Fufeng Group Limited
阜豐集團有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 546)

Annual Report 2016


FUFENG
阜丰

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Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present to you the results of Fufeng Group Limited for the year ended 31 December 2016.

Results for the Year

2016 was a year offering great opportunities for Fufeng in terms of favorable timing, location and strong team. Favorable timing came from the historic opportunities in the corn processing and bio-fermentation sector thanks to China corn market reform and the emerging effect of industry consolidation. Favorable location refers to the fact that the Group fully capitalised on the advantages of its strategic layout of production bases under the China corn market reform. Favorable strong team stands for our continuously optimised team of management yielding concrete, sustainable benefits through meticulous management and production technology enhancement.

2016 was a year of reform in the China corn market. The Northeast China and Inner Mongolia Autonomous Region altered the corn temporary storage policy to a new mechanism of "market acquisition" plus "subsidy". The liberalisation and marketisation of the corn policy allowed Fufeng to fully capitalise on its advantage in strategic production base layout. During the year, the Group greatly benefited from a substantial reduction in the purchase price of corn, achieving a greater competitiveness of our export products. More importantly, our purchase prices of corn in the two plants of Hulunbeir and Inner Mongolia saw a far greater reduction. With the change of situation brought forth by the implementation of this policy, we are optimistic of our expansion in different bio-fermentation products and maintaining a better position over our competitors in the long run.

Chairman's Statement

Years of industry consolidation has brought about further market concentration, a more consolidated position of the Group in the industry, an improving business environment, and the emerging results after consolidation.

In 2016, all of the Group's MSG production bases completed the first phase of production technology enhancement. The respective enhancement of production efficiency has also yielded additional economic benefits for the Group at a faster pace, which gave an impressive demonstration of our meticulous management projects launched in recent years. In particular, economic benefits can be derived upon the commencement of the second phase of technology enhancement for MSG production in 2017.

As at 31 December 2016, the audited turnover of the Group amounted to approximately RMB11.8 billion, representing an increase of about 5.1% compared to 2015. Net profit was approximately RMB1,092.5 million, representing an increase of about 111.6% compared to 2015.

The Board recommends the payment of a final dividend of HK7.8 cents per share, with the paid interim dividend and the final dividend to be paid totaling HK11.6 cents per share.

Achievements and Growth Dynamics

Enhancing competitiveness and profitability through production technology enhancement:

In the first half of 2016, we completed the first phase of technology enhancement for MSG production in our Hulunbeir Plant, and the relevant accomplishment gradually took effect in 2016, including greater competitiveness gained from cost savings and a higher profit derived from higher output. This momentum has already emerged in the first half of 2016 while the technology enhancement in the IM Plant was completed at the end of 2016. The related technology enhancement for production boosted the efficiency of our MSG business to a new level and further strengthened our market share.

Fully leveraging the Group's regional layout advantage under the China corn market reform:

As part of Fufeng's development strategy, we have been invested the largest production capacity of MSG and amino acid in Northeast China. Generally speaking, the region has a great advantage in purchasing price of raw materials. However, due to various factors in the past, this advantage has not been fully utilised. Since the corn temporary storage policy was cancelled in the second half of 2016, the market price of corn was more directed by corn supply and demand. The price of corn in Northeast China experienced a substantial slide, making the cost of corn there much lower than in other regions. This gave us a greater competitive advantage in the business of MSG and threonine, which in turn generated better profits. We are confident that the new situation of raw materials will sustain our distinct advantage.

Increasing efficiency by carrying out meticulous management:

In the past year, we have recruited a number of high-quality management personnel, including our new Chief Executive Officer as well as senior executives for the sales team. They have extensive experience and management insight in related industrial chain and distribution fields and are conducive to intensifying the Group's meticulous management, particularly as the restructuring and upgrading of the sales system and the reform of fertiliser business will be initiated in 2017.

During the year, we, active in leveraging favorable interest rates from home and abroad, completed a few beneficial projects of debt refinancing and reduced the overall debt level through the application of the Group's cash flow, thus slashing finance costs during the period.

Chairman's Statement

Sustainable Development

We attach great importance to sustainable development. The Group has continuously invested in energy-saving equipment. Its production facilities, with low carbon emissions, aim to minimise the impact of our business on the environment. The Group has also placed great emphasis on green production. We continuously achieved energy-saving and emission reduction while the clean production technology was enhanced. Xinjiang Fufeng Biotechnologies Co., Ltd. was nominated by the Economic and Informatization Commission of Xinjiang Uygur Autonomous Region as one of the fourth batch of pilot enterprises for recycling economy in the industrial economic field in 2016. The Group reduced the environmental impact of waste water, exhaust, greenhouse gases, and hazardous and non-hazardous wastes generated during the course of production and operation. During the year, Baoji Fufeng Biotechnologies Co., Ltd. undertook technical upgrading of the existing flue gas treatment facilities to conform to the Group's long-term strategy. In addition, the company also extracts feed and fertiliser processing from wastewater through resources recycling. The biogas generated during the course of waste water treatment is collected and used for production.

2016 Overview

Currently our business involves four key segments:

- Food additives: key products include MSG, chicken powder, crystallised sugar, corn oil etc.
- Animal nutrition: key products include threonine, tryptophan, corn refined products etc.
- Colloid: key products include xanthan gum, welan gums etc.
- High-end amino acid: key products include valine, leucine, isoleucine, glutamine, hyaluronic acid, pectin etc.

MSG

In respect of the MSG business, we completed the first phase of the production technology enhancement during the year. At the same time, by fully leveraging our cost advantages, the extra output unleashed by production technology enhancement also successfully secured a greater market share as well as increased the Group's revenue. In addition, benefiting from a significant decrease in corn costs, the profit margin of our MSG business witnessed a remarkable increase, providing a golden development opportunity for our major line of business.

The annual ASP of MSG was approximately RMB5,910 per tonne, representing a decrease of about 12.4% as compared with the ASP in 2015. The sales volume of MSG achieved approximately 1,084,308 tonnes, representing an increase of about 14.4% as compared with 2015. The revenue of MSG accounted for 54.4% of the total revenue.

Amino Acid

Threonine: we have achieved great success in the production expansion in respect to threonine, which was attributable to the successful layout of production bases and a closer cooperation with Ajinomoto Group. Amidst considerable earnings of the threonine business, the Group managed to expand the production capacity of threonine. During the year, the output of threonine successfully increased from approximately 54,098 tonnes to approximately 126,821 tonnes, with sales volume amounting to approximately 119,145 tonnes. During the year, the revenue of threonine amounted to about RMB1,012.8 million.

High-end Amino Acid: after years of cultivation, we experienced a remarkable breakthrough in production process and market sentiment, achieving an increase in both sales volume and amount. In addition, with the successful launch of two new products, namely pectin and polyglutamic acid, our high-end amino acid product portfolio has been further diversified. We will continue to deepen our high-end amino acid business, for example, through quality improvement, technical sellings, cross sellings and the launch of new products, so as to continuously increase the profits from this line of business. During the year, the revenue of high-end amino acid amounted to RMB663.7 million.

By-products

Other by-products: based on sound management and full utilisation of advantages in raw materials, earnings from fertilisers and other by-products witnessed noticeable improvement.

Xanthan Gum

In respect to the xanthan gum business, though market conditions were still sluggish due to a price war triggered by competitors and the slow recovery of the oil industry, it is pleasing to note that we had proactively sorted out the customers with better profit margins and terminated the relationships with the loss-making customers. Our strategy helped us reverse the unfavorable situation and realise our objective of a moderate profit, which is better than the goal we set in mid-2016. In the second half of 2016, we witnessed a healthier trend in xanthan gum prices. Though a significant price recovery requires more time, we believe that the market conditions have been under control within the short term, with the tough situation of xanthan gum behind us. In the upcoming year, we will adopt various measures to grow our long-term competitiveness in the xanthan gum business and intensively explore the food market, which features a stable profitability in the long run and wait for the recovery of the oil end-market.

The annual ASP of xanthan gum was approximately RMB10,738 per tonne, representing a decrease of about 28.5% as compared with the ASP in 2015. The sales volume of xanthan gum achieved approximately 50,762 tonnes, representing a decrease of about 20.1% as compared with 2015. The revenue of xanthan gum accounted for 4.8% of the total revenue.

Strategic Investment

Co-developing the polylactide acid market with COFCO:

We joined hands with COFCO for equity investment in Jilin COFCO Biomaterial Company Limited (吉林中糧生物材料有限公司) to co-develop the polylactide acid business at the end of the year. We invested RMB30 million to hold 30% interest of the company, while COFCO holds 40%.

Jilin COFCO Biomaterial Company Limited is an associated company 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 a 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 sales of PLA in the global market, or a market worth over RMB100 billion. PLA is supported by relevant policies as the use of non-degradable materials are explicitly prohibited in such fields as packaging in many developed countries and regions. Some provinces in the PRC have also adopted relevant policies and launched the ban on free plastic bags. The PLA products have a wide range of applications and enormous market potential. They are widely used in various fields including biomedical and daily-use macromolecular material.

Chairman's Statement

Adjustment to Capital Structure

By vigorously capitalising on the favorable interest rate environment inside and outside the PRC during the year, we completed a number of favorable refinancing activities for our debts and slashed the overall debt level by using the Group's cash flow, which substantially reduced finance costs during the period. By the end of 2016, we had improved our gearing ratio to a level which can be sustained in the long term as believed by the management.

During the year, the Group's total assets and total borrowings were approximately RMB14,456.1 million and approximately RMB3,100.0 million, respectively. The gearing ratio (the Group's total interest-bearing borrowings over total assets) was approximately 21.4%, representing a decline of 6.3 percentage points as compared with 2015. Cash and bank balances amounted to approximately RMB1,422.1 million, representing an increase of 39.6% as compared with 2015.

Outlook for 2017

2017 ushers in a great trend for Fufeng. We will proactively seize the business opportunities on low cost of corn, launch our second phase of production technology enhancement, and materialise the reorganisation and integration of our sales system. Hence, I believe that Fufeng will embrace lots of business opportunities in the next one or two years.

We will implement the following measures in 2017:

- To seize the historic opportunities brought by the reform of the China corn market, we have planned to construct a new production base in Qiqihar City, Heilongjiang Province for the development of crystallised sugar and animal nutrition products. Meanwhile, the Group is in the process of in-depth communication with leading biotech firms worldwide, to seek greater, more comprehensive development in animal nutrition.

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

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

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

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

Appreciation

In 2017 Fufeng will celebrate its tenth anniversary of being a listing company, and we have witnessed the growth of the Company from a top-10 Chinese MSG manufacturer to a global leader of multiple bio-fermentation products. In the next decade, I will lead the Group to evolve into a world-renowned biological company and play a significant role in the industrial chains of seasoning, human nutrition, animal nutrition and plant nutrition. On behalf of the Board, I am grateful to our shareholders, customers, business partners and all the stakeholders for their long-term support. I would also like to thank our Board members and all the staff for their commitment and dedication. Let us join hands to make a greater success of the next decade.

Li Xuechun
Chairman

21 March 2017

Five-Year Summary

	Year				
	2012 *RMB'000*	2013 *RMB'000*	2014 *RMB'000*	2015 *RMB'000*	**2016** ***RMB'000***
Operating results – Summary					
Turnover	11,111,920	11,366,722	11,297,696	11,225,722	**11,803,131**
Gross profit	1,637,455	2,099,443	2,166,865	1,802,491	**2,406,373**
Profit before income tax	490,213	634,697	774,176	679,774	**1,301,898**
Profit attributable to Shareholders	426,553	506,132	626,428	516,261	**1,092,512**
Balance sheets – Summary					
Non-current assets	7,665,681	8,170,547	9,334,995	9,220,961	**9,516,968**
Current assets	4,305,271	4,448,621	4,359,282	4,629,217	**4,939,134**
Total assets	11,970,952	12,619,168	13,694,277	13,850,178	**14,456,102**
Non-current liabilities	2,417,222	3,689,594	4,258,072	2,761,158	**2,647,336**
Current liabilities	5,758,722	4,110,788	4,067,139	5,281,961	**4,992,902**
Net assets	3,795,008	4,818,786	5,369,066	5,807,059	**6,815,864**
Financial ratio					
Earnings per share (Basic) (RMB Cents)	23.03*	25.13	29.98	24.36	**51.37**
Gross profit margin (%) *(Note 1)*	15	19	19	16	**20**
ROE (%) *(Note 2)*	11	11	12	9	**16**
Current ratio *(Note 3)*	0.75	1.08	1.07	0.88	**0.99**
Inventory turnover days (Day) *(Note 4)*	55	60	79	86	**97**
Debtors' turnover days (Day) *(Note 5)*	63	58	33	27	**25**
Trade receivable turnover days (Day) *(Note 6)*	9	12	12	13	**13**
Creditors' turnover days (Day) *(Note 7)*	55	49	60	49	**58**
Trade payable turnover days (Day) *(Note 8)*	55	48	40	47	**48**
Gearing ratio (%) *(Note 9)*	37	36	33	28	**21**

Notes:

1. Gross profit margin is equal to gross profit divided by turnover.
2. Return on equity is equal to profit attributable to shareholders divided by total equity.
3. Current ratio is equal to current assets divided by current liabilities.
4. The number of inventory turnover days is equal to inventories before provisions at the end of year divided by the cost of sales for the corresponding year and then multiplied by 366 days.
5. The number of debtors' turnover days is equal to trade and notes receivables at the end of year divided by the turnover for the corresponding year and then multiplied by 366 days.
6. The number of trade receivable turnover days is equal to trade receivable at the end of year divided by the turnover for the corresponding year and then multiplied by 366 days.
7. The number of creditors' turnover days is equal to trade and notes payables at the end of year divided by the cost of sales for the corresponding year and then multiplied by 366 days.
8. The number of trade payable turnover days is equal to trade payable at the end of year divided by the cost of sales for the corresponding year and then multiplied by 366 days.
9. Gearing ratio is equal to total borrowings at the end of the year divided by total assets at the end of the corresponding year.

* Restated

Corporate Information

Executive Directors
Mr. Li Xuechun
Mr. Li Deheng
Mr. Xu Guohua
Mr. Li Guangyu
Mr. Wang Longxiang (resigned on 25 July 2016)
Mr. Feng Zhenquan (resigned on 19 September 2016)

Independent Non-executive Directors
Mr. Sun Yu Guo
Ms. Zheng Yu
Mr. Qi Qing Zhong

Registered Office
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in the PRC
Western section of Huaihai Road
Junan, Shandong, 276600
PRC

Principal Place of Business in Hong Kong
Suite 1102, 11th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai, Hong Kong

Company Secretary and Qualified Accountant
Mr. Lee Wai Yin *CPA FCCA*

Authorised Representatives
Mr. Li Xuechun
Mr. Lee Wai Yin

Audit Committee
Mr. Sun Yu Guo *(Chairman)*
Ms. Zheng Yu
Mr. Qi Qing Zhong

Remuneration Committee
Mr. Sun Yu Guo *(Chairman)*
Ms. Zheng Yu
Mr. Qi Qing Zhong

Nomination Committee
Mr. Li Xuechun *(Chairman)*
Mr. Sun Yu Guo
Ms. Zheng Yu
Mr. Qi Qing Zhong
Mr. Wang Longxiang (resigned on 25 July 2016)

Principal Bankers in the PRC
China Construction Bank
Bank of China
Agriculture Bank of China
China Merchants Bank
Shanghai Pudong Development Bank

Principal Bankers in Hong Kong
Bank of China (Hong Kong) Limited
Mizuho Bank Limited
Hang Seng Bank Limited

Independent Auditor
PricewaterhouseCoopers

Principal Share Registrar
Royal Bank of Canada Trust Company (Cayman) Limited

Branch Share Registrar
Tricor Investor Services Limited

ADRs Information
US Exchange: OTC
CUSIP: 35953H105
ADR: Ordinary Shares 1:20

Stock Code
546

Website
www.fufeng-group.com

HULUNBEIR PLANT

IM PLANT

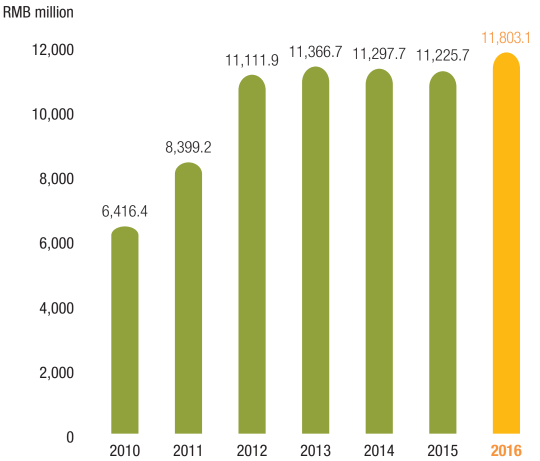
SHANDONG PLANT

BAOJI PLANT

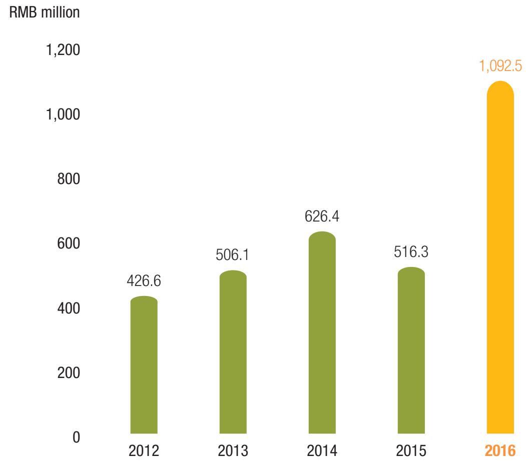
XINJIANG PLANT

Financial Highlights

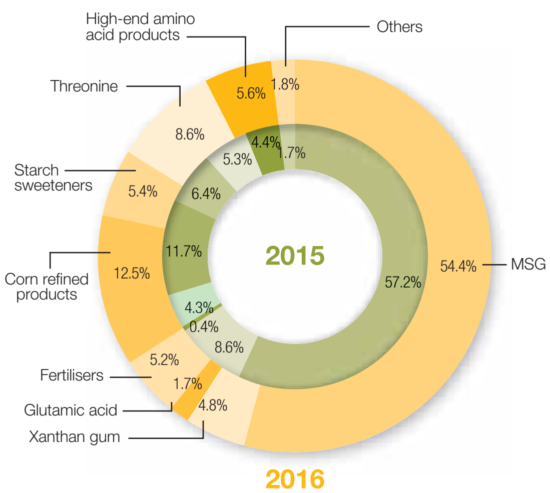
Turnover Growth



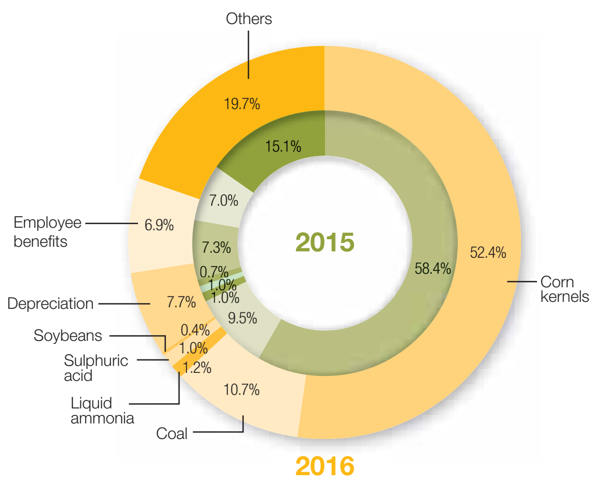
Profit Attributable to Shareholders



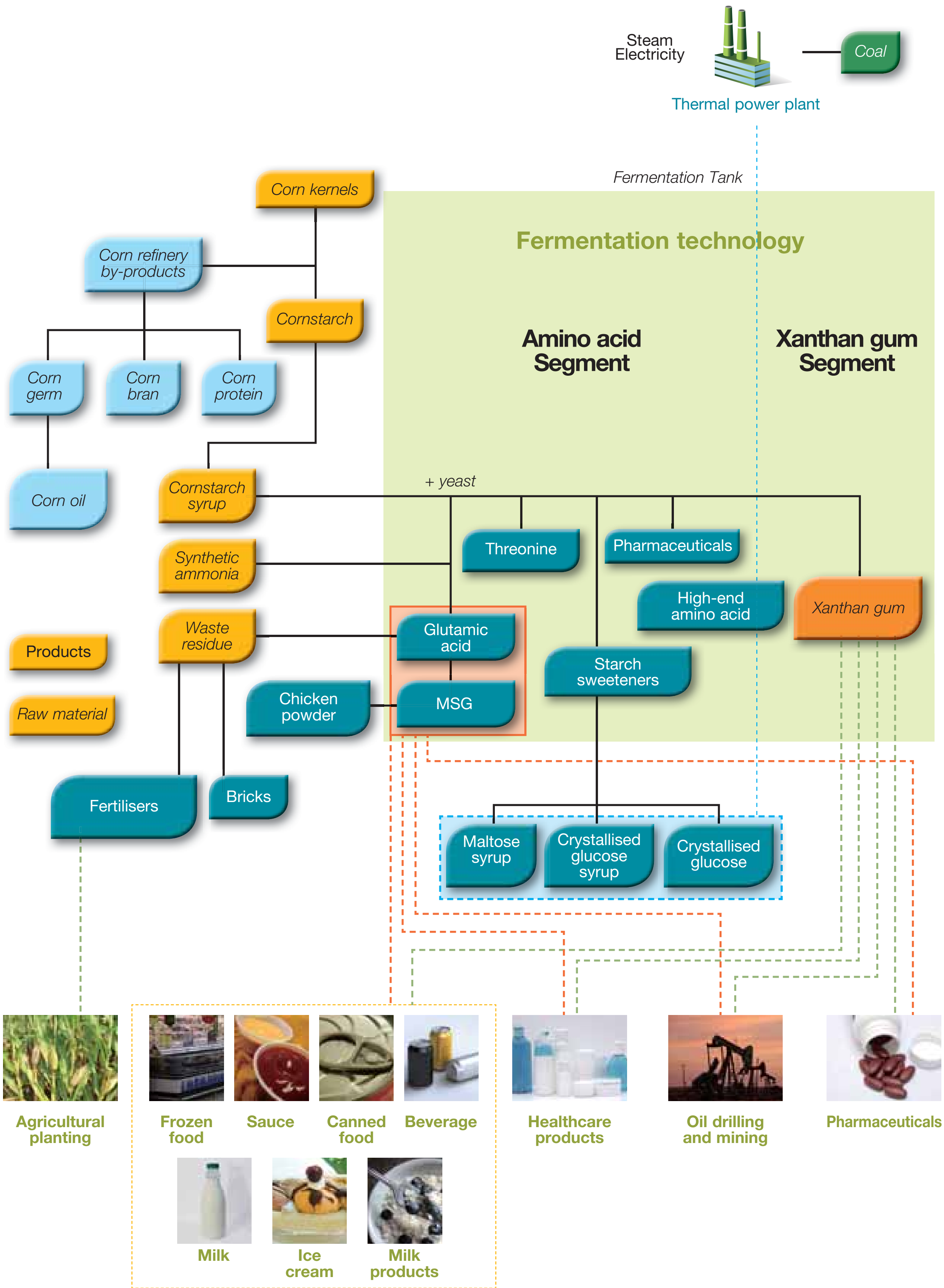
Revenue Analysis



Production Cost Analysis



Major Products Processing Map



Biographies of Directors and Senior Management

Executive Directors

李學純 (Li Xuechun), aged 65, is the principal founder of the Group, the chairman of the Company and an executive Director. Mr. Li is also a director of Acquest Honour, Summit Challenge, Absolute Divine, Expand Base, Fufeng Singapore, Shandong Fufeng, Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng, Xinjiang Fufeng and Shenhua Pharmaceutical. Mr. Li is responsible for the strategic planning and formulation of overall corporate development policy of the Group. Mr. Li obtained a bachelor's degree in industrial fermentation from 山東輕工業學院 (Shandong Institute of Light Industry) in 1982. Mr. Li is 山東省第十二屆人大代表 (a member of the Shandong Province 12th People's Congress), as well as being honored with "Outstanding Achievement" by the government of Shandong Province in April 2003. In the same year, he was also labeled as "Model Labour" of Shandong Province. Mr. Li first joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1982 as a factory manager. Mr. Li established the Group by starting set up Shandong Fufeng in June 1999. He was appointed as a director of Shandong Fufeng upon its establishment. He has 35 years of experience in the fermentation industry. Mr. Li is the sole director of and is beneficially interested in the entire issued share capital of Motivator Enterprises Limited which in turn is interested in approximately 46.63% of the issued share capital of the Company and is a controlling shareholder of the Company. He is the father of 李廣玉 (Li Guangyu) (an executive Director) and the brother-in-law of 李德衡 (Li Deheng) (an executive Director).

李德衡 (Li Deheng), aged 48, is an executive Director and a deputy executive general manager of the Group who is responsible for the general operation of production and purchasing of the Group. He is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng and Hulunbeir Fufeng. Mr. Li graduated from the 山東聊城師範學院 (Shandong Liaocheng Teacher's College) in 1992 and obtained a bachelor's degree in chemistry education. He joined the Group in January 2001 and was appointed as a director of Shandong Fufeng in November 2003 and has over 16 years of experience in business management. Mr. Li Deheng is the brother-in-law of Mr. Li Xuechun. Mr. Li is interested in 100% of the issued share capital of Empire Spring Investments Limited, which in turn is interested in 33,320,160 Shares, representing approximately 1.57% of the issued share capital of the Company.

徐國華 (Xu Guohua), aged 48, is an executive Director and vice general manager of the Group who is responsible for Shenhua Pharmaceutical and the research and development of the Group. Mr. Xu is also a director of Shandong Fufeng, Baoji Fufeng, IM Fufeng, Hulunbeir Fufeng and Shenhua Pharmaceutical. Mr. Xu graduated from 山東輕工業學院 (Shandong Institute of Light Industry) majoring in fermentation and economics management in July 1991 and 2003 respectively. He completed his study in fermentation engineering from 天津科技大學 (Tianjin University of Science and Technology) in September 2004. Mr. Xu has been elected to stand as the executive council member of the China Fermentation Industry Association in 2004 and prior to that was invited in 2002 to be a member of the Amino Acid Technology Committee under the China Fermentation Industry Association. Mr. Xu first joined Shandong Furui Brewery Group in 1991. Mr. Xu joined the Group in June 1999 and has over 26 years of experience in the fermentation industry. He was also one of the initial management Shareholders. Mr. Xu was appointed as a director of Shandong Fufeng in May 2002. Mr. Xu is interested in 100% of the issued share capital of Best Range Investments Limited, which in turn is interested in 28,320,160 Shares, representing approximately 1.33% of the issued share capital of the Company.

Biographies of directors and Senior management

李廣玉 (Li Guangyu), aged 38, is an executive Director and a vice general manager of the Group who is responsible for the product import and export business of the Group. Mr. Li has over 11 years of experience in the fermentation industry. Mr. Li graduated from 華東政法大學研究生院 (East China University of Political Science and Law Graduate School) in 2006 and obtained a master's degree in Laws. Mr. Li is the son of Mr. Li Xuechun. Mr. Li is not interested in any shares of the Company pursuant to Part XV of the Securities and Future Ordinance.

Independent Non-executive Directors

孫玉國 (Sun Yu Guo), aged 62, was appointed as an Independent non-executive Director on 23 November 2015. Mr. Sun has over 31 years experience in the field of accounting and financial management. Mr. Sun is the non – profession member of The Chinese Institute of Certified Public Accountant and The Chinese Institute of Certified Public Valuator. Prior to his retirement in February 2014, Mr. Sun was an executive director and vice president of Tsingtao Brewery Company Limited with rich experience in financial management and capital management. He ever served as Deputy Department Head in Finance Bureau of Qingdao, and Department Head in State-owned Assets Supervision and Administration Commission of the People's Government of Qingdao (the "SASACQ"). Mr. Sun was awarded China Annual Figure as Chief Financial Officer in 2004, and National Pioneer in Accounting in 2008.

Mr. Sun does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company. Mr. Sun was an executive director of Tsingtao Brewery Company Limited (stock code: 0168. HK) up to June 2014, save as disclosed above, he did not have any directorships in other listed public companies in the last three years nor has held any other position with the Company and any of its subsidiaries. Mr. Sun was granted an option to subscribe the 300,000 Shares pursuant to the Post-IPO Share Option Scheme, represented 0.01% of the issued share capital of the Company. Except for the above, Mr. Sun does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

鄭豫 (Zheng Yu), aged 49, was appointed as an Independent non-executive Director in December 2012. Ms. Zheng was a Managing Director at PineBridge Investments (formerly known as the AIG Global Investments), in charge of private equity investment in Greater China from 2008 to 2011. She also has over 17 years experience in the management consulting industry through her service at the Boston Consulting Group and then at Roland Berger Strategy Consultants as its senior partner responsible for the industrial and automotive industries practice in Greater China. Ms. Zheng has extensive experience in various management practices including strategy development, brand management, organizational restructuring, global sourcing, joint venture strategy, and project management for both global and Chinese clients. Her industry experience includes automotive, industrial goods, consumer electronics, retail and fast moving consumer goods, education, media and publishing, etc. Prior to her investment and management consulting career, she has also worked in the computer industry in both China and the United States. Ms. Zheng received a bachelor's degree of science in Computer Science in Beijing Normal University and her Master of Business Administration from the University of Texas at Austin in the U.S. Ms. Zheng does not have any relationship with any Directors, senior management, substantial or controlling shareholders of the Company. Ms. Zheng is also a non-executive director of Minth Group Limited (Stock code: 425) in current, save as disclosed above, she did not have any directorships in other listed public companies in the last three years nor has held any other position with the Company and any of its subsidiaries. Ms. Zheng was granted an option to subscribe the 300,000 Shares pursuant to the Post-IPO Share Option Scheme, represented 0.01% of the issued share capital of the Company. Except for the above, Ms. Zheng does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance.

齊慶中 (Qi Qing Zhong), aged 62, was appointed as an Independent non-executive Director on 1 November 2014. Mr. Qi has over 32 years experience in the management of the corporation in fermentation and food industry. Mr. Qi has extensive experience in various management practices including strategy development, promotion and brand management and industrial operation management. Mr. Qi graduated in Institute of Light Industry, Dalian (Faculty of Food Engineering, Professional of Fermentation) in 1982. Mr. Qi currently works as a chief secretary and a chief executive officer of China Food Additives & Ingredients Association. Mr. Qi is also in position of Deputy Director of the Committee on Food Additions in National Standard Review Committee of Food Safety. Mr. Qi does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company. He did not have any directorships in other listed public companies in the last three years nor has held any other position with the Company and any of its subsidiaries. Mr. Qi was granted an option to subscribe the 300,000 Shares pursuant to the Post-IPO Share Option Scheme, represented 0.01% of the issued share capital of the Company. Except for the above, Mr. Qi does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance.

Senior Management

趙強 (Zhao Qiang), aged 49, is a chief executive officer of the Group. Mr. Zhao has over 21 years of experience in sales and operation in the food and beverage industry with a strong track record of leading and developing successful food businesses in Greater China and across Asia Pacific. Before joining the Company, Mr. Zhao was the Chief Operation Officer and the Chief Executive Officer of Lee Kum Kee Sauce Group since 2011 to 2015. During a career spanning more than 20 years, Mr. Zhao has held a range of senior leadership, strategy development and operation management positions with PepsiCo Group and Kraft Foods International in Greater China, and the Asia Pacific Region. Mr. Zhao would be responsible for the Group's operation management and business strategy, implementing decisions and plans approved by the Board, making day-to-day operational and management decision and coordinating overall business operations. Mr. Zhao was granted an option to subscribe the 5,000,000 Shares pursuant to the Post-IPO Share Option Scheme, represented 0.24% of the issued share capital of the Company.

陳奕祺 (Chan Yick Kei), aged 37, is a chief financial officer of the Group who was appointed on 1 January 2015. Mr. Chan graduated from the London School of Economics and Political Science with a bachelor degree of accounting and finance. Mr. Chan has 15 years of corporate finance and M&A experience. Prior to joining us he was a director and head of consumer and retail sector, Asia at Deutsche Bank and before that he was a Vice President at the investment banking department of Credit Suisse. Mr. Chan is responsible for matters relating to corporate finance, capital markets, investor relations, corporate development and assists in strategic planning, as well as other financial management duties. Mr. Chan was granted an option to subscribe the 6,000,000 Shares pursuant to the Post-IPO Share Option Scheme, represented 0.28% of the issued share capital of the Company.

來鳳堂 (Lai Fengtang), aged 48, is a general manager of Shandong Fufeng who is currently in charge of the operation of Shandong Fufeng. Mr. Lai graduated from 中國西北大學 (Northwest University of China) in 1998. He first joined Shandong Furui Brewery Group in 1991. Mr. Lai joined the Group in June 1999 and has over 25 years of experience in the fermentation industry. Mr. Lai is the sole director of and is interested in 14.3% of the issued share capital of Hero Elite, which in turn is interested in 69,120,000 Shares, representing 3.25% of the issued share capital of the Company.

Biographies of directors and Senior management

潘悦洪 (Pan Yuehong),aged 52, is the vice general manager of the Group. Mr. Pan graduated from 山東輕工業學院 (Shandong Institute of Light Industry) in 1988, majoring in fermentation. Mr. Pan joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1988, and later joined the Group in June 1999. With nearly 29 years of experience in the fermentation industry, he is mainly responsible for the Group's sales and marketing activities. Mr. Pan is the sole director of and is interested in 14.3% of the issued share capital of Advanced Quality Limited, which in turn is interested in 69,120,000 Shares, representing 3.25% of the issued share capital of the Company.

王均成 (Wang Juncheng), aged 49, is the general manager of IM Fufeng. Mr. Wang graduated from 中國海洋大學 (Ocean University of China) in 1990, majoring in marine biology. Mr. Wang joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1990, and later joined the Group in June 1999. With 27 years of experience in fermentation industry, he is mainly responsible for the operation of IM Fufeng.

嚴紀文 (Yan Jiwen), aged 50, is the general manager of Baoji Fufeng. Mr. Yan graduated from 山東輕工業學院 (Shandong Institute of Light Industry) in 2005, majoring in economic management. Mr. Yan joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1988, and later joined the Group in June 1999. He has accumulated 29 years of experience in the industry and is mainly responsible for the operation of Baoji Fufeng. Mr. Yan is the sole director of and is interested in 16.0% of the issued share capital of Excel Energy Limited, which in turn is interested in 61,747,200 Shares, representing 2.90% of the issued share capital of the Company.

唐永強 (Tang Yongqiang), aged 42, is the vice general manager of the Group responsible of new project development. Mr. Tang graduated from 西北工業大學 (Northwestern Polytechnical University) in 1997, majoring in machinery manufacturing industry and equipment. Mr. Tang joined 山東福瑞酒廠 (Shandong Furui Brewery Group) in 1997, and later joined the Group in June 1999. With 19 years of experience in the industry management, he is mainly responsible for the project development of the Group.

趙蘭坤 (Zhao Lankun), aged 44, is a general manager of Hulunbeir Fufeng who is currently in charge of the operation of Hulunbeir Fufeng. Mr. Zhao graduated from 青島化工學院 (Institute of Chemical Technology of Qingdao) in 1994, majoring in chemical equipment and machinery. Mr. Zhao joined Shandong Furui Brewery Group in 1994, and later joined the Group in June 1999. With nearly 23 years of experience in industrial management. Mr. Zhao is interested in 14.3% of the issued share capital of Hero Elite, which in turn is interested in 69,120,000 Shares, representing 3.25% of the issued share capital of the Company.

Company Secretary and Qualified Accountant

李偉然 (Lee Wai Yin), aged 47, is the qualified accountant and company secretary of the Company since August 2008. Mr. Lee graduated from the Hong Kong Shue Yan College in 1993 with a diploma in accountancy and is a fellow member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has more than 23 years of working experience in finance and accounting including some with international accounting firms. Mr. Lee was granted an option to subscribe the 1,800,000 Shares pursuant to the Post-IPO Share Option Scheme, represented 0.08% of the issued share capital of the Company.

Management Discussion and Analysis

Business and Financial Review

Overview

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

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

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

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

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

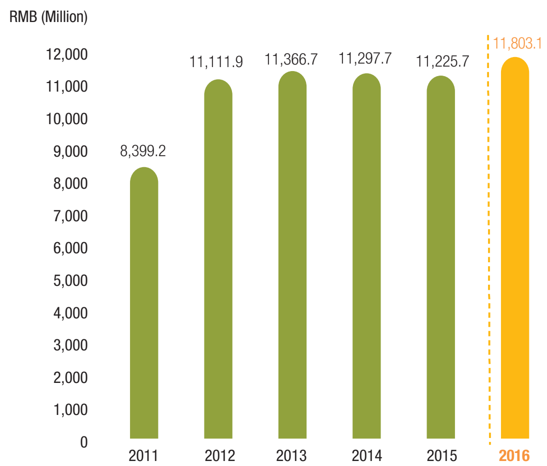
In terms of production capacity, the annual production capacity of MSG, threonine and high-end amino acid were increased during 2016. The overall production capacity of the Group in 2016 remained almost fully operational.

Management Discussion and Analysis

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

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

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



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

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

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

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

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

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

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

Animal nutrition and high-end amino acid business

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

The high-end amino acid business, as part of our Amino acid segment, is the Group's new growth driver. The Group's high-end amino acid products are developed using different types of corn-based biochemical products by leveraging the Group's fermentation technology. The high-end amino acid products include valine 纈氨酸, leucine 亮氨酸, isoleucine 異亮氨酸, glutamine 谷氨醯胺 and hyaluronic acid 透明質酸, etc. During the year, the total sales amount of high-end amino acid products reached approximately RMB663.7 million. Compared to 2015, it represented an increase of 35.3%. Our high-end amino acid products generally enjoy higher profitability and focus on the health and wellness and pharmaceutical materials industries. The short-term goal of the Group is to become one of the world's top three producers and suppliers by market share for several of our key amino acid product types. The development and production of these products will add further diversity to the Group's product and revenue mix. The Group also plans to extend its business scope from the production and sales of typical amino acid products for bulk trade to those of high-end products.

Overall, the diversity of the Group's product portfolio has allowed the Group to maintain its revenue growth momentum in 2016.

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

Management Discussion and Analysis

Market Overview

Amino acid segment

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

Xanthan gum segment

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

Operational Review of the Group

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

Turnover/Gross profit/Gross profit margin of the Group

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

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

Profit attributable to the Shareholders

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

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

Segment Highlights

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

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

	Year ended 31 December 2016			Year ended 31 December 2015			Increase/(Decrease)		
	Amino acid RMB'000 audited	Xanthan gum RMB'000 audited	Group RMB'000 audited	Amino acid RMB'000 audited	Xanthan gum RMB'000 audited	Group RMB'000 audited	Amino acid % audited	Xanthan gum % audited	Group % audited
Revenue	11,240,665	562,466	11,803,131	10,256,444	969,278	11,225,722	9.6	(42.0)	5.1
Gross profit	2,316,680	89,693	2,406,373	1,447,537	354,954	1,802,491	60.0	(74.7)	33.5
Gross profit margin	20.6%	15.9%	20.4%	14.1%	36.6%	16.1%	6.5 ppts.	(20.7) ppts.	4.3 ppts.
Segment results	1,482,307	39,923		757,638	289,006		95.6	(86.2)	
Segment net assets									
Assets	9,919,823	3,769,193		8,668,125	3,861,218		14.4	(2.4)	
Liabilities	4,833,050	908,334		5,051,084	1,030,067		(4.3)	(11.8)	

Management Discussion and Analysis

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

Amino acid segment

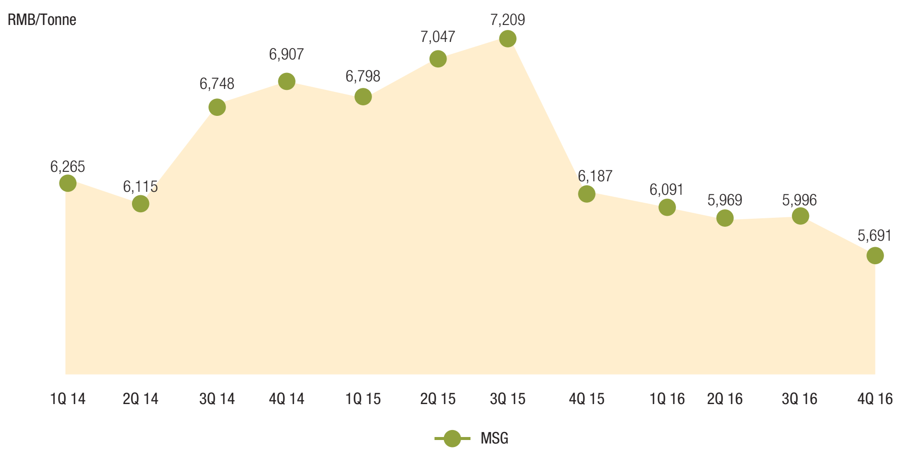
Revenue and average selling price

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

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

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

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



MSG

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

In 2016, the Group also strengthened the export of MSG and sales and marketing efforts in the promotion of its U Fresh Series products to retail customers. The export of MSG in term of sales volume increased by 7.2% in 2016, which export sales amounted to about RMB1,079.0 million.

Fertilisers

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

Corn refined products

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

Starch sweeteners

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

Threonine

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

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

High-end amino acid products

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

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

Gross Profit and Gross Profit Margin

The gross profit of this segment is set out below:

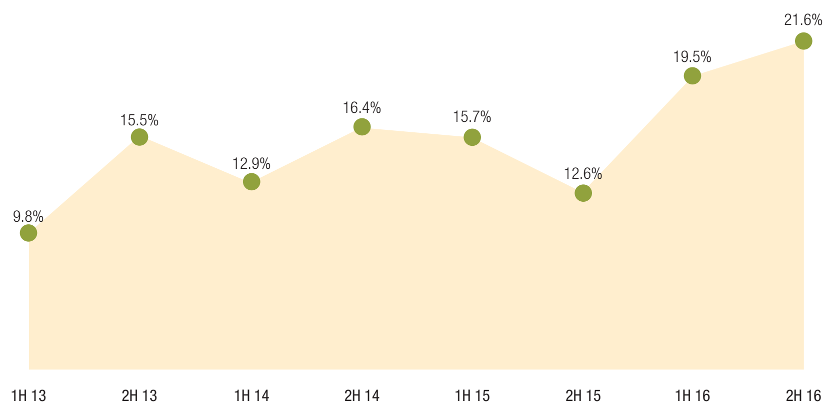
	Years ended 31 December		
	2016	2015	Change
Gross profit *(RMB'000)*	**2,316,680**	1,447,537	60.0%
Gross profit margin *(%)*	**20.6**	14.1	6.5 ppts.

During the year ended 31 December 2016, gross profit and gross profit margin of MSG increased due to the cost of corn kernels decreasing and the implementation of production technology enhancement. In addition, increasing gross profit contribution from high-end amino acid products and threonine, 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 RMB2,316.7 million and gross profit margin increased by 6.5 percentage points to 20.6%.

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

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

Trend of Gross Profit Margin of Amino Acid Segment



The above chart shows the changes in gross profit margin from 2013 to 2016. As the government policy was changed, the average price of corn kernels has decreased significantly since the fourth quarter of 2015. As such, the Group adopted a competitive pricing strategy to significantly lower the ASP of MSG, with an aim to further strengthen its market share and leading position. Although the short term market fluctuation has affected our results, the Group believes that the industry demand and supply has stabilised and expects that the ASP of MSG will stabilise or gradually improve. In addition, the Group will continue to launch high-end amino acid products which have higher profit margins and the Group believes that such increasing diversity in the product mix will help to improve its gross profit margin in this segment.

Production costs

	Years ended 31 December				
	2016		2015		Change
	RMB'000	**%**	*RMB'000*	*%*	*%*
Major raw materials					
• Corn kernels	**4,821,570**	**53.4**	5,239,431	60.1	(8.0)
• Liquid ammonia	**110,124**	**1.2**	90,709	1.0	21.4
• Sulphuric acid	**97,885**	**1.1**	96,858	1.1	1.1
Energy					
• Coal	**923,716**	**10.2**	784,449	9.0	17.8
Depreciation	**688,643**	**7.6**	629,582	7.2	9.4
Employee benefits	**590,911**	**6.5**	579,173	6.6	2.0
Others	**1,793,563**	**20.0**	1,299,532	15.0	38.0
Total cost of production	**9,026,412**	**100.0**	8,719,734	100.0	3.5

Corn kernels

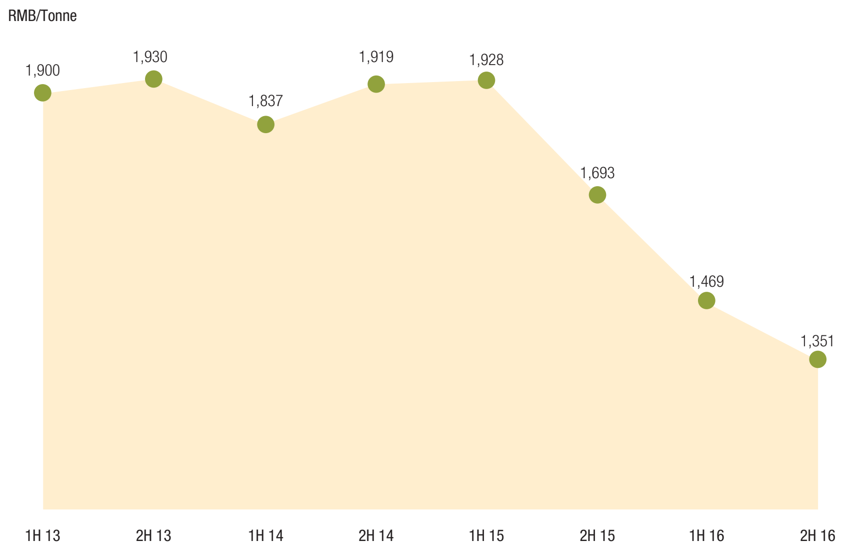
During 2016, corn kernels accounted for approximately 53.4% (2015: 60.1%) of the total production cost of this segment. The average price of corn kernels was approximately RMB1,408 per tonne in 2016, representing a decrease of 22.3% from 2015, which was mainly due to the change of PRC government policy.

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

Management Discussion and Analysis

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

Price Trend of Corn Kernels



Liquid ammonia

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

Sulphuric acid

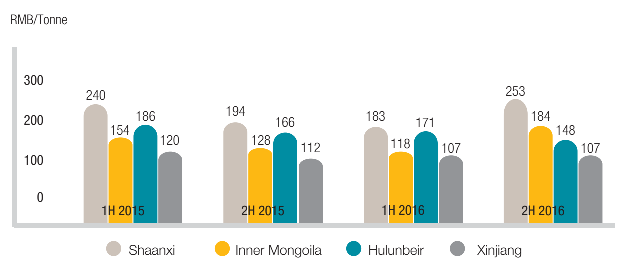
Sulphuric acid accounted for approximately 1.1% (2015: 1.1%) of total production cost in this segment in 2016. The average unit cost of sulphuric acid decreased to approximately RMB213 per tonne in 2016, which represents a decrease of approximately RMB27 per tonne, or 11.3% from 2015.

Coal

Coal accounted for about 10.2% (2015: 9.0%) of total production cost in this segment in 2016. The average unit cost of coal was RMB155 per tonne in 2016, representing a slight decrease of RMB4 per tonne or 2.5% from 2015.

Based on the market situation, the average unit cost of coal in Shaanxi and Inner Mongolia increased during the year. On the contrary, the average unit cost of coal in Hulunbeir and Xinjiang decreased in 2016. Our average coal costs were still at a low level which reflected that the competitive cost advantages from Hulunbeir Plant and Xinjiang Plant were fully realised during the year.

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



Other production costs

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

Production

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

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

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

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

Management Discussion and Analysis

Xanthan gum Segment

Operation results

The table below set out the sales amount, ASP, gross profit, gross profit margin and utilisation rate of xanthan gum for the years ended 31 December 2016 and 2015:

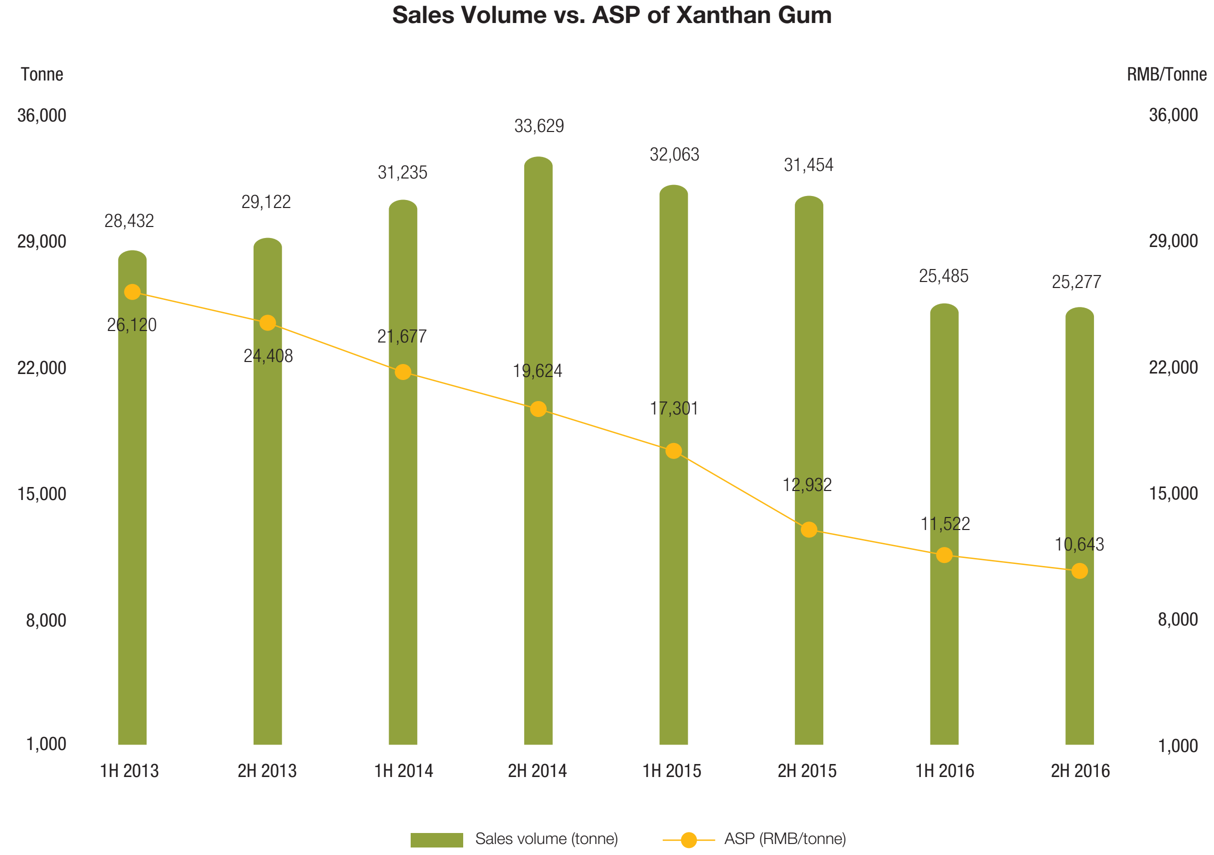
	Years ended 31 December		Change
	2016	2015	%
Revenue *(RMB'000)*	**562,466**	969,278	(42.0)
ASP *(RMB/tonne)*	**10,738**	15,013	(28.5)
Gross profit *(RMB'000)*	**89,693**	354,954	(74.7)
Gross profit margin *(%)*	**15.9**	36.6	(20.7) ppts.
Annual designed production capacity *(tonnes) (Note)*	**73,000**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

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

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

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

Sales volume and ASP



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

Gross profit and gross profit margin

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

Management Discussion and Analysis

Production costs

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

Corn kernels

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

Soybeans

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

Coal

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

Other production costs

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

Other Financial Information

Selling and marketing expenses

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

Administrative expenses

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

Finance costs (net)

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

Staff costs

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

Depreciation

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

Income tax expense

The income tax expenses for the year of 2016 mainly represented the PRC Enterprise Income Tax ("EIT").

Two subsidiaries of the Group including Shandong Fufeng and Shenhua Pharmaceutical, have obtained the approvals to become a new and high-technology enterprise and had been entitled to a preferential income tax rate of 15% (2015: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財税[2011]58號"關於深入實施西部大開發戰略有關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% (2015: 15%).

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

Management Discussion and Analysis

Strategic Investment

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

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

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

Proposed Spin-off

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

Outlook

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

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

The Group will continuously explore the development of new high-end polymer materials such as gellan gum, hyaluronic acid and amino acid products, in order to improve product class and increase sales and penetration in health and wellness products, pharmaceutical entities, and the skincare products field. Only by continuously upgrading our product quality and expanding our product range can we transform gradually from the traditional, bulk-trade enterprise towards a modern, high-tech and high value-added supplier of biochemical products.

Recent Development and Future Plan

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

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

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

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

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

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

Strengthen our management team

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

Plan to construct a new corn processing project

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

Overseas market expansion

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

Liquidity and financial resources

As at 31 December 2016, the Group's cash and bank balances were approximately RMB1,422.1 million (2015: RMB1,019.1 million) whereas current bank borrowings and current other borrowing (including the balances of convertible bonds and medium-term notes) were approximately RMB1,176.8 million and Nil (2015: RMB344.8 million and RMB1,501.1 million) respectively and non-current bank borrowings and non-current other borrowings (including the balances of convertible bonds and corporate bonds) were approximately Nil and RMB1,923.2 million (2015: RMB1,005.5 million and RMB986.7 million), respectively.

Convertible Bonds

The Group issued RMB975.0 million in convertible bonds with a fixed coupon rate of 3.0% per year on 27 November 2013 with 5-year terms ("2013 CB"). The yield to maturity rate of 2013 CB is 4.5% per annum. The net proceeds in the amount of approximately USD155 million from the issue of the 2013 CB were used to repay the syndicated bank loan at the end of 2013. During the year ended 31 December 2016, no conversion had taken place. The current outstanding amount of 2013 CB amounts to approximately RMB931.9 million.

Medium-term Notes

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

Corporate Bonds

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

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

Material acquisition or disposal of subsidiary and associated company

On 22 August 2016, a wholly owned subsidiary of the Company, Shandong Fufeng Fermentation Co, Ltd, entered into sale and purchase agreement to sell its wholly owned companies, Junan Beifang Properties Company Limited and Junan Beibu Properties Company Limited, for a total cash consideration of approximately RMB164.1 million. Junan Beifang Properties Company Limited and Junan Beibu Properties Company Limited are investment holding companies and held a parcel of land located at Longshan Road (Northern section), Junan County, Shandong Province, PRC (莒南縣縣城隆山路北段). The aggregate site area of the Land is approximately 148,748.6 square metres, and the land is designated for commercial use.

Except for the above, the Group had no other material acquisition or disposal of subsidiaries or associated companies for the year ended 31 December 2016.

Employees

As at 31 December 2016, the Group had approximately 7,000 employees. Employees' remuneration has been paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses were paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc. Please refer to the paragraph headed "Share Option Scheme" under the "Other information" section below for the share options granted to certain Directors and employees of the Group pursuant to the Pre-IPO and Post-IPO share option schemes.

Contingent Liabilities

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

Charges on assets

As at 31 December 2016, approximately RMB307.5 million of restricted bank deposits (2015: certain leasehold land, property, plant and equipment of the Group amounted to RMB110.2 million) were pledged to certain banks to secure bank borrowings of approximately RMB307.5 million (2015: RMB420.0 million) of the Group.

The convertible bonds issued in 27 November 2013 are secured by the pledge of the capital stock of certain subsidiaries of the Company, which are Acquest Honour Holdings Limited, Summit Challenge Limited, Absolute Divine Limited and Expand Base Limited. The guarantors are all holding companies that collectively control the operation and assets of its PRC subsidiaries of the Group.

Gearing ratio

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

Foreign exchange exposure

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

American Depositary Receipt Facility

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

Dividend and dividend policy

The Board recommended the declaration of a final dividend of HK7.8 cents per share, subject to Shareholders' approval at the annual general meeting.

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

Purchase, redemption or sales of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

Corporate governance report

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. During the year of 2016, the Company has complied with the Code Provisions of the Revised CG Code except for the following:

Code provision A.6.7 of the Revised Code: The Independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the Independent non-executive Directors, Mr. Qi Qing Zhong did not attend the annual general meeting of the Company held on 12 May 2016. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three Independent non-executive Directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of risk management and internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2016, including the accounting principles and practices adopted by the Group.

Closure of register of members

The register of members of the Company will be closed from 9 May 2017 to 12 May 2017 (both dates inclusive), during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 12 May 2017, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 8 May 2017.

The register of members of the Company will be closed from 22 May 2017 to 24 May 2017 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong. Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 19 May 2017.

Annual general meeting

The annual general meeting is expected to be held on 12 May 2017. A notice convening the annual general meeting will be dispatched to the Shareholders in due course.

2016 Environmental, Social and Governance Report

In accordance with the "Environmental, Social and Governance Reporting Guide" of the Stock Exchange of Hong Kong Limited, the Company prepared its 2016 ESG Report for the period from 1 January 2016 to 31 December 2016, covering its subsidiaries 山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), 寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), 內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), 呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.) and 新疆阜豐生物科技有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.). To the best knowledge of Fufeng Group, sustainable development is indispensable to the Group's long-term development in respect of environmental protection and social contribution. The Report illustrates the Company's belief and practice of sustainable development and social responsibility from both environmental and social perspectives.

A Environment

As for environmental protection, Fufeng Group continues to invest in energy-saving equipment. Its low-carbon emission production facilities are designed to minimise the environmental impact of the Company's business. The Company attaches great importance to green production, and continuously advances its technology in energy-saving, emissions reduction and clean production.

All the companies have established the environmental management system established by the Company based on the ISO 14001: 2004 standard, followed by documentation, implementation, and continuous improvement or renewal and regular third-party certification in order to obtain an authentication certificate for their respective systems.

A1 Emission

Fufeng Group complies with the requirements of laws and regulations, such as the Environmental Protection law of People's Republic of China (《中華人民共和國環境保護法》) to reduce the environmental impact arising from sewage, exhaust, greenhouse gases, hazardous and non-hazardous wastes during the production and operation of the Company.

As for exhaust, Fufeng Group strictly complies with the requirements of laws and regulations, such as the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》). Each of the companies has an exhaust treatment leadership group to fully assume the responsibility of treating the Company's exhaust. The companies also have developed targeted management systems on reducing exhaust, such as the Environmental Protection Management System, the Desulfurization and Denitrification Process Management System on Boiler Procedures and the Exhaust Treatment and Control Procedures, and related operating regulations, such as the Desulfurization Operating Regulation and the Denitration Operating Regulation. In addition, Fufeng has an accountability system in place for environmental protection targets, to require the companies to adopt effective measures for treating exhaust emissions so that such emissions meet the Emission Standard of Air Pollutants from Thermal Power Plants (GB 13223-2011) and the Emission Standard of Air Pollutants from Industrial Furnaces (GB 9078-1996). Automatic closed handling facilities should be adopted to load and unload raw materials for production and products. All the exhaust emitted from production equipment shall be collected and treated by scientific measures, such as recovery, absorption adsorption and catalytic combustion, to meet emission standards. Direct discharge without treatment is strictly prohibited.

As for sewage, the Company is in strict compliance with the requirements of laws and regulations, such as the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》). All the companies have specialised environmental protection treatment workshops, reclaimed-water reuse workshops and corresponding professional management teams. The companies, also furnished with professional sewage treatment devices and equipment, reduce sewage production in such approaches as level-based water consumption and reclaimed-water reuse. In addition, the Company has transformed its sewage treatment facilities to ensure that the discharged sewage meets national and local standards, such as the Pollutants Emission Standard for the MSG Industry (《味精工業污染物排放標準》) and the "Pollutants Discharge Standard for Urban Sewage Treatment Plants" (《城鎮污水處理廠污染物排放標準》).

All the companies have standardised their sewage treatment processes and administrative measures, by formulating sewage discharge management regulations such as the Environmental Protection Management System and the Administrative Measures on Sewage Discharge for Environmental Protection Treatment Plants, as well as the assessment standards on environmental protection such as the Assessment Rules on the Environmental Protection in Workshops. These regulations aim to strengthen the management of internal and external sewage discharge, strictly control various types of sewage discharge, avoid random or excessive discharge of the water treatment system, eradicate sewage pollution accidents, ensure the standard discharge of production sewage and prevent water pollution.

As for greenhouse gas emissions, all the companies have actively responded to the requirements of national and local governments, by completing the review on corporate greenhouse gas emissions and submitting such results to regulatory authorities. The Company's greenhouse gas emissions are mainly from fossil fuel combustion, industrial production process and potential outsourcing electricity. All the companies reduce greenhouse gas emissions by less energy consumption, higher energy efficiency and enhanced energy management.

As for waste discharge, the Company strictly complies with the requirements of the Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution (《中華人民共和國固體廢物污染環境防治法》) and the Administrative Measures on Municipal Solid Waste (《城市生活垃圾管理辦法》). In order to provide more effective control over the storage and treatment of solid wastes and achieve the objectives of energy saving and less environmental pollution, all the companies under Fufeng have formulated waste management systems, such as the Administrative Measures on Solid Wastes, the Hazardous Solid Waste Management System and the Administrative Measures on Industrial and Domestic Waste Disposal.

Hazardous wastes should be processed by relevant waste disposal parties recognised by the Chinese environmental protection bureau. The clearance and treatment of hazardous wastes should be recorded, with such records to be compiled and kept by the department that generates the hazardous wastes.

Factories shall categorise the waste acid, waste lye, residual liquid or organic solvent generated during production and equipment maintenance, and reuse them for production; alternatively, the above mentioned waste items, upon processing and treatment, shall be sold to qualified companies for reuse, without being discharged at random. The exhaust and sewage generated during equipment maintenance should undergo centralised collection and processing, without causing secondary pollution.

Non-hazardous wastes should undergo classified collection and storage at a fixed location, while recyclable wastes can be collected by recycling companies or internally recycled and reused. For example, coal ash and cinder can be used to produce construction materials such as cement and hollow bricks, to reduce resource consumption. Non-recyclable wastes should be regularly cleared by municipal waste disposal agencies.

A2 Use of Resources

Fufeng Group strictly executes the policies, regulations and standards on energy conservation provided by national, local and industrial authorities, such as the Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》). Centered on raising the user efficiency of resources, Fufeng lays its emphases on saving energy, water, materials and land, comprehensive use of resources, and development of circular economy. The Company facilitates its sustainable development with better management measures, an enhanced awareness of saving resources, and efficient and cyclic use of resources. The Company strictly manages its use of resources, to ensure reasonable use of resources in the course of operation and avoid waste.

As for energy saving, each of the companies under Fufeng has established its own energy-saving management and leadership group with relevant departments' heads as the group members, and set up energy saving offices. All functional departments and units have specific full/part-time personnel in charge of energy saving in addition to a three-level energy-saving management network formed and the relevant personnel from the production department responsible for detailed energy-saving work. At the same time, apart from the establishment of energy saving agencies and management systems, leadership groups for energy-saving management have also been formed, with group leaders being the persons in charge of the respective companies. All the companies further implement national energy policies, regulations and standards on the basis of perfecting the organization system; developed and implemented energy management standards; formulated energy conservation programs and plans; executed the technical standards on energy management; organised energy conservation inspections; monitored the measurement and statistics of energy consumption; organised energy-saving technical trainings and promotions; and launched energy-saving initiatives to further improve the Company's energy management system.

In order to strive for its industrial leadership in terms of energy consumption per unit product, Fufeng conducts quota-based management of energy consumption for processes and products during production, with a letter of responsibility signed, energy saving tasks and targets assigned to all levels, and energy consumption pegged to remuneration and performance. The department of energy-saving technology management has established a cost control management system and formulated a cost assessment and evaluation system, under which detailed assessment indicators are provided for the regular evaluation and assessment of relevant workshops, departments and responsible persons. Workshop consumption indicators have been formulated, with their execution assessed. Energy statistics positions have been established, with special personnel responsible for preparing the accounts of energy consumption and costs. During the production process, attentive to minor amendments and changes, Fufeng has been continuously engaged in optimising, balancing and transforming its existing production processes and systems, to reduce the consumption of water, electricity and gas, with effective preventive measures formulated and implemented to eliminate leakage.

In order to strengthen energy management, reduce material consumption, eliminate waste and improve energy efficiency, according to the national energy guidelines and policies and energy management standards, all the companies have developed regulations and systems in respect of saving energy and water, including the Working System for Corporate Energy Management, the Management System on Energy Saving and Reducing Consumption, the Control Procedures for Energy Monitoring, Measurement and Analysis, the Energy Management Regulations and the Energy Conservation Management System.

As for water conservation, in order to implement the policy on water conservation, scientific management has been applied to the use of water resources to reduce the Company's ineffective water expenses, achieve water conservation and reduce production costs. While strengthening the establishment of water-saving infrastructure, the Company actively develops corresponding management systems to help boost the staff's awareness and action of saving water and cherishing water resources. In this way, staff members fully understand that water conservation is for people to use water in a reasonable and highly efficient way, without wasting it.

A3 Environmental and Natural Resources

Upon assessment, the Company has no significant impact of environmental and natural resource use. The Company is active in practicing the concept of green development and promoting the green development of the industrial chain.

B Society

Fufeng Group attaches great importance to talents, cherishes the efforts and contribution of staff, and believes that talent decides the Company's future. Fufeng Group will continue to increase its investment in the growth of talents. Fufeng Group would spare no effort in providing a development platform and growth opportunities for staff with a "fighter" spirit, and meeting the diverse needs of the staff within a reasonable range. Fufeng Group encourages competition, develops an evaluation and incentive mechanism that is objective, fair, just and open, and achieves scientific distribution of human resources through reasonable competition.

B1 Employment

In accordance with the requirements of laws and regulations, such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Company has formulated the Recruitment Process System, which regulates the employment process, authority and recruitment principles during the recruitment process. In strict compliance with relevant national laws and regulations, the Company adheres to the principles of justice, fairness and equality, regardless of gender, ethnicity and other differences. In order to regulate staff entry, post adjustment and resignation management, Fufeng Group has formulated the Regulations on Staff Entry, Post Adjustment and Resignation Management of Fufeng Group, according to relevant national laws and regulations and with consideration of the actual situation of the Group. The Regulations specifies staff entry, post adjustment and resignation management according to laws and regulations.

The Company has formulated competitive remuneration policies and systems, including the Management Regulations on the Probation and Remuneration of the Intermediate and Senior Staff of Fufeng Group and the Staff Compensation Management System of Fufeng Group Limited. The average remuneration of staff is 20% higher than the local average. The Fufeng Group staff compensation policy mainly consists of three remuneration systems, including an annual-salary remuneration system for management personnel, a hierarchy-based remuneration system for technicians and a four-tier remuneration system for general staff. The Company offers its staff paid holidays, including annual leave, sick leave, marriage leave, maternity leave, funeral leave and work injury leave. In order to regulate the use of such holidays, Fufeng has formulated its Staff Leave System according to relevant national laws and regulations and with consideration of the actual situation of the Group.

The Group has formulated the Fufeng Group Administrative Measures on Echelon Talents, to establish and improve its talent echelon management mechanism, effectively select and train the echelon talent team, and meet the Group's demand for healthy and continuous development. The echelon talents are composed of three teams, i.e. reserve talents, junior management personnel (C1-C7) and junior technicians (CJ1-CJ7).

The Company provides its entire staff with a scheme for equal development and spares no efforts to create a dynamic work environment. Staff members comprise various ethnic minority groups. Fufeng Group has established a variety of welfare policies for the staff to work happily and cohesively as a group, and attracts them to grow together with the Company. The welfare package includes benefits on festivals and holidays, monthly special and birthday, as well as contribution of pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund for all staff. Besides, staff members are offered life convenience amenities in respect of accommodation, dining, bathing and hair-cutting.

B2 Health and Safety

With safe production as its first priority, Fufeng Group strictly complies with relevant laws and regulations including the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Law of the People's Republic of China on Work Safety (《中華人民共和國安全生產法》) and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》). The Group is committed to providing a healthy, safe and comfortable work environment for its staff. Conscientious in implementing the guidelines and policies on safe production provided by superior authorities, the Company lays its work emphasis on enhancing management and striving for implementation, with its work guidelines of perfecting a safety organization, offering better training to all the staff and scrutinizing safety hazards. The Company is strict in carrying out a corporate accountability mechanism for safe production. Under the mechanism, appointed at each level is a person in charge of safe production who is required to sign a responsibility certificate for safe production, subject to a complete set of management systems on safe production.

(1) Developing a Management System for Occupational Health and Safety

Committed to providing a healthy, safe and comfortable work environment for their staff, all the companies under Fufeng Group have adopted GB/T 28001: 2011 Standard of Occupational Health and Safety Management System. The System has been established, followed by documentation, implementation, and continuous improvement or renewal and regular third-party certification in order to obtain its own authentication certificate.

(2) Policies and Systems on Safe Production

Active in standardising safe production, the companies have established robust regulations and systems on safe production and the management of preventing and treating occupational diseases, such regulations and systems including the Management System on Safe Production Responsibilities, the Management System on Safety Training and Education, the Management System on Major Sources of Danger, the Fire Safety Management System, and the Safety Management Regulation on Hazardous Chemicals. Also in place are a series of management systems on safe operation, such as hot work, temporary electric application, and work at heights.

Furthermore, the companies have established their systems on safety patrols and inspections, such patrols to be carried out each day and such inspections to take place every month. As for the hidden perils in safe production, the Company sticks to its principle of "Accuracy, Precision and Meticulousness" to timely identify such perils that exist in workshops, produce a rectification notice for them in respect of their problems, and assign a specific person to take charge of rectification work and request the responsible unit to complete such rectification within a specified timeframe, and carry on such rectification.

(3) Occupational Health

The companies have established the Management System on Preventing and Treating Occupational Diseases, in an effort to prevent, control and eliminate occupational hazards, and protect the health of their staff. The System clarifies the responsibilities of each department, and requires that staff should be provided with publicity, education and training on occupational safety and hygiene as well as the prevention and treatment of occupational diseases, during the pre-employment stage and throughout the employment period. Clear warning signs and Chinese descriptions should be provided at positions where occupational hazards exist, with such personnel to be offered work protection and first-aid supplies in line with national standards. The personnel engaged in hazardous operation should be provided with pre-employment and yearly occupational health checks; comprehensive precautions should be adopted, together with advanced technology, process, equipment and non-toxic materials, all to reduce and eliminate occupational hazards.

The Company has offered relevant work protection equipment to positions with different occupational safety hazards; such equipment has reached all relevant staff, so as to reduce and prevent the health damage of work environment on the staff. Meanwhile, the Company has equipped each workshop with emergency response items such as first-aid kits and medicine boxes, conducted regular checks, and timely handled any damage or deficiency once spotted. The Company, furnished with fire service installations according to requirements, has also trained its staff on how to use such installations to an extent that every staff member is an effective user. The Company attaches great importance to drills by regularly organising the staff for the application of fire service installations and the emergency drills for fire escape, leakage of hazardous chemicals and fire accidents. The drills have effectively improved the staff in terms of their ability of emergency response, handling, self-rescue and escape.

B3 Development and Training

One important principle for Fufeng Group's staff management is to provide staff members, the Group's valuable resource, with systematic training to improve their work skills constantly and to attain a harmonious balance between staff growth and company development. Hence, the Company has formulated Fufeng Group Management Regulation on Training to establish and complement the Group's management system on training and plan staff learning. The regulation enables staff members to keep improving their professionalism, work skills and overall qualities and better meet the demands arising from the Group's continuous and fast development. The Group's training involves its general manager, deputy general managers and business school, as well as the human resources departments and management personnel at all levels of the companies under the Group.

The objectives for Fufeng Group to provide four categories of training to constantly improve the staff's work skills:

- Orientation for new staff members: New staff members should receive training before formally starting their work. The orientation is to help familiarise new staff members with corporate environment as soon as possible, so that they can smoothly fit into their positions and integrate into the team of Fufeng. The orientation includes an introduction of the Group and its companies, the development history of Fufeng Group, corporate values, safety knowledge, the basic requirements of the position, and other knowledge that new staff should learn.

- Work competency training: The Company organises its staff members for work competency training so that they meet the job requirements in respect of work competency and such competency satisfies the demands of company development.

- Systematic training for improving professional skills: Departments and offices of the Group provide systematic and targeted training to continuously improve the professional competency of staff members in respective systems.

- Management Knowledge Enrichment Training for Management Personnel: Each year, the Group and its companies provide a variety of training on management knowledge, to continuously improve the management capability of management personnel at all levels.

The Company has formulated "Fufeng Group Management Regulation on Lecturers", to build a team of lecturers for the Group, proceed with training effectively and raise the awareness of learning among leaders and average staff. The intermediate management and technicians of the companies with a specialty and the willingness to teach may go through appraisals before being employed as internal lecturers. These lecturers are subject to a credit mechanism based on their levels and an annual appraisal of lecturer qualification in every September.

With a few years of development, the Business School of Fufeng Group has established a complete training system and a course database based on the training undertaken in recent years. Currently, the Business School, apart from providing training for management personnel at all levels, has set up its WeChat platform for the public, in a bid to share learning resources such as "WeChat Courses".In addition, "WeChat Courses" (WeChat account name for the public: jtshangxueyuan), a platform set up by the Fufeng Business School, regularly publishes video lectures.

B4 Labor Standards

Fufeng Group prohibits the employment of child labor and forced labor, in accordance with such laws and regulations as the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》). As required in Fufeng Group System on the Recruitment Process, the Company shall strictly complies with international labor standards, with new staff to be at least 18 years old. Staff working hours are formulated in strict compliance with relevant national laws and regulations. Staff members take leave according to law with their time of rest taken into proper consideration. The Company also has a human resources attendance system that effectively manages the staff's working hours and dates of rest, to ensure the work-life balance of the staff. To avoid forced overtime work, staff shall be arranged for overtime work (if required) on a voluntary basis, with such work hours and pay in conformity with local regulations.

B5 Supply Chain Management

Neimenggu Fufeng Biotechnologies Co., Ltd. has formulated the Management Regulation on Material Procurement, to standardise the company's domestic and international procurement of raw materials, and to timely provide raw materials of proper quality and quantity and at reasonable prices. The Regulation provides that the selection of suppliers shall be based on a comprehensive range of considerations, including supply capacity, qualifications, production equipment, process conditions, capability of developing new products, staff training, and system certification. Based on the above considerations, the company determines whether to develop a long-term relationship with a supplier. In addition, the company actively promotes its standard on the quality of raw materials among the suppliers, and offers them necessary help in respect of quality and technical services so that the suppliers can timely deliver materials of stable quality and in line with the company's quality standard.

The Company has formulated its product acceptance standards, to make sure that the products procured meet the demands on quality, safety and environmental protection. For instance, Neimenggu Fufeng Biotechnologies Co., Ltd. provides its acceptance standard on corns, which includes such indicators as water content, impurities and mold. Baoji Fufeng Biotechnologies Co., Ltd. provides its acceptance standard on coal, which includes indicators such as sulphur and water content. The Company provides corresponding reception standards on different procured products, to make sure that such products meet its production requirements. In the meantime, the procured products are required to be environmentally friendly. For instance, the Baoji subsidiary requires the sulfur content in coal to fall below 0.6%.

Additionally, all the suppliers are required to sign an Agreement against Commercial Bribery, so that both parties can undertake business cooperation in tendering, procurement, infrastructure and sales in a standard manner and in the spirit of fair cooperation, in order to combat and prevent unfair competition. Meanwhile, the procurement staff members are required to sign a Fufeng Group Letter of Undertaking for the Clean Practice of the Procurement and Supply System.

B6 Product Responsibility

For years, Fufeng Group has spared no effort in ensuring the quality and safety of products such as MSG. In terms of hardware, the companies under Fufeng always ensure their factories and equipment in compliance with the sanitation and safety requirements on food production, with investment on building world-class MSG production lines. In terms of software, the companies have fully implemented a series of management systems of international standard and passed certification, all to ensure strict control and process management from raw materials entering the factory, production process control, products delivered from the factory, to the aftersales stage. The efforts also ensure the quality and safety of products such as MSG.

(1) Management of Product Quality and Food Safety

Fufeng Group strictly complies with the requirements of such laws and regulations as the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法》) and the Regulation on the Implementation of the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法實施條例》). To enhance quality management and corporate efficiency, the companies have adopted such standards as ISO 9001: 2008 Quality Management Systems, ISO 22000: 2005 Food Safety Management Systems, the HACCP System and Application Guidelines, CCAA 0011-2014 (CNCA/CTS 0017-2008A) Food Safety Management System: Requirements on MSG Manufacturers, CCAA 0014-2014 (CNCA/CTS 0020-2008A) Food Safety Management System: Requirements on the Manufacturers of Food and Feed Additives, and GB/T19630–2011 Organic Products. Based on the above systems, the companies have established their certification systems on quality, food safety management and organic products, followed by documentation, implementation, and continuous improvement or renewal, so that the quality and healthy products are provided and the effective implementation of the companies' policies on quality and food safety are ensured.

The Company tests its products in a process which includes testing of raw materials, process testing and testing upon entry into the warehouse. The quality control department of the Company has designated the testing standards and approaches and provided a complete set of monitoring equipment; the Company has obtained for its testing laboratory a CNAS certificate of national certified laboratory, and all the testing personnel have obtained corresponding qualification certificates. The Company regularly sends its products for food safety testing via external third-party testing platforms. The Company has formulated Fufeng Group Management Measures for Quality-related Reward and Punishment, in a bid to enhance product quality management, effectively trace and address quality issues, and provide greater quality monitoring across the production process. Centered on meeting customer demands, the Measures specify the extent of influence of quality accidents and the elements that affect quality. The Company has also formulated the Quality Standards on Finished Products and Semi-finished Products, to regulate semi-finished products over the production process and ensure product quality from the source.

(2) Customer Services

In accordance with the requirements of laws and regulations such as the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), Fufeng Group focuses on providing more robust aftersales services for its customers. To this end, the Group has strengthened its after-sales service team and put more emphasis on providing solutions to customer application. The Group has purchased a variety of experiment equipment for its laboratories to simulate customer application, so as to ensure the delivery of faster and effective solutions. Meanwhile, the Group also focuses on the R&D and promotion of customised products and provides better alternative products for customers.

In order to provide better customer services, the Group has established an aftersales service department specifically for the gum business, to cater to the customised demands on gum products. In addition to the new department, the Group's laboratories for gum applications provides follow-up on the technical problems that customers may encounter when using the products, to provide satisfactory solutions for customers.

The Group has prepared the Process of Handling Complaints on Product Quality. Besides, the Company solicits customer feedback through various channels, such as complaints hotline 400, sales feedback and company mail box. The Company timely refers the issues reflected to its corresponding departments for handling and the quality management department for the approval of such handling results.

All the companies have set up the Product Recall Procedure. The Procedure specifies the scope of responsibilities and operation procedures, to safeguard public health and safety and protect the economic benefits of customers and the corporate image of the Company. Product recall drills are held at least once a year to ensure that the Procedure is effective and feasible.

(3) Advertisement and Trademark

The Company has formulated its Management System on the Use of Trademarks, to regulate the trademark management of the Company, establish and maintain the corporate reputation, ensure product quality and protect the exclusive rights of the trademarks, so that the Company can continuously maintain and improve the value of its trademarks as intangible assets. The System specifies the management regulations on trademark registration, operation, printing and protection. The Company has the Brand Protection Control Procedures in place, to ensure compliance with the brand protection policies and higher awareness of brand protection, so that the trademark property rights of the Fufeng brand are well protected from infringement. According to the Fufeng Group VI Manual Management Regulations, the Group has enhanced its examination and approval, design, inspection and acceptance, modification, supplementation, supervision and management on the VI system.

The Company has established the Identifications and Retrospective Control Procedures, which carries out proper identifications on raw and auxiliary materials, semi-finished goods and finished goods used in the products and their supervision and condition examination, so as to ensure the traceability of the production and sales procedures of the products. Thus, any unexpected use and delivery can be prevented.

(4) Privacy Protection

The Company has prepared the Measures on Commercial Secrets Management and the Management System of Commercial Secrets Protection, in accordance with relevant laws and regulations in the PRC and the Management Regulations on Corporate Intellectual Property Rights, in order to strengthen the management of the commercial secrets of the Company and protect its legal rights. The Group has established its internal confidential system and requires all the personnel to sign a non-disclosure agreement, while certain core technicians are required to sign the Non-competition Agreement.

B7 Anti-Corruption

Good morality, integrity and an anti-corruption system are essential foundations for the sustainable and healthy development of the Group. The Company strictly complies with the requirements of laws and regulations, such as the "Company Law of the People's Republic of China" (《中華人民共和國公司法》), the "Tendering and Bidding Law of the People's Republic of China" (《中華人民共和國招標投標法》), the "Anti-Unfair Competition Law of the People's Republic of China" (《中華人民共和國反不正當競爭法》) and the "Interim Provisions on Banning Commercial Bribery Acts" (《關於禁止商業賄賂行為的暫行規定》). The Company has also established the Administrative Measures on Corruption-free Business Practice of Fufeng Group so as to enhance the cohesion and strength of the Group, raise the awareness of integrity and self-discipline among leaders and other staff members, and regulate business activities. Regulations are drawn on the prevention, investigation and punishment of corruptive activities. The Company has put more efforts in creating a corruption-free environment and enhancing the training on occupational morality so as to raise a sense of clean conduct and integrity among staff members. The Company and its staff members have entered into the Letter of Undertaking for the Clean Practice, and established a rotation system for sensitive positions and whistleblowing procedures, with corruptive behavior punished.

The Company has established the Anti-corruption Management Regulation and the Anti-corruption Agreement, to enhance the integrity management and strength of the marketing team, enhance the self-discipline awareness and legal concepts among staff members, regulate the conduct of the marketing personnel, and restrain the improper practices between the Company and its customers during the course of business. For its risk prevention, better discipline and an enhanced anti-corruption culture, the Company carries out self-censorship, self-examination, self-rectification, mutual evaluation and mutual reporting once or twice a year, before a conclusion and report is made on such campaigns. In addition, the Company has a sales management department to oversee the behavior of the sales and marketing personnel.

The department of audit supervision carries out audit tasks, and performs audit supervision and services according to the requests of the management of the Group and its annual audit schedule. The department, mainly through its audit supervision and services, strengthens the internal management and process control of the Group, regulates its operation of economic activities, consolidate its execution capabilities to tackle and prevent corruption, and guard against potential risks and perils, so that the safety of the capital and assets of the Company are assured and its long and short term goals can be achieved. With regard to this mission, the department of audit supervision mainly carries out audit supervision, including annual audit, and audit on specific projects and resignation of the intermediate and senior management.

The Company holds special lectures for its staff members on the Prevention of Duty-related Crimes in Private Enterprises, and interpreting criminal acts such as duty encroachment, funds misappropriation, bribe acceptance by corporate personnel and infringement of commercial secrets, so as to regulate the behaviors of the staff members and draw their attention towards such issues on a long-term basis.

B8 Community Investment

Bearing in mind its corporate social responsibilities and missions, Fufeng Group endeavors to serve society with a positive attitude and within the Group's ability, and actively participates in charitable events to contribute to the society. Committed to taking effective measures, the Company regularly evaluates the relationship between its business activities and social interests, and spares no efforts in promoting the development and betterment of society along with the corporate development. Meanwhile, the Company also shoulders its social responsibilities as a corporate citizen.

In 2007, the Chairman funded RMB2,000,000 to establish the "Xuechun Sponsorship and Bursary Fund" ("學純獎助學基金"), which was designated to subsidise students from poor families with excellent academic results obtained in the National College Entrance Examination. Currently, more than 1,200 people have benefited from the Fund.

Baoji Fufeng Biotechnologies Co., Ltd., Neimenggu Fufeng Biotechnologies Co., Ltd., Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd. and Xinjiang Fufeng Biotechnologies Co., Ltd. have also brought the care of Fufeng to schools, poor households and Islamic associations, by donating funds and goods.

Besides, the Fertilisers Business Department regularly organises farmers to visit the Company's fertiliser manufacturing workshops and sewage treatment workshops for understanding the fertiliser manufacturing process. The Company regularly holds talks for farmers, illustrating the planting rules and procedures and fertilising methods. Meanwhile, the staff members of the Company also reach out to fields to discuss with farmers regarding the application of fertilisers and issues arising from such application, so as to address the problems encountered during the practical application.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance practices. Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices.

Corporate Governance Code

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and came into full effect on 1 April 2012. During the year of 2016, the Company has complied with the Revised CG Code for the year from 1 January 2016 to 31 December 2016 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 2016. All the Directors have given the Board and the committees of which they are members the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. The Directors will also endeavor to attend future general meetings and develop a balanced understanding of the views of Shareholders.

Board of Directors

The Board comprises (i) four executive Directors, Mr. Li Xuechun, Mr. Li Deheng, Mr. Xu Guohua, and Mr. Li Guangyu; and (ii) three Independent non-executive Directors, Mr. Sun Yu Guo, Mr. Qi Qing Zhong and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Board. Mr. Li Xuechun is the father of Mr. Li Guangyu and the brother-in-law of Mr. Li Deheng. Mr. Wang Longxiang resigned the position of the executive director and the chief executive office of the Group on 25 July 2016. The Group has appointed Mr. Zhao Qiang as the chief executive officer on 9 November 2016.

For details of the Directors' biographical information, please refer to the section headed "Biographies of Directors and Senior Management".

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is collectively responsible for promoting the success and interest of the Group through its leadership and supervision. The principal tasks of the Board are to:

– provide entrepreneurial leadership for the Company with a framework of prudent and effective controls which enables risks to be assessed and managed;

– set the Company's strategic aims, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives and review its management performance; and

– set the Company's values and standards and ensure that its obligations to its Shareholders and others are understood and met.

No event or condition of material uncertainties was found that may cast significant doubt about the Company's ability to continue as a going concern during the Year. The Directors were responsible for the preparation and the true and fair presentation of the financial statements of the Company, in all material respects, in accordance with applicable regulatory requirements.

The Division of Responsibilities Between the Chairman and the Chief Executive Officer (General Manager) (internally designated as General Manager of the Group)

The roles of the Chairman and the Chief Executive Officer (General Manager) (internally designated as General Manager of the Group) should be separated. Mr. Li Xuechun, being the chairman of the Group, is responsible for the orderly conduct and operation of the Board while Mr. Zhao Qiang, being the General Manager of the Group, is responsible for the daily operations of the Group. The division of responsibilities between the Chairman and the General Manager is clearly established.

The main duties of the Chairman include providing leadership for and overseeing the functioning of the Board; formulating overall strategies and policies of the Company; ensuring that all directors of the Board are properly briefed on issues arising at Board meetings and giving each director an opportunity to express his view at board meetings; ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner; ensuring that the Board works effectively and discharges its responsibilities; ensuring that all key and appropriate issues are discussed by the Board in a timely manner; drawing up and approving the agenda for each board meeting taking into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda; taking responsibility for ensuring that good corporate governance practices and procedures are established; encouraging all directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Company; ensuring that appropriate steps are taken to provide effective communication with Shareholders and that views of Shareholders are communicated to the Board as a whole; and facilitating the effective contribution of directors and ensuring constructive relations between executive directors and non-executive directors.

The duties of the General Manager include taking responsibility for the Group's operation and management; implementing decisions and plans approved by the Board; making day-to-day operational and managerial decision; and coordinating overall business operations.

Independent Non-Executive Directors

Independent non-executive Directors have been appointed for a term of two years. They are subject to retirement and re-election in accordance with the Company's Articles of Association.

In accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules, the Board is of the view that all independent non-executive directors are independent and the Company has received an annual confirmation of independence from each of the Independent non-executive Directors of the Company pursuant to the Listing Rules. As the three Independent non-executive Directors, representing over one-third of the Board, constituted a proper balance of power maintaining full and effective control of both the Group and its executive management.

Company Secretary

The Company Secretary is a full time employee of the Company and reports to the Chairman of the Board and the General Manager. He is responsible for advising the Board on governance matters. For the year under review, the Company Secretary has more than 23 years of working experience in finance and accounting including over 10 years experience as company secretary of Hong Kong Listing Company. He confirmed he has taken no less than 15 hours of relevant professional training.

Skills, Knowledge, Experience and Attributes of Directors

All Directors of the Board had served in office during the year. Every Director commits to give sufficient time and attention to the affairs of the Company. The Directors also demonstrate their understanding and commit to high standards of corporate governance. The executive Directors bring their perspectives to the Board through their deep understanding of the Group's business. The Independent non-executive Directors contribute their own skills and experience, understanding of local and global economies, and knowledge of capital markets to the Group's business. The Company is responsible for arranging and funding suitable continuous professional development programmes for all Directors to hone and refresh their knowledge and skills.

Directors' Induction and Continuous Professional Development

Upon appointment to the Board, each newly appointed Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enrol in a wide range of professional development courses or and seminars relating to the Listing Rules, companies ordinance or act and corporate governance practices organised by professional bodies and independent auditors so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written materials to develop and refresh their professional skills; the company secretary also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the year:

Director	Corporate Governance/ Updates on laws, rules and regulations Read materials	 Attend workshops
Executive Directors		
Mr. Li Xuechun	✓	✓
Mr. Li Deheng	✓	✓
Mr. Xu Guohua	✓	✓
Mr. Li Guangyu	✓	✓
Mr. Wang Longxiang (resigned on 25 July 2016)	✓	✓
Mr. Feng Zhenquan (resigned on 19 September 2016)	✓	✓
Independent non-executive Directors		
Mr. Sun Yu Guo	✓	✓
Mr. Qi Qing Zhong	✓	✓
Ms. Zheng Yu	✓	✓

Board Meetings

The chairman is responsible for the leadership of the Board, ensuring the effectiveness of the Board in all aspects of its role, setting agenda for board meetings, and taking into account any matters proposed by other Directors for inclusion in the agenda. Agenda and related board papers are circulated at least 7 days before the time of a board or committee meeting where possible.

The chairman is also responsible for making sure all Directors are properly briefed on issues arising at board meetings. The chairman also ensures that the Directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Company through their initial induction, ongoing participation at board and committee meetings, and through meeting key people at head office and in the divisions.

All Directors have access to the services of the company secretary who regularly updates the Board on governance and regulatory matters. Any Director, who wishes to do so in the furtherance of his or her duties, may seek independent professional advice through the chairman at the Company's expense. The availability of professional advice extends to the Audit, Remuneration and other Committees.

Minutes of Board meetings are taken by the company secretary or the secretary to the Board and, together with any supporting Board papers, are available to all Board members. Board meetings are structured to encourage open and frank discussions to ensure the non-executive Directors provide effective enquiries to each executive Director. When necessary, the Independent non-executive Directors meet privately to discuss matters which are relevant to their specific responsibility.

In furtherance of good corporate governance, the Board has established three committees: Audit Committee, Nomination Committee and Remuneration Committee. All committees have its terms of reference which fulfill the principles set out in the CG Code. The secretary of the Board takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

Directors' and Officers' Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. Throughout the year, no claim had been made against the Directors and the officers of the Company.

Regular Board meetings will be held at least four times a year and the Board will convene other meetings when necessary. Before a Board meeting is convened, relevant documents will be sent to the Directors for their review pursuant to the Listing Rules and the Code. For the year ended 31 December 2016, eight regular Board meetings were held. Individual attendance of each director at the Board meeting during 2016 is set out below:

Attendance/Number of Board Meetings in 2016

Director	Attendance/ Number of Board Meetings
Executive Directors	
Mr. Li Xuechun *(Chairman)*	8/8
Mr. Li Deheng	8/8
Mr. Xu Guohua	7/8
Mr. Li Guangyu	7/8
Mr. Wang Longxiang (resigned on 25 July 2016)	3/8
Mr. Feng Zhenquan (resigned on 19 September 2016)	4/8
Independent non-executive Directors	
Mr. Sun Yu Guo	8/8
Ms. Zheng Yu	8/8
Mr. Qi Qing Zhong	7/8

Model Code on Securities Transactions

The Company has adopted the Model Code. Having made specific enquiry of all Directors, the Directors have complied with the Model Code since the Listing Date.

Accountability and Auditor's Remuneration

The Directors acknowledge their responsibility for preparation of consolidated financial statements of the Group. This responsibility has also been mentioned in the independent auditor's report on page 65.

The Board had conducted a review on the system of risk management and internal control of the Group and considers that the system of risk management and internal control is effectively operated.

The professional fee payable to the auditors of the Group in respect of the audit and non-audit services provided by the auditors of the Group is as follows:

Type of services	**Amount** *(RMB'000)*
Audit services	4,357
Non-audit services	1,980
	6,337

Non-audit services mainly represented the professional fee payable of the Group for the service related to the projects of internal control review.

Audit Committee

The Audit Committee, established with written terms of reference in compliance with the Code, comprises three Independent non-executive Directors, Mr. Sun Yu Guo, Mr. Qi Qing Zhong and Ms. Zheng Yu. Mr. Sun Yu Guo is the chairman of the Audit Committee.

The principal functions of the Audit Committee are to review the Group's audit, interim and annual accounts of the Group and the system of risk management and internal control of the Group.

The Audit Committee meetings will be held at least twice a year. For year ended of 31 December 2016, two Audit Committee meetings were held with Mr. Sun Yu Guo, Mr.Qi Qing Zhong and Ms. Zheng Yu attended all the meetings.

The purpose of the meetings was to review the Group's results for the year 2015, the interim results for the year 2016 as well as discussing the risk management assessment and the internal control review and the audit of the Group. The Group's 2015 annual report and 2016 interim report have been reviewed by the Audit Committee, which was of the opinion that such reports were prepared in accordance with the applicable accounting standards and requirements.

Risk Management and Internal Control

The Board acknowledges that an effective system of internal control and risk management practices are essential in ensuring good corporate governance and pursuing the achievement of the strategic goals of the Group. The Board also acknowledges that it is the Board's responsibility to ensure that the Group maintains sound and effective internal controls to safeguard the assets of the Group at all times, it has conducted a review of the risk management and internal control systems during the year under review.

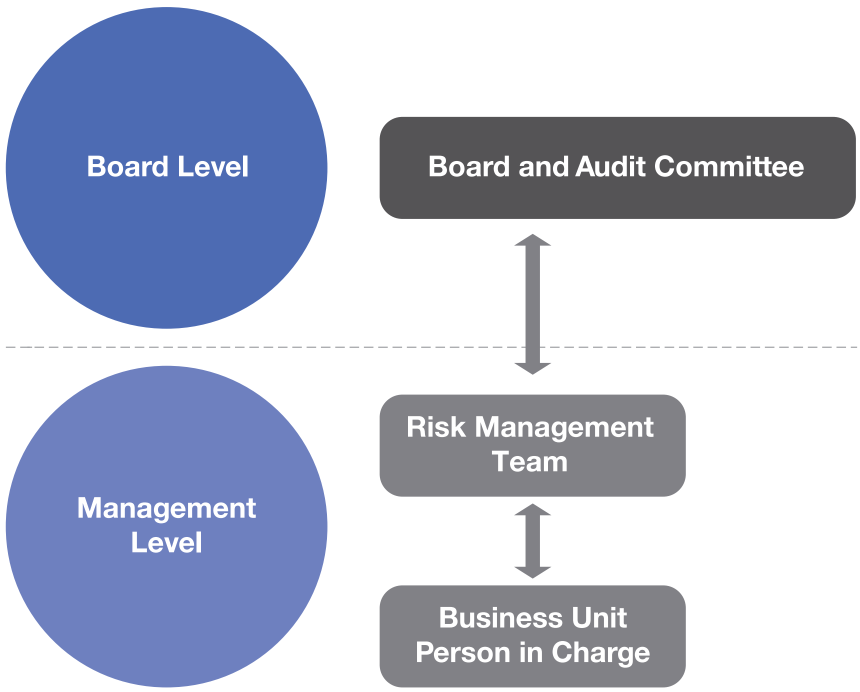
The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance Report

Risk management and internal control framework

Risk Management

In order to continuously improve the risk management and internal control systems, as well as to enhance the level of management and risk prevention capabilities, the Company has developed a risk management manual ("Risk Management Manual"), established risk management strategy and structure, as well as defined the measures for risk assessment and risk management reporting procedures during the year under review. The organisational structure for risk management is set out as follows:



The Board and Audit Committee oversee the structure and performance of the risk management functions, and assess the effectiveness of the underlying risk management system.

The Risk Management Team of the Group ("Risk Management Team") comprises an executive Director and management personnel from the Group. The team aims to promote the awareness of risk management in daily operations. The Risk Management Team is responsible for coordinating and conducting risk assessments in accordance with the Risk Management Manual.

Management of business units work together with the Risk Management Team to perform risk assessment at operational level, and is responsible for monitoring and managing the risks identified in activities and operations. Risk Management Team is responsible for reporting risk management status to the Board and Audit Committee.

The four key steps in the risk management process are:

- **Risk identification and assessment** – identify the key risks of the Group and analyse the risk by considering the possibility of occurrence and the impact to the Group;

- **Risk handling** – adopt an appropriate risk management strategy (i.e. risk response) for each key risk;

- **Risk monitoring** – apply monitoring mechanism to ensure the risk response are operated effectively;
- **Risk reporting** – summarise the result of risk assessment and report to Risk Management Team.

In the risk management process, the top risks within the Group are identified and assessed; and the respective risk management measures as well as the corresponding mitigating controls are discussed, agreed and implemented by the management. Risk assessment results are reported by Risk Management Team to the Board and Audit Committee annually.

Internal Control

The Company has established internal audit function and regularly carries out reviews on the effectiveness of the internal control in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

In addition, the Board and the Audit Committee have also appointed professional accounting firms to take turns to review, on behalf of the Board and the Audit Committee, the effectiveness of the internal control system for all the principal business of the Group. The Audit Committee formulates and approves the scope of review for the professional accounting firms, who have already reported to the Board and the Audit Committee on the main results of internal control review. According to the results, there is room for improvement, but no material issues. The Group will provide proper follow-up on all the recommendations by the professional accounting firms, to ensure the execution of such recommendations within a reasonable timeframe. The Board and the Audit Committee are of the view that the main part of the Group's internal control system has been implemented on a reasonable basis.

Review the effectiveness of the risk management and internal control systems

The Risk Management Team assisted by professional accounting firms has made the annual risk assessment during the year. It is reported to Audit committee. Key risks are identified and their responsive mitigating controls are documented in the risk registers and reported to the Board by the Audit committee and Risk Management Team.

For the year ended 31 December 2016, the Board has conducted the review of risk management and internal control system functions of the Group and considered they are effective and adequate. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. No significant areas of concern that may affect the Company to achieve strategic goals have been identified.

During the review of risk management and internal control systems of the Group, the Board has assessed the adequacy of resources, staff qualifications, experience, training programmes and budget of the Group's accounting and financial reporting function and considered that these resources are properly allocated.

Disclosure of inside information

The Company has established policies and internal controls for the handling and dissemination of inside information to ensure that disclosures are made and/or announcements are published on a timely basis in accordance with the applicable laws and regulations. The Company has implemented procedures for responding to external enquiries about the Group's affairs and has in place a strict prohibition on unauthorised use of inside information.

Remuneration Committee

The Remuneration Committee established in compliance with the Code, comprises an executive Director, Mr. Li Xuechun and three Independent non-executive Directors, Mr. Sun Yu Guo, Mr. Qi Qing Zhong and Ms. Zheng Yu. Mr. Sun Yu Guo is the chairman of the Remuneration Committee.

The principal functions of the Remuneration Committee are to review, develop and approve the Group's policy on remuneration of all Directors and senior management for the purpose of retaining and attracting talent to manage the Group effectively. The Directors and their associates do not participate in the decisions in relation to their own remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions else where in the Group and desirability of performance-based remuneration so as to align management incentives with Shareholders' interests.

The Remuneration Committee meetings will be held at least once a year. For year ended of 31 December 2016, one Remuneration Committee meeting was held. All Remuneration committee members attended the meeting. The meeting of the Remuneration committee was duly held for reviewing and determination of the annual remuneration packages of the executive Directors. The Remuneration committee consults the chairman and general manager about its proposals relating to the remuneration of other executive Directors.

Nomination Committee

The Company has established a Nomination Committee on 20 March 2012 in compliance with the Code. The Nomination Committee is responsible for the appointing of new directors either to fill casual vacancies or as additional Board members. The Nomination Committee comprises one executive Director, Mr. Li Xuechun and three Independent non-executive Directors, Mr. Sun Yu Guo, Mr. Qi Qing Zhong and Ms. Zheng Yu. Mr. Li Xuechun is the chairman of the Nomination Committee. For year ended of 31 December 2016, no Nomination Committee meetings were held.

Shareholders' Rights

The Company recognises the importance of good communications with the Shareholders and the investment community and also recognises the value of providing current and relevant information to Shareholders and the investors. The Board has established a Shareholders' communication policy setting out the principles of the Company in relation to the Shareholders' communication, with the objective of ensuring the Shareholders and investors are provided with ready, equal and timely access to current and relevant information about the Company.

The Company maintains on-going dialogue with Shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered Shareholders are notified by post for the Shareholders' meetings. Notice of meeting contains agenda, proposed resolutions and postal voting form.

All registered Shareholders are entitled to attend annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Annual and interim reports offer comprehensive operational and financial performance information to Shareholders and the annual general meeting of the Company provides a forum for Shareholders to exchange views directly with the Board, which together help enhance and facilitate communication with Shareholders. Shareholders who are unable to attend a general meeting may complete and return to the Company's Share Registrar the proxy form enclosed with notice of meeting to give proxy to their representatives, another Shareholder or chairman of the meetings.

Investor Relations and Communications

The Company recognises the importance of efficient and effective communications with the investor community. Briefings and meetings with institutional investors are conducted regularly to provide them with up-to-date and comprehensive information about the Group's development. Besides, the Company facilitates the initiation and coverage of the Company published by research analysts of well-received investment banks which are instrumental in providing investors with independent and professional evaluations of the Company. Moreover, the Group participates in different international forums and overseas non-deal roadshows to elaborate on the Group's business development plans to global investors. Furthermore, the Company arranges site visits for investors to our main plants in China. Last but not least, the Company has established a function dedicated to investor relations and engaged an external public relations company to take care of investor relations matters. The Company also maintains a website (http://www.fufeng-group.com) which renders Shareholders, investors and the general public direct access to the information of the Company on a timely basis.

In order to enable Shareholders to exercise their rights in an informed manner, and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders may at any time send their enquiries and concerns to the Company via the Company's website at www.fufeng-group.com. Shareholders may also make enquiries with the Board at the general meetings of the Company.

2016	Investor Relations Events and Activities
March	2015 Annual Results Roadshow, Hong Kong, Singapore
April	Essence International & Zhixin Caijing Hong Kong Stock Connect Strategic Forum, Shanghai Reverse Roadshow by J.P. Morgan, New York
May	Reverse Roadshow by Daiwa, Tokyo
June	J.P. Morgan Global China Summit 2016, Beijing
August	2016 Interim Results Roadshow, Hong Kong, Singapore Reverse Roadshow by CICC, Shanghai
November	CICC Hong Kong Stock Investment Forum, Shanghai Reverse Roadshow by CICC, Beijing
December	HTSC 2016 Investment Forum, Shenzhen

Directors' Report

The Board has the pleasure in presenting the report and the audited financial statements of the Group for the year ended 31 December 2016.

Principal Activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in Note 12 to the consolidated financial statements.

Result and Appropriations

Results of the Group for the year ended 31 December 2016 are set out under the consolidated income statement on page 69.

Interim dividend declared and paid after the interim period of HK3.8 cents (equivalent to RMB3.26 cents (2015: HK4.5 cents (equivalent to RMB3.72 cents) per Share totaling HKD80,814,000 (equivalent to RMB95,701,000) The Board recommends the payment of a final dividend of HK7.8 cents per Share (equivalent to RMB6.94 cents) per Share totaling HKD165,881,000 (equivalent to RMB147,651,000) for the year ended 31 December 2016.

Material Acquisitions or Disposal of Subsidiaries and Associated Companies

On 22 August 2016, a wholly owned subsidiary of the Group, Shandong Fufeng Fermentation Co, Ltd, entered into a sale and purchase agreement to sell its two wholly-owned companies, Junan Beifang Properties Company Limited and Junan Beibu Properties Company Limited, for a total consideration of approximately RMB164.1 million. Junan Beifang Properties Company Limited and Junan Beibu Properties Company Limited are two investment holding companies and held parcels of land located at Longshan Road (Northern section), Junan County, Shandong Province, PRC* (莒南縣縣城隆山路北段). The aggregate site area of the land is approximately 148,748.6 square metres, and the land is designated for commercial use.

Except for the above, the Group had no other material acquisitions or disposal of subsidiaries or associated companies for the year ended 31 December 2016.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Notes 26, 27 and 37 to the financial statements.

Property, Plant and Equipment

Details of the movement in property, plant and equipment of the Group and of the Company are set out in Note 17 to the financial statements.

Share Capital

Details of the movement in share capital of the Company are set out in Note 24 to the financial statements.

Distributable Reserves

As at 31 December 2016, the Company's reserves available for distribution to the Shareholders amounted to RMB214,991,000 (2015: RMB333,024,000).

Directors

As at the date of this report, the Board comprised:

Executive Directors

Mr. Li Xuechun *(Chairman)*
Mr. Li Deheng
Mr. Xu Guohua
Mr. Li Guangyu
Mr. Wang Longxiang (resigned on 25 July 2016)
Mr. Feng Zhenquan (resigned on 19 September 2016)

Independent Non-executive Directors

Mr. Sun Yu Guo
Mr. Qi Qing Zhong
Ms. Zheng Yu

Biographical details of the directors of the Group are set out in the section headed "Biographies of Directors and Senior Management".

According to Article 87 of the articles of association of the Company, Mr. Li Deheng and Mr. Qi Qing Zhong should retire by rotation and, being eligible, consider to offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Director, Mr. Li Deheng, proposed for re-election at the forthcoming annual general meeting has a service contract with the Company for an initial term of three years commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day following the expiry of the then current term unless and until (i) terminated by either party there to giving not less than three months' prior written notice with the last day of the notice falling on the last day of the initial term or any time thereafter; or (ii) the Director not being re-elected as a Director or being removed by shareholders at general meeting of the Company in accordance with its articles of association.

The Independent non-executive Director, Mr. Qi Qing Zhong, proposed for re-election at the forthcoming annual general meeting has renewed into a service contract with the Company for two years commencing form 1 November 2016 and is subject to the requirement on rotation, removal, vacation or termination of office according to the articles of association of the Company, the relevant laws and the Listing Rules.

As at 31 December 2016, there was no service contract which was not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any Director proposed for re-election at the forthcoming annual general meeting.

No contracts of significance in relation to the Group's business to which the Company or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

Business Review

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

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

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

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

Directors' Report

MSG industry consolidation gradually aided the improvement in the business environment, coupled with a decrease in the price of corn kernels and the improvement of efficiency of production by means of our production technology enhancement and expansion of production capacity during 2016, which led to a decrease in production costs and increase in the gross profit margin of our key products. The Group was able to record a significant increase in its overall gross profit and net profit during 2016 compared to the corresponding year of 2015. Even though overall revenue of the Group remained fairly stable during 2016 compared to 2015, the Group was able to rely on new 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 providers of threonine and high-end amino acid products.

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

In addition, the Group has continuously invested in energy-saving equipment. Its production facilities, with low carbon emissions, aim to minimise the impact of our business on the environment. The Company has also placed great emphasis on green production. We continuously achieved energy-saving and emission reduction while the clean production technology was enhanced. Xinjiang Fufeng Biotechnologies Co., Ltd. was nominated by the Economic and Informatization Commission of Xinjiang Uygur Autonomous Region as one of the fourth batch of pilot enterprises for recycling economy in the industrial economic field in 2016. The Group reduced the environmental impact of waste water, exhaust, greenhouse gases, and hazardous and non-hazardous wastes generated during the course of production and operation. During the year, Baoji Fufeng Biotechnologies Co., Ltd. undertook technical upgrading of the existing flue gas treatment facilities to conform to the Group's long-term strategy. In addition, the company also extracts feed and fertiliser processing from wastewater through resources recycling. The biogas generated during the course of waste water treatment is collected and used for production.

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

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

Compliance With Relevant Laws and Regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with relevant requirements could lead to adverse impact on business operation and financial position of the Group. During the year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Relationship With Suppliers, Customers and Other Stakeholders

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with suppliers and customers. During the Year, there was no material and significant dispute between the Group and its suppliers and/or customers.

Directors' Interests in Shares

The interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as at 31 December 2016, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position

Name of Director	Name of company	Capacity	Number and class of securities	Percentage of interests to total issued share capital (approximate)
Li Xuechun	The Company	Interests of controlled corporation *(Note 1)*	991,638,461 Shares	46.63%
Li Deheng	The Company	Interests of controlled corporation *(Note 2)*	33,320,160 Shares	1.57%
Xu Guohua	The Company	Interests of controlled corporation *(Note 3)*	28,320,160 Shares	1.33%
Sun Yu Guo	The Company	Beneficial interest *(Note 4)*	300,000 Shares	0.01%
Zheng Yu	The Company	Beneficial interest *(Note 5)*	300,000 Shares	0.01%
Qi Qing Zhong	The Company	Beneficial interest *(Note 6)*	300,000 Shares	0.01%

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.

2. The interest in these Shares is held by Empire Spring Investments Limited, the entire issued shares capital of which is wholly and beneficially owned by Mr. Li Deheng, an executive director of the Company. Accordingly, Mr Li Deheng is deemed to be interested in all Shares held by Empire Spring Investments Limited under the SFO.

3. The interest in these Shares is held by Best Range Investments Limited, the entire issued shares capital of which is wholly and beneficially owned by Mr. Xu Guohua, an executive director of the Company. Accordingly, Mr Xu Guohua is deemed to be interested in all Shares held by Best Range Investments Limited under the SFO.

4. These shares represented the Shares which might be allotted and issued to Mr. Sun Yu Guo, an Independent non-executive Director who was appointed on 23 November 2015, upon the exercise in full of the option granted to him.

5. These shares represented the Shares which might be allotted and issued to Ms. Zheng Yu, an Independent non-executive Director who was appointed on 31 December 2012, upon the exercise in full of the option granted to her.

6. These shares represented the Shares which might be allotted and issued to Mr. Qi Qing Zhong, an Independent non-executive Director who was appointed on 1 November 2014, upon the exercise in full of the option granted to him.

Save as disclosed above, for the year ended 31 December 2016, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests of Person Holding 5% or More Interests

As at 31 December 2016, the interests and short positions of the persons, other than a Director or chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position

Name	Name of Group member	Capacity	Class and number of securities	Percentage of interests to total issued share capital (approximate)
Motivator Enterprises Limited *(Note 1)*	The Company	Beneficial interests	991,638,461 Shares	46.63%
Shi Guiling *(Note 2)*	The Company	Interests of spouse	991,638,461 Shares	46.63%
Treetop Asset Management SA	The Company	Beneficial interests	269,198,850 Shares	12.66%

Notes:

1. The interest in these Shares is held by Motivator Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Li Xuechun, an executive Director and the chairman of the Company. Accordingly, Mr. Li Xuechun is deemed to be interested in all Shares held by Motivator Enterprises Limited under the SFO.

2. Ms. Shi Guiling is the spouse of Mr. Li Xuechun. Accordingly, she is also deemed to be interested in the 963,342,461 Shares held by Motivator Enterprises Limited, which in turn is also deemed to be interested by Mr. Li Xuechun under the SFO.

Save as disclosed above, for the year ended 31 December 2016, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

Arrangements to Purchase Shares or Debentures

Save as disclosed in the below section of share options regarding, no time during the year was the Company, or any of its subsidiaries or the Company's holding Company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Share Option Scheme

On 10 January 2007, the Shareholders approved the adoption of the Post-IPO Share Option Scheme (the "Share Option Scheme"). A summary of the principal terms of the Share Option Scheme, as disclosed in accordance with the Listing Rules, are as follow:

The purpose of the Share Option Scheme is to enable the Group to grant the share options to the eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity.

Under the Share Option Scheme, the Directors may grant share options to the following persons or entities (the "Eligible Participants") to subscribe for shares in accordance with the provisions of the Share Option Scheme and the Listing Rules:

(a) any employee (whether full-time or part-time and including any executive Director but not any non-executive Director) of the Group or any entity in which any member of the Group holds an equity interest (the "Invested Entity");

(b) any non-executive Director (including Independent non-executive Directors) of the Group or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity; and

(e) any consultant, adviser, manager, officer or entity that provide research, development or other technological support to the Group or any Invested Entity.

The total number of shares issued and which may fall to be issued upon exercise of the share options and the share options granted under any other share option scheme of the Group (including both exercised or outstanding share options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

In respect of any particular option, the Directors shall be entitled at any time within 10 years commencing on 8 February 2007 to make an offer for the grant of a share option. For any option granted under the Share Option Scheme, the maximum period as the Directors may determine shall not be later than 10 years. There is no minimum period required under the Share Option Scheme for holding of the share options before it can be exercised. As at 31 December 2016, the Share Option Scheme has a remaining life of up to 7 February 2017.

An offer of the grant of the option shall be regarded as having been accepted when the duplicate of the letter by the grantee together with a remittance in favour of the Company of HKD1.00 by way of consideration for the grant thereof is received by the Company.

The exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

Directors' Report

Pursuant to a resolution in writing passed by all shareholders on 10 January 2007, the scheme mandate limit for the Share Option Scheme allow the Company to issue a maximum of 160,000,000 share options under the Share Option Scheme, representing 7.52% of the issued share capital of 2,126,684,633 Shares of the Company as at 31 December 2016.

As at 31 December 2016, the outstanding number of the shares available for issue under the Share Option Scheme is 136,403,000, representing 6.41% of the issued share capital of 2,126,684,633 Shares of the Company as at 31 December 2016.

The Company granted options to subscribe for an aggregate of 16,600,000 Shares, 14,700,000 Shares and 300,000 Shares on 9 April 2015, 9 November 2016 and 30 December 2016 respectively to Directors and eligible employees. Details of the share options granted and outstanding for the period ended 31 December 2016, are as follows:

		Number of share options							
Director and eligible employees	**Note**	**At 1 January 2016**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**At 31 December 2016**	**Date of grant**	**Revised/ Adjusted exercise price (HKD)**	**Exercise period**
Eligible employees	A	16,600,000	–	–	(7,000,000)	9,600,000	9/4/2015	5.69	9/4/2016 – 8/4/2020
Sun Yu Guo *(Independent non-executive Director)*	B	–	300,000	–	–	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Zheng Yu *(Independent non-executive Director)*	B	–	300,000	–	–	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Qi Qingzhong *(Independent non-executive Director)*	B	–	300,000	–	–	300,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	B	–	13,800,000	–	(800,000)	13,000,000	9/11/2016	3.50	9/11/2018 – 8/11/2022
Eligible employees	C	–	300,000	–	–	300,000	30/12/2016	3.82	30/12/2018 – 29/12/2022
		16,600,000	15,000,000	–	(7,800,000)	23,800,000			

A) The total fair value, which was determined by an independent qualified appraiser using Binominal Option Pricing Model, of the options granted as at the grant dates is approximately RMB30,216,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 April 2015
Average share price	HKD4.89
Exercise price	HKD5.69
Expected life of options	5.0 years
Expected volatility	43.11%
Expected dividend yield	2.26%
Risk free rate	0.99%

B) The total fair value, which was determined by an independent qualified appraiser using Binominal Option Pricing Model, of the options granted as at the grant dates is approximately RMB17,515,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 November 2016
Average share price	HKD3.45
Exercise price	HKD3.50
Expected life of options	6.0 years
Expected volatility	44.79%
Expected dividend yield	2.15%
Risk free rate	1.39%

C) The total fair value, which was determined by an independent qualified appraiser using Binominal Option Pricing Model, of the options granted as at the grant dates is approximately RMB414,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 30 December 2016
Average share price	HKD3.81
Exercise price	HKD3.82
Expected life of options	6.0 years
Expected volatility	44.52%
Expected dividend yield	2.18%
Risk free rate	1.70%

Major Customers and Suppliers

The aggregate sales attributable to the Group's largest customer and five largest customers taken together were less than 30% of the total sales for the year 2016.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year 2016.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Sufficiency of Public Float

As at 21 March 2017, being the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

Purchase, Redemption or Sales of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the articles of the association of the Company and the Companies Law of the Cayman Islands.

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 has complied with the Code Provisions as set out in the Code since then.

Subsequent Events

Details of the significant events occurring after the balance sheet date are set out in Note 36 to the consolidated financial statements.

Auditor

A resolution to reappoint PricewaterhouseCoopers as independent auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Xuechun
Chairman

21 March 2017

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Fufeng Group Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited

The consolidated financial statements of Fufeng Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 69 to 150, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Independent Auditor's Report *(Continued)*

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. We considered Revenue Recognition as a significant matter that was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *Refer to note 2.25 and note 5 to the Group's consolidated financial statements.* Revenue from sales of goods amounted to RMB11,803 million for the year ended 31 December 2016. Revenue is recognised when the amount and the related costs are reliably measured, and the risks and rewards of the underlying products have been transferred to the customers. We focused on this area due to the huge volume of revenue transactions generated from sales of numerous kinds of products to a large number of customers that occurred in many different locations. In relation to export sales, it usually takes more time for title of goods to pass over to customers than domestic sales. There is potential risk of misstatement in relation to whether revenue is recognised in the correct reporting periods.	We evaluated and validated management's key controls that are present in the Group's sales process from end-to-end, from customer order's approval, sales recording, all the way through to reconciliations with cash receipts and customers' records. We conducted testing of sales revenue recorded covering different products, locations and customers, by examining the relevant supporting documents including customer orders, goods delivery notes and customs declaration notices. In addition, we confirmed certain customers' receivable balances at the balance sheet date and their transaction amounts during the year, and tested the reconciliations between the book amounts and confirmed amounts if these were different. The items tested were selected on a sample basis by considering the amount, nature and characteristics of those customers. Our work also included testing of a sample of manual revenue-related journal entries by inquiring management of the nature of these journals and inspection of the supporting documents. Furthermore, one of our focused audit efforts was testing export sales transactions that took place shortly before and after the balance sheet date, by reconciling recognised revenue with the goods delivery notes and customs declaration notices to assess whether revenue was recognised in the correct reporting periods. We found the Group's sales transactions being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

Independent Auditor's Report *(Continued)*

Other Information

The directors of the Company are responsible for the other information as set out in the Company's 2016 Annual Report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report *(Continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

		Years ended 31 December	
	Note	**2016** **RMB'000**	2015 RMB'000
Revenue	5	**11,803,131**	11,225,722
Cost of sales	8	**(9,396,758)**	(9,423,231)
Gross profit		**2,406,373**	1,802,491
Selling and marketing expenses	8	**(816,603)**	(708,931)
Administrative expenses	8	**(516,315)**	(512,997)
Other operating expenses	8	**(29,252)**	(47,375)
Other income	6	**363,855**	440,503
Other gains – net	7	**102,361**	59,783
Operating profit		**1,510,419**	1,033,474
Finance income	11	**9,466**	14,412
Finance costs	11	**(218,634)**	(368,112)
Finance costs – net	11	**(209,168)**	(353,700)
Share of profit of investments accounted for using the equity method	12b	**647**	–
Profit before income tax		**1,301,898**	679,774
Income tax expense	13	**(209,386)**	(163,513)
Profit for the year and attributable to the Shareholders		**1,092,512**	516,261
Earnings per share for profit attributable to the Shareholders during the year			
(expressed in RMB cents per share)			
– basic	14	**51.37**	24.36
– diluted	14	**47.79**	24.14

The notes on pages 75 to 150 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Years ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**1,092,512**	516,261
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**1,092,512**	516,261
Total comprehensive income attributable to the Shareholders	**1,092,512**	516,261

The notes on pages 75 to 150 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Leasehold land payments	16	**1,413,942**	1,510,060
Property, plant and equipment	17	**7,858,775**	7,566,778
Intangible assets	18	**9,108**	1,051
Investments accounted for using the equity method	12b	**30,647**	–
Deferred income tax assets	31	**184,396**	143,072
Long-term bank deposits	22	**20,100**	–
		9,516,968	9,220,961
Current assets			
Inventories	21	**2,481,911**	2,191,849
Trade and other receivables	20	**1,035,076**	1,213,787
Cash and bank balances	22	**1,422,147**	1,019,069
		4,939,134	4,424,705
Assets of disposal group classified as held for sale	23	**–**	204,512
		4,939,134	4,629,217
Total assets		**14,456,102**	13,850,178
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital	24	**207,222**	207,222
Share premium	24	**462,639**	555,157
Other reserves	27	**319,980**	227,655
Retained earnings	26	**5,826,023**	4,817,025
Total equity		**6,815,864**	5,807,059
LIABILITIES			
Non-current liabilities			
Deferred income	30	**707,501**	752,287
Borrowings	29	**1,923,185**	1,992,221
Deferred income tax liabilities	31	**16,650**	16,650
		2,647,336	2,761,158

Consolidated Balance Sheet *(Continued)*

As at 31 December 2016

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Current liabilities			
Trade, other payables and accruals	*28*	**3,721,615**	3,311,193
Current income tax liabilities		**94,494**	68,377
Borrowings	*29*	**1,176,793**	1,845,920
		4,992,902	5,225,490
Liabilities of disposal group classified as held for sale	*23*	**–**	56,471
		4,992,902	5,281,961
Total liabilities		**7,640,238**	8,043,119
Total equity and liabilities		**14,456,102**	13,850,178

The notes on pages 75 to 150 are an integral part of these consolidated financial statements.

The financial statements on pages 69 to 150 were approved by the Board of Directors on 21 March 2017 and were signed on its behalf.

Li Xuechun
Director

Li Deheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		Attributable to the Shareholders				
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2015		205,243	638,986	190,377	4,334,460	5,369,066
Comprehensive Income						
Profit for the year	*26*	–	–	–	516,261	516,261
Total comprehensive income		–	–	–	516,261	516,261
Transactions with owners						
Profit appropriation	*26, 27*	–	–	46,154	(46,154)	–
Employee share option schemes:						
– Proceeds from shares issued	*24, 27*	688	14,656	(4,029)	–	11,315
– Value of employee services	*25, 27*	–	–	9,317	–	9,317
– Expiry of share options issued	*26, 27*	–	–	(10,597)	10,597	–
Conversion of convertible bonds	*24, 27*	1,347	55,980	(3,567)	–	53,760
Repurchase of shares of the Company	*24, 26*	(56)	(1,805)	–	1,861	–
Dividends	*24*	–	(152,660)	–	–	(152,660)
Total transactions with owners		1,979	(83,829)	37,278	(33,696)	(78,268)
Balance at 31 December 2015		207,222	555,157	227,655	4,817,025	5,807,059
Comprehensive Income						
Profit for the year	*26*	–	–	–	1,092,512	1,092,512
Total comprehensive income		–	–	–	1,092,512	1,092,512
Transactions with owners						
Profit appropriation	*26, 27*	–	–	86,924	(86,924)	–
Employee share option schemes:						
– Value of employee services	*25, 27*	–	–	8,811	–	8,811
– Expiry of share options issued	*26, 27*	–	–	(3,410)	3,410	–
Dividends	*24*	–	(92,518)	–	–	(92,518)
Total transactions with owners		–	(92,518)	92,325	(83,514)	(83,707)
Balance at 31 December 2016		207,222	462,639	319,980	5,826,023	6,815,864

The notes on pages 75 to 150 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Note	Years ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	*33(a)*	**2,477,975**	1,604,195
Interest paid		**(166,930)**	(292,245)
Income tax paid		**(221,104)**	(163,312)
Net cash flows generated from operating activities		**2,089,941**	1,148,638
Cash flows from investing activities			
Investment in an associate		**(30,000)**	–
Payments for leasehold land	*16*	**(80,726)**	(83,246)
Purchases of property, plant and equipment		**(1,311,614)**	(829,830)
Purchases of intangible assets	*18*	**(6,445)**	(2,642)
Urban planning related government grants received		**–**	227,862
Proceeds from disposal of property, plant and equipment	*33(c)*	**1,652**	77
Proceeds from disposal of subsidiaries, net of cash	*33(b)*	**164,133**	298,750
Assets-related government grants received		**122,759**	213,851
Interest received	*11*	**9,466**	14,412
Proceeds from term deposits		**149,000**	14,453
Placement of term deposits		**(2,000)**	(169,100)
Net cash used in investing activities		**(983,775)**	(315,413)
Cash flows from financing activities			
Net proceeds from shares issued		**–**	11,315
Proceeds from issuance of corporate bonds	*29*	**–**	986,000
Dividends paid to the Company's shareholders		**(92,518)**	(152,660)
Proceeds from bank borrowings		**1,277,096**	3,075,887
Repayments of bank borrowings		**(1,507,938)**	(2,911,180)
Redemption of senior notes		**–**	(1,849,071)
Redemption of convertible bonds	*29*	**–**	(13,200)
Repayments of medium-term notes		**(600,000)**	–
Net cash used in financing activities		**(923,360)**	(852,909)
Net increase/(decrease) in cash and cash equivalents		**182,806**	(19,684)
Cash and cash equivalents at beginning of the year	*22*	**741,287**	796,564
Transferred from/(to) disposal group classified as held for sale		**35,593**	(35,593)
Cash and cash equivalents at end of the year	*22*	**959,686**	741,287

The notes on pages 75 to 150 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. General Information

Fufeng Group Limited (the "Company") and its subsidiaries (together, the "Group") manufacture and sell fermentation-based food additive, biochemical products and starch-based products. The Group has manufacturing plants in Shandong Province, Shaanxi Province, Jiangsu Province, Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region of the People's Republic of China (the "PRC") and sells mainly to customers located in the PRC.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company has its shares listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 21 March 2017.

2. 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.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures

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

The following new amendments of HKFRSs which are relevant to the Group's operations are effective for the first time for the financial year beginning on 1 January 2016.

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

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

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

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

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

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

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

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

(b) New standards and amendments of HKFRSs which have been issued and are relevant to the Group's operations and effective for the financial year beginning after 1 January 2016 and have not been early adopted by the Group

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

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

- HKFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control.

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

(b) New standards and amendments of HKFRSs which have been issued and are relevant to the Group's operations and effective for the financial year beginning after 1 January 2016 and have not been early adopted by the Group *(Continued)*

- HKFRS 9 'Financial Instruments' replaces the whole of HKAS 39.

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

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

  HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more 'rule-based' approach of HKAS 39. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures (Continued)

(b) New standards and amendments of HKFRSs which have been issued and are relevant to the Group's operations and effective for the financial year beginning after 1 January 2016 and have not been early adopted by the Group *(Continued)*

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

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

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

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

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

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

2.2 Subsidiaries *(Continued)*

(b) Business combinations (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(d) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

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

2.3 Associates

An associate is an entity over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition comprehensive income is recognised in consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

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

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company and its subsidiaries' functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within "Finance costs – net". All other foreign exchange gains and losses are presented in the consolidated income statement within "Other gains – net".

2.6 Leasehold land payments

Leasehold land payments represent up-front prepayments made for the usage of leasehold land in the PRC less accumulated amortisation and any impairment losses.

Amortisation on leasehold land payments is calculated using the straight-line method to allocate their costs over their estimated useful lives of 40 to 70 years.

2.7 Property, plant and equipment

Property, plant and equipment, comprising plant and building, machinery, furniture and fixtures and vehicles, are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress includes plant under construction and machinery under installation and testing and which, upon completion, management intends to hold as property, plant and equipment. They are carried at cost which includes cost of construction, plant and equipment and other direct cost plus borrowing costs that used to finance these projects during the construction period less accumulated impairment losses if any. No depreciation is provided for construction in progress. The relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses when they become available for their intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

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

2.7 Property, plant and equipment *(Continued)*

Depreciation on property, plant and equipment, except for construction in progress, is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Plant and building	15~20 years
Machinery	8~10 years
Furniture and fixtures	3~8 years
Vehicles	5~8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in the consolidated income statement under "Other gains – net".

2.8 Intangible assets

(a) Patents

Separately acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated beneficial period of 20 years.

(b) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed 10 years.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

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

2.9 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Disposal groups held for sale

Disposal groups are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The disposal groups assets (except for certain assets as explained below), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

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

2.11 Financial Assets

(a) Classification

The Group classifies its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "Trade and other receivables" (Note 2.13), "Cash and bank balances" (Note 2.14) and "Long-term bank deposits" in the balance sheet.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.13.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

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

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.11 for further information about the Group's accounting for trade receivables.

The Group assesses at the end of each reporting period whether there are objective evidence that trade and other receivables are impaired. Impairment losses of trade and other receivables are incurred only if there are objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of trade and other receivables that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement within "Administrative expenses".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.14 Cash and bank balances

Cash and bank balances includes cash and cash equivalents, term deposits over 3 months and within one year and restricted bank deposits.

In the consolidated statement of cash flow, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

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

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

When convertible bonds are early redeemed or repurchased in which the original conversion privileges are unchanged, the consideration paid and any transaction costs for the repurchase or redemption are allocated to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the company when the convertible instrument was issued. The amount of gain or loss related to the liability component is recognised in "Other gains – net". The amount of consideration related to the equity component is recognised in equity.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

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

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

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

2.20 Current and deferred income tax *(Continued)*

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to incomes taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits – pension

The companies within the Group operate various pension schemes. In accordance with the rules and regulations in the PRC, the employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by the various local PRC governments. These local PRC governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's operating entities in Hong Kong participate in a mandatory provident fund ("MPF scheme") for its employees in Hong Kong. Both the entities and the employees are required to contribute 5% of the salaries of the employees, up to a maximum of HKD1,500 per head per month. The assets of MPF scheme are held separately from those of the entities in an independent administrated fund.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans and MPF Scheme are recognised as employee benefit expense when incurred.

2.22 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates three equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, including the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

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

2.22 Share-based payments (continued)

(a) Equity-settled share-based payment transactions (continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value).

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiaries undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in a subsidiary, with a corresponding credit to equity in the parent company accounts.

2.23 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

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

2.24 Government grants *(Continued)*

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

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

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised using the effective interest method.

2.26 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.27 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

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

2.27 Contingent liabilities and contingent assets *(Continued)*

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.28 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use;

(b) management intends to complete the intangible asset and use it;

(c) there is an ability to use the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders, or directors, where applicable.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

3. Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Directors do not consider the exposure to foreign exchange risk significant to the Group's operation as the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Therefore, the Group has not used any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2016.

However, foreign currencies, mainly USD and HKD, are received from sales of products to countries or areas outside the PRC ("Export Sales") and issue of senior notes and draw down of bank borrowings. Export Sales denominated in foreign currencies amounted to approximately 24% (2015: 25%) of the Group's total revenue for the year ended 31 December 2016. The Group manages the currency risk arising from sales of products by requesting customers to pay in advance or keeping the credit period available to customers as short as possible in order to reduce the impact on the fluctuation between USD, HKD and RMB to the Group. The Group manages the currency risk arising from proceeds from senior notes and draw down of bank borrowings by utilisation of the proceeds as soon as possible.

The exposures to the foreign exchange risks are disclosed in Notes 20, 22, 28 and 29.

At 31 December 2016, if RMB had strengthened/weakened by 10% against the USD and HKD (pegged with USD) with all other variables held constant, the net profit for the year would have been RMB59,322,000 lower/higher (2015: RMB3,620,000 higher/lower), mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and cash equivalents, trade receivables, and foreign exchange gains/losses on translation of USD denominated other payables and accruals and borrowings.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for bank deposits and balances, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. A portion of borrowings bear variable rates and expose the Group to cash flow interest rate risk.

Fair value interest rate risk arises from convertible bonds, senior notes, medium-term notes, corporate bonds and bank borrowings, which bear fixed interest rates. The carrying amounts and fair values of the non-current borrowings have been disclosed in Note 29. The Group has not used any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2016.

At 31 December 2016, if interest rates on borrowings obtained at variable rates had been 10% higher/lower with all other variables held constant, the net profit for the year would have been RMB1,816,000 (2015: RMB3,918,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, short-term bank deposits, and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that deposits are placed with reputable banks. For sales of goods, customers of the Group usually pay in advance before delivery of products. Credit will only be granted to customers with long-term relationship. The Group performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral on trade receivables. Credit quality of the financial assets is disclosed in Note 19.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and available credit facilities to meet obligations when they arise.

Management monitors the funding requirements of the Group and the availability of credit facilities in order to ensure the liquidity of the Group.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

3. Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*
The Group			
At 31 December 2016			
Borrowings	1,176,793	2,056,023	–
Interests payments on borrowings (i)	90,754	69,050	–
Trade and other payables (excluding non-financial liabilities)	2,432,950	–	–
Total	3,700,497	2,125,073	–
At 31 December 2015			
Borrowings	964,287	835,477	2,212,766
Interests payments on borrowings (i)	146,643	107,389	69,106
Trade and other payables (excluding non-financial liabilities)	2,163,992	–	–
Total	3,274,922	942,866	2,281,872

(i) The interests on borrowings are calculated based on bank borrowings, convertible bonds, corporate bonds and medium-term notes held as at 31 December 2016 and 2015 without taking into account of future issues. Floating-rate interests are estimated using current interest rate as at 31 December 2016 and 2015 respectively.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

3. Financial Risk Management *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is equal to total borrowings divided by total assets at the end of corresponding year.

The Group's strategy is to maintain the gearing ratio below 40% (2015: 40%). The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Total borrowings *(Note 29)*	**3,099,978**	3,838,141
Total assets	**14,456,102**	13,850,178
Gearing ratio	**21.44%**	27.71%

3.3 Fair value estimation

The Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2016 and 2015, the Group did not have any financial instruments carried at fair value.

The carrying value less impairment provision of trade and other receivables, cash and cash equivalents and short-term bank deposits approximated their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical Accounting Estimates and Judgements

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

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

4.1 Estimated impairment of property, plant and equipment

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with the accounting policy stated in Note 2.9. The recoverable amount of cash-generating unit has been determined based on the higher of value in use and fair value less costs to sell.

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

4.2 Useful lives of plant and equipment

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

4.3 Net realisable value of inventories

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

4. Critical Accounting Estimates and Judgements *(Continued)*

4.4 PRC taxes

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

5. Segment Information

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

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

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

– manufacturing and sales of xanthan gum.

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

5. Segment Information *(Continued)*

The revenue of the Group for the years ended 31 December 2016 and 2015 are set out as follows:

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

5. Segment Information *(Continued)*

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

	Amino acid *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	11,240,665	562,466	–	11,803,131
Segment results	1,482,307	39,923	(11,811)	1,510,419
Finance costs – net *(Note 11)*				(209,168)
Share of profit of investments accounted for using the equity method *(Note 12b)*				647
Profit before income tax				1,301,898
Income tax expense *(Note 13)*				(209,386)
Profit for the year attributable to the Shareholders				1,092,512
Other segment items included in the consolidated income statement				
Depreciation *(Note 17)*	759,643	65,628	1,275	826,546
Amortisation of leasehold land payments *(Note 16)*	22,535	4,307	86	26,928
Amortisation of intangible assets *(Note 18)*	606	–	–	606
Loss on disposal of property, plant and equipment – net *(Note 7)*	1,594	–	–	1,594
Impairment charges for property, plant and equipment *(Note 17)*	119,790	–	–	119,790
Capital expenditures	1,215,352	57,358	1	1,272,711

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

5. Segment Information *(Continued)*

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

	Amino acid *RMB'000*	Xanthan gum *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Revenue	10,256,444	969,278	–	11,225,722
Segment results	757,638	289,006	(13,170)	1,033,474
Finance costs – net *(Note 11)*				(353,700)
Profit before income tax				679,774
Income tax expense *(Note 13)*				(163,513)
Profit for the year attributable to the Shareholders				516,261
Other segment items included in the consolidated income statement				
Depreciation *(Note 17)*	680,112	65,128	1,573	746,813
Amortisation of leasehold land payments *(Note 16)*	14,792	1,615	86	16,493
Amortisation of intangible assets *(Note 18)*	2,788	–	–	2,788
Loss on disposal of property, plant and equipment – net *(Note 7)*	2,248	–	–	2,248
Impairment charges for property, plant and equipment *(Note 17)*	60	–	–	60
Capital expenditures	988,108	59,350	80,637	1,128,095

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

5. Segment Information *(Continued)*

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

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

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

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

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

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

6. Other Income

	2016	2015
	RMB'000	*RMB'000*
Amortisation of deferred income *(Note 30)*	**172,376**	231,501
Government grants related to expenses	**64,346**	104,237
Sales of waste products	**108,388**	93,041
Others	**18,745**	11,724
	363,855	440,503

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

7. Other Gains – Net

	2016 RMB'000	2015 RMB'000
Gain on disposal of subsidiaries/ a subsidiary *(Note 33(b))*	**6,472**	1,125
Net foreign exchange gains *(Note 15)*	**73,652**	28,117
Gain on compensation from insurance company after offsetting losses	**23,831**	32,789
Loss on disposal of property, plant and equipment – net *(Note 33(c))*	**(1,594)**	(2,248)
	102,361	59,783

In 2016, the gain on disposal of subsidiaries arose from the disposal of 100% equity interest in Junan Beifang Properties Co., Ltd. and Junan Beibu Properties Co., Ltd., indirectly held subsidiaries of the Company, to a third party company at a total cash consideration of RMB164,133,000 (2015: RMB298,750,000 of disposal of Junan Beicheng Properties Co., Ltd.) (Note 33(b)). 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 (2015: RMB297,625,000) (Note 16). The disposal resulted in a gain of RMB6,472,000 (2015: RMB1,125,000) recognised in the consolidated income statements for the year ended 31 December 2016.

8. Expenses by Nature

	2016 RMB'000	2015 RMB'000
Changes in inventories of finished goods and work in progress	**(118,452)**	(72,744)
Raw materials and consumables used	**8,000,031**	8,128,134
Employee benefit expenses *(Note 9)*	**979,829**	996,935
Depreciation *(Note 17)*	**826,546**	746,813
Amortisation of leasehold land payments *(Note 16)*	**26,928**	16,493
Impairment charges for property, plant and equipment *(Note 17)*	**119,790**	60
Amortisation of intangible assets *(Note 18)*	**606**	2,788
Transportation expenses	**541,939**	453,117
Utilities purchased	**23,905**	18,070
Travelling and office expenses	**43,908**	40,114
Provision for inventory write-down *(Note 21)*	**7,433**	4,133
Auditors' remuneration		
– Audit services	**4,357**	6,605
– Non-audit services	**1,980**	480
Land use tax, real estate tax and other taxes	**115,666**	110,483
Advertisement fees	**11,405**	12,068
(Reversal of)/Provision for receivables impairment *(Note 20)*	**(237)**	239
Plant relocation expenses	**6,174**	24,143
Listing expenses relating to the spin-off of Shenhua Health Group	**6,514**	25,855
Others	**160,606**	178,748
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**10,758,928**	10,692,534

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

9. Employee Benefit Expenses Including Directors' Emoluments

	2016 *RMB'000*	2015 *RMB'000*
Staff costs (including directors' emoluments)		
– Wages, salaries and allowance	849,706	849,501
– Pension costs – defined contribution plans (a)	121,312	138,117
– Share options granted to directors and employees *(Note 27)*	8,811	9,317
	979,829	996,935

(a) Pension costs – defined contribution plans

The employees of the Group's subsidiaries established in the PRC participated in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group was required to make monthly contributions to these plans at the percentages of the employees' monthly salaries and wages, subject to certain ceilings.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 included three directors (2015: three) whose emoluments are reflected in the analysis shown in Note 38. The emoluments payable to the remaining two (2015: two) individual during the year are as follows:

	2016 *RMB'000*	2015 *RMB'000*
Salaries and allowances	3,148	2,956
Pension costs – defined contribution plans	61	56
Share options granted	3,750	7,296
	6,959	10,308

For the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

The remunerations paid to the above non-director individuals for the years ended 31 December 2016 and 2015 fell within the following bands.

	Number of individuals	
	2016	2015
Emolument bands (in HK dollar)		
HKD2,000,001 – HKD2,500,000	1	–
HKD5,500,001 – HKD6,000,000	1	1
HKD6,000,001 – HKD6,500,000	–	1
	2	2

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

10. Research and Development Costs

The following amounts were recognised as expenses and charged to administrative expenses in the consolidated income statement:

	2016 *RMB'000*	2015 *RMB'000*
Raw materials and consumables used	**17,998**	36,067
Employee benefit expenses	**13,997**	14,051
Depreciation	**9,088**	6,101
Others	**6,903**	7,989
	47,986	64,208

All these research costs arose from internal development activities.

11. Finance Income and Costs

	2016 *RMB'000*	2015 *RMB'000*
Finance expenses:		
Interest expense		
– Bank borrowings	**68,149**	85,171
– Senior notes	**–**	78,350
– Medium-term notes	**10,926**	32,492
– Convertible bonds *(Note 29(c))*	**57,781**	63,026
– Corporate bonds	**44,297**	7,377
Net foreign exchange losses on financing activities *(Note 15)*	**37,481**	66,361
Loss on early redemption of senior notes	**–**	35,335
	218,634	368,112
Finance income:		
– Interest income on bank deposits and bank balances	**(9,466)**	(14,412)
Net finance expenses	**209,168**	353,700

12a. Subsidiaries

As at 31 December 2016, the Company had direct and indirect interests in the following wholly-owned subsidiaries:

Name	Place of incorporation/ establishment	Issued and paid capital	Principal activities & place of operation
Directly held:			
Acquest Honour	The British Virgin Islands ("BVI")	USD2	Investment holding in BVI
Shenhua Health Holdings Limited	Cayman Islands	USD1	Investment holding in Cayman Islands
Indirectly held:			
Summit Challenge	BVI	USD1	Investment holding in BVI
Absolute Divine	BVI	USD1	Investment holding in BVI
Expand Base	BVI	USD1	Investment holding in BVI
Profit Champion International Ltd. ("Profit Champion")	Hong Kong	HKD2	Investment holding in Hong Kong
Full Profit Investment (Group) Ltd. ("Full Profit")	Hong Kong	HKD2	Investment holding in Hong Kong
Trans-Asia Capital Resources Ltd. ("Trans-Asia")	Hong Kong	HKD2	Investment holding in Hong Kong
Fufeng International Trade (Hong Kong) Limited ("Fufeng International")	Hong Kong	HKD2	Investment holding in Hong Kong
Shandong Fufeng Fermentation Co., Ltd. ("Shandong Fufeng")	PRC	RMB370,500,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweetener and other related products in the PRC
Baoji Fufeng Biotechnologies Co., Ltd. ("Baoji Fufeng")	PRC	HKD250,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers and other related products in the PRC

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

12a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Issued and paid capital	Principal activities & place of operation
Neimenggu Fufeng Biotechnologies Co., Ltd. ("IM Fufeng")	PRC	HKD640,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweeteners and other related products, autoclaved aerated concrete block in the PRC
Shandong Fufeng Biotechnology Development Company Limited	PRC	RMB5,500,000	Biological techniques research and development, promotion and industrialisation of new biological techniques and achievements, information services of biological technique in the PRC
Jiangsu Shenhua Pharmaceutical Co., Ltd. ("Shenhua Pharmaceutical")	PRC	RMB122,000,000	Manufacture and sales of eubacteria material medicine, preparations and food additives and other related products in the PRC
Beijing Huijinhuaying Commercial Co., Ltd.	PRC	RMB21,000,000	Own and operate self-used office building
Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd. ("Hulunbeir Fufeng")	PRC	RMB1,000,000,000	Manufacture and sales of starch, starch sweeteners, amino acids, monosodium glutamate, glutamic acid, fertilisers, and other related products in the PRC
Fufeng (Singapore) Pte. Ltd. ("Fufeng Singapore")	Singapore	SGD1,300,000	Sales of monosodium glutamate and other related products in the Southeast Asia

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

12a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Issued and paid capital	Principal activities & place of operation
Jiangsu Fufeng Biotechnologies Co., Ltd.	PRC	RMB5,000,000	Biological techniques research and development, promotion and industrialisation of new biological techniques and achievements, information services of biological technique. Sales of xanthan gum, amino acids and starch sweeteners in the PRC
Hulunbeir Shengmin Agricultural Development Co., Ltd.	PRC	RMB10,000,000	Does not carry out any business activities currently
Xinjiang Fufeng Biotechnologies Co., Ltd. ("Xinjiang Fufeng")	PRC	RMB500,000,000	Manufacture and sales of amino acids, xanthan gum, and other related products in the PRC
Shenhua Pharmaceutical (Jiangsu) Co., Ltd. ("Jiangsu Shenhua Medical")	PRC	RMB5,000,000	Manufacture and sales of fungal material medicine, preparations and food additives and other related products in the PRC
Junan Beifang Properties Co., Ltd. (a)	PRC	RMB5,000,000	Does not carry out any business activities currently
Junan Beibu Properties Co., Ltd. (b)	PRC	RMB5,000,000	Does not carry out any business activities currently
Baoji Dingfeng Properties Co., Ltd.	PRC	RMB10,000,000	Does not carry out any business activities currently
Baoji Baofeng Properties Co., Ltd.	PRC	RMB10,000,000	Does not carry out any business activities currently

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

12a. Subsidiaries *(Continued)*

Name	Place of incorporation/ establishment	Issued and paid capital	Principal activities & place of operation
Fufeng Marketing and Sales Co., Ltd.	PRC	RMB220,000,000	Sales of monosodium glutamate and other related products in the PRC
Fufeng (Hong Kong) Import and Export Company., Ltd.	Hong Kong	HKD2	Sales of monosodium glutamate and other related products abroad
Full Health Global Limited	BVI	USD100	Investment holding in BVI
Full Health (Hong Kong) Limited	Hong Kong	HKD100	Investment holding in Hong Kong
First Biotech Inc.	US	USD100,000	Sales of biological products in the US
Fufeng Co., Ltd. (c)	Japan	JPY1,000,000	Sales of biological products in the Japan
Qingdao Yuemei Cosmetics Co., Ltd. (d)	PRC	RMB12,485,000	Sales of cosmetic products in the PRC

(a) Junan Beifang Properties Co., Ltd. was established on 17 July 2014, with a registered capital of RMB5,000,000. It was wholly-owned by Shandong Fufeng. It was disposed in August 2016 as described in Note 33(b).

(b) Junan Beibu Properties Co., Ltd. was established on 17 July 2014, with a registered capital of RMB5,000,000. It was wholly-owned by Shandong Fufeng. It was disposed in August 2016 as described in Note 33(b).

(c) Fufeng Co., Ltd. was established on 25 February 2016, with a registered capital of JPY1,000,000. It is wholly-owned by Trans-Asia.

(d) Qingdao Yuemei Cosmetics Co., Ltd. was established on 31 May 2016, with a registered capital of RMB50,000,000 and paid-up capital of RMB12,485,000. It is wholly-owned by Shandong Fufeng.

12b. Investments Accounted for Using the Equity Method
The amounts recognised in the balance sheet are as follows:

	2016 **RMB'000**	2015 RMB'000
Associate	**30,647**	–
At 31 December	**30,647**	–

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

12b. Investments Accounted for Using the Equity Method *(Continued)*

The amounts recognised in the consolidated income statement are as follows:

	2016 **RMB'000**	2015 RMB'000
Associate	**647**	–
For the year ended 31 December	**647**	–

Investment in an associate

Set out below is the associate of the Group as at 31 December 2016. The associate has share capital consisting solely of ordinary shares, which are held directly by the Group.

Nature of investment in an associate as at 31 December 2016

Name of entity	Place of business/country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Jilin COFCO Biomaterial Co., Ltd. ("Jilin COFCO")	PRC	30	Note 1	Equity

Note 1 Jilin COFCO manufactures products and provides services relating to bio-based plastics. It is a strategic business partner for the Group, providing access to the market of new products.

Jilin COFCO is a private company and there is no quoted market price available for its shares. There are no contingent liabilities relating to the Group's interest in the associate.

Summarised financial information of an associate

Set out below are the summarised financial information for Jilin COFCO as of 31 December 2016 which is accounted for using the equity method.

	Jilin COFCO 2016 RMB'000
Total assets	**147,057**
Total liabilities	**44,900**
Net assets	**102,157**
Revenue	**1,122**
Total comprehensive income	**2,155**

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

13. Taxation

(a) Income tax expense

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

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

The Group's subsidiary in Hong Kong is subject to income tax at a rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year ended 31 December 2016.

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

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

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

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% (2015: 15%). The qualification of new and high-technology enterprise is subject to renewal for each three years interval.

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財税[2011]58號"關於深入實施西部大開發戰略有關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% (2015: 15%).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

13. Taxation *(Continued)*

(a) Income tax expense *(Continued)*

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

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	2016 *RMB'000*	2015 *RMB'000*
Profit before income tax	**1,301,898**	679,774
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**384,057**	260,433
Preferential tax of certain subsidiaries	**(173,515)**	(103,552)
Unrecognised tax losses	**1,395**	1,519
Expenses not deductible for tax purposes	**1,435**	7,488
Income not subject to tax	**(3,986)**	(2,375)
	209,386	163,513

(b) Value-added tax ("VAT")

Sales of self-manufactured products of the Company's PRC subsidiaries are subject to VAT. The applicable tax rates for domestic sales are 0%, 13% and 17%. Shandong Fufeng, Baoji Fufeng, IM Fufeng, Xinjiang Fufeng and Hulunbeir Fufeng have been approved to use the "exempt, credit, refund" method on goods exported. The tax refund rate is 13%.

Input VAT on purchases of raw materials, fuel, utilities, certain fixed assets and other production materials (merchandise, transportation costs) are deductible from output VAT. VAT payable/(recoverable) is the net difference between output VAT and deductible input VAT.

14. Earnings Per Share

(a) Basic

Basic earnings per share for the years ended 31 December 2016 and 2015 are calculated by dividing the profit attributable to the Shareholders by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

14. Earnings Per Share *(Continued)*

(b) Diluted

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

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

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

15. Net Foreign Exchange (Gains)/Losses

The exchange differences charged to the consolidated income statement are included as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Other gains – net *(Note 7)*	**(73,652)**	(28,117)
Net finance expenses *(Note 11)*	**37,481**	66,361
	(36,171)	38,244

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

16. Leasehold Land Payments

Leasehold land payments represent prepaid operating lease payments for the leasehold land (40 to 70 years) located in Shandong Province, Shaanxi Province, Inner Mongolia Autonomous Region, Xinjiang Uygur Autonomous Region, Jiangsu Province and Beijing in the PRC. Their net book values are analysed as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Cost		
At beginning of the year	**1,546,019**	1,769,714
Additions	**80,726**	83,246
Disposal of leasehold land to government	**(33)**	–
Disposal of subsidiaries/a subsidiary *(Note 7)*	**(162,536)**	(297,625)
Transferred from/(to) disposal group classified as held for sale *(Note 23)*	**9,316**	(9,316)
At end of the year	**1,473,492**	1,546,019
Amortisation		
At beginning of the year	**(35,959)**	(21,010)
Charge for the year *(Note 8)*	**(26,928)**	(16,493)
Disposal of leasehold land to government	**6**	–
Disposal of subsidiaries/a subsidiary *(Note 7)*	**4,875**	–
Transferred (from)/to disposal group classified as held for sale *(Note 23)*	**(1,544)**	1,544
At end of the year	**(59,550)**	(35,959)
Net book value		
At end of the year	**1,413,942**	1,510,060

As at 31 December 2016, there is no leasehold land pledged as security for the Group's borrowings (2015: RMB110,195,000).

Amortisation expense is recorded in "Administrative expenses" in the consolidated income statement.

As at 31 December 2016, the Group was still in the process of applying for the ownership certificates for various parcels of leasehold land with a total carrying amount of RMB227,308,000 (2015: RMB345,977,000), of which RMB14,850,000 (2015: RMB162,537,000) had relevant signed contracts with the local government.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

17. Property, Plant and Equipment

	2016					
	Plant and building *RMB'000*	Machinery *RMB'000*	Furniture and fixtures *RMB'000*	Vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2016	3,202,633	7,001,972	184,290	56,017	323,543	10,768,455
Additions	20,037	352,782	14,683	7,510	790,528	1,185,540
Transfer upon completion	201,850	542,073	–	–	(743,923)	–
Disposals	(509)	(637)	–	(2,831)	(11,366)	(15,343)
Transferred from disposal group classified as held for sale *(Note 23)*	48,847	55,937	1,883	807	12,705	120,179
At 31 December 2016	3,472,858	7,952,127	200,856	61,503	371,487	12,058,831
Accumulated depreciation						
At 1 January 2016	(450,973)	(2,519,411)	(132,328)	(36,092)	–	(3,138,804)
Charge for the year *(Note 8)*	(205,535)	(601,638)	(14,119)	(5,254)	–	(826,546)
Disposals	76	112	–	543	–	731
Transferred to disposal group classified as held for sale *(Note 23)*	(18,722)	(32,968)	(913)	(171)	–	(52,774)
At 31 December 2016	(675,154)	(3,153,905)	(147,360)	(40,974)	–	(4,017,393)
Provision for impairment loss						
At 1 January 2016	(17,567)	(29,341)	(115)	(709)	(15,141)	(62,873)
Impairment charge *(Note 8)*	(45,633)	(73,875)	(79)	–	(203)	(119,790)
At 31 December 2016	(63,200)	(103,216)	(194)	(709)	(15,344)	(182,663)
Net book value						
At 31 December 2016	2,734,504	4,695,006	53,302	19,820	356,143	7,858,775

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

17. Property, Plant and Equipment *(Continued)*

	2015					
	Plant and building	Machinery	Furniture and fixtures	Vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2015	2,667,071	6,573,751	184,961	48,307	578,863	10,052,953
Additions	62,589	330,346	1,599	9,919	637,754	1,042,207
Transfer upon completion	544,864	335,505	–	–	(880,369)	–
Disposals	(23,044)	(181,693)	(387)	(1,402)	–	(206,526)
Transferred to disposal group classified as held for sale *(Note 23)*	(48,847)	(55,937)	(1,883)	(807)	(12,705)	(120,179)
At 31 December 2015	3,202,633	7,001,972	184,290	56,017	323,543	10,768,455
Accumulated depreciation						
At 1 January 2015	(345,801)	(2,033,734)	(107,151)	(33,372)	–	(2,520,058)
Charge for the year *(Note 8)*	(124,538)	(591,889)	(26,347)	(4,039)	–	(746,813)
Disposals	644	73,244	257	1,148	–	75,293
Transferred to disposal group classified as held for sale *(Note 23)*	18,722	32,968	913	171	–	52,774
At 31 December 2015	(450,973)	(2,519,411)	(132,328)	(36,092)	–	(3,138,804)
Provision for impairment loss						
At 1 January 2015	(17,567)	(29,341)	(115)	(709)	(15,081)	(62,813)
Impairment charge *(Note 8)*	–	–	–	–	(60)	(60)
At 31 December 2015	(17,567)	(29,341)	(115)	(709)	(15,141)	(62,873)
Net book value						
At 31 December 2015	2,734,093	4,453,220	51,847	19,216	308,402	7,566,778

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

17. Property, Plant and Equipment *(Continued)*

(a) As at 31 December 2016, no plant and machinery was pledged as security for the Group's borrowings (2015: Nil).

(b) Depreciation expense included in the consolidated income statement is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Cost of sales	**731,229**	694,619
Administrative expenses	**95,317**	52,194
	826,546	746,813

(c) During the year ended 31 December 2014, the Group received RMB635,791,000 from the local PRC governments as a compensation for disposal of property, plant and equipment related to plant relocation. As at 31 December 2015, RMB484,647,000 had been applied to compensate the disposal of property, plant and equipment during 2015 and the remaining balance of RMB151,144,000 was recorded in "Trade, other payables and accruals" as at 31 December 2015 (Note 28). During the year ended 31 December 2016, further assets amount to RMB11,366,000 were disposed and the compensation balance was reduced by the same amount accordingly.

(d) Certain machineries mainly used in the Amino acid segment were impaired in 2016 because of high production costs such that the related machineries were idle for a long period. The Group did not expect any future benefits or residual value that could be recovered from these machineries because they had been highly corroded during the production process, and therefore a full impairment of RMB119,790,000 (2015: RMB60,000) (Note 8) was provided during the year ended 31 December 2016, which was recorded in "Cost of sales" in the consolidated income statement.

(e) As at 31 December 2016, plant and buildings of the Group with a total net book value of RMB229,077,000 were without real estate titles and the Group is in the process to secure the relevant real estate certificates (2015: RMB44,815,000).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

18. Intangible Assets

	Patents *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
At 1 January 2015			
Cost	18,928	2,733	21,661
Accumulated amortisation	(23)	(227)	(250)
Accumulated impairment	(18,857)	–	(18,857)
Net book amount	48	2,506	2,554
Year ended 31 December 2015			
Opening net book amount	48	2,506	2,554
Additions	1,384	1,258	2,642
Amortisation	(75)	(2,713)	(2,788)
Write-off	861	–	861
Transferred to disposal group classified as held for sale *(Note 23)*	(2,113)	(105)	(2,218)
Closing net book amount	105	946	1,051
At 31 December 2015			
Cost	20,312	3,991	24,303
Accumulated amortisation	(98)	(2,940)	(3,038)
Accumulated impairment	(17,996)	–	(17,996)
Transferred to disposal group classified as held for sale *(Note 23)*	(2,113)	(105)	(2,218)
Net book amount	105	946	1,051
Year ended 31 December 2016			
Opening net book amount	105	946	1,051
Additions	130	6,315	6,445
Amortisation	(127)	(479)	(606)
Transferred from disposal group classified as held for sale *(Note 23)*	2,113	105	2,218
Closing net book amount	2,221	6,887	9,108
At 31 December 2016			
Cost	18,329	10,201	28,530
Accumulated amortisation	(225)	(3,419)	(3,644)
Accumulated impairment	(17,996)	–	(17,996)
Transferred from disposal group classified as held for sale *(Note 23)*	2,113	105	2,218
Net book amount	2,221	6,887	9,108

The carrying amount of the patents has been reduced to its recoverable amount through recognition of an impairment loss.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

19. Credit Quality of Financial Assets

Trade and notes receivables

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counterparty default rates. The Group categorises its trade and notes receivables into the following:

Group 1 – Bank acceptance notes for which the repayments are guaranteed by large state-owned banks.
Group 2 – Trade receivables due from customers with no defaults in the past.
Group 3 – Trade receivables due from customers with some defaults in the past.

	2016 RMB'000	2015 RMB'000
Group 1	398,810	418,293
Group 2	388,369	399,614
Group 3	285	–
	787,464	817,907

Long-term bank deposits and cash and bank balances

The management considers the credit risks in respect of cash and bank balances are relatively minimal as each counter party either has a high credit rating or is a state-owned PRC bank. The management believes the PRC government is able to support the state-owned PRC banks in the event of a liquidity difficulty.

The Group categorises its cash in bank and bank deposits in banks into the following:

- Group 1 – Major international banks (Hang Seng Bank, ABN AMRO Bank N.V, The Hong Kong and Shanghai Banking Corporation Limited, The Royal Bank of Scotland, Citi Bank, United Overseas Bank and Standard Chartered Bank, Mizuho Bank, East West Bank, Sumitomo Mitsui Banking Corporation)

- Group 2 – Top 4 banks in the PRC (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China)

- Group 3 – Other state-owned banks in the PRC

	2016 RMB'000	2015 RMB'000
Group 1	41,582	70,497
Group 2	755,031	591,776
Group 3	645,244	356,262
	1,441,857	1,018,535

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

20. Trade and Other Receivables

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

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

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

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

20. Trade and Other Receivables *(Continued)*

(b) As at 31 December 2016, trade receivables of RMB50,127,000 (2015: RMB27,795,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

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

As at 31 December 2016, trade receivables of RMB285,000 (2015: RMB4,749,000) were impaired and fully provided for impairment. The individually impaired receivables relate to customers who were in unexpectedly difficult economic situations and were therefore provided for. During 2016, the Group reversed impairment provision of RMB237,000 after receipt of those related receivables. Due to the uncollectible situation, the Group wrote off the corresponding impairment provision amounted to RMB4,227,000.

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

	2016 **RMB'000**	2015 RMB'000
As at 1 January	**–**	4,510
Transferred from/(to) disposal group classified as held for sale *(Note 23)*	**4,749**	(4,749)
(Reversal of)/Provision for receivables impairment *(Note 8)*	**(237)**	239
Receivables written-off during the years as uncollectible	**(4,227)**	–
At 31 December	**285**	–

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

20. Trade and Other Receivables *(Continued)*

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

(d) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values as at the balance sheet date.

(e) The carrying amounts of the Group's trade and other receivables excluding prepayments were denominated in the following currencies:

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

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

21. Inventories

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**1,081,626**	928,716
Work-in-progress	**78,434**	88,728
Finished goods	**1,321,851**	1,174,405
	2,481,911	2,191,849

As at 31 December 2016, the Group had provision for finished goods write-down amounted to RMB7,433,000 (2015: RMB4,133,000). During 2016, the Group reversed the opening provision for inventories write-down amounted to RMB4,133,000 and provided for a new provision of RMB7,433,000, which was included in "Cost of sales" in the consolidated income statement.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

21. Inventories *(Continued)*

The cost of inventories recognised in the consolidated income statement is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Cost of sales	**7,832,560**	7,999,307
Administrative expenses	**49,019**	56,083
	7,881,579	8,055,390

22. Long-Term Bank Deposits and Cash and Bank Balances

	2016 *RMB'000*	2015 *RMB'000*
Long-term bank deposits	**20,100**	–
Cash and cash equivalents		
– Cash on hand	**390**	534
– Cash in bank	**959,296**	740,753
	959,686	741,287
Term deposits over 3 months and within one year	**2,000**	145,000
Cash and bank balances	**961,686**	886,287
Restricted bank deposits (a)	**460,461**	132,782
Total cash and bank balances	**1,422,147**	1,019,069
Total long-term bank deposits and cash and bank balances (b)	**1,442,247**	1,019,069

(a) The restricted bank deposits were used for the following purposes:

	2016 *RMB'000*	2015 *RMB'000*
Issuance of bank acceptance notes	**457,431**	121,777
Others	**3,030**	11,005
	460,461	132,782

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

22. Long-Term Bank Deposits and Cash and Bank Balances *(Continued)*

(b) Total long-term bank deposits and cash and bank balances are denominated in the following currencies:

	2016	2015
	RMB'000	*RMB'000*
– RMB	**455,293**	757,601
– USD	**978,833**	231,201
– HKD	**7,910**	29,832
– SGD	**211**	435
	1,442,247	1,019,069

(c) The Group's long-term bank deposits and cash and bank balances denominated in RMB were deposited with banks in the PRC. Conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(d) The weighted average effective interest rate on cash and bank balances placed with banks by the Group was 0.54% per annum for the year ended 31 December 2016 (2015: 0.49%).

23. Current and Non-Current Assets Held for Sale

As at 31 December 2015, the assets and liabilities related to Shenhua Health Group have been presented as a disposal group classified as held for sale following the approval via an extraordinary general meeting of the shareholders of the Company on 26 November 2015 to spin-off Shenhua Health Group. The transaction was in the application process as at 31 December 2015. The assets and liabilities of Shenhua Health Group were measured at their carrying amounts, which were lower than the fair value less cost to sell as at 31 December 2015.

However, in March 2016, the Group decided to terminate the spin-off plan following a return of the application by The Stock Exchange of Hong Kong Limited. Accordingly, as at 31 December 2016, the assets and liabilities of Shenhua Health Group were no longer classified as held for sale.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

23. Current and Non-Current Assets Held for Sale *(Continued)*

(a) Assets of disposal group classified as held for sale:

	2016 *RMB'000*	2015 *RMB'000*
ASSETS		
Non-current assets		
Leasehold land payments	–	7,772
Property, plant and equipment	–	67,405
Intangible assets	–	2,218
Deferred income tax assets	–	4,638
Long-term bank deposits	–	20,100
	–	102,133
Current assets		
Inventories	–	32,189
Trade and other receivables	–	30,597
Cash and bank balances	–	39,593
	–	102,379
Total Assets	–	204,512

(b) Liabilities of disposal group classified as held for sale:

	2016 *RMB'000*	2015 *RMB'000*
Liabilities		
Non-current liabilities		
Deferred income	–	584
Current liabilities		
Trade and other payables	–	28,966
Current income tax liabilities	–	1,148
Borrowings	–	20,100
Current portion of deferred income	–	5,673
	–	55,887
Total liabilities	–	56,471

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

24. Share Capital and Premium

	Number of shares (thousands)	Amount		
		Ordinary shares	Share premium	Total
		RMB'000	*RMB'000*	*RMB'000*
At 1 January 2015	2,105,208	205,243	638,986	844,229
Employee share option schemes:				
– Proceeds from shares issued	5,117	688	14,656	15,344
Conversion of convertible bonds	17,065	1,347	55,980	57,327
Repurchase of shares of the Company	(705)	(56)	(1,805)	(1,861)
Dividends	–	–	(152,660)	(152,660)
At 31 December 2015	2,126,685	207,222	555,157	762,379
Dividends	–	–	(92,518)	(92,518)
At 31 December 2016	**2,126,685**	**207,222**	**462,639**	**669,861**

The total number of authorised share capital of the Company comprised 10,000,000,000 ordinary shares with a par value of HKD0.10 each as at 31 December 2016 and 2015.

In December 2014, the Company acquired 705,000 of its own ordinary shares through purchases on The Stock Exchange of Hong Kong Limited. The total consideration of HKD2,349,000 (equivalent to RMB1,861,000) paid for repurchase of these shares has been deducted from retained earnings as the shares have not been cancelled as at 31 December 2014. In January 2015, the shares were cancelled, therefore retained earnings were credited by RMB1,861,000 and the share premium and ordinary share capital decreased by the same amount.

According to the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands and the articles of association of the Company, dividends of the Company can be declared out of its share premium account subject to a solvency test.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

25. Share-Based Payment

(a) Share options granted on 14 July 2009

The Company granted to certain eligible employees share options to subscribe for an aggregate of 64,110,000 ordinary shares of the Company on 14 July 2009. These options vest in tranches over a period of up to 4.5 years.

As a result of the completion of the rights issue in May 2013, the exercise price of the outstanding options was adjusted from HKD3.00 to HKD2.80, and the total number of shares to be issued upon exercise of the outstanding options was adjusted from 45,270,000 shares to 48,486,000 shares.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price in HKD per share option	**Options (thousands)**	Average exercise price in HKD per share option	Options (thousands)
At 1 January	**2.80**	**–**	2.80	24,823
Exercised	**2.80**	**–**	2.80	(5,117)
Expired	**2.80**	**–**	2.80	(19,706)
At 31 December		**–**		–

24,823,000 options were exercisable as at 31 December 2014. Options exercised in 2014 resulted in 18,480,000 ordinary shares being issued at a weighted average price of HKD2.80 each. The related weighted average share price at the time of exercise was HKD3.86 per share.

As at 31 December 2015, all the share options granted on 14 July 2009 were forfeited, which were reclassified from other reserves to retained earnings.

No attributable amount was charged to the consolidated income statement during the year ended 31 December 2016.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

25. Share-Based Payment *(Continued)*

(b) Share options granted on 9 April 2015

The Company granted to certain eligible employees share options to subscribe for an aggregate of 16,600,000 ordinary shares of the Company on 9 April 2015. These options vest in tranches over a period of up to 5 years. Thus, there were no options being exercised during the years ended 31 December 2016 and 2015.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price in HKD per share option	Options (thousands)	Average exercise price in HKD per share option	Options (thousands)
At 1 January	5.69	16,600	–	–
Issued	5.69	–	5.69	16,600
Forfeited	5.69	(7,000)	5.69	–
At 31 December	5.69	9,600	5.69	16,600

The fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options as at the grant date was approximately RMB30,216,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 April 2015
Average share price	HKD4.89
Exercise price	HKD5.69
Expected life of options	5.0 years
Expected volatility	43.11%
Expected dividend yield	2.26%
Risk free rate	0.99%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

In December 2016, one employee resigned and thus all the related 7,000,000 share options were forfeited during the year ended 31 December 2016, which were reclassified from other reserves to retained earnings.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2016 was approximately RMB7,981,000 (2015: RMB9,317,000).

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

25. Share-Based Payment *(Continued)*

(c) Share options granted on 9 November 2016

The Company granted to certain eligible employees share options to subscribe for an aggregate of 14,700,000 ordinary shares of the Company on 9 November 2016. These options vest in tranches over a period of up to 6 years. Thus, there were no options being exercised during the year ended 31 December 2016.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016	
	Average exercise price in HKD per share option	Options (thousands)
At 1 January	–	–
Issued	3.50	14,700
Forfeited	3.50	(800)
At 31 December	3.50	13,900

The fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options as at the grant date was approximately RMB17,515,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 9 November 2016
Average share price	HKD3.45
Exercise price	HKD3.50
Expected life of options	6.0 years
Expected volatility	44.79%
Expected dividend yield	2.15%
Risk free rate	1.39%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

In December 2016, one employee resigned and thus all the related 800,000 share options were forfeited during the year ended 31 December 2016, which were reclassified from other reserves to retained earnings.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2016 was approximately RMB820,000.

25. Share-Based Payment *(Continued)*

(d) Share options granted on 30 December 2016

The Company granted to certain eligible employee share options to subscribe for an aggregate of 300,000 ordinary shares of the Company on 30 December 2016. These options vest in tranches over a period of up to 6 years. Thus, there were no options being exercised during the year ended 31 December 2016.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016	
	Average exercise price in HKD per share option	Options (thousands)
At 1 January	–	–
Issued	3.82	300
At 31 December	3.82	300

The fair value, which was determined by an independent qualified appraiser using Black-Scholes option price model, of the options as at the grant date was approximately RMB414,000. The following assumptions were adopted to calculate the fair value of the options on the grant date:

	Granted on 30 December 2016
Average share price	HKD3.81
Exercise price	HKD3.82
Expected life of options	6.0 years
Expected volatility	44.52%
Expected dividend yield	2.18%
Risk free rate	1.70%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2016 was approximately RMB10,000.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

26. Retained Earnings

	The Group	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**4,817,025**	4,334,460
Profit for the year	**1,092,512**	516,261
Profit appropriation to statutory reserves *(Note 27)*	**(86,924)**	(46,154)
Expiry of share options issued	**3,410**	10,597
Repurchase of shares of the Company *(Note 24)*	**–**	1,861
At 31 December	**5,826,023**	4,817,025

27. Other Reserves

	Convertible bonds	**Capital reserve**	**Statutory reserve**	**Share-based payment reserve**	**Total**
	(Note 29)	*(Note (a))*	*(Note (b))*	*(Note 25)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
1 January 2015	63,198	(370,760)	483,313	14,626	190,377
Profit appropriation *(Note 26)*	–	–	46,154	–	46,154
Conversion of convertible bonds	(3,567)	–	–	–	(3,567)
Employee share option schemes					
– Value of employee services *(Notes 9, 25)*	–	–	–	9,317	9,317
– Expiry of share options issued	–	–	–	(10,597)	(10,597)
– Proceeds from shares issued	–	–	–	(4,029)	(4,029)
31 December 2015	59,631	(370,760)	529,467	9,317	227,655
Profit appropriation *(Note 26)*	–	–	86,924	–	86,924
Employee share option schemes					
– Value of employee services *(Notes 9, 25)*	–	–	–	8,811	8,811
– Expiry of share options issued	–	–	–	(3,410)	(3,410)
31 December 2016	**59,631**	**(370,760)**	**616,391**	**14,718**	**319,980**

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

27. Other Reserves *(Continued)*

(a) Capital reserve

It mainly represents reserve arising from the Group's reorganisation completed in July 2006.

(b) Statutory reserve

In accordance with the PRC regulations and the articles of the association of the PRC companies comprising the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares, provided that the balance of such reserve is not less than 25% of the entity's registered capital after the bonus issue.

28. Trade, Other Payables and Accruals

	2016 *RMB'000*	2015 *RMB'000*
Trade payables (a)	**1,214,352**	1,195,564
Advances from customers (b)	**693,249**	510,875
Payables for property, plant and equipment *(Note 33(d))*	**746,611**	866,878
Bank acceptance notes payable	**255,300**	47,606
Government compensation related to property, plant and equipment disposal received in advance *(Note 17)*	**139,778**	151,144
Salaries, wages and staff welfares payables	**398,146**	347,628
Interest payables	**12,444**	33,682
Government grants received in advance	**16,432**	15,005
Dividends payable	**407**	407
Other payables and accruals	**244,896**	142,404
	3,721,615	3,311,193

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

28. Trade, Other Payables and Accruals *(Continued)*

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

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

(b) Advances from customers represented cash advances received from customers for purchase of the Group's products and would be applied for settlement when sales occur.

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

29. Borrowings

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

29. Borrowings *(Continued)*

(a) Borrowings

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

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

As at 31 December 2016, the bank borrowings included RMB307,498,000 borrowings which were secured by restricted bank deposits (2015: RMB420,000,000 borrowings secured by leasehold land of the Group) (Note 16).

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

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

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

	Carrying amount		Fair value	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings, unsecured	**–**	635,477	**–**	639,928
Bank borrowings, secured	**–**	370,000	**–**	378,430
Corporate bonds (b)	**991,241**	986,744	**988,405**	979,266
Convertible bonds (c)	**931,944**	–	**1,056,617**	–
	1,923,185	1,992,221	**2,045,022**	1,997,624

The fair values of the non-current corporate bonds and other bank borrowings at 31 December 2016 were RMB988,405,000 (2015: RMB1,997,624,000). The fair value measurement of them is categorised within level 2 of the fair value hierarchy.

The fair values of the non-current convertible bonds at 31 December 2016 were RMB1,056,617,000 which values were calculated using the market price of the convertible bonds on the date of statement of financial position. The fair value measurement of convertible bonds and senior notes issued by the Company is categorised within the level 1 of fair value hierarchy as they are listed on The Singapore Exchange Securities Trading Limited.

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

29. Borrowings *(Continued)*

(a) Borrowings *(Continued)*

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	2016 **RMB'000**	2015 RMB'000
6 months or less	**519,146**	914,186
6 to 12 months	**657,647**	931,734
1 to 5 years	**1,923,185**	1,992,221
	3,099,978	3,838,141

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

	2016 **RMB'000**	2015 RMB'000
RMB	**2,553,683**	3,330,856
USD	**546,295**	507,285
	3,099,978	3,838,141

(b) Corporate bonds

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

29. Borrowings *(Continued)*

(c) Convertible bonds

Convertible bonds issued in April 2010 ("2010 CB")

The Company issued convertible bonds with a total par value of RMB1,025,000,000 in April 2010 at a fixed interest rate of 4.5%. The bonds will mature in five years from the issue date at their nominal value of RMB1,025,000,000 or can be converted into the Company's ordinary shares at the holder's option at the price of HKD7.03 per share. The values of the liability component and the equity conversion component, net of transaction costs of RMB25,679,000, were determined upon issuance of the bonds.

The fair value of the liability component, which was included in non-current borrowings, was calculated using a market interest rate of 5.08% for equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

The Company partially redeemed convertible bonds in October and November 2012 and March and April 2013. According to the conversion price adjustment term of the offering memorandum of 2010 CB, the conversion price is adjusted from HKD7.03 per share to HKD6.56 per share after the Company's rights issue in May 2013. The remaining outstanding principal amount of 2010 CB was fully repaid on 1 April 2015.

Convertible bonds issued in November 2013 ("2013 CB")

The Company issued convertible bonds with a total par value of RMB975,000,000 in November 2013 at a fixed interest rate of 3.0%. The bonds will mature in five years from the issue date at an amount equal to 108.31 percentage of their principal amount of RMB975,000,000, or can be converted into the Company's ordinary shares at the holder's option at the price of HKD4.173 per share. The values of the liability component and the equity conversion component, net of transaction costs of RMB23,597,000, were determined upon issuance of the bonds. During the year ended 31 December 2015, a total of RMB53,760,000 of such convertible bonds were converted into 17,065,033 ordinary shares of the Company. The carrying amount of the 2013 CB as at 31 December 2016 was RMB931,944,000 (2015: RMB901,734,000).

The fair value of the liability component, which was included in non-current borrowings, was calculated using a market interest rate of 6.06% for equivalent non-convertible bonds. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

According to the circular of 2013 CB, the bond holders had a put option right to request the Company to early redeem the 2013 CB on 27 November 2016 by formal written notice, which will be expired after the date. On 27 November 2016, no bond holders claimed to exercise the right. Accordingly, the balance of 2013 CB was classified as non-current liabilities as at 31 December 2016 while as current liabilities as at 31 December 2015.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

29. Borrowings *(Continued)*

(c) Convertible bonds *(Continued)*

Convertible bonds issued in November 2013 ("2013 CB") (Continued)

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

	2010 CB *RMB'000*	2013 CB *RMB'000*	Total *RMB'000*
Liability component at 1 January 2015	13,314	923,499	936,813
Including:			
– Interest payable – current portion	149	2,438	2,587
– Carrying amount at 1 January 2015	13,165	921,061	934,226
Interest expense on convertible bonds *(Note 11)*	184	62,842	63,026
Interest paid	(298)	(28,550)	(28,848)
Settlement of final principle and interest of convertible bonds	(13,200)	–	(13,200)
Conversion of convertible bonds	–	(53,760)	(53,760)
Liability component at 31 December 2015	–	904,031	904,031
Including:			
– Interest payable – current portion	–	2,297	2,297
– Carrying amount at 31 December 2015 – current	–	901,734	901,734
Liability component at 1 January 2016	–	904,031	904,031
Interest expense on convertible bonds *(Note 11)*	–	57,781	57,781
Interest paid	–	(27,571)	(27,571)
Liability component at 31 December 2016	–	934,241	934,241
Including:			
– Interest payable – current portion	–	2,297	2,297
– Carrying amount at 31 December 2016 – non-current	–	931,944	931,944

(d) Medium-term notes

In April 2013, IM Fufeng issued medium-term notes at a par value of RMB600,000,000, which was dominated in RMB with a fixed interest rate of 5.11% per annum. The note will mature in three years from the issue date. The value of the liability, net of transaction costs of RMB5,310,000, was determined at issue of the notes. The medium-term notes was fully repaid on 18 April 2016.

30. Deferred Income

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

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

	2016 ***RMB'000***	2015 *RMB'000*
At beginning of the year	**752,287**	536,550
Granted during the year	**121,333**	453,495
Amortised as income *(Note 6, 33)*	**(172,376)**	(231,501)
Transferred from/(to) disposal group classified as held for sale *(Note 23)*	**6,257**	(6,257)
At end of the year	**707,501**	752,287

(a) Government grants related to income tax credit from purchasing qualified equipment represented reduction in income tax granted to Baoji Fufeng, 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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

31. Deferred Income Tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The deferred tax assets and liabilities are as follows:

	2016 *RMB'000*	2015 *RMB'000*
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**112,705**	72,701
– Deferred income tax assets to be recovered within 12 months	**71,691**	70,371
	184,396	143,072
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(16,650)**	(16,650)
– Deferred income tax liabilities to be settled within 12 months	**–**	–
	(16,650)	(16,650)
Deferred income tax assets, net	**167,746**	126,422

The gross movement on the deferred income tax account is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Beginning balance of the year	**126,422**	94,615
Credited to consolidated income statement *(Note 13)*	**36,686**	36,445
Transferred from/(to) disposal group classified as held for sale *(Note 23)*	**4,638**	(4,638)
Ending balance of the year	**167,746**	126,422

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

31. Deferred Income Tax *(Continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Tax Losses *RMB'000*	Unrealised profit *RMB'000*	Deferred income *RMB'000*	Staff pension plan *RMB'000*	Impairment losses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2015	7,438	1,370	45,576	26,776	8,757	23,738	113,655
(Charged)/Credited to consolidated income statement	(3,413)	(348)	22,591	11,400	3,319	1,426	34,975
Transferred to disposal group classified as held for sale *(Note 23)*	–	–	(221)	(1,151)	(3,426)	160	(4,638)
At 31 December 2015	4,025	1,022	67,946	37,025	8,650	25,324	143,992
(Charged)/Credited to consolidated income statement	(3,364)	5,812	11,467	7,331	33,422	(18,119)	36,549
Transferred from disposal group classified as held for sale *(Note 23)*	–	–	221	1,151	3,426	(160)	4,638
At 31 December 2016	**661**	**6,834**	**79,634**	**45,507**	**45,498**	**7,045**	**185,179**

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise deferred income tax assets in respect of operating losses amounted to RMB15,966,000 as at 31 December 2016 (2015: RMB11,946,000) that can be carried forward to offset against future taxable income, because it was uncertain whether there would be sufficient profit to offset in the near future. As at 31 December 2016 and 2015, the expiry date of such tax operating losses is as follows:

Expiry date	**2016** *RMB'000*	2015 *RMB'000*
2016	**–**	1,697
2017	**1,256**	1,256
2018	**1,468**	1,468
2019	**1,370**	1,370
2020	**6,155**	6,155
2021	**5,717**	–
	15,966	11,946

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

31. Deferred Income Tax *(Continued)*

Deferred income tax liabilities:

	Capitalisation of borrowing costs *RMB'000*	Withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2015	2,390	16,650	19,040
Credited to consolidated income statement	(1,470)	–	(1,470)
At 31 December 2015	920	16,650	17,570
Credited to consolidated income statement	(137)	–	(137)
At 31 December 2016	**783**	**16,650**	**17,433**

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC, in respect of earnings generated after 31 December 2007. The Group's certain subsidiaries in the PRC are held by companies incorporated in Hong Kong and are subject to 5% to 10% withholding tax. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

Deferred income tax liabilities as at 31 December 2016 of RMB316,251,000 (2015: RMB254,961,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC, totalling RMB6,325,020,000 (2015: RMB5,099,222,000). The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the retained profits of these PRC subsidiaries since the Group has no plan to distribute such profits in the foreseeable future.

32. Dividends

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

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

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

33. Cash Generated from Operations

(a) Cash generated from operations

	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**1,301,898**	679,774
Adjustments for:		
– Provision for/(reversal of) inventory write-down *(Note 21)*	**3,300**	(22,522)
– (Reversal of)/Provision for receivables impairment *(Note 20)*	**(237)**	239
– Impairment charge for property, plant and equipment *(Note 17)*	**119,790**	60
– Depreciation *(Note 17)*	**826,546**	746,813
– Amortisation of intangible assets *(Note 18)*	**606**	2,788
– Amortisation of leasehold land payments *(Note 16)*	**26,928**	16,493
– Amortisation of deferred income *(Note 30)*	**(172,376)**	(231,501)
– Gain on disposal of subsidiaries/a subsidiary – net *(Note (b))*	**(6,472)**	(1,125)
– Loss on disposal of leasehold land prepayments – net *(Note 16)*	**27**	–
– Gain on compensation from insurance company after offsetting losses *(Note 7)*	**(23,831)**	(32,789)
– Loss on disposal of property, plant and equipment – net *(Note (c))*	**1,594**	2,248
– Employee share option schemes *(Notes 9, 25)*	**8,811**	9,317
– Interest income *(Note 11)*	**(9,466)**	(14,412)
– Interest expenses *(Note 11)*	**181,153**	301,751
– Foreign exchange losses on financing activities *(Note 11)*	**37,481**	66,361
Changes in working capital:		
– Inventories	**(261,173)**	(255,503)
– Trade and other receivables	**232,730**	242,118
– Restricted bank deposits	**(327,679)**	17,748
– Trade, other payables and accruals	**538,345**	76,337
Cash generated from operations	**2,477,975**	1,604,195

(b) Disposal of subsidiaries/ a subsidiary

	2016	2015
	RMB'000	*RMB'000*
Proceeds from disposal of subsidiaries/a subsidiary	**164,133**	298,750
Net book amount for disposal of subsidiaries/a subsidiary *(Note 16)*	**(157,661)**	(297,625)
Gain on disposal of subsidiaries/a subsidiary – net *(Note 7)*	**6,472**	1,125

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

33. Cash Generated from Operations *(Continued)*

(c) Proceeds from disposal of property, plant and equipment

	2016 *RMB'000*	2015 *RMB'000*
Net book amount for disposals *(Note 17)*	**14,612**	131,233
Loss on disposal of property, plant and equipment – net *(Note 7)*	**(1,594)**	(2,248)
Decrease in other payables for government compensation related to property, plant and equipment received in advance *(Note 17, 28)*	**(11,366)**	(128,908)
Proceeds from disposal of property, plant and equipment	**1,652**	77

(d) Major non-cash transactions

During the year ended 31 December 2016, the Group purchased property, plant and equipment which were recorded in payables without cash outflow in the amount of RMB746,611,000 (2015: RMB866,878,000) (Note 28).

34. Commitments

(a) Capital commitments

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

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

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

34. Commitments *(Continued)*

(b) Operating lease commitments – the Group as lessee

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

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

35. Related Party Transactions and Balances

(a) Key management compensation

	2016 *RMB'000*	2015 *RMB'000*
Salaries and allowances	**17,564**	18,859
Pension costs – defined contribution plan	**684**	733
Share options granted to key management *(Note 27)*	**4,191**	9,317
	22,439	28,909

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.

36. Events After the Balance Sheet Date

Other than the proposed final dividend described in Note 32, there was no significant event of the Group after the balance sheet date.

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

37. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

		As at 31 December	
	Note	**2016** **RMB'000**	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**41**	65
Investment in subsidiaries		**460,066**	453,788
		460,107	453,853
Current assets			
Loans to subsidiaries		**952,428**	869,698
Due from subsidiaries		**907,310**	1,016,249
Deposits and other receivables		**693**	575
Cash and cash equivalents		**11,787**	34,516
		1,872,218	1,921,038
Total assets		**2,332,325**	2,374,891
EQUITY			
Capital and reserves attributable to the Shareholders			
Share capital		**207,222**	207,221
Share premium		**462,639**	555,157
Other reserves	*Note (a)*	**74,349**	68,948
Retained earnings	*Note (a)*	**(247,648)**	(222,133)
Total equity		**496,562**	609,193
LIABILITIES			
Non-current liabilities			
Borrowings		**931,944**	635,477
Current liabilities			
Borrowings		**865,757**	1,096,542
Due to subsidiaries		**14,173**	14,174
Other payables and accruals		**23,889**	19,505
		903,819	1,130,221
Total liabilities		**1,835,763**	1,765,698
Total equity and liabilities		**2,332,325**	2,374,891

The balance sheet of the Company was approved by the Board of Directors on 21 March 2017 and was signed on its behalf.

Li Xuechun
Director

Li Deheng
Director

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

37. Balance Sheet and Reserve Movement of the Company *(Continued)*

(a) Reserve movement of the Company

	Retained earnings *RMB'000*	**Other reserves** *RMB'000*
At 1 January 2015	(136,561)	77,824
Loss for the year	(98,030)	–
Value of employee services	–	9,317
Repurchase of shares of the Company	1,861	(4,029)
Expiry of share options issued	10,597	(10,597)
Conversion of convertible bonds	–	(3,567)
At 31 December 2015	(222,133)	68,948
At 1 January 2016	(222,133)	68,948
Loss for the year	(28,925)	–
Value of employee services	–	8,811
Expiry of share options issued	3,410	(3,410)
At 31 December 2016	(247,648)	74,349

Notes to the Consolidated Financial Statements *(Continued)*
For the year ended 31 December 2016

38. Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The emoluments of every director for the years ended 31 December 2016 and 2015 are set out as below:

	2016				
Name of Director	Fees *RMB'000*	Salary *RMB'000*	Other benefits (i) *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Total *RMB'000*
Executive Directors:					
Li, Xuechun	–	2,886	–	15	2,901
Wang, Longxiang (ii)	–	1,108	–	27	1,135
Feng, Zhenquan (iii)	–	825	–	34	859
Li, Deheng	–	1,100	–	46	1,146
Xu, Guohua	–	1,000	–	46	1,046
Li, Guangyu	–	800	–	46	846
Independent Non-executive Directors:					
Zheng, Yu	205	–	17	–	222
Sun, Yuguo	150	–	17	–	167
Qi, Qingzhong	100	–	17	–	117
	455	7,719	51	214	8,439

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2016

38. Benefits and Interests of Directors *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

	2015			
Name of Director	Fees	Salary	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors:				
Li, Xuechun	–	2,746	25	2,771
Wang, Longxiang	–	1,901	42	1,943
Feng, Zhenquan	–	1,100	42	1,142
Li, Deheng	–	1,100	42	1,142
Xu, Guohua	–	995	16	1,011
Li, Guangyu	–	803	42	845
Independent Non-executive Directors:				
Choi, Tze Kit, Sammy (iv)	221	–	–	221
Chen, Ning (v)	44	–	–	44
Zheng, Yu	193	–	–	193
Sun, Yuguo	17	–	–	17
Qi, Qingzhong	100	–	–	100
	575	8,645	209	9,429

(i) Other benefits include share option.

(ii) Resigned on 25 July 2016.

(iii) Resigned on 19 September 2016.

(iv) Resigned on 9 November 2015.

(v) Resigned on 8 June 2015.

There was no bonus paid to the directors of the Company for the years ended 31 December 2016 and 2015.

No director waived or agreed to waive any remuneration for the years ended 31 December 2016 and 2015.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Share Information

Stock Code 546

Board lot 1,000 Shares

Price and turnover

2016	Share price High (HKD)	Share price Low (HKD)	Turnover Share ('000)
January	3.57	2.78	69,732
February	2.66	2.18	43,740
March	3.04	2.44	85,201
April	2.74	2.37	41,434
May	2.52	2.10	42,878
June	2.40	2.03	56,034
July	2.91	2.08	84,836
August	3.53	2.68	114,631
September	3.87	3.22	82,230
October	3.88	3.26	68,019
November	3.74	3.20	51,781
December	3.90	3.42	37,054

Issued capital at 31 December 2016 2,126,684,633 Shares

Closing price at 31 December 2016 HKD3.81 per Share

Glossary

Absolute Divine	Absolute Divine Limited, an indirect wholly-owned subsidiary of the Company
Acquest Honour	Acquest Honour Holdings Limited, a wholly-owned subsidiary of the Company
ASP	average selling price(s) of the products of the Group
Baoji Fufeng	寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Baoji Plant	the production plant of the Group located at Baoji City (寶雞市) in the Shaanxi Province, the PRC
Beijing Huijinhuaying	Beijing Huijinhuaying Commercial Co., Ltd., an indirect wholly-owned subsidiary of the Company
Board	the board of Directors
Code	Code on Corporate Governance Practice under Appendix 14 of the Listing Rules
Company	Fufeng Group Limited
Director(s)	the director(s) of the Company
Expand Base	Expand Based Limited, an indirect wholly-owned subsidiary of the Company
Fufeng Singapore	Fufeng (Singapore) Pte. Ltd., an indirect wholly-owned subsidiary of the Company
Group	the Company and its subsidiaries
Hero Elite	Hero Elite Limited, a company with limited liability, the issued share capital of which is owned as the 14.3% by 王龍祥 (Wang Longxiang), 14.3% by 來鳳堂 (Lai Fengtang), 14.3% by 劉振余 (Liu Zhenyu), 14.3% by 趙蘭坤 (Zhao Lankun), 10.7% by 王俊任 (Wang Junren), 10.7% by 嚴紅偉 (Yan Hongwei), 10.7% by 李曼山 (Li Manshan) and 10.7% by 沈德權 (Shen Dequan)
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

Glossary *(Continued)*

Hulunbeir Fufeng	呼倫貝爾東北阜豐生物科技有限公司 (Hulunbeir Northeast Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Hulunbeir Plant	the production plant of the Group located at Hulunbeir, Inner Monogolia Autonomous Region, the PRC
Hulunbeir Shengmin	呼倫貝爾市晟敏農業開發有限責任公司 (Hulunbeir Shengmin Agriculture Development Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Fufeng	內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
IM Plant	the production plant of the Group located at Inner Mongolia Autonomous Region, the PRC
Jiangsu Fufeng	江蘇阜豐生物科技有限公司 (Jiangsu Fufeng Biotechnologies Co., Ltd.), an indirect wholly-owned subsidiary of the Company
Listing Date	8 February 2007, the date on which the Company was listed on the Stock Exchange
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
MSG	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household application
PLA	Polylactic acid
PRC	the People's Republic of China, which for the purpose of this annual report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Shandong Fufeng	山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.), an indirect wholly-owned company of the Company
Shandong Plant	the production plant of the Group located at 莒南縣 (Junan County), Shandong Province, the PRC
Shenhua Pharmaceutical	江蘇神華藥業有限公司 (Jiangsu Shenhua Pharmaceutical Co., Ltd.), a company with limited liability established in the Jiangsu Province of the PRC, an indirect wholly-owned subsidiary of the Company

Glossary *(Continued)*

SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	share(s) in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Stock Exchange	the Stock Exchange of Hong Kong Limited
Summit Challenge	Summit Challenge Limited, an indirect wholly-owned subsidiary of the Company
Xinjiang Fufeng	新疆阜豐生物科技有限公司 (Xinjiang Fufeng Biotechnologies Co., Ltd.), and indirect wholly-owned subsidiary of the Company
Xinjiang Plant	the production plant of the Group located in Urumqi, Xinjiang Uygur Autonomous Region
U.S.	the United States of America
RMB	Renminbi, the lawful currency of the PRC
HKD	Hong Kong dollars, the lawful currency of Hong Kong
USD	United States dollars, the lawful currency of the United States of America
EUR	Euro, the lawful currency of the participating states within the European Union
SGD	Singapore dollars, the lawful currency of Singapore
JPY	Japan Yen, the lawful currency of Japan
%	per cent