
| Stock Exchange         | the Stock Exchange of Hong Kong Limited                                                                                                                                                    |
| Summit Challenge       | Summit Challenge Limited, an indirect wholly-owned subsidiary of the Company                                                                                                               |
| Xinjiang Fufeng        | 新疆阜豐生物科技有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), and indirect wholly-owned subsidiary of the Company                                                                              |
| Xinjiang Plant         | the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region                                                                                                      |
| U.S.                   | the United States of America                                                                                                                                                               |
| HKD                    | Hong Kong dollars, the lawful currency of Hong Kong                                                                                                                                        |
| RMB                    | Renminbi, the lawful currency of the PRC                                                                                                                                                   |
| USD                    | United States dollars, the lawful currency of the United States of America                                                                                                                 |
| %                      | per cent                                                                                                                                                                                   |