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 2016

HIGHLIGHTS OF GROUP RESULTS

– 2016 was a year of historic opportunities arising from favorable timing, location and a significantly enhanced management team. As the industry leader, we managed to achieve strong results in our core business and also further consolidated our leadership position in the market

– Favorable timing: the industry transforming opportunities in the corn processing and bio-fermentation sector thanks to China's corn market reform and the emerging effect of industry consolidation

– Favorable location: refers to the fact that the Group was able to fully capitalised on the advantages of the new corn policy due to its strategic geographical locations

– Enhanced management team: stands for our significantly upgraded team of management yielding concrete, sustainable benefits through better strategic and operational planning and production technology enhancement

– Overall revenue slightly increased to approximately RMB11,803.1 million in 2016 (2015: RMB11,225.7 million). Gross profit significantly increased from approximately RMB1,802.5 million in 2015 to approximately RMB2,406.4 million in 2016. Gross profit margin of the Group increased to about 20.4% (2015: 16.1%). The improving business environment, coupled with corn kernel costs significantly decreasing and the implementation of the enhancement of production technology completed in 2016, led to the gross profit margin of MSG and high-end amino acid products increasing in 2016. However, part of contribution was offset by the effect of the weak performance of our Xanthan gum segment

– Profit attributable to the Shareholders reached a record high of approximately RMB1,092.5 million (2015: RMB516.3 million), representing an increase of about 111.6%

– Earnings per share (Basic) was RMB51.37 cents (2015: RMB24.36 cents)

– Return on equity was 16.0% (2015: 8.9%)

– Final dividend of HK7.8 cents (2015: HK1.3 cents) per share has been recommended by the Board

– The sum of paid interim dividend and proposed final dividend is HK11.6 cents per share (2015: HK5.8 cents)

ANNUAL RESULTS

The Board is pleased to announce the audited consolidated results of the Group prepared under HKFRS for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015, as follows:

Consolidated Income Statement

For the year ended 31 December 2016

		Years ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**11,803,131**	11,225,722
Cost of sales		**(9,396,758)**	(9,423,231)
Gross profit		**2,406,373**	1,802,491
Selling and marketing expenses		**(816,603)**	(708,931)
Administrative expenses		**(516,315)**	(512,997)
Other operating expenses		**(29,252)**	(47,375)
Other income	*5*	**363,855**	440,503
Other gains – net	*6*	**102,361**	59,783
Operating profit		**1,510,419**	1,033,474
Finance income		**9,466**	14,412
Finance costs		**(218,634)**	(368,112)
Finance costs – net		**(209,168)**	(353,700)
Share of profit of investments accounted for using the equity method		**647**	–
Profit before income tax		**1,301,898**	679,774
Income tax expense	*4*	**(209,386)**	(163,513)
Profit for the year and attributable to the Shareholders		**1,092,512**	516,261

(expressed in RMB cents per share)

Earnings per share for profit attributable to the Shareholders during the year			
– basic	*7*	**51.37**	24.36
– diluted	*7*	**47.79**	24.14

Consolidated Balance Sheet

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments		**1,413,942**	1,510,060
Property, plant and equipment		**7,858,775**	7,566,778
Intangible assets		**9,108**	1,051
Investments accounted for using the equity method		**30,647**	–
Deferred income tax assets		**184,396**	143,072
Long-term bank deposits		**20,100**	–
		9,516,968	9,220,961
Current assets			
Inventories		**2,481,911**	2,191,849
Trade and other receivables	*9*	**1,035,076**	1,213,787
Cash and bank balances		**1,422,147**	1,019,069
		4,939,134	4,424,705
Assets of disposal group classified as held for sale		**–**	204,512
		4,939,134	4,629,217
Total assets		**14,456,102**	13,850,178
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		**207,222**	207,222
Share premium		**462,639**	555,157
Other reserves		**319,980**	227,655
Retained earnings		**5,826,023**	4,817,025
Total equity		**6,815,864**	5,807,059
LIABILITIES			
Non-current liabilities			
Deferred income	*10*	**707,501**	752,287
Borrowings	*11*	**1,923,185**	1,992,221
Deferred income tax liabilities		**16,650**	16,650
		2,647,336	2,761,158
Current liabilities			
Trade, other payables and accruals	*12*	**3,721,615**	3,311,193
Current income tax liabilities		**94,494**	68,377
Borrowings	*11*	**1,176,793**	1,845,920
		4,992,902	5,225,490
Liabilities of disposal group classified as held for sale		**–**	56,471
		4,992,902	5,281,961
Total liabilities		**7,640,238**	8,043,119
Total equity and liabilities		**14,456,102**	13,850,178

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 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.

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.

Changes in accounting policy and disclosures

(a) New amendments of HKFRSs adopted by the Group in 2016

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 2016.

- Annual improvements 2014 include changes from the 2012–2014 cycle of the annual improvements project that effective for annual periods beginning on or after 1 January 2016:

  – Amendment to HKFRS 5 'Non-current assets held for sale and discontinued operations' clarifies that when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. It also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not classified as 'held for sale'.

  – Amendment to HKFRS 7 'Financial instruments: Disclosures' clarifies that the additional disclosure required by the amendments to HKFRS 7 "Disclosure – Offsetting financial assets and financial liabilities" is not specifically required for all interim periods, unless required by HKAS 34.

  – Amendment to HKAS 19 'Employee benefits' clarify that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

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

1.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

(a) HKFRSs adopted by the Group in 2016 *(Continued)*

– Amendment to HKAS 34 'Interim financial reporting' clarifies that what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information.

- Amendment to HKAS 27 "Equity method in separate financial statements" allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The adoption of the above new amendments of HKFRSs starting from 1 January 2016 did not give rise to any significant impact on the Group's results of operations and financial position for the year ended 31 December 2016.

(b) 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 2016 and have not been early adopted by the Group

- Amendments to HKAS 12, 'Income taxes' on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017.

- Amendments to HKAS 7 – Statement of cash flows introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the HKICPA's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The amendment is effective for annual periods beginning on or after 1 January 2017.

- HKFRS 15 '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.

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

1.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

(b) 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 2016 and have not been early adopted by the Group *(Continued)*

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.

- 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.

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

1.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

(b) 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 2016 and have not been early adopted by the Group *(Continued)*

- Amendments to HKFRS 2 'Classification and Measurement of Share-based Payment Transactions' clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in HKFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. HKFRS 2 is effective for annual periods beginning on or after 1 January 2018.

- HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 'Leases', and related interpretations. HKFRS 16 is effective for annual periods beginning on or after 1 January 2019.

- Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture' address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The effective date of HKFRS 10 and HKAS 28 has now been deferred.

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.

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

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. Critical Accounting Estimates and Judgements *(Continued)*

2.4 PRC taxes

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

3. Segment Information

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

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

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

- manufacturing and sales of xanthan gum.

Approximately 76% (2015: 75%) of the Group's revenue is generated from sales to customers in the PRC. The remaining 24% (2015: 25%) of the Group's revenue is generated from the sales to overseas countries including mainly the United Arab Emirates, Kingdom of Saudi Arabia, the State of Qatar, Thailand and the United States of America.

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 2016 and 2015 are set out as follows:

	2016 ***RMB'000***	2015 *RMB'000*
MSG	**6,415,119**	6,418,049
Corn refined products	**1,473,794**	1,314,548
Threonine	**1,012,837**	594,830
High-end amino acid products	**663,744**	490,732
Starch sweeteners	**642,086**	724,002
Fertilisers	**614,964**	483,257
Xanthan gum	**562,466**	969,278
Glutamic acid	**200,834**	42,068
Pharmaceuticals	**86,898**	73,702
Synthetic ammonia	**55,513**	56,019
Corn oil	**27,995**	35,937
Others	**46,881**	23,300
	11,803,131	11,225,722

3. Segment Information *(Continued)*

The segment information for the year ended 31 December 2016 is as follows:

	Amino acid *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	**11,240,665**	**562,466**	**–**	**11,803,131**
Segment results	**1,482,307**	**39,923**	**(11,811)**	**1,510,419**
Finance costs – net				**(209,168)**
Share of profit of investments accounted for using the equity method				**647**
Profit before income tax				**1,301,898**
Income tax expense *(Note 4)*				**(209,386)**
Profit for the year attributable to the Shareholders				**1,092,512**
Other segment items included in the consolidated income statement				
Depreciation	**759,643**	**65,628**	**1,275**	**826,546**
Amortisation of leasehold land payments	**22,535**	**4,307**	**86**	**26,928**
Amortisation of intangible assets	**606**	**–**	**–**	**606**
Loss on disposal of property, plant and equipment – net *(Note 6)*	**1,594**	**–**	**–**	**1,594**
Impairment charges for property, plant and equipment	**119,790**	**–**	**–**	**119,790**
Capital expenditures	**1,215,352**	**57,358**	**1**	**1,272,711**

The segment assets and liabilities at 31 December 2016 are as follows:

	Amino acid *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment assets and liabilities				
Total assets	**9,919,823**	**3,769,193**	**767,086**	**14,456,102**
Total liabilities	**4,833,050**	**908,334**	**1,898,854**	**7,640,238**

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 *(Note 4)*				(163,513)
Profit for the year attributable 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 *(Note 6)*	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)*

Unallocated assets mainly comprise cash and bank balances, leasehold land payments, property, plant and equipment and other receivables held by Beijing Huijinhuaying Commercial 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 Holding Limited and its subsidiaries ("Shenhua Health Group"), liability component of convertible bonds, operating liabilities held by non-PRC established companies.

The Group's revenue from its external customers in the PRC is approximately RMB8,938,305,000 (2015: RMB8,442,697,000) and the total revenue from external customers in Hong Kong and other countries is approximately RMB2,864,826,000 (2015: RMB2,783,025,000).

The Group's total non-current assets located in the PRC other than deferred income tax assets are approximately RMB9,332,530,000 (2015: RMB9,077,822,000), and the total non-current assets located in Hong Kong and Singapore other than deferred income tax assets are approximately RMB42,000 (2015: RMB67,000).

4. Income Tax Expense

	2016 ***RMB'000***	2015 *RMB'000*
Current income tax		
– PRC enterprise income tax ("EIT")	**240,924**	199,709
– Hong Kong income tax	**4,210**	31
– Singapore income tax	**(15)**	218
– US income tax	**953**	–
Total current income tax	**246,072**	199,958
Deferred income tax	**(36,686)**	(36,445)
	209,386	163,513

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% (2015: 16.5%) on the estimated assessable profit for the year ended 31 December 2016.

The Group's subsidiary in Singapore is subject to income tax at a rate of 17% (2015: 17%) for the year ended 31 December 2016.

The Group's subsidiary in United States is subject to state income tax at a rate of approximately 8.84% (2015: 8.84%) and a federal income tax at a rate of approximately 39% (2015: 39%) for the year ended 31 December 2016.

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

5. Other Income

	2016	2015
	RMB'000	*RMB'000*
Amortisation of deferred income *(Note 10)*	**172,376**	231,501
Government grants related to expenses	**64,346**	104,237
Sales of waste products	**108,388**	93,041
Others	**18,745**	11,724
	363,855	440,503

6. Other Gains – Net

	2016	2015
	RMB'000	*RMB'000*
Gain on disposal of subsidiaries/ a subsidiary	**6,472**	1,125
Net foreign exchange gains	**73,652**	28,117
Gain on compensation from insurance company after offsetting losses	**23,831**	32,789
Loss on disposal of property, plant and equipment – net	**(1,594)**	(2,248)
	102,361	59,783

In 2016, the gain on disposal of subsidiaries arose from the disposal of 100% equity interest in Junan Beifang Properties Co., Ltd. and Junan Beibu Properties Co., Ltd., indirectly held subsidiaries of the Company, to a third party company at a total cash consideration of approximately RMB164,133,000 (2015: RMB298,750,000 of disposal of Junan Beicheng Properties Co., Ltd.). The only assets of Junan Beifang Properties Co., Ltd. and Junan Beibu Properties Co., Ltd. included the parcels of leasehold land with carrying values of approximately RMB111,253,000 and RMB46,408,000, respectively (2015: RMB297,625,000). The disposal resulted in a gain of approximately RMB6,472,000 (2015: RMB1,125,000) recognized in the consolidated income statements for the year ended 31 December 2016.

7. Earnings Per Share

(a) Basic

Basic earnings per share for the years ended 31 December 2016 and 2015 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.

	2016	2015
	RMB'000	*RMB'000*
Profit attributable to the Shareholders	**1,092,512**	516,261
Weighted average number of ordinary shares in issue excluding ordinary shares purchased by the Company (thousands)	**2,126,685**	2,118,865
Basic earnings per share (RMB cents per share)	**51.37**	24.36

(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 2016, outstanding share options issued in April 2015, November 2016 and December 2016 are not included in calculation of diluted earnings per share. Because the average market price of ordinary shares for the year ended 31 December 2016 did not exceed the exercise prices of each tranche of the share options, hence the share options are antidilutive and are not in the calculation of the diluted earnings per share.

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Profit attributable to the Shareholders	**1,092,512**	516,261
Interest expense on convertible bonds (net of tax)	**57,781**	62,842
Profit used to determine diluted earnings per share	**1,150,293**	579,103
Weighted average number of ordinary shares in issue excluding ordinary shares purchased by the Company (thousands)	**2,126,685**	2,118,865
Adjustments for:		
– Assumed conversion of convertible bonds (thousands)	**280,049**	280,049
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,406,734**	2,398,914
Diluted earnings per share (RMB cents per share)	**47.79**	24.14

8. Dividends

	2016	2015
	RMB'000	*RMB'000*
Interim, paid	**69,295**	79,124
Final, proposed	**147,651**	23,223
	216,946	102,347

The final dividends paid in 2016 were HKD27,647,000 (equivalent to RMB23,223,000) (2015: RMB73,536,000), representing HK1.3 cents (equivalent to RMB1.09 cents per share) (2015: RMB3.49 cents) per ordinary share of the Company.

At a meeting held on 21 March 2017, the Board proposed a final dividend of approximately HKD165,881,000 (equivalent to RMB147,651,000) (2015: approximately RMB23,223,000), representing HK7.8 cents (equivalent to RMB6.94 cents) (2015: RMB1.09 cents) per share to be distributed from the share premium account. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2017.

9. Trade and Other Receivables

	2016	2015
	RMB'000	*RMB'000*
Trade receivables (a)	**388,654**	399,614
Less: provision for impairment of trade receivables (b)	**(285)**	–
Trade receivables – net	**388,369**	399,614
Notes receivable (c)	**398,810**	418,293
Deposits and others	**63,041**	74,423
Loans to employees	**1,715**	1,402
– Loans to key management	**–**	–
– Loans to other employees	**1,715**	1,402
Value-added tax for future deduction	**26,894**	71,114
Trade and other receivables excluding prepayments	**878,829**	964,846
Prepayments for raw materials	**156,247**	248,941
	1,035,076	1,213,787

9. Trade and Other Receivables *(Continued)*

(a) As at 31 December 2016 and 2015 the ageing analysis of trade receivables based on invoice date was as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**309,683**	348,549
3 ~12 months	**64,622**	48,562
Over 12 months	**14,349**	2,503
	388,654	399,614

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

(b) As at 31 December 2016, trade receivables of approximately RMB50,127,000 (2015: RMB27,795,000) 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:

	2016	2015
	RMB'000	*RMB'000*
Past due within 3 months	**33,736**	16,897
Past due in 3 ~12 months	**16,391**	10,898
	50,127	27,795

As at 31 December 2016, trade receivables of approximately RMB285,000 (2015: RMB4,749,000) 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. During 2016, the Group reversed impairment provision of approximately RMB237,000 after receipt of those related receivables. Due to the uncollectible situation, the Group wrote off the corresponding impairment provision amounted to approximately RMB4,227,000.

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

	2016	2015
	RMB'000	*RMB'000*
As at 1 January	**–**	4,510
Transferred from/(to) disposal group classified as held for sale	**4,749**	(4,749)
(Reversal of)/Provision for receivables impairment	**(237)**	239
Receivables written-off during the years as uncollectible	**(4,227)**	–
At 31 December	**285**	–

9. Trade and Other Receivables *(Continued)*

(c) As at 31 December 2016, notes receivable were all bank acceptance notes aged less than six months, including a total amount of approximately RMB387,239,000 (2015: RMB353,519,000) that have been endorsed.

(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 were denominated in the following currencies:

	2016	2015
	RMB'000	*RMB'000*
– RMB	**583,715**	629,939
– USD	**295,114**	334,907
	878,829	964,846

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

10. Deferred Income

	2016	2015
	RMB'000	*RMB'000*
Government grants related to income tax credit from purchasing qualified equipment (a)	**71,393**	100,139
Government grants related to acquisition of environmental protection and technology improvement equipment (b)	**562,709**	490,094
Government grants related to urban planning of local PRC governments (c)	**73,399**	162,054
	707,501	752,287

The movements of the above government grants for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**752,287**	536,550
Granted during the year	**121,333**	453,495
Amortised as income *(Note 5)*	**(172,376)**	(231,501)
Transferred from/(to) disposal group classified as held for sale	**6,257**	(6,257)
At end of the year	**707,501**	752,287

(a) Government grants related to income tax credit from purchasing qualified equipment represented reduction in income tax granted to Baoji Fufeng Biotechnologies Co., Ltd. ("Baoji Fufeng"), Neimenggu Fufeng Biotechnologies Co., Ltd. ("IM Fufeng"), Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd. ("Hulunbeir Fufeng") and Xinjiang Fufeng Biotechnologies Co., Ltd. ("Xinjiang Fufeng") on the purchase of certain qualified equipment. Such income tax credits are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

(b) Government grants related to acquisition of environmental protection and technology improvement equipment are recorded as deferred income and amortised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

(c) Government grants related to urban planning of local PRC governments represented grants from the governments related to acquisition of assets. These grants received are recorded as deferred income, and will be amortised in the consolidated income statement on future development of the related assets.

11. Borrowings

	2016	2015
	RMB'000	*RMB'000*
Non-current		
Bank borrowings, unsecured	**–**	635,477
Bank borrowings, secured	**–**	370,000
Corporate bonds	**991,241**	986,744
Convertible bonds	**931,944**	–
	1,923,185	1,992,221
Current		
Bank borrowings, unsecured	**869,295**	294,808
Bank borrowings, secured	**307,498**	50,000
Convertible bonds	**–**	901,734
Medium-term notes	**–**	599,378
	1,176,793	1,845,920
Total Borrowings	**3,099,978**	3,838,141

At 31 December 2016, the Group's borrowings were repayable as follows:

	Bank borrowings		**Other loans**	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**1,176,793**	344,808	**–**	1,501,112
Between 1 and 2 years	**–**	835,477	**1,923,185**	–
Between 2 and 5 years	**–**	170,000	**–**	986,744
	1,176,793	1,350,285	**1,923,185**	2,487,856

As at 31 December 2016, the bank borrowings included approximately RMB307,498,000 borrowings which were secured by restricted bank deposits (2015: RMB420,000,000 borrowings secured by leasehold land of the Group).

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

	2016	2015
Bank borrowings	**3.08%**	4.13%

12. Trade, Other Payables and Accruals

	2016	2015
	RMB'000	*RMB'000*
Trade payables (a)	**1,214,352**	1,195,564
Advances from customers (b)	**693,249**	510,875
Payables for property, plant and equipment	**746,611**	866,878
Bank acceptance notes payable	**255,300**	47,606
Government compensation related to property, plant and equipment disposal received in advance	**139,778**	151,144
Salaries, wages and staff welfares payables	**398,146**	347,628
Interest payables	**12,444**	33,682
Government grants received in advance	**16,432**	15,005
Dividends payable	**407**	407
Other payables and accruals	**244,896**	142,404
	3,721,615	3,311,193

(a) As at 31 December 2016 and 2015, the ageing analysis of trade payables based on invoice date was as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**875,365**	798,319
3 to 6 months	**220,871**	263,308
6 to 12 months	**72,489**	87,786
1 to 2 years	**38,662**	36,410
Over 2 years	**6,965**	9,741
	1,214,352	1,195,564

(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.

13. Commitments

(a) Capital commitments

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

	2016	2015
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
– Contracted but not yet incurred	**105,021**	71,329

(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:

	2016	2015
	RMB'000	*RMB'000*
No later than 1 year	**3,453**	3,036
Later than 1 year and no later than 5 years	**611**	1,117
	4,064	4,153

Management Discussion and Analysis

Business and Financial Review

Overview

2016 was a year offered great opportunities for Fufeng in terms of timing, favourable location and a significant enhanced management team. The PRC and global economies continued to face difficulties and challenges in 2016. The Group, as the industry leader, managed to achieve strong results in its core business and also further consolidated its leadership position in the market. In addition, the Group made considerable strides in developing high-value fermentation products allowing us to further diversify our revenue stream, enhance profitability and provide impetus for the long-term sustainable growth of the Group.

In 2016, the Group benefited from the achieved results of industry consolidation in the past few years. We actively strengthened our competitiveness and constantly improved the production technology to achieve better cost-effectiveness and more actively expand the Amino acid segment business. The strategy of our product development is mainly divided into four categories: 1. Food additives (key products include MSG, chicken powder, crystallised sugar, corn oil etc.), 2. Animal nutrition (key products include threonine, tryptophan, corn refined products etc.), 3. Colloid (key products include xanthan gum, welan gum, pectin etc.), and 4. High-end amino acid (key products include valine, leucine, isoleucine, glutamine, hyaluronic acid etc.).

The Group continued to strategically utilise the 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 products, in order to improve product diversity and increase sales and penetration in the health and wellness, pharmaceutical and skincare related industries. Only by continuously upgrading our product quality and expanding our product range can we transform gradually from the traditional, bulk-trade enterprise towards a modern, high-tech and high value-added supplier of biochemical products.

In addition, 2016 was a year for our production technology enhancement and product development. Our newly enhanced production technology of MSG further strengthened our competitive cost advantages by reducing production costs and increasing production yield. Implementation of the newly enhanced production technology in our plants was completed in 2016.

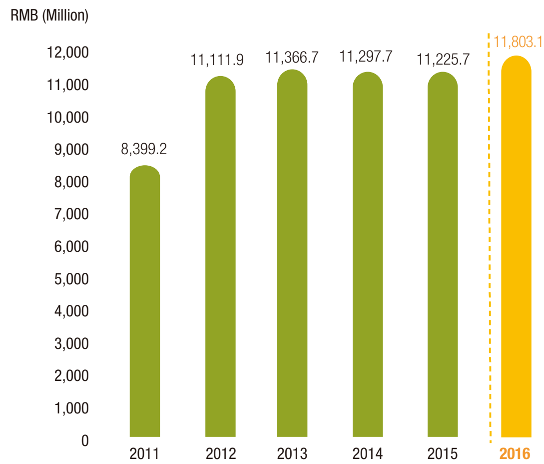
MSG industry consolidation gradually aided the improvement in the business environment, coupled with a decrease in the price of corn kernels during 2016, which led to a decrease in production costs and increase in the gross profit margin of our key products. The Group was able to record a significant increase in its overall gross profit and net profit during 2016 compared to the corresponding year of 2015. Even though overall revenue of the Group remained fairly stable during 2016 compared to 2015, the Group was able to rely on the growth products such as threonine and high-end amino acids and effective implementation of cost controls to increase overall profitability. The high-end amino acid products successfully expanded in terms of product development and market share, and we are more confident that we can become one of the world's leading suppliers of threonine and high-end amino acid products.

In terms of production capacity, the annual production capacity of MSG, threonine and high-end amino acid were increased during 2016. The overall production capacity of the Group in 2016 remained almost fully operational.

Our Amino acid segment is primarily made up of our MSG, threonine and high-end amino acid products. In terms of MSG business, there was a decrease in ASP of MSG in 2016 as costs of main raw materials, especially corn kernels, fell during the year. The ASP of MSG 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 market conditions, the Group was able to maintain its leadership in terms of market share and sales volume by leveraging its cost advantages to adopt competitive pricing. The Group was, however, able to record an increase in gross profit and gross profit margin in its Amino acid segment, mainly due to increasing contribution from the sales of MSG, threonine and high-end amino acid products. The expansion of high-end amino acid products continued to increase its revenue contribution to the Group, especially after the commencement of operations at the new production facility in the Xinjiang Plant.

Our xanthan gum business, another key business segment of the Group, recorded a significant decrease in the ASP and gross profit margin due to weakness in the global economy and oil industry in particular. We have adjusted part of the production capacity in Xinjiang Plant to produce gellan gum and high-end amino acid products and have temporarily suspended part of the production capacity for maintenance in IM Plant. The production capacity of xanthan gum will temporarily be reduced to 73,000 tonnes per annum. The Group, as one of the top three xanthan gum manufacturers in the world, continued to dominate the global market share in 2016.

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



For the year of 2016, revenue for the Group remained relatively stable at approximately RMB11,803.1 million as compared to approximately RMB11,225.7 million for the year of 2015. The slight increase in revenue was primarily caused by the increase in the sales volume of MSG and the increase of the revenue from threonine and high-end amino acid products, which was offset by the decrease in the ASP and sales volume of xanthan gum. MSG industry consolidation gradually aided the improvement in the business environment, coupled with a decrease in the price of corn kernels, which led to a decrease in production costs.

Although ASP and sales volume of xanthan gum decreased significantly as the global oil industry remained weak, the Group was able to maintain market share of xanthan gum as a market leader during 2016. In addition, the market condition of the global oil industry stabilised at the end of 2016 and therefore the market condition of xanthan gum has returned to stability as well.

The Group's overall gross profit significantly increased from approximately RMB1,802.5 million in 2015 to approximately RMB2,406.4 million in 2016. This represents an increase of 33.5%, primarily due to MSG industry consolidation gradually aiding the improving business environment, coupled with a decrease in the price of corn kernels and the improvement of efficiency of production by means of our production technology enhancement and expansion of production capacity, which led to a decrease in production costs and increase in the gross profit contribution of the sales of threonine, MSG, starch sweeteners and high-end amino acid products. This was partially offset by the decrease in gross profit margin of sales of xanthan gum.

In 2016, the ASP of the Group's MSG decreased by 12.4% compared to 2015 mainly as the average price of corn kernels decreased. In addition, the ASP of the Group's xanthan gum decreased by 28.5% compared to 2015 due to intense competition and weak market conditions in the global oil industry.

In view of the challenging market conditions, the Group also has had to continue actively implementing cost controls and also managed to undertake a technology enhancement to its production processes, which contributed to improvements in production efficiency and cost structure. The significantly increased gross profit margin of Amino acid segment in 2016 demonstrates the Group's ability to leverage its economies of scale and production capabilities to manage its costs effectively.

The production and sales volume of MSG increased by approximately 17.4% and 14.4% in 2016 as compared to 2015, respectively. The production volume of MSG increased as a result of the technology enhancement of its production processes which led to the production yield increase of MSG during the year.

The production and sales volume of xanthan gum decreased by approximately 37.0% and 20.1% in 2016 compared to 2015, respectively. The production volume of xanthan gum decreased primarily as a result of low market demand. Therefore, the Group temporarily suspended part of the production lines of xanthan gum, which were for maintenance or were changed to produce other profitable products such as gellan gum and other high-end amino acid products.

Animal nutrition and High-end Amino Acid Business

In addition, we continued the development of our threonine product. Threonine is a type of amino acid which is used as animal feed additives. During the year, the Group achieved great success in the production expansion in respect to threonine, which was attributable to the successful layout of production bases and a closer cooperation with Ajinomoto. Amidst considerable earnings of the threonine business, the Group managed to expand the production capacity of threonine. The total sales amount of threonine reached approximately RMB1,012.8 million in 2016. Compared to 2015, it represented an increase of 70.3%. In the 2016, the Group sold about 119,145 tonnes of threonine as compared to the sales volume of about 53,605 tonnes in 2015.

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 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 approximately RMB663.7 million. Compared to 2015, it represented an increase of 35.3%. Our high-end amino acid products generally enjoy higher profitability and focus on the health and wellness and pharmaceutical materials industries. 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 the Group to maintain its revenue growth momentum in 2016.

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

Our Amino acid segment is primarily made up of our MSG, threonine and high-end amino acid products. In terms of MSG business, there was a decrease in the ASP of MSG in 2016 as costs of main raw materials, especially corn kernels, significantly decreased during the year. The ASP of MSG remained at a relatively low level and the Group continued to face lackluster conditions in the domestic catering and consumer markets. As market conditions improved after industry consolidation was completed, the Group was able to maintain its leadership in terms of market share and sales volume and also increase gross profit margin by leveraging its cost advantages to adopt competitive pricing. The Group was able to record an increase in gross profit and gross profit margin in its Amino acid segment, mainly due to increasing contribution from the sales of MSG, threonine and high-end amino acid products. The high-end amino acid products, a relatively new product of the Group, continued to increase its revenue contribution to the Group.

Xanthan gum segment

Our xanthan gum business, another key business segment of the Group, recorded a significant decrease in the ASP and gross profit margin, whilst the market demand of xanthan gum was generally weak. We have adjusted part of the production capacity in Xinjiang Plant to produce gellan gum and high-end amino acid products at the beginning of 2016 and have temporarily suspended part of the production capacity for maintenance in IM Plant since the second quarter of 2016. The production capacity will temporarily be reduced to 73,000 tonnes per annum. The Group, as one of the top three xanthan gum manufacturers in the world, continued to maintain the global market leading position in 2016. As global market condition of oil industry returned to stability at the end of year, the ASP of xanthan gum also stabilised and showed a slight upward trend at the end of 2016.

Operational Review of the Group

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

Turnover/Gross profit/Gross profit margin of the Group

	Years ended 31 December		Change
	2016	2015	%
Turnover *(RMB'000)*	**11,803,131**	11,225,722	5.1
Gross profit *(RMB'000)*	**2,406,373**	1,802,491	33.5
Gross profit margin *(%)*	**20.4**	16.1	4.3 ppts.

The performance of the Group in terms of gross profit and gross profit margin was significantly improved, mainly due to the effect from an increase in gross profit margin of our Amino acids segment, which was partially offset by a decrease in gross profit margin of xanthan gum. As MSG industry consolidation gradually aided the improvement in the business environment and main raw material costs, especially corn kernels, decreased in 2016, the ASP of MSG trended downwards. As a result of our production technology enhancement being continuously implemented in our plants, gross profit margin of our MSG noticeably increased. Moreover, the increase in sales volume of our high-end amino acid products and threonine also brought additional growth momentum to our Amino acids segment. On the other hand, the market competition of xanthan gum intensified, resulting in the ASP of xanthan gum decreasing significantly in 2016. These are discussed in more details in the following sections.

Profit attributable to the Shareholders

	Years ended 31 December		
	2016	2015	Change
	RMB'000	*RMB'000*	*%*
As reported	**1,092,512**	516,261	111.6

The improving business environment, coupled with corn kernel costs significantly decreasing and increasing of production efficiency in 2016, led to the gross profit margin of Amino acid segment increasing in 2016. However, part of contribution was offset by the effect of the weak performance of our Xanthan gum segment. In addition, finance costs also decreased during the year as the Group has fully repaid the senior notes and increased working capital from operations, with the objective of maintaining total borrowings at a lower level and reduce the finance costs of the Group. With selling and administrative expenses remaining relatively stable in 2016, the net profit attributable to the Shareholders for 2016 significantly increased by approximately 111.6% as compared to 2015.

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, fertilisers, threonine, high-end amino acid products and other related products while the Xanthan gum segment represents the production and sale of xanthan gum.

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

	Year ended 31 December 2016			Year ended 31 December 2015			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	**11,240,665**	**562,466**	**11,803,131**	10,256,444	969,278	11,225,722	9.6	(42.0)	5.1
Gross profit	**2,316,680**	**89,693**	**2,406,373**	1,447,537	354,954	1,802,491	60.0	(74.7)	33.5
Gross profit margin	**20.6%**	**15.9%**	**20.4%**	14.1%	36.6%	16.1%	6.5ppts.	(20.7)ppts.	4.3ppts.
Segment results	**1,482,307**	**39,923**		757,638	289,006		95.6	(86.2)	
Segment net assets									
Assets	**9,919,823**	**3,769,193**		8,668,125	3,861,218		14.4	(2.4)	
Liabilities	**4,833,050**	**908,334**		5,051,084	1,030,067		(4.3)	(11.8)	

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

Amino acid segment

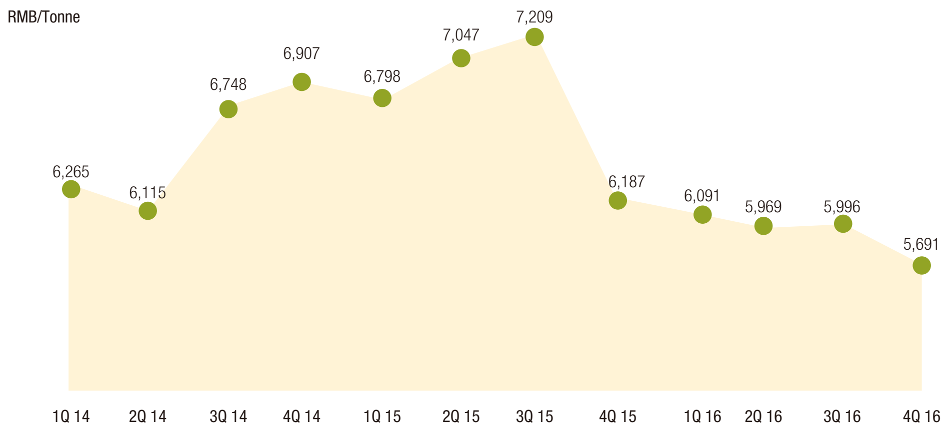
Revenue and average selling price

Revenue generated from the sale of the Amino acid segment products increased to RMB11,240.7 million in 2016, representing an increase of RMB984.2 million, or 9.6%, as compared with 2015, mainly attributed to the increase in the revenue of threonine and high-end amino acid products. The revenue of MSG was stable primarily due to the effect of an increase in the sales volume of MSG offset by the effect from a decrease in ASP during the year. The sales volume of MSG was 1,084,308 tonnes in 2016, representing an increase of 14.4% as compared with 2015, mainly due to the production technology enhancement which increased production yield and strengthened our competitive advantage.

The table below sets out the revenue of the products in this segment for the years ended 31 December 2016 and 2015:

	Years ended 31 December		
	2016	2015	Change
Product	***RMB'000***	*RMB'000*	%
MSG	**6,415,119**	6,418,049	(0.0)
Corn refined products	**1,473,794**	1,314,548	12.1
Threonine	**1,012,837**	594,830	70.3
High-end amino acid products	**663,744**	490,732	35.3
Starch sweeteners	**642,086**	724,002	(11.3)
Fertilisers	**614,964**	483,257	27.3
Glutamic acid	**200,834**	42,068	377.4
Corn oil	**27,995**	35,937	(22.1)
Compound seasoning	**15,169**	16,117	(5.9)
Others	**174,123**	136,904	27.2
	11,240,665	10,256,444	9.6

Set out below is a chart showing the ASP of the Group's MSG products for each quarter from the first quarter of 2014 to the fourth quarter of 2016:



MSG

The Group maintained its market leadership in the MSG business through increased marketing efforts and competitive pricing. While the ASP decreased by 12.4%, from approximately RMB6,744 per tonne in 2015 to approximately RMB5,910 per tonne in 2016, turnover of MSG in 2016 slight decreased, mainly due to the effect of sales volume increasing by 14.4% to approximately 1,084,308 tonnes compared to 2015, offset by the decrease in ASP of MSG during the year.

In 2016, the Group also strengthened the export of MSG 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 7.2% in 2016, which export sales amounted to about RMB1,079.0 million.

Fertilisers

During the year, the Group continuously developed high value-added fertiliser products, and the ASP of fertilisers increased from approximately RMB380 per tonne in 2015 to approximately RMB549 per tonne in 2016, representing an increase of about 44.5%, while the sales volume decreased in line with prevailing market conditions. The revenue of fertilisers amounted to approximately RMB615.0 million for the year ended 31 December 2016 as compared to approximately RMB483.3 million for 2015.

Corn refined products

As the average price of corn kernels decreased in 2016, the ASP of corn refined products also decreased in 2016. However, with the volume of consumption for production increasing, revenue of corn refined products increased by approximately 12.1% for the year ended 31 December 2016 as compared with the corresponding year of 2015.

Starch sweeteners

Turnover of starch sweeteners decreased by about 11.3% in 2016, primarily due to a fall in the ASP of starch sweeteners by 15.8% from approximately RMB2,954 per tonne in 2015 to approximately RMB2,486 per tonne in 2016, whilst demand for our starch sweetener was stable during this year.

Threonine

Threonine is a relatively new product of the Group, with annual production capacity increased to approximately 136,000 tonnes since the end of 2015. Threonine is classified as a major type of our product of animal nutrition in Amino acid segment. It is an essential amino acid which maintains body protein balance and promotes the growth of living things and our threonine is mainly used as animal feed additives.

The total revenue of threonine increased by about 70.3% in 2016 as compared to the year of 2015, primarily as a result of increased sales volume of threonine from approximately 53,605 tonnes in 2015 to approximately 119,145 tonnes in 2016, which was offset by the decrease in ASP of threonine by 23.7% from approximately RMB11,097 per tonne in 2015 to approximately RMB8,473 per tonne in 2016.

High-end amino acid products

The high-end amino acid products business is the new growth driver of the Group. The total sales amount of high-end amino acid products including valine, leucine, isoleucine, glutamine and hyaluronic acid, increased to approximately RMB663.7 million in 2016 as compared to approximately RMB490.7 million in 2015. The high-end amino acid market is one of the key markets that the Group remains focused on developing and strengthening. The Group aims to create a series of high-end amino acid products by capitalising on our research and development capabilities and resources advantage to realise the Group's development strategy of "Low Investment – High Return".

In 2016, the Group, through our wholly-owned subsidiary Shenhua Pharmaceutical, actively developed and promoted new health and wellness products and high-end amino acid products which use our new specialty ingredients such as hyaluronic acid, with the aim of improving product diversity and increasing sales and penetration in health and wellness, pharmaceutical and skin care related industries.

Gross Profit and Gross Profit Margin

The gross profit of this segment is set out below:

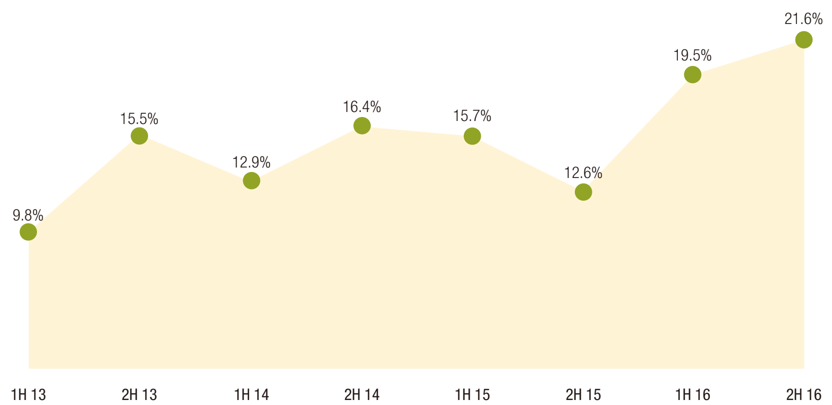
	Years ended 31 December		
	2016	2015	Change
Gross profit *(RMB'000)*	**2,316,680**	1,447,537	60.0%
Gross profit margin *(%)*	**20.6**	14.1	6.5ppts.

During the year ended 31 December 2016, gross profit and gross profit margin of MSG increased due to the cost of corn kernels decreasing and the implementation of production technology enhancement. In addition, increasing gross profit contribution from high-end amino acids products and threonine, which have higher gross profit margins, resulted in an increase in the overall gross profit margin of the Amino acids segment. Gross profit increased to RMB2,316.7 million and gross profit margin increased by 6.5 percentage points to 20.6%.

The Group has maintained its competitive pricing strategy in order to expand market share after industry consolidation in recent years. As market conditions gradually return to normality and with the gradual resumption of growth in the future, we believe that the ASP for MSG should witness a return to stability going forward.

The Group expects that our pricing power and leading market position for MSG can be maintained or improved from current levels in 2017.

Trend of Gross Profit Margin of Amino Acid Segment



The above chart shows the changes in gross profit margin from 2013 to 2016. As the government policy was changed, the average price of corn kernels has decreased significantly since the fourth quarter of 2015. 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 will stabilise or gradually improve. In addition, the Group will continue to launch 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				
	2016		2015		Change
	RMB'000	**%**	*RMB'000*	*%*	*%*
Major raw materials					
• Corn kernels	**4,821,570**	**53.4**	5,239,431	60.1	(8.0)
• Liquid ammonia	**110,124**	**1.2**	90,709	1.0	21.4
• Sulphuric acid	**97,885**	**1.1**	96,858	1.1	1.1
Energy					
• Coal	**923,716**	**10.2**	784,449	9.0	17.8
Depreciation	**688,643**	**7.6**	629,582	7.2	9.4
Employee benefits	**590,911**	**6.5**	579,173	6.6	2.0
Others	**1,793,563**	**20.0**	1,299,532	15.0	38.0
Total cost of production	**9,026,412**	**100.0**	8,719,734	100.0	3.5

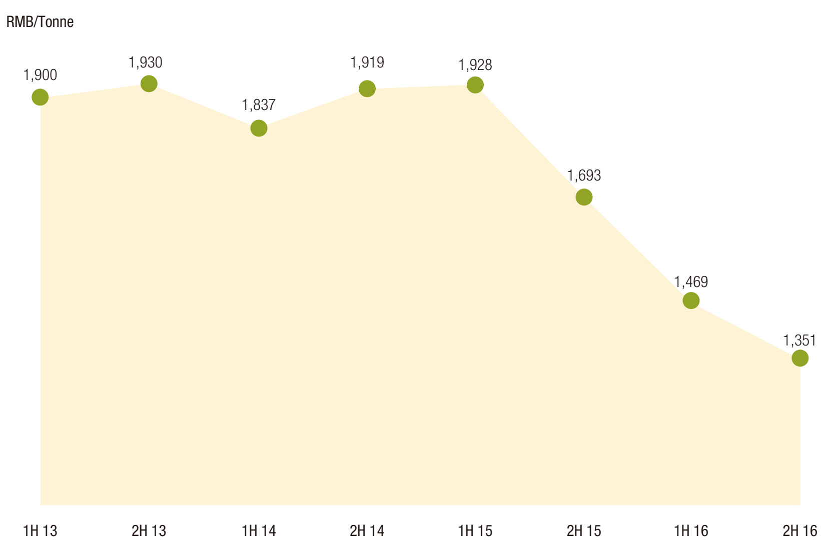
Corn kernels

During 2016, corn kernels accounted for approximately 53.4% (2015: 60.1%) of the total production cost of this segment. The average price of corn kernels was approximately RMB1,408 per tonne in 2016, representing a decrease of 22.3% from 2015, which was mainly due to the change of PRC government policy.

The cost of corn kernels as a percentage of total production costs decreased by 6.7 percentage points, which was due to the decrease in average price of corn kernels during 2016.

The following chart shows the price trend of corn kernels from the first half of 2013 to the second half of 2016:

Price Trend of Corn Kernels



Liquid ammonia

Liquid ammonia accounted for approximately 1.2% (2015: 1.0%) of total production cost in this segment in 2016. The Group witnessed fluctuation in the average unit cost of liquid ammonia in 2016. The average price of liquid ammonia amounted to RMB1,853 per tonne in 2016, representing a decrease of approximately RMB168 per tonne or 8.3% from 2015. However, as the cost of corn kernels as a percentage of total production cost decreased due to lower average price, the cost of liquid ammonia as a percentage of total production costs still increased by 0.2 percentage points.

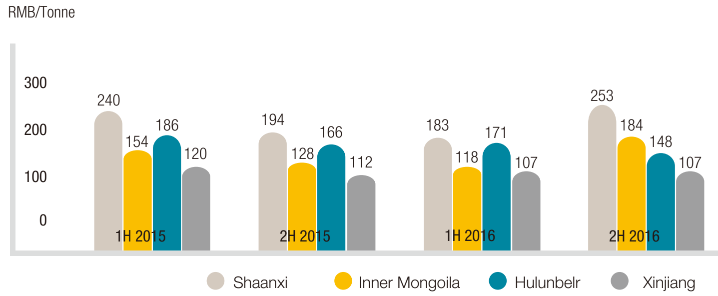
Sulphuric acid

Sulphuric acid accounted for approximately 1.1% (2015: 1.1%) of total production cost in this segment in 2016. The average unit cost of sulphuric acid decreased to approximately RMB213 per tonne in 2016, which represents a decrease of approximately RMB27 per tonne, or 11.3% from 2015.

Coal

Coal accounted for about 10.2% (2015: 9.0%) of total production cost in this segment in 2016. The average unit cost of coal was RMB155 per tonne in 2016, representing a slight decrease of RMB4 per tonne or 2.5% from 2015. Based on the market situation, the average unit cost of coal in Shaanxi and Inner Mongolia increased during the year. On the contrary, the average unit cost of coal in Hulunbeir and Xinjiang decreased in 2016. Our average coal costs were still at a low level which reflected that the competitive cost advantages from Hulunbeir Plant and Xinjiang Plant were fully realised during the year.

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



Other production costs

Certain machineries mainly used for Amino acid segment were impaired amounting to RMB119.8 million in 2016 (2015: RMB60,000) because of high production cost and those machineries are now idle. Moreover, the increase in cost of depreciation and employee benefits was mainly due to gradually increased production capacity of the new Baoji Plant since the second half of 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:

	Years ended 31 December		
Product	**2016**	2015	Change
	Tonnes	*Tonnes*	*%*
MSG			
Annual designed production capacity *(Note)*	**1,130,000**	940,000	20.2
Actual production output	**1,120,396**	954,700	17.4
Utilisation rate	**99.2%**	101.6%	
Glutamic acid			
Annual designed production capacity *(Note)*	**926,667**	760,000	21.9
Actual production output	**927,436**	766,917	20.9
Utilisation rate	**100.1%**	100.9%	
Fertilisers			
Annual designed production capacity *(Note)*	**950,000**	950,000	–
Actual production output	**891,823**	897,542	(0.6)
Utilisation rate	**93.9%**	94.5%	
Starch sweeteners			
Annual designed production capacity *(Note)*	**260,000**	260,000	–
Actual production output	**257,145**	238,393	7.9
Utilisation rate	**98.9%**	91.7%	

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

Utilisation rates remained high in 2016, which was the same case in 2015.

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 2016 and 2015:

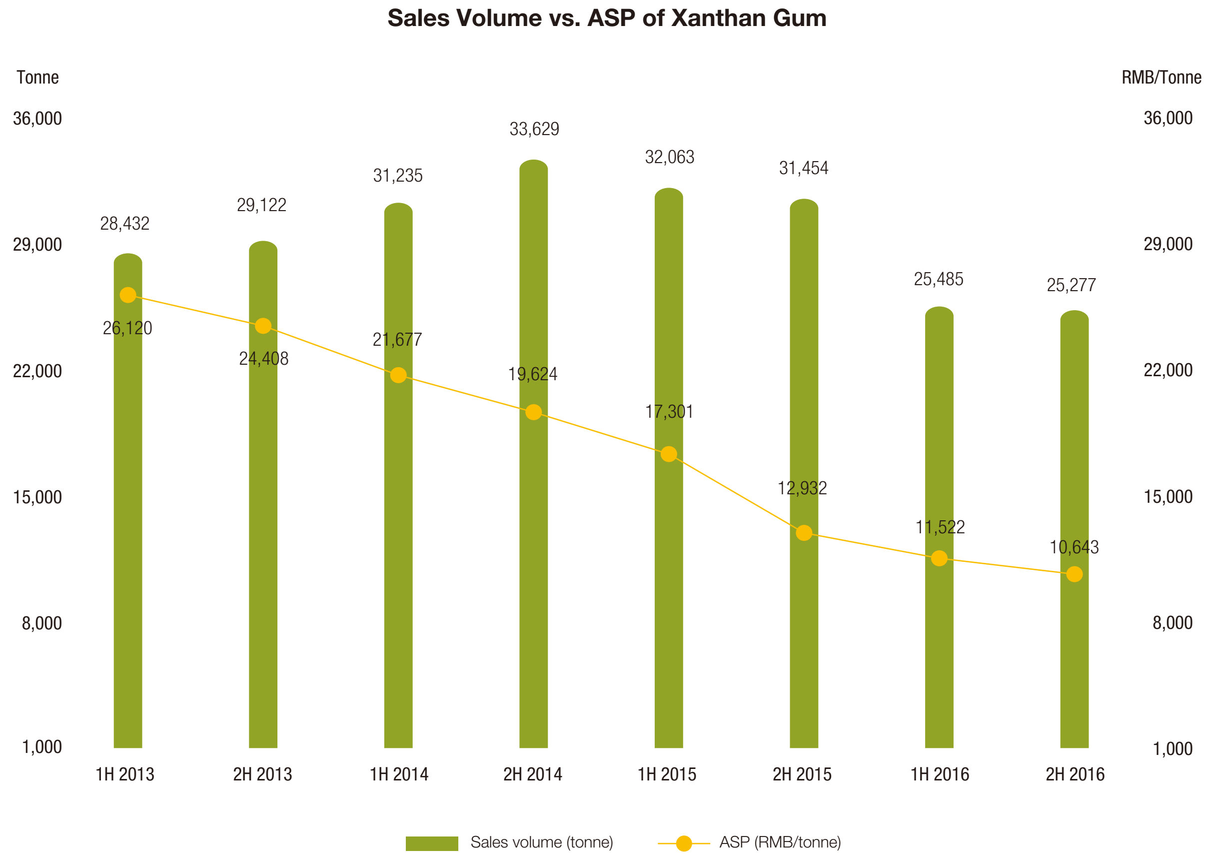
	Years ended 31 December		Change
	2016	2015	%
Revenue *(RMB'000)*	**562,466**	969,278	(42.0)
ASP *(RMB/tonne)*	**10,738**	15,013	(28.5)
Gross profit *(RMB'000)*	**89,693**	354,954	(74.7)
Gross profit margin *(%)*	**15.9**	36.6	(20.7) ppts.
Annual designed production capacity *(tonnes) (Note)*	**73,000**	87,500	(16.6)
Actual production output *(tonnes)*	**53,000**	84,162	(37.0)
Utilisation rate	**72.6%**	96.2%	

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

Revenue generated from xanthan gum decreased by 42.0% to RMB562.5 million in 2016, from RMB969.3 million in 2015. The decrease in revenue was due to the decrease in ASP and sales volume resulting from weak market demand. The significant decrease in the ASP of xanthan gum was due to intense competition and weak market conditions in the global oil industry in 2016.

The Group's exports of xanthan gum also decreased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed approximately 91.1% and 84.1% of total sales of xanthan gum in 2015 and 2016, respectively.

Sales and ASP



Global demand for xanthan gum fluctuated during the year. The market demand was still weak in the second half of 2016 and the Group expects this to continue in the foreseeable future as demand remains stable at a low level in the oil industry as well as other sectors.

Gross profit and gross profit margin

Gross profit of the Xanthan gum segment decreased by about 74.7% from approximately RMB355.0 million in 2015 to approximately RMB89.7 million in 2016. Gross profit margin decreased as well, by 20.7 percentage points to 15.9% in 2016, reflecting weakness in global market demand and a depressed oil industry.

Production costs

	Years ended 31 December				
	2016		2015		Change
	RMB'000	**%**	*RMB'000*	%	%
Major raw materials					
• Corn kernels	**165,144**	**34.3**	307,644	39.6	(46.3)
• Soybeans	**36,332**	**7.5**	68,164	8.8	(46.7)
Energy					
• Coal	**84,253**	**17.5**	112,616	14.5	(25.2)
Depreciation	**42,586**	**8.8**	65,037	8.4	(34.5)
Employee benefit	**61,353**	**12.7**	89,061	11.5	(31.1)
Others	**91,697**	**19.2**	133,719	17.2	(31.4)
Total cost of production	**481,365**	**100.0**	776,241	100.0	(38.0)

Corn kernels

In 2016, corn kernels represented approximately 34.3% (2015: 39.6%) of the total production cost of this segment. The average price of corn kernels for 2016 was approximately RMB1,596 per tonne, which represents a decrease of approximately RMB223 per tonne, or 12.3%, from that in 2015. The cost of corn kernels as a percentage of total production costs remained at around 34.3%. The cost amount incurred of corn kernels decreased 46.3% from approximately RMB307.6 million in 2015 to approximately RMB165.1 million in 2016, mainly due to the average price of corn kernels decreasing and consumption volume of production decreasing as the production volume of xanthan gum was significantly reduced in 2016.

Soybeans

During 2016, soybeans accounted for approximately 7.5% (2015: 8.8%) of the total production cost of this segment. The decrease in proportion was mainly due to the decrease in soybean prices from approximately RMB4,233 per tonne in 2015 to approximately RMB3,789 per tonne in 2016, representing a decrease of 10.5%.

Coal

In 2016, coal accounted for approximately 17.5% (2015: 14.5%) of the total production cost of this segment. The average unit cost of coal was approximately RMB141 per tonne in 2016, which represents a slight increase of approximately RMB6 per tonne, or 4.4%, from that of 2015. The Group continued to take full advantage of the relatively low coal cost that the Group was able to source and utilise locally in its IM Plant and Xinjiang Plant.

Other production costs

The cost of depreciation in 2016 decreased compared with 2015 mainly due to part of production capacity of xanthan gum changed to produce other high-end amino acid products. Depreciation accounted for approximately 8.8% (2015: 8.4%) of the total production cost of this segment.

Other Financial Information

Selling and marketing expenses

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

Administrative expenses

Administrative expenses increased by approximately RMB3.3 million, or 0.6%, in 2016. Administrative expenses remain stable during 2016.

Finance costs (net)

The finance costs (net) of the Group in 2016 included two main parts: interest expense and exchange gain or loss on financial activities. Interest expense decreased by approximately RMB120.6 million, which includes the interest penalty of early redemption of the senior notes of approximately RMB35.3 million, including RMB35.3 million of loss on early redemption of senior notes, or approximately 40.0%, when compared with 2015 due to the repayment of senior notes being fully completed at the end of 2015 and a decrease in bank borrowings as our working capital from operations increased during the year. During 2016, the Group recorded an exchange loss on finance activities amounting to approximately RMB37.5 million, mainly due to the exchange loss of current bank borrowings denominated in USD.

Staff costs

Staff costs of the Group decreased by approximately RMB17.1 million, or approximately 1.7%, from approximately RMB996.9 million in 2015 to approximately RMB979.8 million in 2016. The staff costs are maintained in a stable level.

Depreciation

Depreciation expense of the Group increased by approximately RMB79.7 million, or approximately 10.7%, from approximately RMB746.8 million in 2015 to approximately RMB826.5 million in 2016. The increase was mainly due to the gradually increased production capacity of the new Baoji Plant after relocation and additional production capacity of threonine having commencd operation since the end of 2015.

Income tax expense

The income tax expenses for the year of 2016 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% (2015: 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" (財税[2011]58號"關於深入實施西部大開發戰略有關税收政策問題的通知"), 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% (2015: 15%).

The other subsidiaries of the Group in the PRC are subject to an income tax rate of 25% (2015: 25%).

Strategic Investment

Co-developing the polylactide acid market with China National Cereals, Oils and Foodstuffs Corporation:

We joined hands with China National Cereals, Oils and Foodstuffs Corporation for equity subscription in Jilin COFCO Biomaterial Company Limited (吉林中糧生物材料有限公司) to co-develop the polylactide acid business. The Group invested RMB30 million to hold 30% interest in the company, whereas China National Cereals, Oils and Foodstuffs Corporation holds 40%. Jilin COFCO Biomaterial Company Limited is a joint venture focusing on manufacturing polylactide acid (PLA), a bio-based material. With corn as its major raw material, PLA is a new type of environmentally degradable material which can be converted into biological fertiliser. It does not cause harm to the environment and conforms to the concept of environmental protection.

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

Proposed Spin-off

As set out in the voluntary announcement of the Company dated 11 May 2016, the Company has informed the Shareholders that the Stock Exchange of Hong Kong Limited stopped the review of the spin-off application and returned the application form to Shenhua Health Holding Limited on 29 March 2016. Although it is still the intention of the Company to continue proceeding with the Proposed Spin-off, the Company, having consulted with professional advisors, thinks it would be prudent and in the best interest of our shareholders to wait for the conclusion of the ongoing listing regulation consultation before making a decision as to whether to proceed with the Proposed Spin-off or not. Should the Company decide to restart the Proposed Spin-off, the Company will issue further announcement(s) in accordance with the requirements of the Listing Rules.

Outlook

Looking ahead to 2017, it is expected that the Chinese economy will continue to grow at a slow pace. The ongoing lack of consumer confidence and the slowdown in the growth of economy will continue to affect the catering industry.

With MSG industry consolidation generally completed, the Group expects the operating environment will continue to improve in 2017. The Group will keep abreast of the market and seize opportunities to continue to increase our market share by leveraging on our economies of scale in the MSG business. As a market leader, the Group will strive to play its part in creating a sustainable competitive environment for the MSG business.

The Group will continuously explore the development of new high-end polymer materials such as gellan gum, hyaluronic acid and amino acid products, in order to improve product class and increase sales and penetration in health and wellness products, pharmaceutical entities, and the skincare products field. 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.

Recent Development and Future Plan

To seize the historic opportunities brought by the reform of the corn market, we have started to research the feasibility of undertaking the new corn processing and bio-fermentation project by the end of 2016, with efforts to search for favorable locations and resource partners.

Meanwhile, the Group is in the process of in-depth communication with leading biotech firms worldwide to seek greater, more comprehensive development in animal nutrition.

Starting from 2017, we will make great efforts to integrate our distribution network from across the country and improve our sales team. This will involve the comprehensive integration of important segments of our national MSG and bio-fermentation markets. We seek to form alliances with competitive distributors who will extend our market leadership from the production end to the sales end of the industrial chain, so that we can achieve higher prices and lock in greater profits in the industrial chain in the future. In the meantime, we will boost our sales capabilities by increasing the coverage of our direct sales across China and improving the quality of our sales personnel. The measures aim to create cross-sales and more profitable product mixes through more technical proposals and services. We believe that considerable value still awaits us for exploration in the sales end of bio-fermentation.

In the second half of 2017, we plan to proceed with the second phase of production technology enhancement (regarding the enhancement of extraction technology for MSG production). Such relevant technology enhancement will improve the quality of products. On the same basis, production yield will be enhanced whilst the unit production costs will be reduced significantly.

For high-end amino acids, we will further develop new products and improve the quality of our existing products.

For food and beverage retail business, we will launch more products, improve the gross margin of our product series and portfolio, and tap into the experience of our new senior management to further market development and improve profit margins.

Strengthen our management team

To achieve the coming targets, the Group has improved and will keep improving its management structure, nourishing and attracting talents and further enhancing its corporate culture. The Group has appointed professional management and instituted strategy consultation with an aim to review, integrate and strengthen the Group's existing management system, human resource system and corporate culture of the Board, which will bring a positive effect for the Group's development in the long run.

Plan to construct a new corn processing project

The company has plans to construct a new corn processing project in Qiqihar City, Heilongjiang Province, for crystallised sugar and animal nutrition products. The first phase of the project is planned to start construction in 2017 with estimate production capacity of 100,000 tonnes of crystallized sugar and 100,000 tonnes of threonine. Total estimate capital expenditure is expected to be around RMB1 billion. In 2018, we plan to build another 100,000 tonnes of production capacity of lysine and other products, with total capital expenditure also estimate at RMB1 billion.

Overseas market expansion

The Group has increased efforts to develop and expand the foreign MSG and xanthan gum markets by focusing on establishing overseas sales branches and offices. In 2016, the Group strengthened promotional activities in the 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 2016, the Group's cash and bank balances were approximately RMB1,422.1 million (2015: RMB1,019.1 million) whereas current bank borrowings and current other borrowing (including the balances of convertible bonds and medium-term notes) were approximately RMB1,176.8 million and Nil (2015: RMB344.8 million and RMB1,501.1 million) respectively and non-current bank borrowings and non-current other borrowings (including the balances of convertible bonds and corporate bonds) were approximately Nil and RMB1,923.2 million (2015: RMB1,005.5 million and RMB986.7 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-year terms ("2013 CB"). The yield to maturity rate of 2013 CB is 4.5% per annum. The net proceeds in the amount of approximately USD155 million from the issue of the 2013 CB were used to repay the syndicated bank loan at the end of 2013. During the year ended 31 December 2016, no conversion had taken place. The current outstanding amount of 2013 CB amounts to approximately RMB931.9 million.

Medium-term Note
In April 2013, IM Fufeng issued a medium-term note at par value of RMB600 million, which was dominated in RMB with a fixed interest of 5.11% per annum. The note matured in three years from the issue date and net proceeds were used to repay certain short-term bank loans and for general working capital purposes. It was fully repaid in April 2016.

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

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

Material acquisition or disposal of subsidiary and associated company

On 22 August 2016, a wholly owned subsidiary of the Company, Shandong Fufeng Fermentation Co, Ltd, entered into sale and purchase agreement to sell its wholly owned companies, Junan Beifang Properties Company Limited and Junan Beibu Properties Company Limited, for a total consideration of approximately RMB164.1 million. Junan Beifang Properties Company Limited and Junan Beibu Properties Company Limited are investment holding companies 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 148,748.6 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 2016.

Employees

As at 31 December 2016, 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 2016, the Group had no material contingent liabilities.

Charges on assets

As at 31 December 2016, approximately RMB307.5 million of restricted bank deposits (2015: certain leasehold land, property, plant and equipment of the Group amounted to RMB110.2 million) were pledged to certain banks to secure bank borrowings of approximately RMB307.5 million (2015: RMB420 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 Company, which are Acquest Honour Holdings Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group.

Gearing ratio

As at 31 December, 2016, the total assets of the Group amounted to approximately RMB14,456.1 million (2015: RMB13,850.2 million) whereas the total borrowings amounted to approximately RMB3,100.0 million (2015: RMB3,838.1 million). The gearing ratio was approximately 21.4% (2015: 27.7%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Foreign exchange exposure

The Directors do not consider that the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in RMB. Foreign currencies were, however, received for the export sales of products and foreign currency bank borrowings. Such proceeds were subject to foreign exchange risk before receiving and converting them into RMB. The Group slowed down the exchange settlement as a result of the devaluation of the RMB. The Group manages foreign exchange risk arising from proceeds from bank borrowings by remitting the necessary funds to the PRC and using the proceeds based on operational needs and foreign exchange market situation. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2016.

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 HK7.8 cents per share, subject to Shareholders' approval at the annual general meeting.

The final dividend will be payable on or about 15 June 2017 to Shareholders whose names appear on the register of members of the Company on 24 May 2017.

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 2016.

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 2016, 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. Qi Qing Zhong did not attend the annual general meeting of the Company held on 12 May 2016. 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 risk management and internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2016, 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 2017 to 12 May 2017 (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 2017, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 8 May 2017.

The register of members of the Company will be closed from 22 May 2017 to 24 May 2017 (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 19 May 2017.

Annual general meeting

The annual general meeting is expected to be held on 12 May 2017. 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, 21 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Li Xuechun, Mr. Li Deheng, Mr. Xu Guohua 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

ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Board	the board of Directors
COFCO	China National Cereals, Oils and Foodstuffs Corporation
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
Group	the Company and its subsidiaries
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Hulunbeir Plant	the production plant of the Group located at Hulunbeir, Inner Monogolia Autonomous Region, the PRC
IM Fufeng	內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Plant	the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC
Listing Date	8 February 2007, the date on which the Company was listed on the Stock Exchange
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
PLA	Polylactic acid

PRC	the People's Republic of China, which for the purpose of this annual report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Stock Exchange	the Stock Exchange of Hong Kong Limited
Xinjiang Fufeng	新疆阜豐生物科技有限公司 (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