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## **Fufeng Group Limited** **阜豐集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 546)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **HIGHLIGHTS OF 2017 GROUP RESULTS**

- In 2017, the Group continued to build its competitive strength in the global amino acid market. The Group further expanded its amino acid product mix for the purposes of increasing the proportion of high value-added products and diversifying its revenue sources. In addition, the Group continued expanding its highly profitable businesses such as animal nutrition and colloid, thus generating new momentum for our business growth.
- As the industry leader, we managed to achieve strong results in our core business and also further consolidated our leadership in the market. Overall revenue increased to approximately RMB13,033.5 million in 2017 (2016: RMB11,803.1 million). Gross profit significantly increased from approximately RMB2,406.4 million in 2016 to approximately RMB2,979.5 million in 2017. Gross profit margin of the Group increased to about 22.9% (2016: 20.4%). The increase in revenue was primarily due to (1) the increase in annual production capacity by means of newly enhanced production technology, and (2) the increase in the ASP and sales volume of threonine, high-end amino acid products, starch sweeteners and xanthan gum.
- Gross profit of the Group significantly increased by 23.8%, to about RMB2,979.5 million. Gross profit of the Amino acid segment and Xanthan gum segment increased by 19.7% and 129.0% to about RMB2,774.1 million and RMB205.4 million, respectively. Compared to 2016, the Group benefited from a decrease in the price of corn kernels and our enhanced production technology, which further strengthened our competitive cost advantages. In addition, we saw robust performance of high-end amino acid products and threonine.

- Finance costs substantially decreased by approximately RMB109.5 million, mainly owing to a decrease in interest expense on bank borrowings and the full conversion of the convertible bonds due in 2018 into ordinary shares of the Company by the bondholders at the end of first half of 2017.
- Profit attributable to the Shareholders reached a record high of approximately RMB1,382.4 million (2016: RMB1,092.5 million), representing an increase of about 26.5%.
- Earnings per share (Basic) was RMB57.04 cents (2016: RMB51.37 cents).
- Return on equity was 14.6% (2016: 16.0%).
- Final dividend of HK11.0 cents (2016: HK7.8 cents) per share has been recommended by the Board.
- The sum of paid interim dividend and proposed final dividend is HK19.8 cents per share (2016: HK11.6 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 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2017*

|                                                                                                                                    | <i>Note</i> | <b>Years ended 31 December</b> |                |
|------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------------------------|----------------|
|                                                                                                                                    |             | <b>2017</b>                    | <b>2016</b>    |
|                                                                                                                                    |             | <b>RMB'000</b>                 | <b>RMB'000</b> |
| Revenue                                                                                                                            | 3           | <b>13,033,501</b>              | 11,803,131     |
| Cost of sales                                                                                                                      |             | <b>(10,054,030)</b>            | (9,396,758)    |
| <b>Gross profit</b>                                                                                                                |             | <b>2,979,471</b>               | 2,406,373      |
| Selling and marketing expenses                                                                                                     |             | <b>(981,508)</b>               | (816,603)      |
| Administrative expenses                                                                                                            |             | <b>(506,556)</b>               | (516,315)      |
| Other operating expenses                                                                                                           |             | <b>(17,249)</b>                | (29,252)       |
| Other income                                                                                                                       | 5           | <b>280,661</b>                 | 363,855        |
| Other (losses)/gains – net                                                                                                         | 6           | <b>(40,033)</b>                | 102,361        |
| <b>Operating profit</b>                                                                                                            |             | <b>1,714,786</b>               | 1,510,419      |
| Finance income                                                                                                                     |             | <b>46,414</b>                  | 9,466          |
| Finance costs                                                                                                                      |             | <b>(109,168)</b>               | (218,634)      |
| Finance costs – net                                                                                                                |             | <b>(62,754)</b>                | (209,168)      |
| Share of profit of investments accounted for using the equity method                                                               |             | <b>749</b>                     | 647            |
| <b>Profit before income tax</b>                                                                                                    |             | <b>1,652,781</b>               | 1,301,898      |
| Income tax expense                                                                                                                 | 4           | <b>(270,401)</b>               | (209,386)      |
| <b>Profit for the year and attributable to the Shareholders</b>                                                                    |             | <b>1,382,380</b>               | 1,092,512      |
| <b>Earnings per share for profit attributable to the Shareholders during the year</b><br><i>(expressed in RMB cents per share)</i> |             |                                |                |
| – basic                                                                                                                            | 7           | <b>57.04</b>                   | 51.37          |
| – diluted                                                                                                                          | 7           | <b>55.46</b>                   | 47.79          |

# **CONSOLIDATED BALANCE SHEET**

*As at 31 December 2017*

|                                                   |             | <b>As at 31 December</b> |                |
|---------------------------------------------------|-------------|--------------------------|----------------|
|                                                   |             | <b>2017</b>              | <b>2016</b>    |
|                                                   | <i>Note</i> | <b>RMB'000</b>           | <b>RMB'000</b> |
| <b>ASSETS</b>                                     |             |                          |                |
| <b>Non-current assets</b>                         |             |                          |                |
| Leasehold land payments                           |             | <b>1,393,941</b>         | 1,413,942      |
| Property, plant and equipment                     |             | <b>9,234,061</b>         | 7,858,775      |
| Intangible assets                                 |             | <b>17,791</b>            | 9,108          |
| Investments accounted for using the equity method |             | <b>31,396</b>            | 30,647         |
| Deferred income tax assets                        |             | <b>182,447</b>           | 184,396        |
| Long-term bank deposits                           |             | <b>—</b>                 | 20,100         |
|                                                   |             | <b>10,859,636</b>        | 9,516,968      |
| <b>Current assets</b>                             |             |                          |                |
| Inventories                                       |             | <b>3,229,895</b>         | 2,481,911      |
| Trade and other receivables                       | 9           | <b>1,361,559</b>         | 1,035,076      |
| Cash and bank balances                            |             | <b>515,444</b>           | 1,422,147      |
|                                                   |             | <b>5,106,898</b>         | 4,939,134      |
| <b>Total assets</b>                               |             | <b>15,966,534</b>        | 14,456,102     |

|                                                              |             | <b>As at 31 December</b> |                |
|--------------------------------------------------------------|-------------|--------------------------|----------------|
|                                                              |             | <b>2017</b>              | <b>2016</b>    |
|                                                              | <i>Note</i> | <b>RMB'000</b>           | <b>RMB'000</b> |
| <b>EQUITY</b>                                                |             |                          |                |
| <b>Capital and reserves attributable to the Shareholders</b> |             |                          |                |
| Share capital                                                |             | <b>244,436</b>           | 207,222        |
| Share premium                                                |             | <b>1,736,726</b>         | 462,639        |
| Other reserves                                               |             | <b>384,178</b>           | 319,980        |
| Retained earnings                                            |             | <b>7,094,765</b>         | 5,826,023      |
| <b>Total equity</b>                                          |             | <b>9,460,105</b>         | 6,815,864      |
| <b>LIABILITIES</b>                                           |             |                          |                |
| <b>Non-current liabilities</b>                               |             |                          |                |
| Deferred income                                              | 10          | <b>721,936</b>           | 707,501        |
| Borrowings                                                   | 11          | <b>560,265</b>           | 1,923,185      |
| Deferred income tax liabilities                              |             | <b>16,650</b>            | 16,650         |
|                                                              |             | <b>1,298,851</b>         | 2,647,336      |
| <b>Current liabilities</b>                                   |             |                          |                |
| Trade, other payables and accruals                           | 12          | <b>3,685,015</b>         | 3,721,615      |
| Current income tax liabilities                               |             | <b>111,624</b>           | 94,494         |
| Borrowings                                                   | 11          | <b>1,410,939</b>         | 1,176,793      |
|                                                              |             | <b>5,207,578</b>         | 4,992,902      |
| <b>Total liabilities</b>                                     |             | <b>6,506,429</b>         | 7,640,238      |
| <b>Total equity and liabilities</b>                          |             | <b>15,966,534</b>        | 14,456,102     |

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017*

### 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 Hong Kong Financial Reporting Standards (“HKFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial liabilities that are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

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

As at 31 December 2017, the Group’s current liabilities exceeded its current assets by RMB100,680,000. Such a condition indicated the existence of an uncertainty that may cast doubt about the Group’s ability to continue its business as a going concern. The Directors have been making effort to ensure that the Group has sufficient financial resources. As at 31 December 2017, the Group has RMB296,026,000 unused credit line granted by the bank. Taking into account the funds to be generated internally from the Group’s operations and the availability of the financial resources, the Directors believe that the Group will be able to meet its debts and commitments as they fall due within the next twelve months after 31 December 2017. Accordingly, the financial statements have been prepared on a going concern basis.

#### *Changes in accounting policy and disclosures*

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

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 2017

- Amendments to HKAS 7 ‘Statement of cash flows’ is effective for annual periods beginning on or after 1 January 2017. The amendments introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments as mentioned above did not have a material effect on the Group’s operating results, financial position or comprehensive income.

- (b) *Standards, amendments and interpretations to existing standards effective in 2017 but not relevant to the Group*

|                      |                                          | <b>Effective for annual periods beginning on or after</b> |
|----------------------|------------------------------------------|-----------------------------------------------------------|
| HKAS 12 (Amendments) | Income taxes                             | 1 January 2017                                            |
| HKFRS 12 (Amendment) | Disclosure of interest in other entities | 1 January 2017                                            |

- (c) *New standards, amendments and interpretations which have been issued and effective for the financial year beginning after 1 January 2017 and have not been early adopted by the Group*

|                                    |                                                                                       | <b>Effective for annual periods beginning on or after</b> |       |
|------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------|-------|
| HKFRS 1 (Amendment)                | First time adoption of HKFRS                                                          | 1 January 2018                                            |       |
| HKFRS 2 (Amendments)               | Classification and measurement of share-based payment transactions                    | 1 January 2018                                            |       |
| HKFRS 4 (Amendments)               | Insurance contracts                                                                   | 1 January 2018                                            |       |
| HKFRS 9                            | Financial instruments                                                                 | 1 January 2018                                            | (i)   |
| HKFRS 15                           | Revenue from contracts with customers                                                 | 1 January 2018                                            | (ii)  |
| HK (IFRIC) 22                      | Foreign currency transactions and advance consideration                               | 1 January 2018                                            |       |
| HKAS 28 (Amendment)                | Investments in associates and joint ventures                                          | 1 January 2018                                            |       |
| HKAS 40 (Amendments)               | Transfers of investment property                                                      | 1 January 2018                                            |       |
| HKFRS 16                           | Leases                                                                                | 1 January 2019                                            | (iii) |
| HK (IFRIC) 23                      | Uncertainty over income tax treatments                                                | 1 January 2019                                            |       |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined                                          |       |
| HKFRS 17                           | Insurance contracts                                                                   | 1 January 2021 or when apply HKFRS 15 and HKFRS 9         |       |

The Group's assessment of the impact of these new standards and interpretation is set out below.

- (i) *HKFRS 9, Financial Instruments*

*Nature of change*

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

### *Impact*

The Group does not expect the new guidance to have significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instrument that are classified as available-for-sale financial assets;
- Debt instrument classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

### *Date of adoption by Group*

Must be applied for financial years commencing on or after 1 January 2018. The Group has applied the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 are not be restated.

## *(ii) HKFRS 15, Revenue from Contracts with Customers*

### *Impact*

When applying HKFRS 15, revenue shall be recognized by applying following steps:

- identify the contract with customer;
- identify the performance obligations in the contract;

- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognize revenue when (or as) the entity satisfies a performance obligation.

The Group engaged in manufacture and sales of fermentation-based food additive, biochemical products and starch-based products. The Group didn't introduce any customer loyalty programme which is likely to be affected by the new HKFRS 15.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following area that will be affected:

- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. Due to the large size and low value of the Group's products, the historical goods return rate is very low. The financial impact of applying new HKFRS 15 is not material.
- presentation of contract assets and contract liabilities in the balance sheet – HKFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities which are currently included in other balance sheet line items.

#### *Date of adoption by Group*

Mandatory for financial years commencing on or after 1 January 2018. The Group has adopted the new standard from 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption (if any) is recognised in retained earnings as of 1 January 2018 and that comparatives are not restated. As the nature of the Group's business is to deliver consumer products to various customers, management estimates no material financial impact due to the effectiveness of new HKFRS 15.

#### (iii) HKFRS 16, *Leases*

##### *Nature of change*

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

The accounting for lessors will not significantly change.

##### *Impact*

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB3,260,000. The Group estimates that all of these relate to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

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

#### *Date of adoption by Group*

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations. According to the preliminary assessment, other than the assessment results of HKFRS 9, 15 and 16 stated above, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

## **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 discussed below.

### **2.1 Provision for impairment of trade and other receivables**

The Group's management determines the provision for impairment of trade and other receivables based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Management reassesses the provision at each balance sheet date.

### **2.2 Estimated impairment of property, plant and equipment**

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

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and

as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of comprehensive income. If there is an indication that an impairment loss may have decreased, the recoverable amount should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.

### **2.3 Useful lives of plant and equipment**

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

### **2.4 Net realisable value of inventories**

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

### **2.5 PRC taxes**

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

## **3. SEGMENT INFORMATION**

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

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

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

Approximately 71% (2016: 76%) of the Group's revenue is generated from sales to customers in the PRC. The remaining 29% (2016: 24%) of the Group's revenue is generated from the sales to overseas countries including mainly the Southeast Asia, the United Arab Emirates, Kingdom of Saudi Arabia, the State of Qatar, Thailand and the United States of America.

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 executive directors determined to reclass bacterial protein from the category of fertilisers to the category of corn refined products for better revenue analysis. Certain comparative amounts have been reclassified accordingly.

The revenue of the Group for the years ended 31 December 2017 and 2016 are set out as follows:

|                              | <b>2017</b><br><b>RMB'000</b> | 2016<br><b>RMB'000</b> |
|------------------------------|-------------------------------|------------------------|
| MSG                          | <b>6,341,730</b>              | 6,415,119              |
| Corn refined products        | <b>1,965,283</b>              | 1,764,121              |
| Threonine                    | <b>1,393,958</b>              | 1,012,837              |
| High-end amino acid products | <b>878,787</b>                | 663,744                |
| Xanthan gum                  | <b>703,454</b>                | 562,466                |
| Starch sweeteners            | <b>697,494</b>                | 642,086                |
| Glutamic acid                | <b>418,594</b>                | 200,834                |
| Fertilisers                  | <b>405,819</b>                | 324,637                |
| Pharmaceuticals              | <b>121,383</b>                | 86,898                 |
| Synthetic ammonia            | <b>11,951</b>                 | 55,513                 |
| Corn oil                     | <b>10,731</b>                 | 27,995                 |
| Others                       | <b>84,317</b>                 | 46,881                 |
|                              | <b>13,033,501</b>             | 11,803,131             |

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

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

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

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

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

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

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., Qiqihar Lifeng Logistics Co., Ltd., Xinjiang Nongfeng Equity Investment Co., Ltd. and non-PRC established companies.

Unallocated liabilities mainly comprise bank borrowings and operating liabilities held by non-PRC established companies.

The Group's revenue from its external customers in the PRC is RMB9,248,873,000 (2016: RMB8,938,305,000) and the total revenue from external customers in Hong Kong and other countries is RMB3,784,628,000 (2016: RMB2,864,826,000).

The Group's total non-current assets located in the PRC other than deferred income tax assets are RMB10,677,167,000 (2016: RMB9,332,530,000), and the total non-current assets located in Hong Kong and Singapore other than deferred income tax assets are RMB22,000 (2016: RMB42,000).

#### 4. INCOME TAX EXPENSE

|                                     | 2017<br>RMB'000 | 2016<br>RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Current income tax                  |                 |                 |
| – PRC enterprise income tax (“EIT”) | 265,754         | 240,924         |
| – Hong Kong income tax              | 1,741           | 4,210           |
| – Singapore income tax              | 1               | (15)            |
| – US income tax                     | <u>956</u>      | <u>953</u>      |
| Total current income tax            | 268,452         | 246,072         |
| Deferred income tax                 | <u>1,949</u>    | <u>(36,686)</u> |
|                                     | <u>270,401</u>  | <u>209,386</u>  |

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

The Group's subsidiary in Hong Kong is subject to income tax at a rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year ended 31 December 2017.

The Group's subsidiary in Singapore is subject to income tax at a rate of 17% (2016: 17%) for the year ended 31 December 2017.

The Group's subsidiary in United States is subject to state income tax at a rate of approximately 8.84% (2016: 8.84%) and a federal income tax at a rate of approximately 39% (2016: 39%) for the year ended 31 December 2017.

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.

Two subsidiaries of the Group including Shandong Fufeng and Shenhua Pharmaceutical have obtained the approvals to become a new and high-technology enterprise and are entitled to a preferential income tax rate of 15% (2016: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財稅2011 58號“關於深入實施西部大開發戰略有關稅收政策問題的通知”), companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government will be entitled to a preferential tax rate of 15%. Four subsidiaries of the Group including Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Xinjiang Fufeng, were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate of 15% (2016: 15%).

The other subsidiaries of the Group in the PRC are subject to an income tax rate of 25% (2016: 25%).

## 5. OTHER INCOME

|                                                    | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|----------------------------------------------------|------------------------|------------------------|
| Amortisation of deferred income ( <i>Note 10</i> ) | 96,542                 | 172,376                |
| Government grants related to expenses              | 48,708                 | 64,346                 |
| Sales of waste products                            | 112,348                | 108,388                |
| Others                                             | 23,063                 | 18,745                 |
|                                                    | <u>280,661</u>         | <u>363,855</u>         |

## 6. OTHER (LOSSES)/GAINS – NET

|                                                                     | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|---------------------------------------------------------------------|------------------------|------------------------|
| Loss on disposal of property, plant and equipment – net             | (836)                  | (1,594)                |
| Gain on compensation from insurance company after offsetting losses | 4,178                  | 23,831                 |
| Net foreign exchange (losses)/gains                                 | (43,375)               | 73,652                 |
| Gain on disposal of subsidiaries                                    | –                      | 6,472                  |
|                                                                     | <u>(40,033)</u>        | <u>102,361</u>         |

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 RMB164,133,000. 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 RMB111,253,000 and RMB46,408,000, respectively. The disposal resulted in a gain of RMB6,472,000 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 2017 and 2016 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.

|                                                                                                                                   | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Profit attributable to the Shareholders                                                                                           | <u>1,382,380</u>       | <u>1,092,512</u>       |
| Weighted average number of ordinary shares in issue<br>excluding ordinary shares purchased by the Company<br>( <i>thousands</i> ) | <u>2,423,400</u>       | <u>2,126,685</u>       |
| Basic earnings per share ( <i>RMB cents per share</i> )                                                                           | <u>57.04</u>           | <u>51.37</u>           |

### (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 2017, outstanding share options issued in April 2015 and December 2017 are not included in calculation of diluted earnings per share. Because the average market price of ordinary shares for the year ended 31 December 2017 did not exceed the exercise prices of each tranche of the share options, hence the share options are antidilutive and are not included in the calculation of the diluted earnings per share.

|                                                                                                                                          | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| <b>Earnings</b>                                                                                                                          |                        |                        |
| Profit attributable to the Shareholders                                                                                                  | 1,382,380              | 1,092,512              |
| Interest expense on convertible bonds (net of tax)                                                                                       | <u>6,398</u>           | <u>57,781</u>          |
| Profit used to determine diluted earnings per share                                                                                      | <u>1,388,778</u>       | <u>1,150,293</u>       |
| <b>Weighted average number of ordinary shares in issue<br/>excluding ordinary shares purchased by the Company<br/>(<i>thousands</i>)</b> | <b>2,423,400</b>       | <b>2,126,685</b>       |
| Adjustments for:                                                                                                                         |                        |                        |
| – Assumed exercise of share options ( <i>thousands</i> )                                                                                 | 4,421                  | –                      |
| – Assumed conversion of convertible bonds ( <i>thousands</i> )                                                                           | <u>76,156</u>          | <u>280,049</u>         |
| Weighted average number of ordinary shares for<br>diluted earnings per share ( <i>thousands</i> )                                        | <u>2,503,977</u>       | <u>2,406,734</u>       |
| Diluted earnings per share ( <i>RMB cents per share</i> )                                                                                | <u>55.46</u>           | <u>47.79</u>           |

## 8. DIVIDENDS

|                 | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-----------------|------------------------|------------------------|
| Interim, paid   | 191,298                | 69,295                 |
| Final, proposed | 226,158                | 147,651                |
|                 | <u>417,456</u>         | <u>216,946</u>         |

The final dividends paid in 2017 were HKD198,645,000 (equivalent to RMB176,815,000) (2016: RMB23,223,000), representing HK7.8 cents (equivalent to RMB6.94 cents per share) (2016: RMB1.09 cents) per ordinary share of the Company. The difference between proposed and paid final dividends was due to the increased ordinary shares as a result of the full conversion to convertible bonds.

At a meeting held on 27 March 2018, the Board proposed a final dividend of HKD280,141,000 (equivalent to RMB226,158,000) (2016: RMB147,651,000), representing HK11.0 cents (equivalent to RMB8.88 cents) (2016: RMB 6.94 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

|                                                         | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|---------------------------------------------------------|------------------------|------------------------|
| Trade receivables (a)                                   | 509,204                | 388,654                |
| Less: provision for impairment of trade receivables (b) | (20,258)               | (285)                  |
| Trade receivables – net                                 | 488,946                | 388,369                |
| Notes receivable (c)                                    | 562,423                | 398,810                |
| Deposits and others                                     | 46,553                 | 63,041                 |
| Loans to employees                                      | 2,299                  | 1,715                  |
| – Loans to key management                               | –                      | –                      |
| – Loans to other employees                              | 2,299                  | 1,715                  |
| Value-added tax for future deduction                    | 193,258                | 26,894                 |
| Trade and other receivables excluding prepayments       | 1,293,479              | 878,829                |
| Prepayments for raw materials                           | 68,080                 | 156,247                |
|                                                         | <u>1,361,559</u>       | <u>1,035,076</u>       |

(a) As at 31 December 2017 and 2016 the ageing analysis of trade receivables (including amounts due from related party of trading nature) based on invoice date was as follows:

|                 | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-----------------|------------------------|------------------------|
| Within 3 months | 402,822                | 309,683                |
| 3 ~12 months    | 60,765                 | 64,622                 |
| Over 12 months  | 45,617                 | 14,349                 |
|                 | <u>509,204</u>         | <u>388,654</u>         |

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

- (b) As at 31 December 2017, trade receivables of RMB33,157,000 (2016: RMB50,127,000) 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:

|                          | <b>2017</b><br><b>RMB'000</b> | 2016<br><i>RMB'000</i> |
|--------------------------|-------------------------------|------------------------|
| Past due within 3 months | <b>28,620</b>                 | 33,736                 |
| Past due in 3 ~12 months | <b>4,537</b>                  | 16,391                 |
|                          | <b>33,157</b>                 | 50,127                 |

As at 31 December 2017, trade receivables of RMB20,258,000(2016: RMB285,000)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.

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

|                                                             | <b>2017</b><br><b>RMB'000</b> | 2016<br><i>RMB'000</i> |
|-------------------------------------------------------------|-------------------------------|------------------------|
| As at 1 January                                             | <b>285</b>                    | –                      |
| Transferred from disposal group classified as held for sale | –                             | 4,749                  |
| Provision/(Reversal of) for receivables impairment          | <b>19,973</b>                 | (237)                  |
| Receivables written-off during the years as uncollectible   | –                             | (4,227)                |
| At 31 December                                              | <b>20,258</b>                 | 285                    |

- (c) As at 31 December 2017, notes receivable were all bank acceptance notes aged less than six months, including a total amount of RMB 509,926,000 (2016: RMB387,239,000) 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:

|       | <b>2017</b><br><b>RMB'000</b> | 2016<br><i>RMB'000</i> |
|-------|-------------------------------|------------------------|
| – RMB | <b>756,710</b>                | 583,715                |
| – USD | <b>536,769</b>                | 295,114                |
|       | <b>1,293,479</b>              | 878,829                |

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

|                                                                                                               | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|---------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Government grants related to income tax credit from purchasing qualified equipment (a)                        | 53,585                 | 71,393                 |
| Government grants related to acquisition of environmental protection and technology improvement equipment (b) | 596,031                | 562,709                |
| Government grants related to urban planning of local PRC governments (c)                                      | 72,320                 | 73,399                 |
|                                                                                                               | <u>721,936</u>         | <u>707,501</u>         |

The movements of the above government grants for the years ended 31 December 2017 and 2016 are as follows:

|                                                             | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-------------------------------------------------------------|------------------------|------------------------|
| At beginning of the year                                    | 707,501                | 752,287                |
| Granted during the year                                     | 110,977                | 121,333                |
| Amortised as income ( <i>Note 5</i> )                       | (96,542)               | (172,376)              |
| Transferred from disposal group classified as held for sale | –                      | 6,257                  |
| At end of the year                                          | <u>721,936</u>         | <u>707,501</u>         |

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

## 11. BORROWINGS

|                            | 2017<br>RMB'000         | 2016<br>RMB'000         |
|----------------------------|-------------------------|-------------------------|
| <b>Non-current</b>         |                         |                         |
| Bank borrowings, unsecured | 560,265                 | –                       |
| Corporate bonds            | –                       | 991,241                 |
| Convertible bonds          | –                       | 931,944                 |
|                            | <u>560,265</u>          | <u>1,923,185</u>        |
| <b>Current</b>             |                         |                         |
| Bank borrowings, unsecured | 415,000                 | 869,295                 |
| Bank borrowings, secured   | –                       | 307,498                 |
| Corporate bonds            | 995,939                 | –                       |
|                            | <u>1,410,939</u>        | <u>1,176,793</u>        |
| <b>Total Borrowings</b>    | <u><u>1,971,204</u></u> | <u><u>3,099,978</u></u> |

At 31 December 2017, the Group's borrowings were repayable as follows:

|                       | Bank borrowings |                  | Other loans     |                  |
|-----------------------|-----------------|------------------|-----------------|------------------|
|                       | 2017<br>RMB'000 | 2016<br>RMB'000  | 2017<br>RMB'000 | 2016<br>RMB'000  |
| Within 1 year         | 415,000         | 1,176,793        | 995,939         | –                |
| Between 1 and 2 years | 245,138         | –                | –               | 1,923,185        |
| Between 2 and 5 years | 315,127         | –                | –               | –                |
|                       | <u>975,265</u>  | <u>1,176,793</u> | <u>995,939</u>  | <u>1,923,185</u> |

As at 31 December 2017, all the bank borrowings were unsecured(2016: RMB307,498,000 borrowings secured by leasehold land of the Group).

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

|                 | 2017                | 2016                |
|-----------------|---------------------|---------------------|
| Bank borrowings | <u><u>3.28%</u></u> | <u><u>3.08%</u></u> |

## 12. TRADE, OTHER PAYABLES AND ACCRUALS

|                                                                                                  | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|--------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Trade payables (a)                                                                               | 1,451,471              | 1,214,352              |
| Advances from customers (b)                                                                      | 346,937                | 693,249                |
| Payables for property, plant and equipment                                                       | 1,013,726              | 746,611                |
| Bank acceptance notes payable                                                                    | 83,795                 | 255,300                |
| Government compensation related to property,<br>plant and equipment disposal received in advance | 62,280                 | 139,778                |
| Salaries, wages and staff welfares payables                                                      | 398,098                | 398,146                |
| Interest payables                                                                                | 9,227                  | 12,444                 |
| Government grants received in advance                                                            | 2,039                  | 16,432                 |
| Dividends payable                                                                                | 407                    | 407                    |
| Other payables and accruals                                                                      | 317,035                | 244,896                |
|                                                                                                  | <u>3,685,015</u>       | <u>3,721,615</u>       |

- (a) As at 31 December 2017 and 2016, the ageing analysis of trade payables (including amounts due to related party of trading in nature) based on invoice date was as follows:

|                 | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|-----------------|------------------------|------------------------|
| Within 3 months | 1,014,534              | 875,365                |
| 3 to 6 months   | 218,759                | 220,871                |
| 6 to 12 months  | 151,949                | 72,489                 |
| 1 to 2 years    | 44,024                 | 38,662                 |
| Over 2 years    | 22,205                 | 6,965                  |
|                 | <u>1,451,471</u>       | <u>1,214,352</u>       |

- (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:

|                                                                                | 2017<br><i>RMB'000</i> | 2016<br><i>RMB'000</i> |
|--------------------------------------------------------------------------------|------------------------|------------------------|
| Purchase of property, plant and equipment<br>– Contracted but not yet incurred | <u>233,764</u>         | <u>105,021</u>         |

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

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

|                                             | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---------------------------------------------|-----------------|-----------------|
| No later than 1 year                        | 3,193           | 3,453           |
| Later than 1 year and no later than 5 years | 67              | 611             |
|                                             | <u>3,260</u>    | <u>4,064</u>    |

**14. RELATED PARTY TRANSACTIONS AND BALANCES**

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

**(a) Transactions with related parties**

The following transactions occurred with related parties:

**(1) Non-recurring connected transaction**

|                                          | 2017<br>RMB'000 | 2016<br>RMB'000 |
|------------------------------------------|-----------------|-----------------|
| Services purchased from a related party* | <u>28,222</u>   | <u>–</u>        |

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

**(2) Continuing connected transaction**

|                                       | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---------------------------------------|-----------------|-----------------|
| Sales of products to a related party* | <u>20,812</u>   | <u>–</u>        |

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

**(b) Key management compensation**

|                                           | 2017<br>RMB'000 | 2016<br>RMB'000 |
|-------------------------------------------|-----------------|-----------------|
| Salaries and allowances                   | 20,726          | 17,564          |
| Pension costs – defined contribution plan | 829             | 684             |
| Share options granted to key management   | <u>10,191</u>   | <u>4,191</u>    |
|                                           | <u>31,746</u>   | <u>22,439</u>   |

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

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

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

**(1) Trade receivables from a related party**

|                                                                              | <b>2017</b><br><b>RMB'000</b> | 2016<br><i>RMB'000</i> |
|------------------------------------------------------------------------------|-------------------------------|------------------------|
| – A company controlled by close family member of the controlling shareholder | <b>7,604</b>                  | –                      |

**(2) Other payables to a related party**

|                                                                              | <b>2017</b><br><b>RMB'000</b> | 2016<br><i>RMB'000</i> |
|------------------------------------------------------------------------------|-------------------------------|------------------------|
| – A company controlled by close family member of the controlling shareholder | <b>27,726</b>                 | –                      |

**(d) Terms and conditions**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS AND FINANCIAL REVIEW

#### Overview

Riding on the stabilised market conditions since 2016, along with the state's policy change for the corn processing industry, the Group was able to capture important development opportunities in 2017. As the leader in the industry, the Group achieved stable development for its core business and also further consolidated its leading position in the market. In addition, the Group made considerable effort in developing high-value fermentation products in order to diversify its revenue stream, enhance profitability and provide impetus for the long-term sustainable growth of the Group.

The Group continued to strategically utilise the production facility and capacity of each plant in order to match ongoing market demand. In order to take full advantage of corn production capacity in Heilongjiang Province, the Company has completed construction of a new corn processing project in Qiqihar City, Heilongjiang Province, to sustain the development of the animal nutrition and food additive businesses. Current production capacity of the first phase amounts to 200,000 tonnes of starch sweeteners and 100,000 tonnes of threonine and the project began pilot production at the end of 2017. The Group has continuously explored the development of animal nutrition such as threonine, new high-end polymer materials such as gellan gum, hyaluronic acid and amino acid 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 2017, the Group continuously benefited from the achieved results of industry consolidation in the past few years. We actively strengthened our competitiveness and constantly improved production technology to achieve better cost effectiveness and more actively expanded the Amino acid business. Our newly enhanced production technology of MSG further strengthened our competitive cost advantages by reducing production costs and increasing production yield.

The strategy of our product development is mainly divided into four categories: 1. Food additives (key products include MSG, compound seasoning, starch sweeteners, 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.).

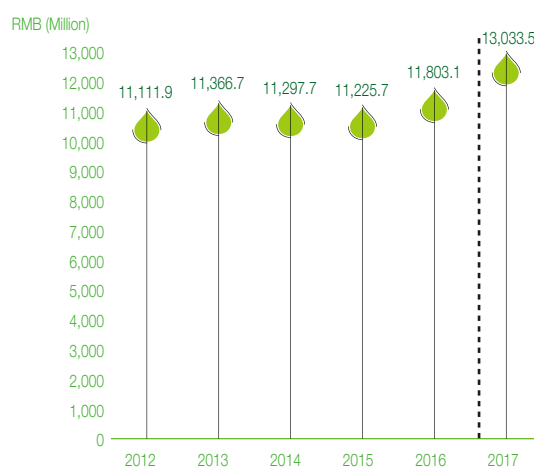
MSG industry consolidation has gradually aided the improvement in the business environment since 2016, coupled with the price of corn kernels maintaining at a lower level during 2017, which led to a decrease in production costs and an increase in the gross profit margin of our key products. The Group was able to record an increase in its overall gross profit and net profit during 2017 compared to 2016.

Overall revenue of the Group increased for the year ended 31 December 2017, and 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. The overall production capacity of the Group in 2017 remained almost fully operational.

Our Amino acid segment is primarily made up of our MSG, threonine, high-end amino acid products and starch sweeteners. In terms of MSG business, there was a decrease in the ASP in 2017 as costs of main raw materials, particularly corn kernels, stayed at a low level 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, in addition to price 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 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 threonine, high-end amino acid products and starch sweeteners. The expansion of threonine, high-end amino acid products and starch sweeteners continued to increase its revenue contribution to the Group. The commencement of operations at the new production facility of Longjiang Plant in Qiqihar City at the end of 2017 will result in continuous growth of revenue contribution from threonine.

As another key business segment of the Group, our Xanthan gum business returned to stability during 2017 as market conditions in the oil industry recovered. Although the ASP and gross profit margin of xanthan gum were still low, we see a recovering trend in 2018. During the year we kept the production capacity of xanthan gum at a low level of 60,000 tonnes per annum. The Group, as the largest xanthan gum manufacturer in the world, continued to dominate the global market share in 2017.

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



For the year of 2017, revenue for the Group increased to approximately RMB13,033.5 million as compared to approximately RMB11,803.1 million for the year of 2016. The increase in revenue was primarily caused by the increase of the revenue from threonine, high-end amino acid products and 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. With demand and supply of MSG stabilising, the revenue of MSG witnessed stability in 2017. The effect of the increase in the sales volume of MSG was offset by the decreasing in ASP of MSG during 2017.

Although the ASP and sales volume of xanthan gum stayed at a low level as the global oil industry remained weak, the Group was able to maintain market share of xanthan gum as a market leader during 2017. In addition, the market condition of the global oil industry recovered to a slight upward trend in the third quarter of 2017 and therefore the market condition of xanthan gum returned to stability as well.

The Group's overall gross profit significantly increased from approximately RMB2,406.4 million in 2016 to approximately RMB2,979.5 million in 2017. This represents an increase of 23.8%, primarily due to enhanced production technology coupled with a decrease in the price of corn kernels, which led to a decrease in production costs and an increase in the gross profit contribution of the sales of threonine, starch sweeteners and high-end amino acid products and xanthan gum.

In 2017, the ASP of the Group's MSG decreased by 6.6% compared to 2016, mainly as the average price of major raw material, corn kernels, decreased during the year. In addition, the ASP of the Group's xanthan gum increased by 23.8% compared to 2016 as market conditions in the global oil industry returning to stability in the second half of 2017. Production costs of the Group, including chemical products and coal, increased as compared to 2016 due to overall stableness in domestic and global market demand.

In view of the challenging market conditions, the Group 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 increase in gross profit margin of the Amino acid segment in 2017 demonstrates the Group's ability to leverage on its diversification of its products, economies of scale and production capabilities to manage its costs effectively.

The production and sales volume of MSG increased by approximately 13.1% and 6.0% in 2017 as compared to 2016, 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 volume of xanthan gum decreased by approximately 20.1% while sales volume increased by 4.1% in 2017 compared to 2016, respectively. The production volume of xanthan gum decreased primarily as a result of weak market demand. Therefore, the Group suspended part of the production lines of xanthan gum, which were changed to produce other profitable products such as high-end amino acid products.

## **Animal nutrition and High-end Amino Acid Business**

In addition, we continued the development of our threonine business. Threonine is a type of amino acid which is used as animal feed additives and during the year, the total sales amount of threonine reached RMB1,394.0 million. Compared to 2016, it represented an increase of 37.6%. In the 2017, the Group sold approximately 161,595 tonnes of threonine as compared to 119,145 tonnes in 2016.

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

The high-end amino acid business, as part of our Amino acid segment, is the Group's new growth driver. The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging on the Group's fermentation technology. The high-end amino acid products include valine 纈氨酸, leucine 亮氨酸, isoleucine 異亮氨酸, glutamine 谷氨醯胺 and hyaluronic acid 透明質酸, etc. During the year, the total sales amount of high-end amino acid products reached RMB878.8 million which, compared to 2016, represents an increase of 32.4%. Our high-end amino acid products generally enjoy higher profitability and focus on the healthcare and pharmaceutical materials industries. The short-term goal of the Group is to become a major producer and supplier in the world 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 overall revenue growth momentum in 2017.

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 a key producer and supplier in terms of global market share.

## **MARKET OVERVIEW**

### **Amino acid segment**

Our Amino acid segment is primarily made up of our MSG, threonine, high-end amino acid products and starch sweeteners. In terms of MSG business, there was a decrease in the ASP in 2017 as costs of main raw materials, particularly corn kernels, 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. However, market conditions have improved as the economy shows slightly stronger growth. 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 threonine, high-end amino acid products and starch sweeteners. The high-end amino acid products, a relatively new product of the Group, continued to increase its revenue contribution to the Group.

### **Xanthan gum Segment**

Our Xanthan gum business, another key business segment of the Group, recorded an increase in ASP and gross profit margin as the global economy continued its upward trend in the second half of 2017. As the Group actively adjusted its product portfolio, we adjusted part of the production capacity in Xinjiang Plant to produce high-end amino acid products and the production capacity of xanthan gum was reduced to 60,000 tonnes per annum. The Group, as the largest xanthan gum manufacturer in the world, continued to maintain the global market leading position in 2017. As market conditions in the 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 2017.

## **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**

|                                 | <b>Year ended 31 December</b> |             | <b>Change</b>    |
|---------------------------------|-------------------------------|-------------|------------------|
|                                 | <b>2017</b>                   | <b>2016</b> | <b>%</b>         |
| Turnover ( <i>RMB'000</i> )     | <b>13,033,501</b>             | 11,803,131  | 10.4             |
| Gross profit ( <i>RMB'000</i> ) | <b>2,979,471</b>              | 2,406,373   | 23.8             |
| Gross profit margin (%)         | <b><u>22.9</u></b>            | <u>20.4</u> | <u>2.5 ppts.</u> |

The performance of the Group in terms of gross profit and gross profit margin improved, mainly due to the effect from an increase in gross profit margin of our products such as threonine, high-end amino acid products, starch sweeteners and xanthan gum. As a result of the state's reformation of corn purchasing and storage policy, the cost of corn kernels continuously decreased in 2017, and gross profit margin of the above mentioned products noticeably increased. Moreover, the increase in sales volume of our high-end amino acid products, threonine, and starch sweeteners brought additional growth momentum to our Amino acid segment. On the other hand, the market condition of xanthan gum stabilised, resulting in the increase in ASP in 2017. These are discussed in more details in the following sections.

## Profit attributable to the Shareholders

|             | Years ended 31 December |                  |             |
|-------------|-------------------------|------------------|-------------|
|             | 2017                    | 2016             | Change      |
|             | <i>RMB'000</i>          | <i>RMB'000</i>   | %           |
| As reported | <b>1,382,380</b>        | <b>1,092,512</b> | <b>26.5</b> |

The improving business environment, coupled with corn kernel costs decreasing in 2017, led to the gross profit margin of threonine, high-end amino acid products and starch sweeteners increasing in 2017. In addition, a slight portion of the improvement came from the effect of the recovering performance of our Xanthan gum segment. Furthermore, finance costs also decreased during the year as bank borrowings decreased and convertible bonds were fully converted to ordinary shares. Our objective is to maintain the total borrowings at a lower level and reduce the finance costs of the Group. With other sales and administrative costs remaining relatively stable in 2017, the net profit attributable to the Shareholders for 2017 increased by approximately 26.5% as compared to 2016.

## 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, starch sweeteners and other related products while the Xanthan gum segment represents the production and sale of xanthan gum.

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

|                     | Years ended 31 December 2017 |                |                | Years ended 31 December 2016 |                |                | Increase/(Decrease) |             |          |
|---------------------|------------------------------|----------------|----------------|------------------------------|----------------|----------------|---------------------|-------------|----------|
|                     | Amino acid                   | Xanthan gum    | Group          | Amino acid                   | Xanthan gum    | Group          | Amino acid          | Xanthan gum | Group    |
|                     | <i>RMB'000</i>               | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>               | <i>RMB'000</i> | <i>RMB'000</i> | %                   | %           | %        |
|                     | audited                      | audited        | audited        | audited                      | audited        | audited        | audited             | audited     | audited  |
| Revenue             | 12,330,047                   | 703,454        | 13,033,501     | 11,240,665                   | 562,466        | 11,803,131     | 9.7                 | 25.1        | 10.4     |
| Gross profit        | 2,774,074                    | 205,397        | 2,979,471      | 2,316,680                    | 89,693         | 2,406,373      | 19.7                | 129.0       | 23.8     |
| Gross profit margin | 22.5%                        | 29.2%          | 22.9%          | 20.6%                        | 15.9%          | 20.4%          | 1.9 pts.            | 13.3 pts.   | 2.5 pts. |
| Segment results     | 1,629,902                    | 116,792        |                | 1,482,307                    | 39,923         |                | 10.0                | 192.5       |          |
| Segment net assets  |                              |                |                |                              |                |                |                     |             |          |
| Assets              | 11,559,107                   | 3,615,332      |                | 9,919,823                    | 3,769,193      |                | 16.5                | (4.1)       |          |
| Liabilities         | 5,286,999                    | 654,489        |                | 4,833,050                    | 908,334        |                | 9.4                 | (27.9)      |          |

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

## Amino acid Segment

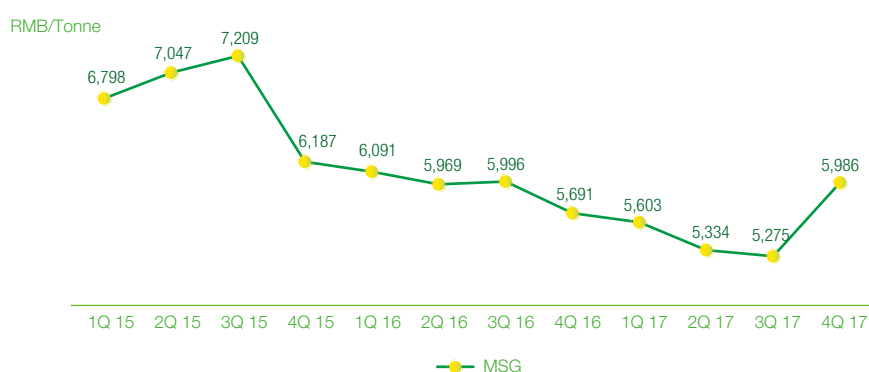
### Revenue and ASP

Revenue generated from the sale of the Amino acid segment products increased to RMB12,330.0 million in 2017, representing an increase of RMB1,089.4 million, or 9.7%, as compared with 2016, 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 approximately 1,148,995 tonnes in 2017, representing an increase of 6.0% as compared with 2016, 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 2017 and 2016:

| Product                          | Years ended 31 December |                 | Change<br>% |
|----------------------------------|-------------------------|-----------------|-------------|
|                                  | 2017<br>RMB'000         | 2016<br>RMB'000 |             |
| MSG                              | <b>6,341,730</b>        | 6,415,119       | (1.1)       |
| Corn refined products (restated) | <b>1,965,283</b>        | 1,764,121       | 11.4        |
| Threonine                        | <b>1,393,958</b>        | 1,012,837       | 37.6        |
| High-end amino acid products     | <b>878,787</b>          | 663,744         | 32.4        |
| Starch sweeteners                | <b>697,494</b>          | 642,086         | 8.6         |
| Glutamic acid                    | <b>418,594</b>          | 200,834         | 108.4       |
| Fertilisers (restated)           | <b>405,819</b>          | 324,637         | 25.0        |
| Pharmaceuticals                  | <b>121,383</b>          | 86,898          | 39.7        |
| Compound Seasoning               | <b>22,421</b>           | 15,169          | 47.8        |
| Corn oil                         | <b>10,731</b>           | 27,995          | (61.7)      |
| Others                           | <b>73,847</b>           | 87,225          | (15.3)      |
|                                  | <b>12,330,047</b>       | 11,240,665      | 9.7         |

Set out below is a chart showing the ASP of the Group's MSG products for each quarter from the first quarter of 2015 to the fourth quarter of 2017:



## *MSG*

The Group maintained its market leadership in the MSG business through increased marketing efforts and competitive pricing. The ASP decreased by 6.6%, from approximately RMB5,910 per tonne in 2016 to approximately RMB5,522 per tonne in 2017, while turnover of MSG also slightly decreased by 1.1%, mainly due to the effect of sales volume increasing by 6.0% to approximately 1,148,995 tonnes compared to 2016, which was offset by the decrease in ASP of MSG during the year.

As the weak market sentiment for MSG continued, domestic sales were weak in the fourth quarter of 2017. By comparison, the corn price in the domestic market showed an upward trend in the fourth quarter of 2017, which drove the ASP of MSG to increase in the fourth quarter. However, the overall pricing was still at a low level. In light of the abovementioned factors, the Group's MSG business operation faced certain challenges, but we will seize opportunities to achieve further industrial consolidation.

In 2017, the Group also strengthened the export of MSG products and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers. The export of MSG in term of sales increased by 12.9% in 2017, which amounted to RMB1,218.4 million as compared to RMB1,079.0 million in 2016.

## *Fertilisers*

In the past, fertilisers mainly included two types of products: bacterial protein 菌體蛋白 and compound fertilisers 複混肥. Bacterial protein is a by-product from the production process of fertilisers. Previously, the production scale of bacterial protein was small and the difference between the ASP of compound fertiliser and bacterial protein was minor. Therefore, we classified the revenue from bacterial protein to the category of fertilisers. However, since the end of 2016, as the production technology has improved, the production scale of bacterial protein has increased. In addition, the ASP of bacterial protein has increased significantly due to the improvement of product quality. The ASP of bacterial protein for the year ended 31 December 2017 was around RMB2,356 per tonne, representing an increase of RMB428, or about 22.2%, as compared to the year of 2016. Therefore, we decided to reclassify the revenue from bacterial protein to corn refined products for better revenue analysis.

On the other hand, the ASP of compound fertilisers for the year ended 31 December 2017 was around RMB381, representing an increase of RMB47, or about 14.1%, as compared to 2016. As the Group has continuously enhanced development of high value added fertilisers products, the ASP of fertilisers was in line with prevailing market conditions.

## *Continuing connected transaction*

On 5 July 2017, the Company and Inner Mongolia Wo Feng Agricultural Development Company Limited (內蒙古沃豐農業發展有限公司, the "Purchaser") entered into the Procurement Framework Agreement, pursuant to which the Company has agreed to supply the Purchaser fertiliser products during the term of the Procurement Framework Agreement. Pursuant to the Procurement Framework Agreement, the Company shall supply fertiliser products to the Purchaser on normal commercial terms, of which the sale price shall not be lower than the price of similar products sold by the Company to independent third parties in its ordinary course of business. As at the date of the Procurement Framework Agreement, 68.06% equity interest of the Purchaser is held by Ms. Li Hongyu, the daughter of Mr. Li Xuechun, an executive Director and the chairman of the Board, and sister of Mr. Li Guangyu,

an executive Director. Therefore the Purchaser is a connected person of the Company. The Company considers that working with the Purchaser, which has assembled an experienced and professional team to operate its fertiliser business and has in place an extensive sales and distribution network, will be beneficial to the future development of the fertiliser business of the Group.

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

The Company estimated that its sales volume of fertiliser products to the Purchaser under the Procurement Framework Agreement would be 120,000 tonnes, 250,000 tonnes and 350,000 tonnes for the years ending 31 December 2017, 2018 and 2019, respectively. The annual cap of the revenue would be RMB54 million, RMB112.5 million and RMB157.5 million for the years ending 31 December 2017, 2018 and 2019, respectively. During the second half of 2017, the sales volume of fertilisers to the Purchaser under the Procurement Framework Agreement was approximately 38,948 tonnes, resulting in sales revenue of RMB20.8 million.

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

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

As a result of the above business arrangement, the sales volume of fertilisers recovered in 2017 and revenue of fertilisers increased from RMB324.6 million for the year ended 31 December 2016 to RMB405.8 million for the year ended 31 December 2017, representing an increase of 25.0%.

#### *Corn refined products*

As we reclassified bacterial protein into the corn refined products category, the revenue of corn refined products increased by about 11.4% for the year ended 31 December 2017 as compared with 2016. It was mainly due to an increase in the ASP of bacterial protein in 2017.

#### *Starch sweeteners*

Turnover of starch sweeteners increased by about 8.6% in 2017, primarily due to an increase in the ASP of starch sweeteners from approximately RMB2,486 per tonne in 2016 to approximately RMB2,660 per tonne in 2017, whilst demand for our starch sweetener products saw a slight increase during the year.

## *Threonine*

Threonine is a growth product of the Group, with annual production capacity increasing to approximately 156,000 tonnes since the beginning of 2017. Threonine is classified as a major type of animal nutrition product in the 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 an animal feed additive. The total revenue of threonine increased by about 37.6% in 2017 as compared to 2016, primarily as a result of increased sales volume from approximately 119,145 tonnes in 2016 to approximately 161,595 tonnes in 2017 and also a slight increase in the ASP of threonine by 1.8%, from approximately RMB8,473 per tonne in 2016 to approximately RMB8,629 per tonne in 2017. During the year, the Group continued to increase threonine exports, with export sales rising to approximately RMB1,058.4 million in 2017.

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

## *High-end amino acid products*

The high-end amino acid products business continues to be 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 RMB878.8 million in 2017 as compared to approximately RMB663.7 million in 2016. 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 2017, the Group, through our wholly-owned subsidiary Xinjiang Fufeng, our new specialty ingredients such as hyaluronic acid and high-end amino acid products, with the aim of improving product diversity and increasing sales and penetration in health and wellness, pharmaceutical and skin care related industries.

## *Gross Profit and Gross Profit Margin*

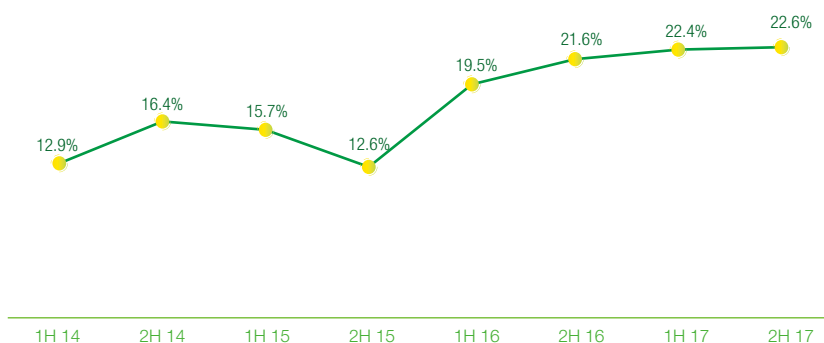
The gross profit of this segment is set out below:

|                         | Years ended 31 December |           | Change    |
|-------------------------|-------------------------|-----------|-----------|
|                         | 2017                    | 2016      |           |
| Gross profit (RMB'000)  | <b>2,774,074</b>        | 2,316,680 | 19.7%     |
| Gross profit margin (%) | <b>22.5</b>             | 20.6      | 1.9 ppts. |

Increasing gross profit contribution from threonine, high-end amino acid products, and starch sweeteners, which have higher gross profit margins, resulted in an increase in the overall gross profit margin of the Amino acid segment. Gross profit increased to about RMB2,774.1 million and gross profit margin increased by 1.9 percentage points to 22.5% for the year ended 31 December 2017. The Group has strengthened its product portfolio, such as animal nutrition and high-end amino acid products, and also maintained its competitive pricing strategy in order to expand its market share. As market conditions gradually return to normality and with the steady resumption of growth in the future, we believe that the ASP of our major products will witness a return to stability going forward.

For the MSG business, the Group has maintained its competitive pricing strategy in order to expand market share after industry consolidation in recent years. As the weak market sentiment for MSG products continued, domestic sales were weak in the fourth quarter of 2017. By comparison, the corn price in the domestic market showed an upward trend in the fourth quarter of 2017, which drove the ASP of MSG to increase in the fourth quarter. However, the overall pricing was still at a low level. In light of the above-mentioned factors, the Group's MSG business operation faced certain challenges, but we will seize opportunities to achieve further industrial consolidation. The Group expects that our pricing power and leading market position for MSG can be maintained or improved from current levels in 2018.

#### **Trend of Gross Profit Margin of Amino Acid Segment**



The above chart shows the changes in gross profit margin from 2014 to 2017. With the change in government policy, the average price of corn kernels has decreased significantly since the fourth quarterly 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 strengthen the revenue contributions from its threonine and high-end amino acid products which have higher profit margins and the Group believes that such increasing diversity in the product mix will help to improve its gross profit margin in this segment.

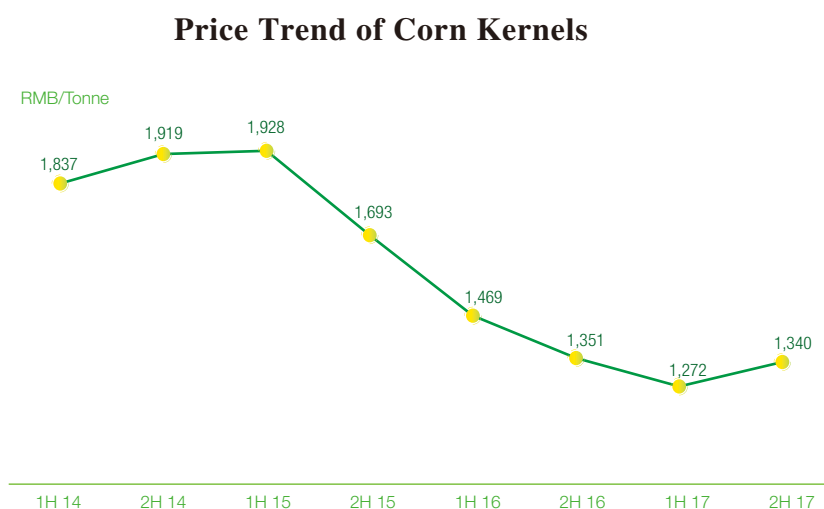
## Production costs

|                          | Years ended 31 December |              |                  |              | Change<br>% |
|--------------------------|-------------------------|--------------|------------------|--------------|-------------|
|                          | 2017<br>RMB'000         | %            | 2016<br>RMB'000  | %            |             |
| Major raw materials      |                         |              |                  |              |             |
| • Corn kernels           | 5,075,414               | 49.3         | 4,821,570        | 53.4         | 5.3         |
| • Liquid ammonia         | 189,366                 | 1.8          | 110,124          | 1.2          | 72.0        |
| • Sulphuric acid         | 102,998                 | 1.0          | 97,885           | 1.1          | 5.2         |
| Energy                   |                         |              |                  |              |             |
| • Coal                   | 1,457,907               | 14.2         | 923,716          | 10.2         | 57.8        |
| Depreciation             | 752,044                 | 7.3          | 688,643          | 7.6          | 9.2         |
| Employee benefits        | 602,499                 | 5.9          | 590,911          | 6.5          | 2.0         |
| Others                   | 2,115,638               | 20.5         | 1,793,563        | 20.0         | 18.0        |
| Total cost of production | <b>10,295,866</b>       | <b>100.0</b> | <b>9,026,412</b> | <b>100.0</b> | <b>14.1</b> |

## Corn kernels

During 2017, corn kernels accounted for approximately 49.3% (2016: 53.4%) of the total production cost of this segment. The average price of corn kernels for 2017 was approximately RMB1,307 per tonne, representing a decrease of 7.1% from 2016, which was mainly due to the change in PRC government policy.

The following chart shows the price trend of corn kernel from the first half of 2014 to the second half of 2017:



### *Liquid ammonia*

Liquid ammonia accounted for approximately 1.8% (2016: 1.2%) of total production cost in this segment in 2017. The average price of liquid ammonia increased to RMB2,275 per tonne in 2017, representing an increase of approximately RMB422 per tonne or 22.8% from 2016. Therefore, the cost of liquid ammonia as a percentage of total production costs increased by 0.6 percentage points.

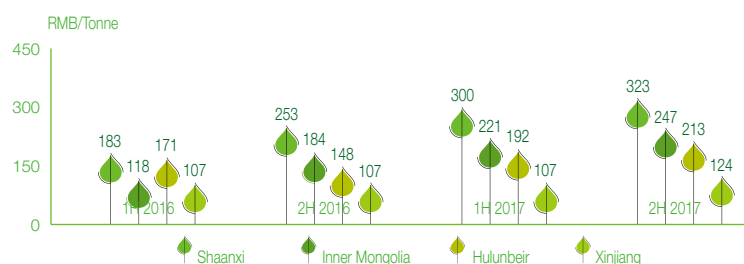
### *Sulphuric acid*

Sulphuric acid accounted for approximately 1.0% (2016: 1.1%) of total production cost in this segment in 2017. The average unit cost of sulphuric acid increased to approximately RMB246 per tonne in 2017, which represents an increase of approximately RMB33 per tonne, or 15.5%, from 2016.

### *Coal*

Coal accounted for about 14.2% (2016: 10.2%) of total production cost in this segment in 2017. The average unit cost of coal was RMB212 per tonne in 2017, representing a significant increase of RMB57 per tonne, or 36.8%, from 2016. Based on the market situation, the average unit cost of coal in our plants location increased over 25% during the year except for Xinjiang Plant, where the average unit cost of coal only increased by 7.5% in 2017. 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*

The cost of depreciation and employee benefits were mainly due to new Longjiang Plant commencing trial production since the second half of 2017. Other costs increased by 18.0%, mainly because the average cost and consumed volume of other chemical materials increasing during the year.

## ***Production***

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

| Product                                    | Years ended 31 December |           | Change<br>% |
|--------------------------------------------|-------------------------|-----------|-------------|
|                                            | 2017                    | 2016      |             |
|                                            | Tonnes                  | Tonnes    |             |
| MSG                                        |                         |           |             |
| Annual designed production capacity (Note) | 1,280,000               | 1,130,000 | 13.3        |
| Actual production output                   | 1,266,855               | 1,120,396 | 13.1        |
| Utilisation rate                           | 99.0%                   | 99.2%     |             |
| Fertilisers                                |                         |           |             |
| Annual designed production capacity (Note) | 1,080,000               | 950,000   | 13.7        |
| Actual production output                   | 1,075,675               | 891,823   | 20.6        |
| Utilisation rate                           | 99.6%                   | 93.9%     |             |
| Starch sweeteners                          |                         |           |             |
| Annual designed production capacity (Note) | 260,000                 | 260,000   | —           |
| Actual production output                   | 264,080                 | 257,145   | 2.7         |
| Utilisation rate                           | 101.6%                  | 98.9%     |             |
| Threonine                                  |                         |           |             |
| Annual designed production capacity (Note) | 156,000                 | 136,000   | 14.7        |
| Actual production output                   | 161,384                 | 126,821   | 27.3        |
| Utilisation rate                           | 103.5%                  | 93.3%     |             |

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

Utilisation rates remained high in 2017, which was the same case as in 2016.

## 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 2017 and 2016:

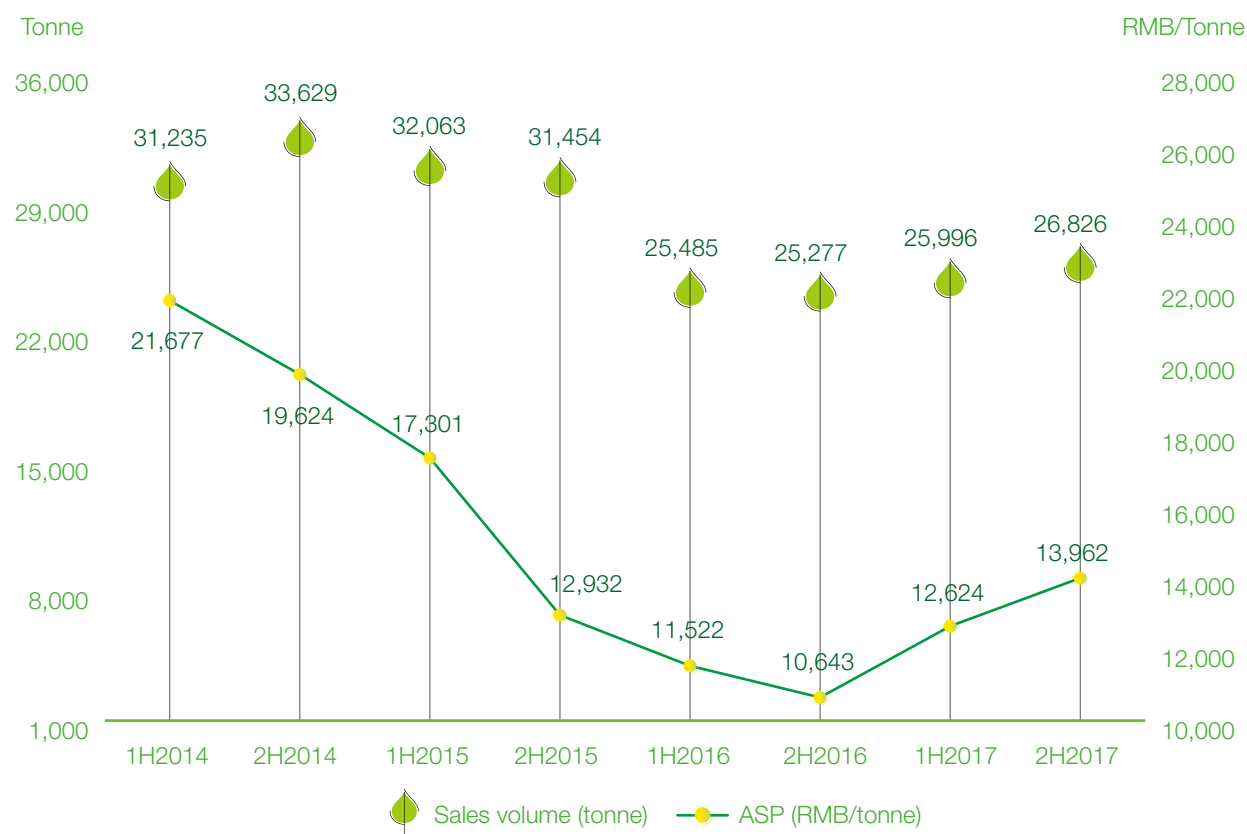
|                                                     | Years ended 31 December |         |             |
|-----------------------------------------------------|-------------------------|---------|-------------|
|                                                     | 2017                    | 2016    | Change<br>% |
| Revenue (RMB'000)                                   | <b>703,454</b>          | 562,466 | 25.1        |
| ASP (RMB/tonne)                                     | <b>13,289</b>           | 10,738  | 23.8        |
| Gross profit (RMB'000)                              | <b>205,397</b>          | 89,693  | 129.0       |
| Gross profit margin (%)                             | <b>29.2</b>             | 15.9    | 13.3 ppts.  |
| Annual designed production capacity (tonnes) (Note) | <b>60,000</b>           | 73,000  | (17.8)      |
| Actual production output (tonnes)                   | <b>42,352</b>           | 53,000  | (20.1)      |
| Utilisation rate                                    | <b>70.6%</b>            | 72.6%   |             |

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

Revenue generated from xanthan gum increased by 25.1% to RMB703.5 million in 2017, from RMB562.5 million in 2016. The increase in revenue was due to the increase in ASP and sales volume resulting from recovering market conditions in the global oil industry in 2017.

The Group's exports of xanthan gum decreased in terms of the percentage contribution to total sales. Export sales of xanthan gum contributed approximately 84.1% and 77.1% of total sales of xanthan gum in 2016 and 2017, respectively.

## Sales Volume vs. ASP of Xanthan Gum



Global demand for xanthan gum fluctuated during the year. Market demand returned to stability in the second half of 2017, 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 increased by about 129.0% from approximately RMB89.7 million in 2016 to approximately RMB205.4 million in 2017. Gross profit margin increased as well, by 13.3 percentage points to 29.2% in 2017, reflecting recovery in global market demand and an upward trend in the oil industry.

## *Production costs*

|                          | Years ended 31 December |              |                |              |               |
|--------------------------|-------------------------|--------------|----------------|--------------|---------------|
|                          | 2017                    |              | 2016           |              | Change        |
|                          | RMB'000                 | %            | RMB'000        | %            |               |
| Major raw materials      |                         |              |                |              |               |
| • Corn kernels           | 78,406                  | 24.6         | 165,144        | 34.3         | (52.5)        |
| • Soybeans               | 19,928                  | 6.3          | 36,332         | 7.5          | (45.2)        |
| Energy                   |                         |              |                |              |               |
| • Coal                   | 75,114                  | 23.6         | 84,253         | 17.5         | (10.8)        |
| Depreciation             | 30,307                  | 9.5          | 42,586         | 8.8          | (28.8)        |
| Employee benefit         | 42,446                  | 13.3         | 61,353         | 12.7         | (30.8)        |
| Others                   | 72,071                  | 22.7         | 91,697         | 19.2         | (21.4)        |
| Total cost of production | <u>318,272</u>          | <u>100.0</u> | <u>481,365</u> | <u>100.0</u> | <u>(33.9)</u> |

### *Corn kernels*

In 2017, corn kernels represented approximately 24.6% (2016: 34.3%) of the total production cost of this segment. The average price of corn kernels for 2017 was approximately RMB1,598 per tonne, which represents a slight increase of approximately RMB2 per tonne, or 0.1%, from that in 2016. The cost amount incurred of corn kernels decreased 52.5% from RMB165.1 million in 2016 to RMB78.4 million in 2017, mainly due to the decrease in consumption volume of production as the production volume of xanthan gum was significantly reduced in 2017.

### *Soybeans*

During 2017, soybeans accounted for approximately 6.3% (2016: 7.5%) of the total production cost of this segment. The decrease in proportion was mainly due to the consumption volume of production decreasing as the production volume of xanthan gum was significantly reduced in 2017. However, the average price of soybeans increased rose from approximately RMB3,789 per tonne in 2016 to approximately RMB4,204 per tonne in 2017, representing an increase of 11.0%.

### *Coal*

In 2017, coal accounted for approximately 23.6% (2016: 17.5%) of the total production cost of this segment. The average unit cost of coal was approximately RMB212 per tonne in 2017, which represents an increase of approximately RMB71 per tonne, or 50.4%, from that of 2016. 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*

Depreciation costs were lower than last year as part of our production capacity was modified to produce other high margin products, resulting in production volume significantly decreasing during the year. Therefore, depreciation costs decreased 28.8% from RMB42.6 million in 2016 to RMB30.3 million in 2017. Depreciation accounted for approximately 9.5% (2016: 8.8%) 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 decreased by approximately RMB9.8 million, or 1.9%, in 2017. The decrease was mainly due to expenses relating to the listing application for the Shenhua Holding Limited spin off project only being incurred in 2016, offset by the effect from increasing research and development as well as staff costs.

### **Finance costs (net)**

The finance costs (net) of the Group in 2017 included two main parts: interest expense and exchange gain or loss on financial activities.

Interest expense decreased by approximately RMB72.0 million due to a decrease in bank borrowings, and the full conversion of the convertible bonds due in 2018 into ordinary shares of the Company by the bondholders in the first half of 2017.

During 2017, the Group recorded an exchange gain on financing activities of approximately RMB39.4 million, mainly due to the exchange gain of current bank borrowings denominated in USD.

### **Staff costs**

Staff costs of the Group increased by approximately RMB14.4 million, or approximately 1.5%, from approximately RMB979.8 million in 2016 to approximately RMB994.2 million in 2017. The increase was mainly due to the increase in number of staff as a result of expansion of the Group's production facilities and the increase in the average salary of the senior management and staff, generally in line with prevailing market rates.

## **Depreciation**

Depreciation expense of the Group increased by approximately RMB41.4 million, or approximately 5.0%, from approximately RMB826.5 million in 2016 to approximately RMB867.9 million in 2017. The slight increase was mainly due to the commencing of operations at the new Longjiang Plant since the end of 2017.

## **Other income**

In 2017, other income amounted to RMB280.7 million, which was mainly comprised of the income from the sales of waste products, amortisation of deferred income and government grants.

## **Income tax expense**

The income tax expenses for the year ended 31 December 2017 mainly represented the PRC Enterprise Income Tax (“EIT”). Two subsidiaries of the Group, Shandong Fufeng and Shenhua Pharmaceutical, have obtained the approvals to become new and high-technology enterprises and had been entitled to a preferential income tax rate of 15% (2016: 15%). The qualification of new and high-technology enterprise is subject to redetermination for each three year interval.

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

Four subsidiaries of the Group, 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% (2016: 15%).

The other subsidiaries of the Group in the PRC are subject to an income tax rate of 25% (2016: 25%).

## **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 returned the application for the Proposed Spin-off 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 the 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.

## **Strategic Investment**

Co-developing the polylactide acid market with COFCO:

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

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

## **OUTLOOK**

### **Construction of the second phase of Longjiang Plant and further expand the businesses of animal nutrition and food additive**

In order to take full advantage of corn production capacity in Heilongjiang Province, the Company is constructing a new corn processing project in Qiqihar City, Heilongjiang Province, to sustain the development of the animal nutrition and food additive businesses. Current production capacity of the first phase amounts to 200,000 tonnes of starch sweeteners and 100,000 tonnes of threonine. The first phase of project completed construction and commenced trial production at the end of 2017. Also, we started constructing the second phase of Longjiang Plant at the beginning of 2018. The second phase of the project is to build new annual production capacity of 300,000 tonnes of starch sweeteners and 200,000 tonnes of lysine, and we plan to complete the construction in the second half of 2018.

### **Amino acid segment**

The Group will continuously explore the development of threonine, hyaluronic acid and other high-end amino acid products, as well as specialty gum products, in order to improve product class and to increase sales and penetration in health and wellness products, pharmaceutical

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

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

### **Xanthan gum segment**

Although the market condition of xanthan gum remained weak, the demand for xanthan gum stabilised in the first half of 2017 and the Group will strengthen our effort to promote xanthan gum in the food industry. Leveraging on our leading position in the xanthan gum market, the Group will continue to optimise its customer mix and gain market share. We believe that we can act as a leader to bring the industry out of the low tide in 2018.

## **ACHIEVEMENTS**

### **1. Diversified Product Mix and More Stable Revenue Structure**

The Group continuously and insistently diversified its product portfolio into animal nutrition and colloid products, providing great opportunities for the development of high value-added products such as animal nutrition and colloid. We expect that the Group will continue to diversify its revenue sources, further reducing our dependence on a single product and its life cycle risk.

### **2. International Development and Cooperation for Mutual Benefit**

During the year, the Group's export sales reached a historical high. In the global bio-fermentation market and amino acid market, our comprehensive strength and competitiveness significantly improved, as we established market presence in the developed countries. In January 2018, the Group and Evonik, as two global industry leaders, established cooperation on the threonine business, which marked an important step toward our internationalization and ushered in an opportunity for mutual benefits. In light of this, we will further facilitate our international push.

### **3. Improved Comprehensive Strength**

During the year, our comprehensive competitiveness improved further. Rather than in the market of a single type of fermentation product such as MSG, we evolved into a leading player in various niche markets of our products as a whole, including animal nutrition, colloid and high-end small packed amino acid products. Additionally, unlike our previous reliance only on low prices or low costs as our competitive strength, we have now enhanced our market competitiveness by achieving technological breakthroughs, creating a quality advantage for our products serving as a higher entry threshold. As a result, we have reshaped our competitive advantages.

### **4. Further Enhanced Financial Strength**

During the year, our financial strength was further enhanced. By adhering to prudent investments and fiscal policies over the years, our balance sheet has improved and, recently, the Group has been rated by Standard & Poor's as "BBB-", achieving an investment grade rating for the first time. This upward adjustment indicates the improving financial stability of the Group, as well as proving our efforts to reduce the gearing ratio and explore new products and new sources of growth have been recognized by international rating agencies. Meanwhile, we also strived to fulfill our long-term dividend payout policy with the dividend payout ratio restored to 30%.

### **5. Sustainability**

Sustainability is more than the corporate social responsibility of the Group and it plays an important role in advancing the development of harmonious communities. In addition, sustainability minimizes the operational risks of an enterprise, and represents a necessary path for any enterprise to achieve long-term development. Therefore, the Group will incorporate the sustainability concept into our business strategy planning, while constantly exploring the operating model of sustainability.

The Group continues to investing in energy-saving equipment, as production facilities with low-carbon emissions are intended to minimize the impacts brought by our business activities on the environment. Furthermore, the Group attaches importance to green production activities by constantly consolidating our technologies involved in our energy conservation, emission reduction, and clean production, as well as committing ourselves to reducing the impacts brought by sewage, exhaust, greenhouse gas, and harmful and harmless solid waste generated from our production and operation procedures on the environment.

## **FUTURE PLAN AND RECENT DEVELOPMENT**

### **Enhancing our competitive strengths in global amino acid market**

With the evolving competitive landscape in the global amino acid market, an increasing number of international leading enterprises have decided to reduce or cut their own production capacity and outsource their production processes. This creates opportunities for the Group to expand our share of the amino acid market based on our well established position in the threonine market. We will speed up our development pace to launch the lysine product and tap the animal nutrition market.

We are communicating and negotiating with various biochemical enterprises which possess leading technologies and we actively seek comprehensive cooperation in respect to the research and development and production of new amino acid products to increase the proportion of high value-added products and further raise the threshold of entry and barrier of competition.

### **Strengthen infrastructure construction**

Through the construction of the railway lines at Hulunbeir Fufeng and Longjiang Fufeng, logistics costs will be further reduced and the operational efficiency will be improved.

### **Expanding overseas market share and improving customers' satisfaction**

On top of the strong growth momentum in the export market in 2017, the Group will increase its marketing efforts in key overseas markets such as the Middle East, Europe, Africa, Southeast Asia and South America to achieve significant improvement in the proportion of export sales.

With respect to the domestic market, the Group will focus on expanding business channels and extending customer coverage. Through introducing a more competitive incentive mechanism, we will be able to increase the proportion of direct sales and improve customers' satisfaction and loyalty, thereby extending the Group's leading position and competitive edges in the fermentation business from production-side to market-side and customer-side.

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

## **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 and review to integrate and strengthen the Group's existing management system, human resource system and corporate culture with the Board, which will bring a positive effect on the sound development of the Group in the long run.

## **Liquidity and Financial Resources**

As at 31 December 2017, the Group's cash and bank balances and restricted bank deposits were RMB515.4 million (2016: RMB1,422.1 million) whereas current bank borrowings and current other borrowing (including the balances of corporate bonds) were approximately RMB415.0 million and RMB995.9 million (2016: RMB1,176.8 million and Nil), respectively, and non-current bank borrowings and non-current other borrowings (including the balances of corporate bonds) were approximately RMB560.3 million and Nil (2016: Nil and RMB1,923.2 million), respectively.

### ***Convertible bonds***

The Group issued RMB975.0 million 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 six months ended 30 June 2015, 2013 CB in principal value of RMB56 million were converted to 17,065,033 ordinary Shares. Full conversion of the remaining principal value of RMB919 million 2013 CB into 280,049,404 ordinary Shares by the bondholders took place in the first half of 2017. There is no outstanding principal of 2013 CB as at 31 December 2017.

### ***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.

### ***Share placement***

On 20 April 2017, the Group signed the placing and the subscription agreement to issue 140,000,000 ordinary Shares at a price of HKD5.55 per Share to more than six independent professional, institutional and/or individual investors who were third parties independent of and not connected with the Group. The net proceeds raised from this transaction were approximately HKD766,500,000. The Group has used these proceeds for the construction of the new plant in Qiqihar and as general working capital of the Group.

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**

The Group had no other material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2017.

### **Employees**

As at 31 December 2017, the Group had approximately 9,500 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 2017, the Group had no material contingent liabilities.

### **Charges on assets**

As at 31 December 2017, nil of restricted bank deposits (2016: RMB307.5 million) were pledged to certain banks to secure bank borrowings (2016: RMB307.5 million) of the Group.

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

### **Gearing ratio**

As at 31 December 2017, the total assets of the Group amounted to approximately RMB15,966.5 million (2016: RMB14,456.1 million) whereas the total borrowings amounted to RMB1,971.2 million (2016: RMB3,100.0 million). The gearing ratio was approximately 12.3% (2016: 21.4%), which 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 foreign currencies received for export sales were converted into RMB upon receipt from the overseas customers. The Group manages foreign exchange risk arising from proceeds from issuance of bank borrowings by remitting the necessary funds to the PRC and using the proceeds as soon as possible. The Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2017.

## **Dividend and dividend policy**

The Board recommended the declaration of a final dividend of HK11.0 cents per Share, subject to Shareholders' approval at the annual general meeting.

The final dividend will be payable on or about 15 June 2018 to Shareholders whose names appear on the register of members of the Company on 30 May 2018.

## **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 2017.

## **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 Listing Rules and came into full effect on 1 April 2012. During the year of 2017, 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 Director, Mr. Qi Qing Zhong did not attend the annual general meeting of the Company held on 12 May 2017. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

## **Audit Committee**

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive Directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control and risk management. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group. In addition, the independent non-executive Directors have reviewed the continuing connected transactions under the Procurement Framework Agreement, and confirm that the transactions for the year ended of 31 December 2017 have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

## **Closure of register of members**

The register of members of the Company will be closed from 16 May 2018 to 21 May 2018 (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 21 May 2018, 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 15 May 2018.

The register of members of the Company will be closed from 28 May 2018 to 30 May 2018 (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 25 May 2018.

## **Annual general meeting**

The annual general meeting is expected to be held on 21 May 2018. 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, 27 March 2018

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

## GLOSSARY

|                  |                                                                                                                               |
|------------------|-------------------------------------------------------------------------------------------------------------------------------|
| ASP              | average selling price(s) of the products of the Group                                                                         |
| Baoji Fufeng     | 寶雞阜豐生物科技股份有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company                   |
| Baoji Plant      | the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC                                |
| Board            | the board of Directors                                                                                                        |
| Code             | Code on Corporate Governance Practice under Appendix 14 of the Listing Rules                                                  |
| COFCO            | China National Cereals, Oils and Foodstuffs Corporation                                                                       |
| Company          | Fufeng Group Limited                                                                                                          |
| Director(s)      | the director(s) of the Company                                                                                                |
| Evonik           | Evonik Nutrition & Care GmbH (贏創營養與消費化學品有限公司), having its registered office in Germany                                        |
| Group            | the Company and its subsidiaries                                                                                              |
| HKFRS            | Hong Kong Financial Reporting Standards                                                                                       |
| HKICPA           | Hong Kong Institute of Certified Public Accountants                                                                           |
| Hong Kong        | the Hong Kong Special Administrative Region of the PRC                                                                        |
| Hulunbeir Fufeng | 呼倫貝爾東北阜豐生物科技股份有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company |
| Hulunbeir Plant  | the production plant of the Group located at Hulunbeir, Inner Mongolia Autonomous Region, the PRC                             |
| IM Fufeng        | 內蒙古阜豐生物科技股份有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company              |
| IM Plant         | the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC                                        |

|                                 |                                                                                                                                                                                            |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Listing Rules                   | the Rules Governing the Listing of Securities on the Stock Exchange                                                                                                                        |
| Longjiang Fufeng                | 齊齊哈爾龍江阜豐生物科技有限公司 (Qiqihar Longjiang Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company                                                                  |
| Longjiang Plant                 | the production plant of the Group located at Qiqihar city, Heilongjiang Province, the PRC                                                                                                  |
| MSG                             | monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application                         |
| PLA                             | Polylactic acid                                                                                                                                                                            |
| PRC                             | the People's Republic of China, which for the purpose of this announcement exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan                                |
| Procurement Framework Agreement | the procurement framework agreement entered into between the Company and the Purchaser dated 5 July 2017                                                                                   |
| Proposed Spin-off               | the proposed spin-off of Shenhua Health Holdings Limited by the Company to be effected by way of the Distribution                                                                          |
| 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                                                          |
| HKD            | Hong Kong dollars, the lawful currency of Hong Kong                                   |
| RMB            | Renminbi, the lawful currency of the PRC                                              |
| USD            | United States dollars, the lawful currency of the United States of America            |
| %              | per cent                                                                              |