

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 2015

HIGHLIGHTS OF GROUP RESULTS

- The PRC and global economies continued to face headwinds in 2015. The Group was able to maintain relatively steady sales performance. As the industry leader, the Group continued to consolidate its leading position in the market and adopt a competitive pricing strategy. In addition, the Group made considerable effort in developing new high value-added fermentation products in order to diversify its revenue stream, enhance profitability and provide impetus for the long-term sustainable growth of the Group
- 2015 was a notable year for our production technology enhancement and product development. Our newly enhanced production technology of MSG leads to further strengthened competitive cost advantages, which will reduce production costs and is expected to increase the yield
- As the competition intensified and the oil industry continued on a downward trend, the ASP of xanthan gum was significantly affected, and the Group recorded a decrease in its revenue and profitability during 2015 compared to 2014
- Threonine business saw particularly strong momentum with revenue increasing from RMB566.0 million in 2014 to RMB594.8 million in 2015. The production capacity of threonine was increased to 136,000 tonnes at the end of 2015
- In 2015, the Group continued to enhance its product mix and diversity. In particular, our high-end amino acid products continue to have positive development in terms of growth and market coverage and are now sold to customers in the food, healthcare, pharmaceutical and high-end skincare industries
- ASP of MSG witnessed an upward trend in the first three quarters of 2015. With the short term market fluctuation and our pricing strategy to strengthen market share and leadership, the ASP of MSG dropped by approximately RMB1,000 in the fourth quarter to about RMB6,187 per tonne. The overall gross profit margin of Amino acid segment decreased to 14.1% (2014: 14.6%)
- Overall revenue remained relatively stable at approximately RMB11,225.7 million (2014: RMB11,297.7 million). The slight decrease in revenue was primarily caused by the decrease in the ASP of xanthan gum, which was only partially offset by the slight increase in the ASP of MSG and the increase of the revenue from high-end amino acid products
- Gross profit decreased from approximately RMB2,166.9 million in 2014 to approximately RMB1,802.5 million in 2015. Gross profit margin of the Group decreased to about 16.1% (2014: 19.2%)
- Because of intense competition and weak market conditions in the global oil industry, the ASP of xanthan gum decreased to RMB15,013 per tonne in 2015 (2014: RMB20,613). As a result, the gross profit margin of xanthan gum segment decreased to 36.6% (2014: 52.7%)
- Profit attributable to the Shareholders decreased by about 17.6% to approximately RMB516.3 million (2014: RMB626.4 million)
- Earnings per share (Basic) was RMB24.36 cents (2014: RMB29.98 cents)
- Return on equity was 8.9% (2014: 11.7%)
- Final dividend of HK1.3 cents (2014: HK4.4 cents) per share has been recommended by the Board
- The sum of paid interim dividend and proposed final dividend is HK5.8 cents per share (2014: HK7.4 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 2015, together with the comparative figures for the year ended 31 December 2014, as follows:

Consolidated Income Statement

For the year ended 31 December 2015

	<i>Note</i>	Year ended 31 December	
		2015 RMB'000	2014 <i>RMB'000</i>
Revenue	3	11,225,722	11,297,696
Cost of sales		(9,423,231)	(9,130,831)
Gross profit		1,802,491	2,166,865
Selling and marketing expenses		(708,931)	(706,243)
Administrative expenses		(512,997)	(458,362)
Other operating expenses		(47,375)	(68,265)
Other income		440,503	161,278
Other gains – net		59,783	12,499
Operating profit		1,033,474	1,107,772
Finance income		14,412	12,610
Finance costs		(368,112)	(346,206)
Finance costs – net		(353,700)	(333,596)
Profit before income tax		679,774	774,176
Income tax expense	4	(163,513)	(147,748)
Profit for the year and attributable to the Shareholders		516,261	626,428

		Year ended 31 December	
	Note	2015 RMB	2014 RMB
Earnings per share for profit attributable to the Shareholders during the year (expressed in RMB cents per share)			
– basic	5	24.36	29.98
– diluted	5	24.14	28.67

	<i>Note</i>	Year ended 31 December	
		2015 RMB'000	2014 <i>RMB'000</i>
Dividends	6	102,347	123,256

Consolidated Balance Sheet

As at 31 December 2015

		As at 31 December	
	Note	2015 RMB'000	2014 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments		1,510,060	1,748,704
Property, plant and equipment		7,566,778	7,470,082
Intangible assets		1,051	2,554
Deferred income tax assets		143,072	113,655
		9,220,961	9,334,995
Current assets			
Inventories		2,191,849	1,946,014
Trade and other receivables	7	1,213,787	1,451,721
Cash and bank balances		1,019,069	961,547
		4,424,705	4,359,282
Assets of disposal group classified as held for sale		204,512	–
		4,629,217	4,359,282
Total assets		13,850,178	13,694,277
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		207,222	205,243
Share premium		555,157	638,986
Other reserves		227,655	190,377
Retained earnings		4,817,025	4,334,460
Total equity		5,807,059	5,369,066
LIABILITIES			
Non-current liabilities			
Deferred income	8	752,287	536,550
Borrowings	9	1,992,221	3,702,482
Deferred income tax liabilities		16,650	19,040
		2,761,158	4,258,072
Current liabilities			
Trade, other payables and accruals	10	3,311,193	3,203,415
Current income tax liabilities		68,377	50,559
Borrowings	9	1,845,920	813,165
		5,225,490	4,067,139
Liabilities of disposal group classified as held for sale		56,471	–
		5,281,961	4,067,139
Total liabilities		8,043,119	8,325,211
Total equity and liabilities		13,850,178	13,694,277

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. Summary of Significant Accounting Policies

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

1.1 Basis of preparation

The consolidated financial statements of Fufeng Group Limited (the “Company”) have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention.

Certain comparative amounts have been reclassified to conform to the current period’s presentation. These reclassifications only impacted the reclassification of the consolidated income statement and equity respectively and had no effect on reported total assets, liabilities, equity or profit.

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

As at 31 December 2015, the Group’s current liabilities exceeded its current assets by RMB652,744,000. Such a condition indicated the existence of an uncertainty that may cast doubt about the Group’s ability to continue its business as a going concern. The Directors have been making effort to ensure that the Group has sufficient financial resources. The Group obtained an approval by the National Association of Financial Market Institutional Investors to issue new medium-term notes amounted to RMB600,000,000 subsequently in 2016 and such medium-term notes have not been issued yet as at the approval date of these financial statements. Taking into account the funds to be generated internally from the Group’s operations and the availability of the financial resources, the Directors believe that the Group will be able to meet its debts and commitments as they fall due within the next twelve months after 31 December 2015. Accordingly, the financial statements have been prepared on a going concern basis.

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

1.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures

(a) New amendments of HKFRSs adopted by the Group in 2015

The following new amendments of HKFRSs which are relevant to the Group's operations are effective for the first time for the financial year beginning on 1 January 2015.

- Annual improvements 2012 include changes from the 2010–2012 cycle of the annual improvements project that are effective for relevant transactions executed on or after 1 July 2014:
 - Amendment to HKFRS 8 'Operating Segments' require disclosure of the judgements made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported.
 - Amendment to HKAS 24 'Related Party Disclosures' clarify that the reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity's employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.
- Annual improvements 2013 include changes from the 2011–2013 cycle of the annual improvements project, that are effective for relevant transactions executed on or after 1 July 2014:
 - Amendment to HKFRS13 'Fair Value Measurement' clarify the portfolio exception allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of HKAS 39 or HKFRS 9.

The adoption of the above new amendments of HKFRSs starting from 1 January 2015 did not give rise to any significant impact on the Group's results of operations and financial position for the year ended 31 December 2015.

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

1.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

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

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New standards and amendments of HKFRSs which have been issued and are relevant to the Group's operations and effective for the financial year beginning after 1 January 2015 and have not been early adopted by the Group

- Amendments to HKAS 16 and 38 clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendments are effective for annual periods beginning on or after 1 January 2016.
- Amendment to HKAS 27 on equity method in separate financial statements. The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is effective for annual periods beginning on or after 1 January 2016.
- Annual improvements 2014 – These annual improvements address certain issues in the 2012–2014 reporting cycle, primarily with a view to removing inconsistencies and clarifying wording. They include changes to the following standards which are relevant to the Group's operations. These annual improvements are effective for annual periods beginning on or after 1 January 2016.

HKFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'

HKFRS 7 'Financial Instruments: Disclosure'

HKAS 19 'Employee Benefits'

HKAS 34 'Interim Financial Reporting'

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

1.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

(c) New standards and amendments of HKFRSs which have been issued and are relevant to the Group's operations and effective for the financial year beginning after 1 January 2015 and have not been early adopted by the Group *(Continued)*

- HKFRS15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control.

HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

HKFRS 15 replaces the previous revenue standards: HKAS 18 'Revenue' and HKAS 11 'Construction Contracts', and the related Interpretations on revenue recognition: HK(IFRIC) 13 'Customer Loyalty Programmes', HK(IFRIC) 15 'Agreements for the Construction of Real Estate', HK(IFRIC) 18 'Transfers of Assets from Customers' and SIC-31 'Revenue – Barter Transactions Involving Advertising Services'. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018.

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

1.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

(c) New standards and amendments of HKFRSs which have been issued and are relevant to the Group's operations and effective for the financial year beginning after 1 January 2015 and have not been early adopted by the Group *(Continued)*

- HKFRS 9 'Financial Instruments' replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivable this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more 'rule-based' approach of HKAS39. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018.

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

2. Critical Accounting Estimates and Judgements

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

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

2.1 Estimated impairment of property, plant and equipment

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with the accounting policy. 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.

2.2 Useful lives of plant and equipment

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

2.3 Net realisable value of inventories

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

2.4 PRC taxes

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

3. Segment Information

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

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

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

Approximately 75% (2014: 78%) of the Group's revenue are generated from the PRC.

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

The revenue of the Group for the years ended 31 December 2015 and 2014 are set out as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
MSG	6,418,049	6,015,937
Corn refined products	1,314,548	1,572,653
Xanthan gum	969,278	1,347,826
Starch sweeteners	724,002	778,430
Threonine	594,830	566,033
Fertilisers	483,257	476,401
High-end amino acid products	490,732	341,219
Pharmaceuticals	73,702	58,189
Synthesis ammonia	56,019	52,637
Glutamic acid	42,068	37,217
Corn oil	35,937	19,381
Others	23,300	31,773
	11,225,722	11,297,696

3. Segment Information *(Continued)*

The segment information for the year ended 31 December 2015 is as follows:

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Group RMB'000
Revenue	10,256,444	969,278	–	11,225,722
Segment results	757,638	289,006	(13,170)	1,033,474
Finance costs – net				(353,700)
Profit before income tax				679,774
Income tax expense <i>(Note 4)</i>				(163,513)
Profit for the year attribute to the Shareholders				516,261
Other segment items included in the consolidated income statement				
Depreciation	680,112	65,128	1,573	746,813
Amortisation of leasehold land payments	14,792	1,615	86	16,493
Amortisation of intangible assets	2,788	–	–	2,788
Loss on disposal of property, plant and equipment – net	2,248	–	–	2,248
Impairment charges for property, plant and equipment	60	–	–	60
Capital expenditures	988,108	59,350	80,637	1,128,095

The segment assets and liabilities at 31 December 2015 are as follows:

	Amino acid RMB'000	Xanthan gum RMB'000	Unallocated RMB'000	Disposal group held for sale RMB'000	Group RMB'000
Segment assets and liabilities					
Total assets	8,668,125	3,861,218	1,116,323	204,512	13,850,178
Total liabilities	5,051,084	1,030,067	1,905,497	56,471	8,043,119

3. Segment Information *(Continued)*

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

	Amino acid <i>RMB'000</i>	Xanthan gum <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Revenue	9,949,870	1,347,826	–	11,297,696
Segment results	479,730	644,982	(16,940)	1,107,772
Finance costs – net				(333,596)
Profit before income tax				774,176
Income tax expense (<i>Note 4</i>)				(147,748)
Profit for the year attribute to the Shareholders				626,428
Other segment items included in the consolidated income statement				
Depreciation	642,910	62,604	1,597	707,111
Amortisation of leasehold land payments	11,707	348	86	12,141
Amortisation of intangible assets	247	–	–	247
Gain on disposal of property, plant and equipment – net	9,900	–	–	9,900
Impairment charges for property, plant and equipment	58,381	–	–	58,381
Impairment charges for intangible assets	861	–	–	861
Capital expenditures	1,180,749	67,837	1,114,122	2,362,708

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

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

3. Segment Information *(Continued)*

Unallocated assets mainly comprise cash and bank balances, leasehold land payments, property, plant and equipment and other receivables held by Beijing Huijinhua Commercial Co., Ltd., Junan Beifang Properties Co., Ltd., Junan Beibu Properties Co., Ltd., Baoji Dingfeng Properties Co., Ltd., Baoji Baofeng Properties Co., Ltd., Hulunbeir Shengmin Agricultural Development Co., Ltd. and non-PRC established companies.

Unallocated liabilities mainly comprise bank borrowings, listing expense payables related to the spin-off of Shenhua Health Holdings Limited and its subsidiaries ("Shenhua Health Group"), liability component of convertible bonds, senior notes, operating liabilities held by non-PRC established companies.

The Group's revenue from its external customers in the PRC is RMB8,442,697,000 (2014: RMB8,838,222,000) and the total revenue from external customers in Hong Kong and other countries is RMB2,783,025,000 (2014: RMB2,459,475,000).

The Group's total non-current assets located in the PRC other than deferred income tax assets are RMB9,077,822,000 (2014: RMB9,221,212,000), and the total non-current assets located in Hong Kong and Singapore other than deferred income tax assets are RMB67,000 (2014: RMB128,000).

4. Income Tax Expense

	2015 RMB'000	2014 RMB'000
Current income tax		
– PRC enterprise income tax ("EIT")	199,709	174,302
– Hong Kong income tax	31	–
– Singapore income tax	218	115
Total current income tax	199,958	174,417
Deferred income tax	(36,445)	(26,669)
	163,513	147,748

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 subsidiary in Hong Kong is subject to income tax at a rate of 16.5% (2014: 16.5%) on the estimated assessable profit for the year ended 31 December 2015.

The Group's subsidiary in Singapore is subject to income tax at a rate of 17% (2014: 17%) for the year ended 31 December 2015.

The Group's subsidiary in United States is subject to income tax at a rate of approximately 39% (2014: not applicable) for the year ended 31 December 2015.

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

5. Earnings Per Share

(a) Basic

Basic earnings per share for the years ended 31 December 2015 and 2014 are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Profit attributable to the Shareholders	516,261	626,428
Weighted average number of ordinary shares in issue excluding ordinary shares purchased by the Company (thousands)	2,118,865	2,089,554
Basic earnings per share (RMB cents per share)	24.36	29.98

(b) Diluted

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

For the year ended 31 December 2015, outstanding share options issued in April 2015 are anti-diluted which are not included in calculation of diluted earnings per share.

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Earnings		
Profit attributable to the Shareholders	516,261	626,428
Interest expense on convertible bonds (net of tax)	62,842	58,617
Profit used to determine diluted earnings per share	579,103	685,045
Weighted average number of ordinary shares in issue excluding ordinary shares purchased by the Company (thousands)	2,118,865	2,089,554
Adjustments for:		
– Assumed conversion of convertible bonds (thousands)	280,049	297,114
– Share options (thousands)	–	3,103
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,398,914	2,389,771
Diluted earnings per share (RMB cents per share)	24.14	28.67

6. Dividends

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Interim, paid	79,124	49,720
Final, proposed	23,223	73,536
	102,347	123,256

The final dividends paid in 2015 were HKD92,823,000 (equivalent to RMB73,536,000) (2014: RMB65,925,000), representing HK4.4 cents (equivalent to RMB3.49 cents per share) (2014: 3.16 cents) per ordinary share of the Company.

At a meeting held on 15 March 2016, the Board proposed a final dividend of HKD27,647,000 (equivalent to RMB23,223,000) (2014: RMB73,536,000), representing HK1.3 cents (equivalent to RMB1.09 cents) (2014: RMB3.49 cents) per share to be distributed from the share premium account. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation from the share premium account for the year ended 31 December 2016.

7. Trade and Other Receivables

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade receivables (a)	399,614	352,932
Less: provision for impairment of trade receivables (b)	–	(4,510)
Trade receivables – net	399,614	348,422
Notes receivable (c)	418,293	663,638
Deposits and others	74,423	18,690
Loans to employees	1,402	2,643
– Loans to key management	–	–
– Loans to other employees	1,402	2,643
Value-added tax for future deduction	71,114	99,607
Trade and other receivables excluding prepayments	964,846	1,133,000
Prepayments for raw materials	248,941	318,721
	1,213,787	1,451,721

7. Trade and Other Receivables *(Continued)*

- (a) As at 31 December 2015 and 2014 the ageing analysis of trade receivables based on invoice date was as follows:

	2015 RMB'000	2014 <i>RMB'000</i>
Within 3 months	348,549	331,627
3–12 months	48,562	14,833
Over 12 months	2,503	6,472
	399,614	352,932

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

- (b) As at 31 December 2015, trade receivables of RMB27,795,000 (2014: RMB11,838,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2015 RMB'000	2014 <i>RMB'000</i>
Past due within 3 months	16,897	8,795
Past due in 3–12 months	10,898	3,043
	27,795	11,838

As at 31 December 2015, trade receivables of RMB4,749,000 (2014: RMB4,510,000) were impaired and fully provided for impairment. The individually impaired receivables relate to customers who were in unexpectedly difficult economic situations and were therefore provided for. As at 31 December 2015, all impaired receivables were transferred to assets of disposal group classified as held for sale.

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

	2015 RMB'000	2014 <i>RMB'000</i>
As at 1 January	4,510	4,510
Provision for receivables impairment	239	–
Transferred to disposal group classified as held for sale	(4,749)	–
At 31 December	–	4,510

7. Trade and Other Receivables *(Continued)*

- (c) As at 31 December 2015, notes receivable were all bank acceptance notes aged less than six months, including a total amount of RMB353,519,000 (2014: RMB591,499,000) that have been endorsed to settle the amounts payable to the Group's suppliers.
- (d) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values as at the balance sheet date.
- (e) The carrying amounts of the Group's trade and other receivables excluding prepayments are denominated in the following currencies:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
– RMB	629,939	869,919
– USD	334,907	263,081
	964,846	1,133,000

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

8. Deferred Income

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Government grants related to income tax credit from purchasing qualified equipment	100,139	115,119
Government grants related to acquisition of environment protection and technology improvement equipment	490,094	325,328
Government grants related to urban planning of local PRC governments	162,054	96,103
	752,287	536,550

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

9. Borrowings

	2015 RMB'000	2014 RMB'000
Non-current		
Bank borrowings, unsecured	635,477	–
Bank borrowings, secured	370,000	360,000
Corporate bonds	986,744	–
Convertible bonds	–	921,061
Senior notes	–	1,823,875
Medium-term notes	–	597,546
	1,992,221	3,702,482
Current		
Bank borrowings, unsecured	294,808	760,000
Bank borrowings, secured	50,000	40,000
Convertible bonds	901,734	13,165
Medium-term notes	599,378	–
	1,845,920	813,165
Total Borrowings	3,838,141	4,515,647

At 31 December 2015, the Group's borrowings were repayable as follows:

	The Group			
	Bank borrowings		Other loans	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Within 1 year	344,808	800,000	1,501,112	13,165
Between 1 and 2 years	835,477	40,000	–	2,421,421
Between 2 and 5 years	170,000	320,000	986,744	921,061
	1,350,285	1,160,000	2,487,856	3,355,647

As at 31 December 2015, the bank borrowings included RMB420,000,000 (2014: RMB400,000,000) borrowings which are secured by leasehold land of the Group.

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

	2015	2014
Bank borrowings	4.13%	6.10%

10. Trade, Other Payables and Accruals

	2015 RMB'000	2014 RMB'000
Trade payables (a)	1,195,564	987,197
Advances from customers (b)	510,875	213,476
Payables for property, plant and equipment	866,878	662,608
Bank acceptance notes payable	47,606	494,760
Government compensation related to property, plant and equipment disposal received in advance	151,144	280,052
Salaries, wages and staff welfares payables	347,628	276,788
Interest payables	33,682	61,152
Government grants received in advance	15,005	13,000
Dividends payable	407	407
Other payables and accruals	142,404	213,975
	3,311,193	3,203,415

- (a) As at 31 December 2015 and 2014, the ageing analysis of trade payables based on invoice date was as follows:

	2015 RMB'000	2014 RMB'000
Within 3 months	798,319	762,492
3 to 6 months	263,308	140,307
6 to 12 months	87,786	49,692
1 to 2 years	36,410	27,737
Over 2 years	9,741	6,969
	1,195,564	987,197

- (b) Advances from customers represented cash advances received from customers for purchase of the Group's products and would be applied for settlement when sales occur.
- (c) Trade and other payables are unsecured and interest-free. The carrying amounts of trade and other payables approximate their fair values and are mainly denominated in RMB.

11. Commitments

(a) Capital commitments

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Purchase of property, plant and equipment		
– Contracted but not yet incurred	71,329	53,155

(b) Operating lease commitments – the Group as lessee

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
No later than 1 year	3,036	4,079
Later than 1 year and no later than 5 years	1,117	14
	4,153	4,093

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Overview

The PRC and global economies continued to face difficulties and challenges in 2015. Despite this, 2015 saw stable development for the Group's core businesses. As the industry leader, the Group continued to consolidate its leading position in the market and adopt a competitive pricing strategy. In addition, the Group made considerable effort in developing high value-added fermentation products in order to diversify its revenue stream, enhance profitability and provide impetus for the long-term sustainable growth of the Group.

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

In addition, 2015 was a notable year for our production technology enhancement and product development. Our newly enhanced production technology of MSG leads to further strengthened competitive cost advantages which will reduce production costs and expect to increase the yield. Tests for new production technology of MSG were conducted in Baoji Plant in the past few years. The consumption of sugar and liquid ammonia required during the production of glutamic acid substantially decreased when adopting the new production technology, which led to an obvious decrease in the cost per tonne. On the other hand, annual production capacity of threonine increased to 136,000 tonnes at the end of 2015 and the high-end amino acid products successfully expanded in terms of product development and market share. Therefore, we are more confident that we can become one of the world's leading providers of threonine and high-end amino acid products.

We believe that sustainable development is indispensable to the Group's continuous pursuit of environmental protection and social contribution. As for environmental protection, the Group has continued investing in energy-saving equipment. The production facilities, with low carbon emission, aim to minimise the influence of our business on the environment. We have also placed great emphasis on product quality and food safety, so as to build up the highly acclaimed reputation of good quality and track record among our clients and end-users. In 2015, we invested about RMB70 million to substantially reduce pollution resulting from waste gas emissions. Also, the new production technology is an environmentally-friendly technology helping to reduce waste and waste water produced.

With the global economy quite weak and oil industry in a downward trend, the ASP of our xanthan gum was significantly affected, and the Group recorded a decrease in its overall gross profit and net profit during 2015 compared to 2014. Even though overall revenue of the Group remained fairly stable during the year under comparison, the Group was able to rely on new products such as high-end amino acid products and effective implementation of production technology enhancement and cost control to maintain overall performance in 2015. In terms of production capacity, the overall production capacity of MSG and xanthan gum of the Group, maintained at 940,000 tonnes per annum and 87,500 tonnes per annum, respectively in 2015, remaining almost fully operational.

For the year ended 31 December 2015, revenue for the Group remained relatively stable at approximately RMB11,225.7 million as compared to approximately RMB11,297.7 million for the year ended 31 December 2014. The slight decrease in revenue was primarily caused by the decrease in the ASP of xanthan gum and only slight increase in the ASP of MSG.

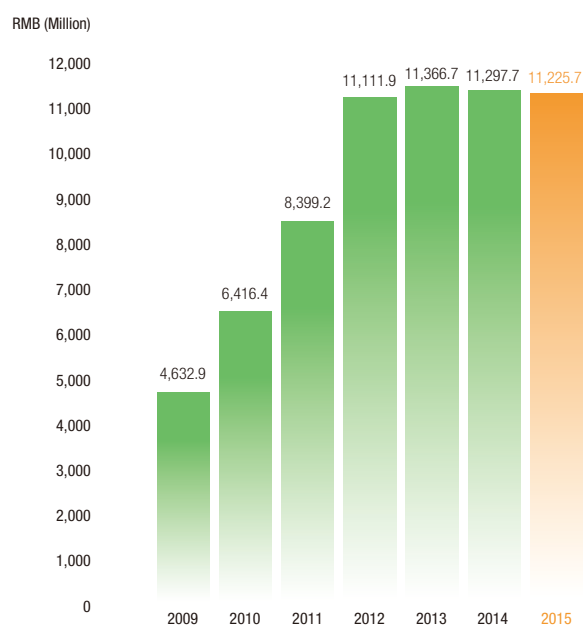
Benefiting from the MSG market consolidation and the stabilisation of demand and supply of MSG, the ASP of MSG increased moderately in the first three quarters in 2015. However, it dropped by approximately RMB1,000 in the fourth quarter, to about RMB6,187. Since the average price of corn kernels decreased a lot in the fourth quarter, from about RMB1,912 per tonne in the third quarter to about RMB1,502 per tonne in the fourth quarter, the Group managed to cut the MSG price proactively in order to ramp up sales of MSG and strengthen its market share.

Despite a decrease in the ASP of xanthan gum, the Group was able to maintain the production volume of xanthan gum near full capacity level with a resulting sales volume of xanthan gum of about 63,517 tonnes in 2015, which slightly decreased by about 2.1% compared to 2014.

Our Amino acid segment (formerly named MSG segment), is primarily made up of our MSG, threonine and high-end amino acid products. In terms of MSG business, despite an increase in 2015, the ASP of MSG still remained at a relatively low level and the Group continued to face lackluster conditions in the domestic catering and consumer markets as well as pricing pressure due to market competition. Despite the challenging market conditions, the Group was able to maintain its leadership in terms of market share and sales volume by leveraging its cost advantages to adopt a competitive pricing strategy. As such, the Group recorded decreases in gross profit and gross profit margin in our Amino acid segment, mainly due to inventory clearance of fertilisers and the ASP of MSG decreased in the fourth quarter of 2015 which offset the effect from the decrease of raw material costs in 2015 and production technology enhancement leading to the further strengthened competitive cost advantage, as well as the increasing contribution from the sales of higher margin products such as high-end amino acid products. The high-end amino acid products, a relatively new business of the Group, continued to increase its revenue contribution to the Group in 2015.

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

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



For the year of 2015, revenue of the Group remained relatively stable at approximately RMB11,225.7 million as compared to approximately RMB11,297.7 million for the year of 2014.

The slight decrease in revenue was primarily caused by the decrease in the ASP of xanthan gum, which was only partially offset by the slight increase in the ASP of MSG and the increase of the revenue from high-end amino acid products. Industry consolidation of MSG was generally completed in the first half of 2014, and with demand and supply of MSG stabilising, the ASP of MSG increased moderately in the first three quarters in 2015. However, it dropped by approximately RMB1,000 in the fourth quarter, to about RMB6,187. Since the price of corn kernels decreased a lot in the fourth quarter, from about RMB1,912 in the third quarter to about RMB1,502 in the fourth quarter, the Group managed to cut the MSG price proactively in order to ramp up sales of MSG and strengthen its market share. Despite a decrease in the ASP of xanthan gum, the Group was able to maintain the sales volume of xanthan gum under the weak global economy, mainly due to the downward trend of the oil industry. In addition, the Group actively managed the business of xanthan gum by optimising the customer portfolio and raising the proportion of customers in the food sector. The Group's overall gross profit decreased from approximately RMB2,166.9 million in 2014 to approximately RMB1,802.5 million in 2015. This represents a decrease of 16.8%, primarily due to the decrease in gross profit margin of xanthan gum.

In 2015, the ASP of the Group's MSG increased by 4.0% compared to 2014. However, the ASP of the Group's xanthan gum decreased by 27.2% compared to 2014 due to intense competition and weak market conditions in the global oil industry. Production costs of the Group, including the prices of corn kernels, chemical products, and coal decreased as compared to 2014 due to overall weakness in local and global market demand. The Group's overall gross profit margin decreased by 3.1 percentage points to around 16.1% in 2015, primarily due to the effect from the increase in gross profit margin of MSG and starch sweeteners, and the higher gross profit margins enjoyed by our high-end amino acid products and threonine, which were offset by a decrease in gross profit margin of xanthan gum.

In view of the challenging market conditions, the Group continued to actively implement cost controls. The relatively stable gross profit margin of Amino acid segment in 2015 demonstrated the Group's ability to leverage on its economies of scale and production capabilities to manage its costs effectively.

The production and sales volume of MSG increased by about 1.2% and about 2.4% in 2015 as compared to 2014, respectively. The production volume of MSG slightly increased as a result of the improvement of efficiency of overall production capacity of MSG.

The production volume of xanthan gum increased by about 1.3% but sales volume decreased by about 2.1% in 2015 compared to 2014. The production volume of xanthan gum increased primarily as the Group was able to ramp up production of xanthan gum at its Xinjiang Plant from the beginning of 2014.

High-end Amino Acid Business

In addition to our high-end amino acid products, we continued the development of threonine business. Threonine is a type of amino acid which is used as an animal feed additive. During the year, the total sales amount of threonine reached RMB594.8 million, representing an increase of 5.1% compared to 2014. In 2015, the Group sold approximately 53,605 tonnes of threonine as compared to approximately 54,992 tonnes in 2014.

The high-end amino acid business, as part of our Amino acid segment, is the Group's new growth driver. The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging on 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. During the year, the total sales amount of high-end amino acid products reached RMB490.7 million, representing an increase of 43.8% compared to 2014. Our high-end amino acid products generally enjoy higher profitability and focus on healthcare and pharmaceutical materials industries.

In the course of new product market exploration, we accessed many new customers for personal care and healthcare products. From the perspective of a raw material supplier, there are huge business opportunities for the Group to further capture. In addition, on the basis of existing products, we still have ample room for growth. At the end of 2015, we successfully launched two products, pectin and polyglutamic acid which were undergoing market trials.

The short-term goal of the Group is to become one of the world's top three producers and suppliers by market share for several of our key amino acid product types. 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 has allowed us to maintain our overall revenue growth momentum in 2015.

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

Market Overview

Amino acid segment (formerly named as MSG segment)

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

Benefiting from the MSG market consolidation, the ASP of MSG stabilised and exhibited an upward trend since the second half of 2014. Although the ASP of MSG is in upward trend, it is still fluctuating and at low level in line with the Group's pricing strategy to strengthen our market share, helped by a decrease in raw material costs as the local and global economies remained weak in 2015.

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

Xanthan gum segment

The market demand for xanthan gum remained relatively stable in 2015, but the ASP of xanthan gum decreased significantly due to intense competition and weak market conditions in the global oil industry in 2015. Even though costs of major raw materials including corn kernels and coal remained relatively stable during the year as compared to 2014, the Group remained committed to controlling costs and improving operational efficiency in the face of pricing pressure of xanthan gum. The Group will continue to review and adjust its pricing strategy and production capacity planning in order to expand its market share going forward. In terms of production capacity, the Group is now the largest producer in the world for xanthan gum, in which the market is dominated by the global top three xanthan gum producers.

Operational Review of the Group

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

Turnover/Gross profit/Gross profit margin of the Group

	Year ended 31 December		Change %
	2015	2014	
Turnover (RMB'000)	11,225,722	11,297,696	(0.6)
Gross profit (RMB'000)	1,802,491	2,166,865	(16.8)
Gross profit margin (%)	16.1	19.2	(3.1) ppts.

The slight decrease in turnover of the Group was mainly due to the decrease in ASP of xanthan gum, whilst the Group witnessed increases in sales volume of MSG and high-end amino acid products. On the other hand, the ASP of MSG demonstrated an upward trend after the market consolidation. However, it dropped in the fourth quarter of 2015 due to competitive pricing strategy. These are discussed in more detail in the following sections.

Profit attributable to the Shareholders

	Years ended 31 December		Change %
	2015 RMB'000	2014 RMB'000	
As reported	516,261	626,428	(17.6)

Despite a slight recovery in the MSG industry and significant reduction in gross profit margin of xanthan gum in 2015, the gross profit margin of amino acid products slightly decreased in 2015. While other sales and administrative and finance costs remained relatively stable in 2015, the net profit attributable to the Shareholders for 2015 decreased by about 17.6% as compared to 2014, primarily as a result of reduction in gross profit margin of xanthan gum, which offset growth in the Group's high-end amino acid business, the slight recovery in MSG market conditions witnessed in 2015 and the realisation of a governments grant related to urban planning of local PRC governments, given that such relevant lands were sold by means of disposal of a wholly owned subsidiary, Junan Beicheng Property Company Limited, in the first half of 2015.

In addition, the Group decreased the level of capital expenditure and also fully repaid the senior notes in order to decrease total borrowings and reduce the finance costs of the Group.

Segment Highlights

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

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

	Years ended 31 December 2015			Years ended 31 December 2014			Increase/(Decrease)		
	Amino acid	Xanthan gum	Group	Amino acid	Xanthan gum	Group	Amino acid	Xanthan gum	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%	%	%
	audited	audited	audited	audited	audited	audited	audited	audited	audited
Revenue	10,256,444	969,278	11,225,722	9,949,870	1,347,826	11,297,696	3.1	(28.1)	(0.6)
Gross profit	1,447,537	354,954	1,802,491	1,456,452	710,413	2,166,865	(0.6)	(50.0)	(16.8)
Gross profit ratio	14.1%	36.6%	16.1%	14.6%	52.7%	19.2%	(0.5) ppts.	(16.1) ppts.	(3.1) ppts.
Segment results	757,638	289,006		479,730	644,982		57.9	(55.2)	
Segment net assets									
Assets	8,668,125	3,861,218		8,683,179	3,658,365		(0.2)	5.5	
Liabilities	5,051,084	1,030,067		4,022,494	1,071,167		25.6	(3.8)	

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

Amino acid segment

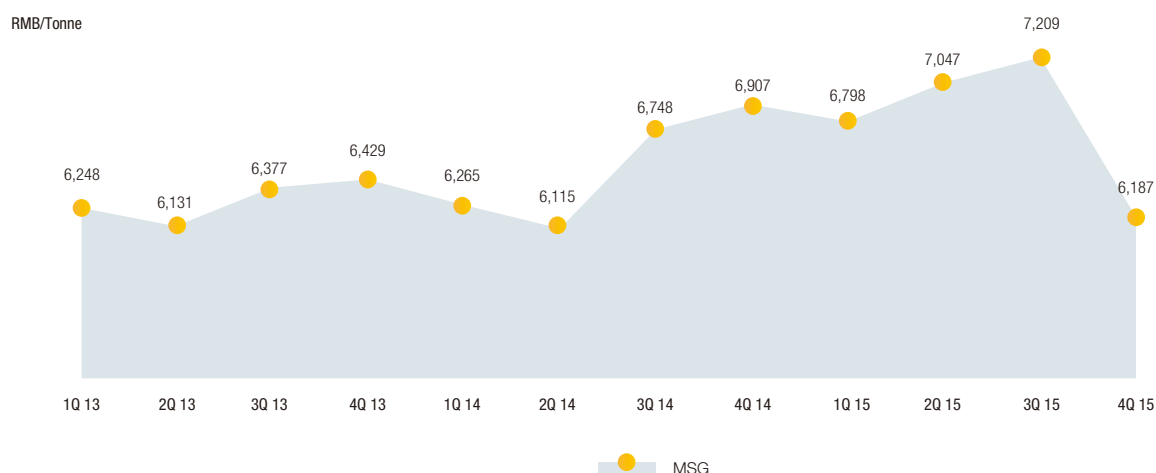
Revenue and ASP

Revenue generated from the sales of the Amino acid segment products increased to approximately RMB10,256.4 million in 2015, representing an increase of RMB306.5 million or 3.1%, as compared with that in 2014, which was mainly attributed to the increase in the ASP of MSG and the increase in revenue contribution from sales of high-end amino acid products. Sales volume of MSG was approximately 947,435 tonnes in 2015, representing an increase of 2.4% as compared with that in 2014.

The table below sets out the revenue of the products in this segment for the years ended 31 December 2015 and 2014:

Product	Years ended 31 December		Change %
	2015	2014	
	RMB'000	RMB'000	
MSG	6,418,049	6,015,937	6.7
Glutamic acid	42,068	37,217	13.0
Fertilisers	483,257	476,401	1.4
Corn refined products	1,314,548	1,572,653	(16.4)
Starch sweeteners	724,002	778,430	(7.0)
Threonine	594,830	566,033	5.1
High-end amino acid products	490,732	341,219	43.8
Corn oil	35,937	19,381	85.4
Compound seasoning	16,117	10,419	54.7
Others	136,904	132,180	3.6
	10,256,444	9,949,870	3.1

Set out below is a chart showing the ASP of the Group's MSG for each quarter from the first quarter of 2013 to the fourth quarter of 2015:



MSG

The Group was able to maintain its leading position in the MSG business through utilising its strong production capacity, stepping up marketing efforts and maintaining competitive pricing. While the ASP of MSG increased by 4.0%, from approximately RMB6,482 per tonne in 2014 to approximately RMB6,744 per tonne in 2015, sales volume increased slightly by 2.4% to about 947,435 tonnes as compared with 2014. With a pricing strategy to strengthen our market share and leadership, the ASP of MSG in the fourth quarter of 2015 fell to approximately RMB6,187 per tonne. As a result, the overall ASP of MSG for 2015 only increased by 4.0% compared to 2014, resulting in the turnover of MSG in 2015 increasing by only 6.7%.

In 2015, the Group also strengthened the export of MSG products and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers. The export of MSG in term of sales volume increased by 10.5% in 2015, which amounted to about RMB1,092.5 million, as compared to about RMB942.9 million in 2014.

Fertilisers

Due to weak market demand, the ASP of fertilisers decreased from approximately RMB651 per tonne in 2014 to approximately RMB380 per tonne in 2015, representing a decrease of about 41.6%. The ASP of fertilisers was far from expectation due to inventory clearance, which resulted in a significant accounting loss.

Corn refined products

In line with the cost of corn kernels, the ASP of corn refined products fell in 2015. The revenue of corn refined products decreased by about 16.4% in 2015 as compared with that in 2014, which was in line with the consumable volume of corn kernels for production in 2015.

Starch sweeteners

Turnover of starch sweeteners decreased by about 7.0% to RMB724.0 million in 2015, primarily due to the ASP of starch sweeteners, which slightly decreased to approximately RMB2,954 per tonne, while sales volume of starch sweeteners also slightly decreased to about 244,741 tonnes in 2015. The Group was able to satisfy market demand as the annual production capacity of starch sweeteners has reached 260,000 tonnes since July 2014.

Threonine

Threonine, mainly used as an animal feed additive, has been going from strength to strength. It is an essential amino acid which maintains body protein balance and promotes the growth of living things. The total revenue of threonine increased by about 5.1% in 2015 as compared to 2014, primarily as a result of a significantly higher ASP of threonine. The ASP of threonine increased by about 7.8% to approximately RMB11,097 per tonne in 2015 from approximately RMB10,293 per tonne in 2014. Sales volume of threonine was about 53,605 tonnes in 2015.

High-end amino acid products

The new high-end amino acid products commenced production in our new Xinjiang Plant since 2013. The range of our high-end amino acid products includes valine, leucine, isoleucine, glutamine and hyaluronic acid. Sales increased to approximately RMB490.7 million in 2015 as compared to approximately RMB341.2 million in 2014. 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 products by capitalising on our research and development capabilities and resources advantage to realise the Group's development strategy of "Low Investment – High Return".

In 2015, the Group developed new specialty ingredients such as pectin, polyglutamic acid and other high-end amino acid products. The Group aims to improve product diversity and increase sales and penetration in health supplements, pharmaceutical and skin care related industries.

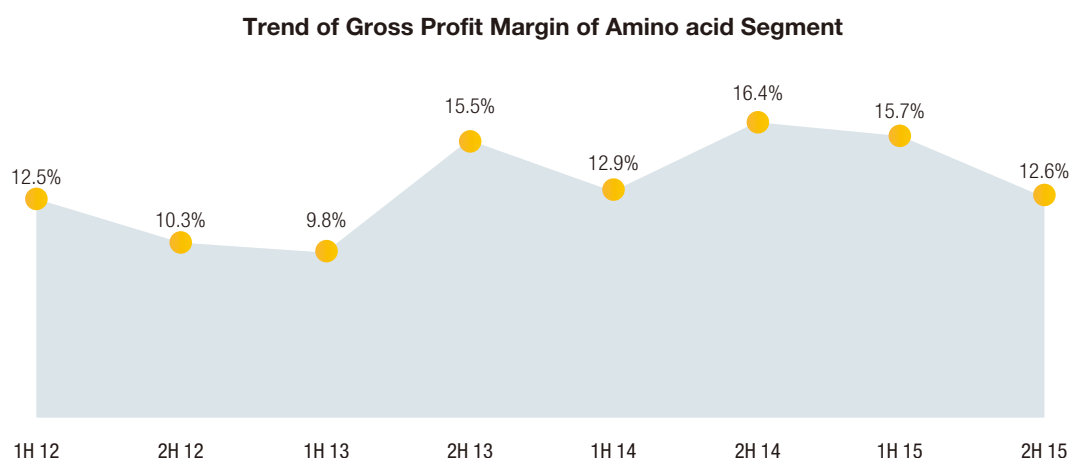
Gross Profit and Gross Profit Margin

The gross profit of this segment is set out below:

	Years ended 31 December		
	2015	2014	Change
Gross profit (RMB'000)	1,447,537	1,456,452	(0.6)%
Gross profit margin (%)	14.1	14.6	(0.5) ppts.

Gross profit decreased to RMB1,447.5 million and gross profit margin decreased by 0.5 percentage points to 14.1%, primarily due to the weakness in the China and global economies. The Group adopted a competitive pricing strategy to strengthen market share and leadership in the MSG market in the fourth quarter of 2015. The Group managed to reduce the ASP of MSG to a relative low level in the fourth quarter of 2015 and inventory clearance of fertilisers, which affected the overall gross profit margin of Amino acid segment, decreasing to 14.1% in 2015. On the other hand, an increase in the sales volume and the higher ASP for higher profit margin products such as threonine and high-end amino acids products had a positive contribution of the gross profit, whilst major raw material costs remained at a relatively stable level.

Despite the dynamic pricing strategy adopted by the Group in the fourth quarter of 2015, the Group has led the MSG price to a relative healthy level at the beginning of 2016. The Group believes that ASP for MSG could begin to stabilise in 2016.



The above chart shows the changes in gross profit margin from 2012 to 2015. In the fourth quarter of 2015, the average price of corn kernels decreased significantly. As such, the Group adopted a competitive pricing strategy to significantly lower the ASP of MSG, with an aim to further strengthen its market share and leading position. Although the short term market fluctuation has affected our results, the Group believes that the industry demand and supply has stabilised and expects that the ASP of MSG to stabilise or gradually improve. In addition, the Group will continue to launch some high-end amino acid products which have higher profit margins and the Group believes that such increasing diversity in the product mix will help to improve its gross profit margin in this segment.

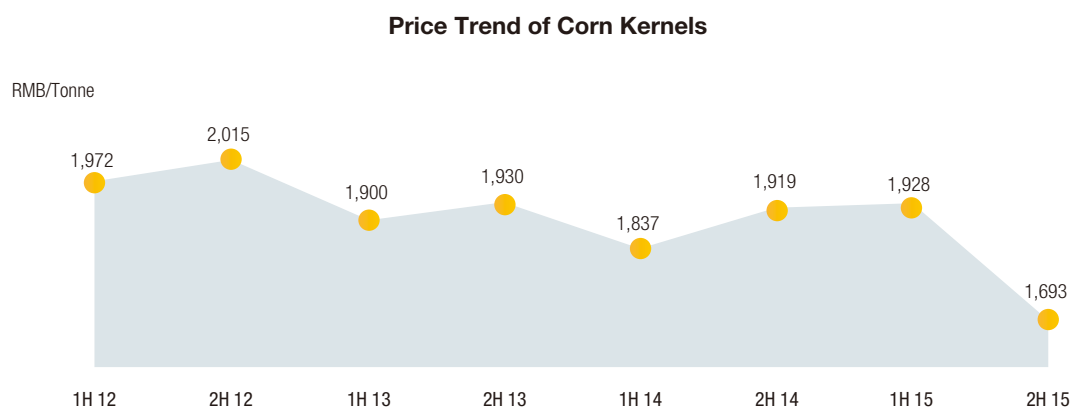
Production costs

	Years ended 31 December				Change
	2015		2014		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	
Major raw materials					
• Corn kernels	5,239,431	60.1	5,368,246	62.1	(2.4)
• Liquid ammonia	90,709	1.0	108,847	1.3	(16.7)
• Sulphuric acid	96,858	1.1	117,519	1.4	(17.6)
Energy					
• Coal	784,449	9.0	899,717	10.4	(12.8)
Depreciation	629,582	7.2	579,431	6.7	8.7
Employee benefits	579,173	6.6	524,421	6.1	10.4
Others	1,299,532	15.0	1,048,065	12.0	24.0
Total cost of production	8,719,734	100.0	8,646,246	100.0	0.8

Corn kernels

During 2015, corn kernels accounted for approximately 60.1% (2014: 62.1%) of the total production cost of this segment. The average unit cost of corn kernels for 2015 was approximately RMB1,811 per tonne. The cost of corn kernels as a percentage of total production costs decreased by 2.0 percentage points, which was due to the decrease in average unit cost of corn kernels caused by the weak economy in China during 2015.

The following chart shows the price trend of corn kernels from the first half of 2012 to the second half of 2015:



Liquid ammonia

Liquid ammonia accounted for approximately 1.0% (2014: 1.3%) of total production cost in this segment in 2015. As a result of the weak market demand, the average unit cost of liquid ammonia for 2015 decreased to approximately RMB2,021 per tonne, which represents a decrease of approximately RMB169 per tonne or 7.7% from that of 2014. In addition, the Group had additional production capacity of composite ammonia that was able to counteract the higher price of liquid ammonia. Therefore, the cost of liquid ammonia as a percentage of total production costs decreased by 0.3 percentage point.

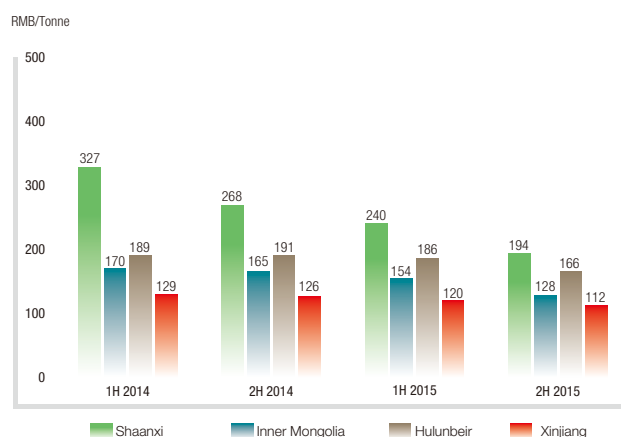
Sulphuric acid

Sulphuric acid accounted for approximately 1.1% (2014: 1.4%) of total production cost in this segment in 2015. As compared with the average unit cost of sulphuric acid in 2014, the average unit cost of sulphuric acid decreased to approximately RMB240 per tonne, which represents a decrease of approximately RMB4 per tonne, or 1.6%, from that of 2014.

Coal

Coal accounted for about 9.0% of total production cost in this segment in 2015 (2014: 10.4%). The average unit cost of coal for 2015 was RMB159 per tonne, representing a decrease of RMB25 per tonne, or 13.6%, from 2014. The decrease in coal prices reflects the competitive advantages of our Hulunbeir Plant and Xinjiang Plant being fully realised during the year.

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



Other production costs

The increase in depreciation and employee benefits was mainly due to our new Baoji Plant becoming fully operational in 2015. In addition, the number of new high-end amino acid products were launched during the year. The other production costs including miscellaneous raw material consumed and research and development cost increased during 2015.

Production

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

Product	Years ended 31 December		Change %
	2015 Tonnes	2014 Tonnes	
MSG			
Annual designed production capacity (Note)	940,000	995,000	(5.5)
Actual production output	954,700	942,926	1.2
Utilisation rate	101.6%	94.8%	
Glutamic acid			
Annual designed production capacity (Note)	760,000	790,000	(3.8)
Actual production output	766,917	761,276	0.7
Utilisation rate	100.9%	96.4%	
Fertilisers			
Annual designed production capacity (Note)	950,000	1,025,000	(7.3)
Actual production output	897,542	901,240	(0.4)
Utilisation rate	94.5%	87.9%	
Starch sweeteners			
Annual designed production capacity (Note)	260,000	250,000	4.0
Actual production output	238,393	252,157	(5.5)
Utilisation rate	91.7%	100.9%	

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

Utilisation rates remained high despite decreasing slightly in 2015, due to the relocation of Baoji Plant. The new Baoji Plant Phase1 started operation and production in the fourth quarter of 2014.

Xanthan gum segment

Operation results

The table below set out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the years ended 31 December 2014 and 2015:

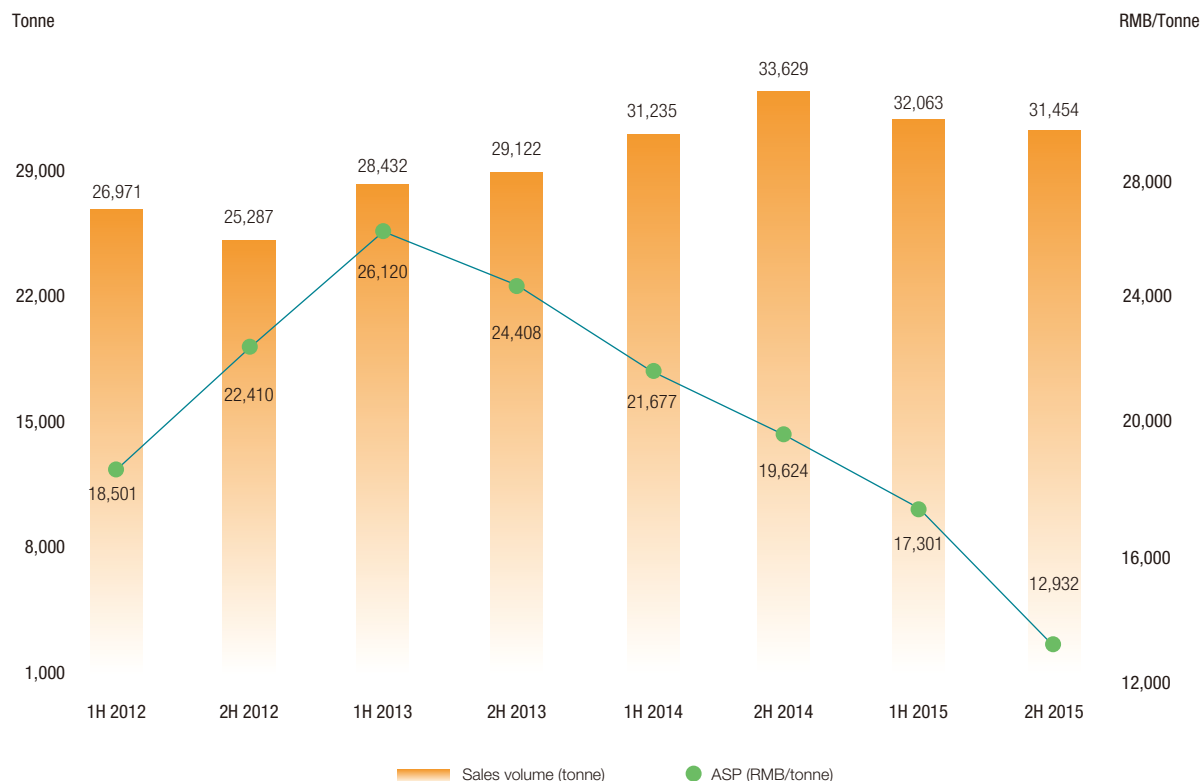
	Years ended 31 December		Change %
	2015	2014	
Revenue (RMB'000)	969,278	1,347,826	(28.1)
ASP (RMB/tonne)	15,013	20,613	(27.2)
Gross profit (RMB'000)	354,954	710,413	(50.0)
Gross profit margin (%)	36.6	52.7	(16.1) ppts.
Annual designed production capacity (tonnes) (Note)	87,500	82,000	6.7
Actual production output (tonnes)	84,162	83,095	1.3
Utilisation rate	96.2%	101.3%	

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

Revenue generated from xanthan gum decreased by about 28.1% to approximately RMB969.3 million in 2015, from approximately RMB1,347.8 million in 2014. The decrease in revenue was due to the decrease in ASP, while sales volume kept stable during 2015, representing the Group's ability to maintain full utilisation of production capacity to meet market demand. The significant decrease in the ASP of xanthan gum is due to intense competition and weak market conditions in the global oil industry in 2015.

The Group's export of xanthan gum steadily increased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed approximately 90.4% and 91.1% of total sales of xanthan gum in 2014 and 2015, respectively.

Sales volume and ASP



Global demand for xanthan gum remained stable in 2015, and the Group expects this to continue in the foreseeable future as demand is still steadily growing in the food industry as well as other sectors.

Gross profit and gross profit margin

Gross profit of the Xanthan gum segment decreased by about 50.0%, from approximately RMB710.4 million in 2014 to approximately RMB355.0 million in 2015. Gross profit margin decreased as well, by 16.1 percentage points to 36.6% in 2015, as a result of our pricing strategy and our competitive cost advantages at the IM Plant and new Xinjiang Plant.

Production costs

	Years ended 31 December				Change %
	2015		2014		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	
Major raw materials					
• Corn kernels	307,644	39.6	340,027	41.8	(9.5)
• Soybeans	68,164	8.8	80,138	9.9	(14.9)
Energy					
• Coal	112,616	14.5	133,096	16.4	(15.4)
Depreciation	65,037	8.4	61,539	7.6	5.7
Employee benefit	89,061	11.5	99,419	12.2	(10.4)
Others	133,719	17.2	99,289	12.1	34.7
Total cost of production	776,241	100.0	813,508	100.0	(4.6)

Corn kernels

In 2015, corn kernels represented approximately 39.6% (2014: 41.8%) of the total production cost of this segment. The average unit cost of corn kernels for 2015 was approximately RMB1,819 per tonne, which represents a decrease of approximately RMB124 per tonne, or 6.4%, from that in 2014. The cost of corn kernels as a percentage of total production costs remained at around 39.6%. The cost of corn kernels decreased about 9.5% from RMB340.0 million in 2014 to RMB307.6 million in 2015, mainly due to decrease in the average unit cost of corn kernels and improvement in production technology.

Soybeans

During 2015, soybeans accounted for approximately 8.8% (2014: 9.9%) of the total production cost of this segment. The decrease in proportion was mainly due to the decrease in soybean prices from approximately RMB4,865 per tonne in 2014 to approximately RMB4,233 per tonne in 2015, representing a decrease of 13.0%. The cost of soybeans decreased by 14.9% in 2015.

Coal

In 2015, coal accounted for approximately 14.5% (2014: 16.4%) of the total production cost of this segment. The Group took full advantage of the relatively low coal cost that the Group was able to source and utilise locally in its IM Plant and Xinjiang Plant. The average unit cost of coal in 2015 was approximately RMB135 per tonne, which represents a decrease of approximately RMB24 per tonne, or 15.1%, from that of 2014.

Other production costs

The cost of depreciation in 2015 increased compared with 2014, mainly due to the new Xinjiang Plant Phase 2, which became operational in the second half of 2014.

Other Financial Information

Other income

The other income increased mainly due to the realisation of deferred income from government grants related to urban planning of local PRC governments amount to RMB160.7 million, given that such relevant lands were sold by means of disposal of a wholly owned subsidiary, Junan Beicheng Property Company Limited in the first half of 2015 and increase of the amortisation of government grants related to acquisition of environment protection and technology improvement equipment during the year.

Selling and marketing expenses

Selling and marketing expenses were relatively stable and in line with the sales revenue of 2015.

Administrative expenses

Administrative expenses increased by approximately RMB54.6 million, or 11.9%, in 2015. The increase was mainly due to increased depreciation and staff costs after relocation of new Baoji Plant during the year. In addition, research and development costs of new products increased during the year. And also, it included application listing expenses for Shenhua Holding Limited spin-off project.

Finance costs (net)

The finance costs (net) of the Group in 2015 mainly included: interest expenses on borrowings, loss on early redemption of senior notes, exchange loss in finance activities and interest income on bank deposits and bank balance. Interest expenses on borrowings amounting to RMB266.4 million, which decreased by approximately RMB71.0 million, or about 21.1%, when compared with 2014, due to a decrease in bank borrowings as capital expenditures were reduced during the year. The Company had early redeemed the whole senior notes with the principal amount at USD300,000,000 at the redemption price equal to 101.90625% of the principal amount. It based on the terms of senior notes. The extra payment over the principal amount is recorded as loss on early redemption of senior notes amount to RMB35.3 million. During 2015, the Group recorded an exchange loss on finance activities amounting to RMB66.4 million, mainly due to the devaluation of RMB to USD, which was over 5% during the year. The Group performed early redemption of our USD senior notes in the middle of 2015 to minimise the finance cost and exchange loss from the USD senior notes.

Staff cost

Staff costs of the Group increased by approximately RMB82.6 million, or approximately 9.0%, from approximately RMB914.3 million in 2014 to approximately RMB996.9 million in 2015. The increase was mainly due to the increase in number of staff as a result of expansion of the Group's production facilities and the increase in the average salary of the senior management and staff, generally in line with prevailing market rates.

Depreciation

Depreciation expense of the Group amounted to RMB746.8 million which increased by approximately RMB39.7 million, or approximately 5.6%, from approximately RMB707.1 million in 2014. The increase was mainly due to the commencement of full operations at the new Baoji Plant after relocation.

Income tax expense

The income tax expenses for the year of 2015 mainly represented the PRC Enterprise Income Tax ("EIT").

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

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

Four subsidiaries of the Group including Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate of 15% (2014: 15%).

The other subsidiaries of the Group in the PRC are subject to an income tax rate of 25% (2014: 25%).

Outlook

Looking ahead at 2016, it is expected that the PRC economy will remain sluggish as a whole. The ongoing lack of consumer confidence and the slowdown in economic growth will continue to affect the catering industry.

Challenges:

- It is expected that the Chinese economy will continue to grow at a slower pace in 2016.
- Xanthan gum sector will face intense competition while the operational difficulties in oil industry will put pressure on the xanthan gum business.
- The downturn in the fertiliser sector will result in operational difficulties in the fertiliser business.

Opportunities:

- For MSG business, we have completed our technical training in Hulunbeir Plant. At the beginning of 2016, the Hulunbeir Plant will adopt new production technology for production. In the first half of 2016, we also plan to proceed with the new production technology of MSG in the IM Plant. It is anticipated that the positive result in this regard will occur in the second half of 2016, and we are excited about the prospects of the MSG sector. With benefits from the new production technology, such as further improvement in output and cost reduction, the cost advantage between us and our competitors will be further expanded. We will further strengthen our market leadership due to such advantage and we believe that our emphasis on profit improvement of the MSG business will be realised in near future.
- Our success in animal nutrition (threonine business) and high-end amino acid business gives us more confidence in developing more new products, allowing the Group to become a global leading manufacturer within a short period of time. We have spent much time and effort to investigate and research opportunities for developing those new products, have more than 20 products in our pipeline of high-end amino acid products and will put more efforts on customer development.
- In mid-2015, we established a fertiliser-specialised department to cooperate with scientific and research institutions in the fertiliser sector and it has gradually developed high value-added fertiliser products. The new products were successively launched into the market and received decent customer response. Furthermore, our fertiliser output will be reduced after the Group adopted new production technology for producing MSG. We believe that our fertiliser business will be profitable subsequent to the completion of our inventory clearance process.

In 2016, we will put more investment in our xanthan gum sales team with the aim of optimising customer development and customer portfolio on an ongoing basis.

Future Plan and Recent Development

Project of Spin off in progress

As per announcement dated 27 October 2015, the Group has submitted an application to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules in relation to the proposed spin-off of Shenhua Health Holdings Limited (“Shenhua Health”) and has received written confirmation from the Stock Exchange on 16 October 2015 that it may proceed with the proposed spin-off. On 27 October 2015, Shenhua Health submitted through its appointed sole sponsor, J.P. Morgan Securities (Far East) Limited, a listing application form (Form 5A) to the Stock Exchange to apply for Listing.

The proposed spin-off involves the spin-off by the Company and the separate listing of the Shenhua Health Shares on the GEM Board of the Stock Exchange. Shenhua Health is currently a wholly-owned subsidiary of the Group. The Shenhua Health Group is principally engaged in the pharmaceutical business, which comprises the production and sale of amino acids-based pharmaceutical and health products, and fungi-based pharmaceutical and health products.

The Group has carried out the reorganisation, which upon completion will result in Shenhua Health becoming the immediate holding company of the pharmaceutical business of the Group. The Group proposes to effect the proposed spin-off by declaring a special dividend to Shareholders, to be satisfied by way of a distribution in specie of its holding in the entire issued share capital of Shenhua Health to Qualifying Shareholders in proportion to their respective shareholdings in the Group on the Record Date. The Group currently does not expect the proposed spin-off to involve any form of capital raising.

Upon completion of the proposed spin-off, the Group will not hold any equity interests in Shenhua Health and accordingly Shenhua Health Group will cease to be a subsidiary of the Group. The remaining Group will continue to be principally engaged in the following two business segments: (i) the Amino acid segment (excluding the pharmaceutical business to be held solely by the Shenhua Health Group following the proposed spin-off); and (ii) the Xanthan gum segment.

The proposed spin-off will increase the transparency of business performance and the financial status of both the Fufeng Group and the Shenhua Health Group. In addition, the proposed spin-off will allow for a clear separation of operations and management, allowing for a more focused strategy and efficient resource allocation in both businesses.

The proposed spin-off and the Listing are intended to facilitate the future growth of the Shenhua Health Group and the Fufeng Group. As the proposed spin-off will be implemented by way of the Distribution to the Qualifying Shareholders, such Shareholders will, so long as they remain Shareholders of the Company, continue to enjoy the benefits from the development of the business of the Fufeng Group whilst also enjoying the benefits from the development of Shenhua Health Group.

Going forward, the Group will continue to (i) strengthen its overall brand marketing and (ii) vigorously strive for the sale and promotion of high-end amino acid products in the PRC healthcare industry, including collaboration with market leading players, in order to create new growth drivers for the Group.

Amino acid segment

The market demand for threonine continues to grow. The construction of our new 85,000 tonnes production capacity of threonine in Hulunbeir Plant was completed at the end of 2015 and the Group will consider to further enlarge the production capacity of threonine, with the objective of becoming the largest producer of threonine in the world, after our leading position in MSG and xanthan gum.

The Group will enhance research and development efforts to develop new high-end amino acid products and improve the fermentation technology to reduce the production costs of MSG.

The Group will continuously launch new high-end amino acid products and compound seasoning products to enhance our product portfolio. In addition, we will continue to develop the e-commerce platform in which we expect to strengthen our current sales and distribution channel for marketing our high value-added products.

Xanthan gum segment

The market condition of xanthan gum was very weak in the second half of 2015 as a result of weakness in the oil industry. Based on our leading position in the xanthan gum market, the Group will further increase its market share. We believe that we can act as a leader to bring the industry out of the low tide in 2016.

Overseas market expansion

The Group has increased efforts to develop the foreign MSG and xanthan gum markets by establishing overseas sales branches and offices. In 2016, the Group strengthened promotional activities in Japan, India, Middle East, Europe, Africa and South America. The objective is to provide customers with better after-sales service, improve customer relationships, and enhance our reputation.

Liquidity and Financial Resources

As at 31 December 2015, the Group's cash and bank balances were RMB1,019.1 million (2014: RMB961.5 million) whereas current bank borrowings and current other borrowing (including the balances of convertible bonds and medium-term notes) were approximately RMB344.8 million and RMB1,501.1 million (2014: RMB800.0 million and RMB13.2 million) respectively, and non-current bank borrowings and non-current other borrowings (including the balances of corporate bonds) were approximately RMB1,005.5 million and RMB986.7 million (2014: RMB360.0 million and RMB3,342.5 million), respectively.

Convertible Bonds

The Group issued RMB975.0 million in convertible bonds with a fixed coupon rate of 3.0% per year on 27 November 2013 with 5 years terms ("2013 CB"). The yield to maturity rate of 2013 CB is 4.5% per annum. The net proceeds in the amount of approximately US\$155 million from the issue of the bonds were mainly used to repay the syndicated bank loan in December 2013. During 2015, some of 2013 CB holders exercised their right to convert a total amount of RMB56.0 million convertible bonds into 17,065,033 ordinary shares. The outstanding balance of 2013 CB as at 31 December 2015 amounted to RMB901.7 million. Under the terms of 2013 CB, the 2013 CB holders have a put option right to request the Company to redeem the 2013 CB on 27 November 2016 by formal written notice. Therefore, the outstanding balance of 2013 CB was classified as current liabilities as at the year ended 31 December 2015.

Senior Notes

The Company issued USD300.0 million senior notes for five years on 13 April 2011 with a fixed interest rate of 7.625% per annum. The funds raised from the senior notes were mainly used to finance the construction of new production facilities of Hulunbeir Plant Phase 1 and Phase 2 and for general working capital purposes. The senior note was fully, early redeemed during 2015 in order to minimise finance costs.

Medium-Term Note

In April 2013, IM Fufeng issued medium-term notes at a par value of total amounted to RMB600 million, which were denominated in RMB with a fixed interest of 5.11% per annum. The notes mature in three years from the issue date. The net proceeds were used to repay certain short term bank loans and for general working capital purposes. The medium-term notes are planned to be refinanced by new medium-term notes of the same amount in the first half of 2016.

Corporate bonds

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

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

Material acquisition or disposal of subsidiary and associated company

As at 24 June 2015, a wholly owned subsidiary of the Group, Shandong Fufeng Fermentation Co, Ltd, entered into a sale and purchase agreement to sell its wholly-owned company, Junan Beicheng Property Company Limited, for a total consideration of approximately RMB298.8 million. Junan Beicheng Property Company Limited is an investment holding company and held a parcel of land located at Longshan Road (Northern section), Junan County, Shandong Province, PRC* (莒南縣縣城隆山路北段). The aggregate site area of the Land is approximately 253,926.1 square metres, and the Land is designated for commercial use.

Except for the above, the Group had no other material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2015.

Employees

As at 31 December 2015, the Group had approximately 7,000 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

Contingent Liabilities

As at 31 December 2015, the Group had no material contingent liabilities.

Events After the Balance Sheet Date

- (a) On 9th September 2015, the Company submitted a proposal to the Stock Exchange in accordance with Practice Note 15 of Listing Rules for the spin-off of the Shenhua Group by way of introduction achieved by distribution in specie of the entire shares of Shenhua Health Holdings Limited.

On 27th October 2015, Shenhua Health Holdings Limited, the directly owned subsidiary of the Company, submitted the listing application form (Form 5A) to the Stock Exchange to apply for the listing of, and permission to deal in, the Shenhua Health Holdings Limited on the GEM Board of the Stock Exchange. As at the date of this announcement, the listing application is still in the process.

- (b) On 19 January 2016, IM Fufeng obtained an approval by the National Association of Financial Market Institutional Investors to issue a new medium-term notes amounted to RMB600,000,000 with the repayment term of three years. As at the date of this announcement, such medium-term notes was not issued yet.

Charges on assets

As at 31 December 2015, certain leasehold land, property, plant and equipment of the Group with carrying value of approximately RMB110.2 million (2014: RMB111.7 million) were pledged to certain banks to secure bank borrowings of RMB420 million (2014: RMB400 million) of the Group.

The convertible bonds issued in 27 November 2013 are secured by the pledge of the capital stock of certain subsidiaries of the Group, 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, 2015, the total assets of the Group amounted to approximately RMB13,850.2 million (2014: RMB13,694.3 million) whereas the total borrowings amounted to RMB3,838.1 million (2014: RMB4,515.6 million). The gearing ratio was approximately 27.7% (2014: 33.0%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

The Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operates 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, issuance of senior notes and draw down of foreign currency 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 senior notes and draw down of foreign currency bank borrowings by remitting the necessary funds to the PRC and using the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2015.

American Depositary Receipt Facility

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

Dividend and dividend policy

The Board recommended the declaration of a final dividend of HK1.3 cents per share, subject to Shareholders' approval at the annual general meeting.

The final dividend will be payable on or about 31 May 2016 to Shareholders whose names appear on the register of members of the Company on 20 May 2016.

Purchase, redemption or sales of listed securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2015.

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 2015, the Company has complied with the Code Provisions of the Revised CG Code except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Chen Ning and Mr. Qi Qing Zhong did not attend the annual general meeting of the Company held on 15 May 2015. 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 2015, including the accounting principles and practices adopted by the Group.

Closure of register of members

The register of members of the Company will be closed from 9 May 2016 to 12 May 2016 (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 12 May 2016, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 6 May 2016.

The register of members of the Company will be closed from 18 May 2016 to 20 May 2016 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 17 May 2016.

Annual general meeting

The annual general meeting is expected to be held on 12 May 2016. 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, 15 March 2016

As at the date of this announcement, the executive directors of the Company are Mr. Li Xuechun, Mr. Wang Longxiang, Mr. Feng Zhenquan, Mr. Xu Guohua, Mr. Li Deheng and Mr. Li Guangyu and the independent non-executive directors of the Company are Mr. Sun Yu Guo, Mr. Qi Qing Zhong and Ms. Zheng Yu.

GLOSSARY

Absolute Divine	Absolute Divine Limited, an indirect wholly-owned subsidiary of the Company
Acquest Honour	Acquest Honour Holdings Limited, a wholly-owned subsidiary of the Company
ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技股份有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Beijing Huijinhuaying	Beijing Huijinhuaying Commercial Co., Ltd, an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
EIT Law	Enterprise Income Tax Law of the PRC which came into effect on 1 January 2008
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股份有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Hulunbeir Plant	the production plant of the Group located at Hulunbeir, Inner Monogolia Autonomous Region, the PRC
Hulunbeir Shengmin	呼倫貝爾市晟敏農業開發有限責任公司 (Hulunbeir Shengmin Agriculture Development Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Fufeng	內蒙古阜豐生物科技股份有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company

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